

Capitalism: Competition, Conflict, Crisis

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REVIEW

Capitalism: Competition, Conflict, Crisis, by Anwar Shaikh, Oxford, Oxford University Press, 2016, 979 pp., £35.99 (hardback), ISBN: 978-0199390632

Shaikh's *Capitalism* is a great book to which I will be returning time and time again. In its attempt to achieve its objective – to provide a radical alternative framework for understanding modern economies – it provides a rich source of elaborate discussions on economic theory. Although classical political economy provides the book with its overall framework, it systematically covers both orthodox and post-Keynesian heterodox economic theory. Given the ambition and scope of Shaikh's book, my review is limited to describing and assessing the undertaking as a whole.

As the title of his book indicates, Shaikh's ambition is to analyse and understand capitalism as a particular system. Capitalism is driven by a powerful profit motive that regulates both supply and demand. In capitalism, many forces together generate recurring patterns transcending historical and regional particularities: the profit motive being the most powerful of these forces. The intensity of competition in capitalism is independent of the number of firms in any given market. Real competition is turbulent and antagonistic, because profit-seeking is expansionary and sets firms against each other. Again and again, market competition turns out to be Darwinist. All seek profits, but many suffer losses; some barely surviving from year to year while others go bankrupt or out of business, or are bought by other firms. Winners may from time to time to make huge profits, especially during an upswing, and profitable markets attract firms. There are barriers to entry, however. For those trying to overcome these barriers, competition is often war, involving 'tactics' and 'strategy'. The whole is therefore relational, not atomistic. Each firm seeks to achieve relative strategic and tactical advantages.

Shaikh's understanding of competition is indicative of his general approach. Instead of relying on idealized conceptions and models – such as the model of 'perfect competition' in neoclassical economics – he explores the processes of a specific historical socio-economic system, namely capitalism. Consider consumer behaviour. There is no need to assume utility maximizing or optimizing behaviour, or any other part of neoclassical metaphysics, in order to explain the tendency of consumers to respond negatively to price rises and positively to price decreases. People's incomes are constrained and that suffices for the general tendency to arise. Yet a tendency does not dictate individual responses. Nor is the overall outcome of price changes necessarily regular because other processes and mechanisms can intervene.

Classical concerns and new accounts of long waves

A major aspect of Shaikh's path-breaking project is his partial return to the classical tradition of: Adam Smith (real Smith rather than the ideologized image of him); David Ricardo; and Karl Marx. The classical tradition forms the basis of a number of Shaikh's theoretical ideas, which are in turn grounded on systematic empirical evidence. Thus Shaikh maintains, for instance, that labour costs largely determine long-run relative prices. This empirically grounded claim comes close to the classical labour theory of value. Shaikh also frames the historical story of his book as a whole in terms of classical concern about the nature of world-historical developments. On the one hand the 'economic history of the developed capitalist world appears to be one of almost constant progress'. Standards of living rise, health, well-being and welfare

improve. On the other hand, 'everywhere there seems to be a characteristic unevenness: across localities, regions, and nations; and across time, in the form of booms, busts, and breakdowns' (3). Order emerges from turbulent disorder. Unevenness and disorder evolve from apparently even and orderly circumstances. Constant crises, and recoveries from them, are part of the overall process.

A key question for Shaikh is: how has the capitalist system – which regularly changes its institutions, regulations and political structures – managed to retain its recurrent economic patterns? I have puzzled over this question for nearly two decades, since the Asian crisis of 1997–98, and since I first read of the tendency in capitalist market economy towards financialization, which then gives rise to a recurring pattern of booms and busts (see Kindleberger 1978; Minsky 1982; Soros 1998). A bit later, I linked this problematic to the idea of long waves of economic development, via Korpinen's (1981) excellent but underrated PhD-thesis *Crises and Long Cycles* (underrated because it is inaccessible to non-Finnish speakers).

Similarly, Shaikh argues that 'the history of capitalism over the centuries reveals recurring patterns of long booms and busts' (726). In Figure 16.1, he displays what he calls the 'US and UK golden waves', or long waves of national price levels measured in terms of gold. His figure seems to indicate an upward long wave from 1980 to 2007. I disagree. I have previously expressed the opinion that there is no upward turning point in the early 1980s (Patomäki 2008, ch.5). Our differences point to the difficulties of reading macrohistory, that is, of telling plausible stories about world history.

