

Anwar Shaikh's Capitalism – Notes on Part I,

Chapter 2

In this chapter Shaikh takes empirical data on long-term patterns of recurrence and turbulent growth as the point of departure for his study of capitalism. This distinguishes *Capitalism* from Marx's *Capital*, in that it does not begin from an analysis of the commodity form, but rather from a "bird's eye view" of the history of the capitalist system. Why would Shaikh choose this approach rather than that chosen by Marx? In the first place, it is obvious that in 2016 we have much better access to economic data than Marx did back in the 1860s. Economic history is now a formal discipline with various established institutions and regular funding, and is able to take advantage of the data-collection capabilities of large state and corporate bureaucracies which simply did not exist in Marx's time. We also have the ability to look back on a longer and more diverse history of capitalism than Marx did. Because of the proliferation of various "varieties of capitalism" and "regimes of accumulation" across geographies and time there is more that needs to be explained.

We can also point to the fact that Marx modeled his introductory approach on that of Hegel's *Science of Logic*. As the Stanford Encyclopedia of Philosophy notes: "...being is the thought determination with which the [*Science of Logic*] commences because it at first seems to be the most immediate, fundamental determination that characterizes any possible thought content at all." Comparing this to the opening of *Capital*'s first chapter, we can see the obvious similarity: "The wealth of those societies in which the capitalist mode of production prevails, presents itself as 'an immense accumulation of commodities,' its unit being a single commodity. Our investigation must therefore begin with the analysis of a commodity." Both Hegel and Marx begin their analysis with what is "immediate" and therefore "appears" or "seems" to be "fundamental." In the course of dialectical development, we see that what appears to be obvious and simple in fact contains the entire logical structure within itself.

Shaikh takes a rather different approach to his work. He provides a "list" of "long-run economic patterns in developed capitalist countries" that provide a "physiognomy of the system." He does argue that "[c]oncepts such as recurrence and turbulent regulation arise quite naturally from a scrutiny such as this" (56) but the approach is to argue his point by referring to a list of related examples rather than to focus on a single object and try to tease out its underlying structure by way of considering its contradictions. The advantage of this approach is of course to be able to lay claim to the title of "realism." By showing that the evidence supports his arguments (and that it does not support the arguments of the neoclassicals) he gains a strong debating position. He is also able to immediately state what the large-scale questions he is concerned with are, unlike Marx who spills a great deal of ink before ever introducing something as fundamental as surplus value to his analysis. While Marx's logical demonstration is impressive, it requires quite a bit of patience from the reader, to the point that many readers of *Capital* skip the first chapter altogether. Thankfully, Shaikh's introduction is much more straightforward.

Section 1 – Turbulent Growth

Shaikh begins his analysis by looking at the history of industrial output and investment in the United States. He chooses the United States for his analysis because “it is the preeminent advanced capitalist country and because it generally has the best available data” (56). The United States demonstrates an “apparently inexorable tendency towards growth” (56) but its growth, whether measured through industrial output or investment is “turbulent” in that it has many ups and downs. Furthermore investment is more turbulent than industrial output in its growth. This is one point that Shaikh will seek to explain. He then turns to examining fluctuations in output: “booms and busts...overshooting and undershooting, in never ending sequence” (58). Upturns in output are associated positively with wars, and downturns with the end of wars. This is a point that was already familiar to Marx, but it is not the underlying cause of the “business cycle” of booms and busts. The most extreme busts are known as “Great Depressions,” and they occurred in the 1840s, 1870s, 1930s, and Shaikh argues, in the 1970s and after 2007 up until the present. He will attempt to explain why these depressions occur in the course of the book.

