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CAPITALISM: COMPETITION, CONFLICT, CRISES

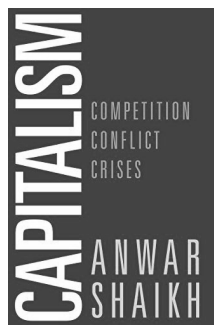
ANWAR SHAIKH

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979 pp.

In 1,024 pages, seventeen chapters, and divided in three books, plus seventeen appendixes, Anwar Shaikh, one of the leading scholars and a distinguished Professor of Economics at the New School for Social Research, presents a path breaking and monumental book which main objective is the unified study of the logic, history, dynamics, and crises of the capitalist system. Throughout this book, the author confronts his own perspective and method of the classical political economy with major schools of economic thought such as neoclassical, monetarist, and different branches of the post-Keynesian school.

The main hypothesis of the author is that capitalism main driver is the constant seeking for higher profits in a competitive environment that operates through a process that the author describes as a 'real competition'. This position is completely different from the neoclassical view of perfect competition and the post-Keynesian notion of imperfect competition. This basic concept of real competition that Shaikh adopts throughout his magnum opus can be traced back to the writings of Smith, Ricardo, Marx, and Harrod. Essentially, this approach considers competition as a process of intense rivalry among firms in the classical sense, where all pro-

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ducers try to get a share of their market by lowering costs through wage reduction and technological change. This turbulent process of ferocious competition leads to the formation of a leading (regulating) producer-capital which tends to establish the lowest unit cost-price of production at which other firms-prices will gravitate. As such, this competition process as warfare happens within and inter industries, including other economic sectors, tending to establish other regulating prices or key rates such as the general rate of profit, the rate of interest, relative prices, wages, equities, expected return of capital (investment), and exchange rates. Accordingly, this mechanism of real competition outlines the short and long-term patterns of economic growth, income distribution, and economic cycles (*e.g.* Kondratiev). Thereby, for the author, the search for profits regulates both supply and demand and could even determine the degree of state intervention.

In our opinion, besides the exhaustive and excellent analysis of the history of economic thought and several classical macro dynamic models, an outstanding contribution of this book to the economic science is the treatment of time within the concept of real competition. In doing so, it does not only show the deficiencies in traditional micro and macro

foundations but also it may create new research avenues in economic analysis, just as Marshall's *Principles of Economics*, or Keynes' *General Theory* did. For example, in microeconomics (on its connection with macroeconomics), while portraying different working shifts in the labor process, arise different shapes in cost curves that can lead to the identification of different lowest regions of the average variable cost (AVC) according to the chosen working shift (chapter 4, pp. 156-159). Then given the lowest AVC, one can identify a normal capacity utilization rate at the macro level under the process of real competition (chapter 12, pp. 551-552). At the macro level, most common models in macroeconomics take for granted that aggregate investment and savings are equal at any point in time, and in general, it is assumed that the saving rate is constant. By contrast, Shaikh distinguishes one short run cycle of three to five years as a typology to describe the short-run adjustment between the demand and supply, inventories and profit rate equalization. Furthermore, by defining the long run cycle between seven to eleven years, Shaikh found that capacity utilization, labor market, and reposition of capital are the main determinants of long-term fluctuations. It is significant to note that these typologies (chapter 3, p. 109)

emerge from his acute knowledge of the national income and product accounts (NIPA) in addition to other sources of data, which the author uses thoroughly to construct many economic series and to show different and unique economic patterns.

Another key result of Shaikh's work by considering time and his concept of real competition is the discovery of a new and stable Classical version of the Phillips curve which defines the patterns between real wages and productivity. Most significantly, it clarifies the links between these factors with the levels of unemployment intensity, showing the intricate interactions among state intervention, workers and capitalists in determining the rate of unemployment, wages, and profits. The author obtained these results through careful analysis of data and using the classical political economy framework without relying on the assumption of rational expectations like other economists such as Friedman and Phelps. Finally, another path breaking result is that in chapter 3 there is a derivation of a downward negative sloping demand curve without using the neoclassical famous assumptions of hyper-rationality, optimization, perfect information, and representative agents.