In absolute and global terms, the period from the early 1970s to 2016 has been a period of enormous economic growth. The world population has doubled and its per capita income has grown by a factor somewhere between 2.0 and 3.0 (the World Bank world GDP per capita in current US\$ figure indicates a much higher rate of growth, whereas in my estimation, in real welfare-increasing terms, the true factor is significantly less than two). During this period the average per capita growth rate in current US\$ has gradually but quite steadily declined from 3% pa to 1% pa, and in the OECD world, even more drastically to close to zero.

In Shaikh's Figure 16.1, he assumes price-level deviations from a fitted cubic trend, where price-levels are measured in terms of gold (the price of which varies for all kinds of reasons, not least in response to turbulence in the financial markets). He must then take many a step of theory-laden interpretation to move from this assumption to his conclusion that there was an extended upward long wave in the world economy in 1983–2007. Just as plausibly, this wave may merely reflect changes in the price of gold, which would be consistent with the hypothesis of rising uncertainties due to financialization.

Given our two contrasting explanations of the underlying causes of the upward trend in prices in 1983–2007, we might ask about the nature of explanatory models. As Lawson (1997, 204–13) clarifies, it is true that we can at times identify empirical demi-regularities. These are not only contrastive – for example a demi-regularity may rely on a contrast between different periods – but also metaphorical. Shaikh's methodological stand does not allow him to acknowledge the role of metaphors in discussions such as those concerning economic 'waves' in the world economy [about the metaphorical basis of our explanatory models, see Harré (1970); and about the dependency of our abstract thinking on metaphors, see Lakoff and Johnson (1999)].

Does politics really matter in capitalism?

At its best, Shaikh's *Capitalism* displays economic realities as socio-historical and at least potentially political. The struggle between capital and labour is a case in point. Shaikh criticizes both the neoclassical orthodoxy and post-Keynesian heterodoxy: 'A striking implication of both

orthodox and heterodox approaches is that workers have no say in their own standard of living' (42). In these theories, the overall wage-level is strictly determined by: labour productivity; theoretically construed requirements of full employment; and/or monopoly mark-ups. Neoclassical economists assume further that individual wages are closely related to a worker's marginal productivity, whereas many post-Keynesians have little to say about the role and position of individuals in labour markets. Against these theories – but in some ways concurring with Keynes himself – Shaikh stresses that labour bargaining and struggles matter, and that they are dependent on socio-historic conditions and institutions. One of Shaikh's chief points is that both the amount of available labour and technical change (investments) respond to the effects of labour struggles on the real wage and wage share.

Consequently, Shaikh explores connections between labour strength and other variables such as employment, business savings, investments and inflation. Ultimately, the emerging picture is not only fairly complex but also more deterministic than what one would expect on the basis of Shaikh's criticism of neoclassical and post-Keynesian theories. For instance, an acceleration in aggregate demand, perhaps due to deliberate policy by a Keynesian state, would decrease unemployment and increase the wage share. However, the effects of extra demand injection might well be just temporary (although possibly affecting the process of accumulation); while 'the gravitation of actual capacity utilization around its normal rate implies that the actual rate of profit gravitates around its normal rate' (672).

Shaikh continues by pointing out that the (Keynesian) demand-led Verdoorn's Law may generate a virtuous circle between output and productivity growth for a while. Yet, in the long run, the classical idea holds according to which the subsequent fall in profitability will eventually undermine the effects of increased demand. In policy terms, this is a rather orthodox position. Moreover, no matter what policy is chosen and what the rate of accumulation is, there will always be involuntary unemployment (Marx's 'reserve army' of labour). In the end, despite his explanations to the contrary, Shaikh's normal rate of unemployment does not sound drastically different from the neoclassical 'natural' rate of unemployment, or NAIRU (non-accelerating inflation rate of unemployment) (721–3).