Section 2 – Productivity, Real Wages, and Real Unit Labor Costs

Next we turn to the history of productivity, wages, and labor costs. As mentioned above, this chapter is a list of topics, so these subjects do not follow logically or directly from the topic of the business cycle and depressions. They are still related, but one could imagine another order of analysis with which to proceed. The last section began with the fundamental fact of long-term capitalist growth, and this section begins with the fundamental cause of that growth – technological progress and productivity growth. As Shaikh argues “Productivity growth is essentially a measure of technical change” (60). Other factors can raise productivity a modest amount in the short term, such as intensifying work or lengthening the working day, but “both of these methods face practical and social limits.” (60) Marx discussed this matter in his analysis of absolute surplus value, but essentially it comes down to the limitations of time, the human body, and the dignity of the worker. At any rate, the long term growth of capitalist productivity is a fact, and generally speaking it has been associated with growth in real wages. However Shaikh notes that this association broke down “in the early 1980s, beginning with the Reagan-led assault on labor and compounded by foreign competition” (60) – these trends of what are commonly called “neoliberalism” and “globalization” initiated a decoupling of productivity and wage growth that is unprecedented in American history (and which forms the current social basis for both Sanders-lead socialism and Trump-lead fascism). This decoupling, Shaikh argues, shows that the relationship between productivity and real wages is mediated by “social and institutional mechanisms” (60). As Marx argued, the wage rate is determined in part by the state of the class struggle. Contrary to the arguments of the neoclassicals, the relationship between productivity real wages is not given, but is subject to “conjunctural” change. This is a thorny issue for any economist, because such turns in the class struggle are not regular or even “turbulently” regular, but are instead exceptional and therefore irregular. As I will note below, this presents significant difficulties for a discipline that wants to emulate the physical sciences.

Shaikh then argues that while “social and institutional mechanisms” can improve the labor’s wage share, “they do so within strict limits” (60). Why? Firms with higher than average total costs will lose out in competition, and labor costs form a very large share of total costs. Furthermore, “at the aggregate level, a rise in real unit labor costs lowers real profit margins.” (61) Looking at the history of real labor costs we see the following periods:

- 1889-1909 Falling
- 1909-1929 Stable
- 1929-1939 Rising
- 1947-1963 Stable
- 1963-Present Collapse

It may seem strange that real labor costs rose during the Great Depression, but this was because they remained somewhat stable against collapsing production levels and nominal prices. Shaikh’s real point here is that the “Golden Age” from ‘47 to ‘63 “led to the sense that wages automatically rise alongside productivity.” but the subsequent collapse has shown that this is an illusion and that “the relation between real wages and productivity has always been conflictual and that the balance of power between labor and capital can always shift” (61). Shaikh here seems slightly confused. This was the point he demonstrated in the previous section. The point that he had to demonstrate here was that there are “strict limits” on the rise in real labor costs. The real issue is not that the relations between labor and capital in dividing up the surplus are conflictual, but that the system tends to frustrate any long-term victories on the part of labor because of the limits on labor cost enforced by competition and the profit rate (As we will see, the profit rate is all-important in capitalism). However we do get some more discussion of this problem in the next section.

Section 3 – The Rate of Unemployment

The point discussed here is the relationship between Great Depressions and unemployment. Unsurprisingly, they are strongly associated with one another! However, Shaikh makes the argument that “economic policy and social structures” can significantly moderate these spikes in unemployment. He claims that the low unemployment in the Great Stagflation of the 1970s – 1980s relative to the Great Depressions of the late 19th century and the 1920s – 1930s demonstrates that this is the case. However he also argues that suppressing a depression will both extend its duration and weaken the subsequent recovery. Nevertheless, he argues that this is preferable to a laissez-faire approach because the costs to labor of suffering a sharp depression are greater than those to capital. This is because high unemployment weakens both the bargaining positions of individual laborers over wages *and* weakens the institutions that support the working class (presumably unions and so on). However, at least from the data presented in this chapter, this argument does not seem to hold. The “golden age” of labor came after the Great Depression, and the catastrophic collapse in wages relative to productivity came in and after the “moderated” Great Stagflation. It will be interesting to see what Shaikh’s detailed arguments are on this point. In any case, if we fill in the gaps, we can conclude that a low profit rate will lead to a depression, and that the depression will weaken the bargaining position of labor by means of unemployment. Therefore there are “strict limits” on the rise in real labor costs. This is the “profit-

squeeze” interpretation of the 1973 crisis, which argues that labor’s rising share before the crisis triggered the conditions for stagflation and crisis. It has enormous political implications, as I will discuss at the end of this summary.