Shaikh's methodological approach focuses on boiling down complex real problems into a manageable set

of variables or equations, which can be subject to empirical analysis. For instance, he starts by analyzing economics facts in a historical context. Then, he moves on confronting other empirical results adopting the classical perspective in terms of theory as well as modeling; subsequently, by narrowing down the subject of study to a set of a manageable set of variables, he conducts empirical analysis through the use of mathematical models, statistical (graphics) and econometric models in addition to mathematical programming. In this way, Shaikh approaches the subject by considering first the complexity of an economic system and then attempting to simplify his analysis. In what follows, we discuss the content of the book and then we turn to exploring some suggestions for improvement for a possible next edition of this fascinating book.

The whole volume is comprised of three books. Part 1 "Foundations of the Analysis" contents six chapters (1-6). Chapter 1 is a detailed and well-documented introduction of the whole book where the key concepts are defined. Chapter 2 is a neat empirical description of how a capitalist economy behaves (unemployment, productivity, price levels, profit rate, growth, etc.). Growth as well as short-and long-term fluctuations are considered by Shaikh to be inward

characteristics of the capitalist system. Finally, chapter 2 underscored the difference between incremental and average rates of profitability which, according to the author, only the former is relevant to new capital, so “they should be equalized by the mobility of (new) capital across sectors” (p. 73). Chapter 3 will appeal to young and old scholars because of its abandonment of unrealistic microeconomics foundations. In this chapter, Shaikh rejects almost the whole set of neoclassical assumptions to derive the demand curve. Through simulation of a different micro model, Shaikh concludes that social aggregates are very different from individual behaviors.

In chapter 4, Shaikh critiques neoclassical and post-Keynesian cost curves. First, he argues that neoclassical cost-curves do not have any reason to include average profit as a cost because a firm’s cost is represented by labor, machinery, and depreciation. Additionally, in his view post-Keynesians are mistaken to think that the markup is the source of profits. Second, for Shaikh it is quite important to recognize that there is a time dimension behind any process of production, whereby the cost-curves modify their shape because of the total duration of the working day and the consideration of different working shifts.

Chapter 5 advances two approaches in the conceptualization of money and exchange. First of all, Shaikh explains that exchange is an economic institution that gives rise to money. He reckons that while the emergence of a state is significant to understand the origins of fiat money at a later stage, he does not believe in Chartalist theories, which posit that the state was responsible to create money from early times. Chapter 6 is dedicated to show that profits are the engine of the capitalist system. Shaikh defines capital as a “thing” that produces profits, and he distinguishes two types of profit: On production and upon alienation. Finally, he presents different empirical measures of the evolution of the rate of profit.

Part 2 “Real Competition” is dedicated to the analysis of real competition with five chapters (7-11). Chapter 7 encompasses “the theory of real competition”. In this chapter, Shaikh asserts that firms compete with each other using three mechanisms of cutting costs: Technical change, wage reduction, and the increase in the length or intensity of the working day. These mechanisms in one way or another are usually glossed over or disregarded by other schools of thought in general. If new investment has a higher expected rate of profit in some specific industries, then capital will move to these areas of

higher profitability. Thus, capitalists collide each other in the search for profits. “This is real competition.” (p. 259). According to Shaikh, even though competition is a destructive process, ordered patterns in key economic variables can emerge from it. In chapter 8, the author hypothesizes that competition leads to the world economies to exhibit orderly patterns where wage rate, profit rate, and prices gravitate to a normal gravitational level. In this chapter, he rejects the theories of perfect competition or imperfect competition as proposed by economists such as Walras, Kalecki, and those economists identified within the post-Keynesian school. Shaikh criticizes Walras for thinking that markets clear instantaneously without any consideration given to the time dimension. Shaikh then rejects Kalecki’s price equation because it uses restrictive markup coefficients. Finally, the author considers that post-Keynesians usually err by not taking into account that prices are equalized through a competition process.

Chapter 9 addresses the relationship among commodity labor ratios, prices of production, and market prices: The first determines the second, and the second determines the third. Discrepancies between value and price can exist, but these discrepancies are the result of different cap-

ital-labor ratios among industries. Chapter 10 explains the determination of the money rate of interest and equity. According to Shaikh, the money rate of interest should, by and large, be lower than the general rate of profit ($r > i$), arguing that the general rate of profit must have the same level for bank loans and bonds for equivalent terms. Moreover, in Shaikh’s view the money rate of interest is determined by competition among different banks and not by institutional factors. According to his analysis, equity must receive the same profit rate as the general rate of profit on new investment.