Shaikh's partial return to the ideas of classical political economy can be read in at least two different ways. In the first reading, Shaikh is a radical Marxian thinker who argues that capitalism is a system in which certain laws prevail. The balance of power between labour and capital, and economic policy, co-determine many important outcomes. However, as long as the system remains capitalist, the degrees of freedom for agency are rather limited. Struggles can achieve at best only small improvements and the space for state policy is constrained in all kinds of ways. The main idea would be to change the system as a whole, with all its deep structures.

In the second reading, Shaikh is a post-Marxian thinker who has reached a rather pessimist conclusion. There is indeed historical capitalism with its laws, but there is no alternative. We have to live in capitalism and accept its limits and constraints as long as we can see into the future. Hereby a theoretical understanding about how the system works becomes disempowering. In the limit (to use ironically a mathematical metaphor), the post-Marxian position may even approach the neoclassical position in its policy advice. This pessimism seems to follow also from the methodological approach of *Capitalism*. A large part of the book relies on standard techniques of statistical and mathematical modelling, turning more and more variables endogenous (i.e. internal to the system). The system as a whole becomes ever more deterministic as more and more variables are 'explained' in these terms.

I am not saying or implying that there are no major differences between Shaikh and the orthodoxy. At all levels there are numerous deep-seated and far-reaching differences between the two. Yet, there are also theoretical and metatheoretical points of convergence. For instance, Shaikh criticizes the Chartalist theory of money from a fairly orthodox position:

But we know that states arise after money, are never neutral and rarely benevolent and that taxes are resisted at every stage (Mehrling 2000, 402) – not just in America and Southern Nigeria in response to their colonial states but also within every nation in response to its own state. (687)

This argument seems to confuse the historical origins of money and its creation by emerging sovereign states within the international system in the modern world. The historical origin of money – like our reflective consciousness and the development of metaphorical thinking – is closely tied to the origins of writing and mathematics (Jaynes 2000). There is no space to develop this argument here. Nor is it my purpose to defend the exaggerated claims of Modern Monetary Theory, as developed for example by Wray (2012). The powers of money-creation are, I think, nonetheless important. The point is simply to give another example of how Shaikh's contentions undermine ideas about possible alternative policies developed by post-Keynesian theorists; and how, at least at times, a tacit, even if only partial, convergence emerges between Shaikh and the neoclassical orthodoxy.

On the methodology of Shaikh's *Capitalism*: a critical realist view

Key controversies in economic theory consists of endless debates about whether A causes B or B causes A; or whether A, or B, or both, are 'endogenous' (determined within the specified mathematical model) or 'exogenous' (determined outside the model). For instance, is money endogenous or exogenous? Do savings determine investments or investments savings? For the sorts of mathematical methods that economists continually assume to be generally applicable, including Shaikh, the world must consist of deterministic or stochastic closed systems.

A closed system is one in which an event regularity occurs: whenever A, then B, under conditions {x, y, z}. But economic theorists do not agree whether A causes B or *vice versa*, or about how to define A and B. Standard econometric techniques too presuppose stable frequencies (and precise measurability), and thus closed systems. Econometrics is about attempting to determine probabilistic event conjunctions. A practical problem for these studies is that the estimated relationships quickly tend to break down. A deeper problem is that the tendency to endogenize ever more variables leaves less and less space for agency, freedom, history or politics. It is thus not surprising that there is nothing in Shaikh's *Capitalism* about real alternatives, about ecological sustainability, democracy, emancipation learning, overcoming alienation or socialism. Shaikh repeatedly downplays Post-Keynesian alternatives.

Thus the methodological assumptions of Shaikh's *Capitalism* serve to undermine its ethico-political intentions. The same assumptions also leave his magnificent edifice on somewhat shaky grounds. In open systems there are only few, if any, enduring event regularities (and even those few are liable to change). In some ways Shaikh tries to be a scientific realist, seeing causal forces and mechanisms capable of generating tendencies that may or may not result in particular outcomes in open systems. Moreover, these forces and mechanisms can and frequently do change.

