

THE DIALECTICAL IMAGINATION BY MARTIN JAY: ECONOMICS IN CRITICAL THEORY

In *The Dialectical Imagination*, Martin Jay says that economics was not a central part of Critical Theory, but that several scholars of the Frankfurt School worked in the area. One of the leading economists was Friedrich Pollock, especially after the Institute moved to New York. Like the other scholars of the Institute for Social Research, Pollock was trained in Marxist economics. This school mostly followed Marx in thinking that capitalism would collapse under the weight of its own contradictions. One of those contradictions was that the aggressive accumulation of capital would impoverish the working class, which would then rise up and lead the revolution.

By the early 1900s, it was obvious that the problem of pauperization of the proletariat was at least partially solved, and capitalism didn't collapse. The leading Marxist explanation was the rise of what Marxists call "monopoly capitalism", as taught by the Austrian economist Rudolf Hilferding, discussed [here](#). Classical economics treated the economy as made up of many firms (or, as Marx called them, capitals) each too small to affect prices, and all responding to the demands of buyers.

Unlike the classical economists, however, Marx recognized that such an economy was inherently unstable and impermanent. The way to succeed in a competitive market is to cut costs and expand production, a process which requires incessant accumulation of capital in ever new technological and organizational forms. In Marx's words:

“The battle of competition is fought by cheapening of commodities. The cheapness of commodities depends, *ceteris paribus*, on the productiveness of labor, and this again on the scale of production. Therefore the larger capitals beat the smaller.” Further, the credit system which “begins as a modest helper of accumulation” soon “becomes a new and formidable weapon in the competition in the competitive struggle, and finally it transforms itself into an immense social mechanism for the centralization of capitals” (Marx, 1894, ch. 27).

In this setting, labor itself is a commodity, so that one of the goals of the firm is to drive down wages as low as possible. That was the basis for the assumption that the proletariat would be impoverished: the firm would drive the price of labor to barely enough to support life. The process of capital accumulation in “ever new technological and organizational forms” did occur, as we know from the Gilded Age in the US when trusts and cartels dominated industrial production. That process was eventually slowed down by anti-trust laws and other laws. By the 1970s, antitrust enforcement came under assault, and today we see the results in our own oligopoly.

Monopoly capitalism has its own contradictions. In theory, there is no limit to cartelization, but in practice, there are limits. Technological change is a major force, and occasionally democratic processes interfere with the actions of capital. Another major force is the general distrust of large firms that was common in the early 20th Century, but that seems less of a factor today.

Based on the rise of the Nazis in Germany and the Communists in Russia Pollock thought that monopoly capitalism had reached its limits. Pollock saw Soviet Communism and German fascism as a new form of capitalism, State Capitalism. In both countries, the new regime preserved the

forms of private property, but in effect all production was organized to carry out the aims of the central government. The profit motive was subordinated; instead the productive processes was organized to achieve dominance over the population. The state was controlled by a mixture of party members and bureaucrats in Russia, and by the party and a group corporate executives and rich people in Germany. Pollock argued that this was the future of capitalism.

In the US, he might have seen some elements of state capitalism in the following: a) the use of central planning, as in the National Recovery Act; b) the encouragement of technological innovation; c) the use of central banks both to stabilize and direct capital deployment; d) a form of job guarantee, as in the Civilian Conservation Corps; and e) a large and growing military sector. These trends in the US were baby steps compared with Russia and the Axis Powers, but they were real changes.

The Frankfurt School was right about the movement towards monopoly and oligopoly, and it was right about the increasing involvement of the State in this process. They were wrong to think that capitalism would turn into State Capitalism at least in the US and Europe, but in other parts of the world there are forms of the new regime. It's important to note that not only were they right, but right for the right reasons. [Here's a discussion](#) of the contradictions of capitalism from the New Palgrave Dictionary of Economics that shows the way this happens.

Critical Theory rejected the idea of economic determinism which was characteristic of orthodox Marxists. The Frankfurt School saw economics relations as one aspect of human behavior along with all the different interests and concerns people might have. They rejected the idea that economic relations were determinative of human behavior and therefore of the future, according to Martin Jay.

Pollack wrote that the profit motive "... had

always been a variant of the power motive." P. 155. The power motive drove towards dominance over nature, and because humans are part of nature, it included the drive to dominate other humans. The theory that the fundamental problem with capitalism is that the profit motive becomes entwined with the drive to dominate became a central focus of Critical Theory. They saw its effect in culture and academia. All knowledge becomes instrumental, only useful or even pursued if it can be used in capital accumulation. They argued that nature becomes invisible. The natural world is only useful for its resources, not because humans are part of nature, or because its beauty and terror contribute to our lives. Other human beings become objects, not agents in their pursuit of their own interests. The Frankfurt School was right about dominance, too.