Finally, chapter 11 deals with international competition where Shaikh presents one of the most original theories of real exchange rate behavior in the economics literature. In this chapter, he links terms of trade (defined by relative real unit labor costs), the rate of profit, interest rates, and capital movements to determine the behavior of real exchange rates, and thus, the degree of international competitiveness of each country and their trade balance. For example, if a country has a higher general cost of production, it will tend to undergo trade deficits, incur less profits, and will be forced to import capital through a higher interest rate. Conversely, most productive countries can export capital and will tend to

have a higher rate of profit and a low rate of interest. The final lesson in this chapter is that “free trade will lead to persistent trade surpluses for countries whose capitals have lower costs and persistent trade deficits for those whose capitals have higher costs” (p. 514) so that the only way for the latter countries to be more competitive in the short-term is via lowering the cost of production through lower real wages, or via better techniques of production in the long-term.

Part 3 “Turbulent Macro Dynamics” includes five chapters (12-16) in addition to the conclusion (17). In chapter 12, Shaikh analyzes the changes in the macroeconomic theory before and after Keynes, and also evaluates other different macroeconomics perspectives and models. Two important results arise from this chapter: 1) That “Classical macroeconomics is neither supply-side nor demand-side: It is ‘profit-side’” (p. 616) and 2) that the savings rate is endogenous, as firms collectively choose to finance investment only partially by business savings, which implies that the expenditure multiplier would be lower than it is usually assumed. Chapter 13 distinguishes the profit rate of enterprise ($r - i$; where r is the money rate of profit and i is the money rate of interest) as an engine for economic growth. Every time the rate of interest goes down

the profit rate of enterprise goes up, and, then, firms may increase their investments. For this reason, current policy-makers in the developed world are trying to cut down the rate of interest as a measure to spur economic growth. Along these lines, the rate of accumulation depends on the average profit rate of enterprise but also on the amount of surplus that is reinvested. In this respect, the maximum guaranteed growth is based on the surplus value previously achieved by the economy.

In chapter 14, Shaikh rediscovers a Classical Phillips curve which encompasses the relationship between the wage share, the unemployment intensity and the effects of the state intervention in the last 60 years. Chapter 15 describes Shaikh’s novelty theory of inflation, which reflects his observation of the behavior of the price-levels since 1940. According to this theory, the inflation rate behavior responds positively to new purchasing power, negatively to net profitability and positively to the growth-utilization rate; in the last part of the chapter the empirical evidence of this theory is presented.

Chapter 16 reminds us that profitability is the key variable in world economies, which determines short-and-long-term fluctuations as well as the evolution of the wage share and the magnitude of the capacity

utilization. In other words, profits regulate supply and demand, alongside the degree of state intervention. The final chapter presents the major conclusions and key observations, including above all: That basic neo-classical assumptions are not adequate to portray economic reality; the importance of recognizing the turbulent process of equalization of different prices and rates in the economy through a real competition process; and that real competition tends to build up an unequal world with unsustainable levels of inequality which the state should cope with through a better correlation of forces in favor of the working class.

Lastly, we identify two suggestions for improvement in future editions of this fascinating book. These suggestions are related to the equalization of the incremental profit rate of the US manufacturing sectors, which is the core of the author's argument about the dynamics of the economic system. The span of Shaikh's data

runs only from 1960 to 1989 (chapter 2, p. 68), so we think that a more powerful proof of this equalization of the incremental profit rates within the manufacturing sectors should include until the most recent data available. In addition to this extension of data, we think a formal analysis of this equalization should be carried out through econometric panel data, which could show if this equalization tends to gravitate towards zero or another level.

Needless to say that the foregoing suggestions do not necessarily need to be carried out by the author, since this tremendous work has paved the way for a needed realistic and intuitive economic analysis of the capitalist system for developed and developing countries. We hope that Shaikh's students and other scholars that feel inspired by this tradition could continue strengthening this renewal and vibrant classical political economy project. ◀