To reiterate, I am also in agreement with Shaikh about the importance of recurring patterns. This is a real issue that must be taken into account by any serious theory of political economy. Shaikh also acknowledges that institutions, regulations and political structures change and that those changes can make a difference. The forces, mechanisms and tendencies that we are studying in political economy are dependent on institutions, regulations, political structures – and not only on them, but also on historically constituted forms of subjectivity and agency. There is also a lot to be learnt from Shaikh's sophisticated and pluralistic discussions on economic theory and, to a point, from his historical discussions.

Throughout the book, however, Shaikh resorts to forms of mathematical modelling and econometric estimation that are only applicable to closed systems. He wants to cover the main topics of both neoclassical and post-Keynesian economics, endogenizing ever more variables into his metamodel, or extensive theoretical system as a whole (except capital-labour struggles that he holds back as exogenous). In doing so, his politico-economic thinking becomes increasingly deterministic. Shaikh's project would benefit from rethinking social ontology and causation in open systems.

Conclusions: what is capitalism?

What is curious about Shaikh's *Capitalism* is that it does not define, or even characterize, capitalism in any systematic fashion. It is well known that Marx did not use the term 'capitalism', although he theorized capital, talked about capitalists (as a social class) and analysed the capitalist mode of production.

The term 'capitalism' became increasingly common in the late nineteenth century as a critical term, describing a society or social system characterized by the dominance of capitalists and their ideas. Werner Sombert's 1902 book *Modern Capitalism* established this meaning of the term. Joseph Schumpeter later insisted upon distinguishing between entrepreneurs and capitalists, in his 1942 classic *Capitalism, Socialism and Democracy*, in which he anticipated capitalism's gradual decline.

In passages where Shaikh discusses long-term economic developments from a global perspective, his data covers time from the 1600s onwards. Mostly, Shaikh focusses on the era of modern economic growth that started in Britain in the 1820s, after the Napoleonic wars and following the Industrial Revolution. Quite methodically, however, Shaikh avoids mentioning social and political theorists that have made a lasting impact on our understanding of the nature and rise of capitalist market society.

One of the most important and perceptive of these theorists has been Karl Polanyi. In *The Great Transformation*, originally published in 1944, Polanyi argued that the Economic Man and self-adjusting markets are neither natural nor universal. Rather, they are relatively recent socio-historical constructs. The rise of: (i) the calculative gain-orientation; (ii) the modern market economy and (iii) the modern liberal state are essentially connected. Prior to the great transformation in modern Europe, markets existed as an auxiliary avenue for the exchange of goods that were otherwise not obtainable. The market society was born out of the changes that emerged first in Britain. Following the great transformation and related Industrial Revolution in the early nineteenth century – in Polanyi's memorable formulation – 'the old world was swept away in one indomitable surge toward a planetary economy'.

Therefore Polanyi placed the rules governing the world economy at the centre of his analytical framework. This framework is also capable of illuminating the causes of our current turmoil and disorder. In the late 2010s, it is again becoming increasingly evident that the utopian liberal vision of self-regulating markets leads – not to peace – but to intensified conflict. From a Polyanian viewpoint, the world seems to be heading towards even more dangerous circumstances in the near future (Patomäki 2014).

Shaikh is critical of neoliberal globalization. He argues against the Ricardian theory of free trade in terms of his theory of real competition, which implies that success comes with absolute cost advantage at the level of firms and may result in systematic and persistent imbalances in the world economy (Chapter 11). And yet, in spite of his insightful observations, Shaikh seems committed, at least for the most part, to methodological nationalism. Typically, he assumes, in his models and empirical analysis, that the nation state is the container of relevant processes.

He also seems committed to reproducing the standard disciplinary inside/outside dichotomy of economics. These tenets are closely linked to his *de facto* reliance on closed-systems methodology, at least for the large part of his analysis.


Although Shaik's book is a useful handbook covering an ambitious variety of topics, most of which I have not been able to consider in this review, my overall conclusion is nonetheless that *Capitalism* does not provide a new foundation for economic theory. That would require problematizing and reconstructing the methodology and ontology of political economy at a deeper level. Shaikh remains committed to about half of Bhaskar's (2016, 196) eight characteristics of the 'discourse of modernity'. More freedom is needed.

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