Section 4 – Prices, Inflation, and the Golden Wave

Shaikh begins here by noting that “...what we now call ‘inflation’ is a modern phenomenon” (63) as opposed to a natural one. If we look at historical prices indices, we can see that “It is only in the postwar period that prices levels begin to display a new pattern, one in which they rose without end” (63). Before this, they “were characterized by successive waves of rising and falling prices.” Prior to the postwar period, prices rose and fell in “long waves” and the downswing in these waves were associated with downswing phases, but these falls are not apparent in the prices indices after World War II.

However Shaikh suggests that we look beyond what is apparent in the price indices. Why? Because we should not think of money only in terms of national currencies. Shaikh argues that there are three “layers” of money:

1. Credit money
2. National currency
3. Gold (Commodity money)

The most important of these three, what we might call the “fundamental layer,” is gold. Gold’s “...official or unofficial status rests on the health of global commodity circulation.” (63) While all three currency forms compete against each other and can devalue relative to one another, gold forms a “common international standard.” This is not to say that gold is always the most valuable of these three forms of money, but that it is the currency of last resort. For example, when the US Dollar’s stability was called into question by the 2007 crisis the price of gold shot up. When the US Dollar regained international supremacy the price of gold fell. The important point is that the “dollar standard” is not an absolute standard, but exists relative to other forms of money, and to global commodity circulation. With this in mind, Shaikh proposes that we look at price levels *relative to the price of gold* in the postwar period. It turns out that if we do so the long “Kondratieff waves” reappear, with a downturn coinciding with the Great Stagflation and another with our present crisis. The reason why this happens will be discussed later in the book.

Section 5 – The General Rate of Profit

Following up the discussion of long waves, Shaikh notes that “...waves in growth...[are] primarily driven by the rate of profits.” (65) This makes the rate of profit the fundamental determinant of the course of capitalist development, and so very important indeed! He writes: “The analysis of the general rate of profit will provide us with our point of entry into the macroeconomics of growth and cycles” (65). However, while the rate of profit may be just that important, we have to specify what we mean by it. This gets us into a very messy technical problem that goes back at least as far as *Capital: Volume II*. A common definition of the rate of profit is “the ratio of total net operating surplus to the total net stock

of (fixed) capital” (65). This sounds reasonable enough, but the problem is that at a material level that fixed capital is not of uniform age, quality, and productivity:

So at any moment the capital stock encompasses capital ranging from that which was put into place (say) thirty years ago, to that which came on line only one year ago. Since there is no particular reason why a thirty-year-old plant should have the same profitability as a new one, the overall rate of profit represents the average of the rates of profit on the various vintages still in operation. In this sense, it is a useful guide to the health of capital as a whole. For the same reason, it would not be a useful guide to the future profitability of any investment under current consideration. (65).

So this rate of profit is not useless, but it is also quite misleading when thinking about investment, and investment is of course the leading edge of growth. If you want to know what economists spend their time arguing about, it is often finicky definitional issue like this one. Just visit any Marxist economics blog and you’ll find raging arguments about definitional issues of this type. Putting that issue aside, we will go with Shaikh’s definition and see where it takes us. The important point about this section is that we do not want to use the “general rate of profit” in order to study investment patterns. Instead we need “some measure of the rate of return on recent investment” which will bring us closer to the decisions that investors make based on recent economic performance. While definitional issues like this one are tiresome and convoluted, they have an enormous effect on what sort of “empirical results” one gets out of research. Data is theory-laden, and the devil is in the details.

Section 6 – Turbulent Arbitrage

This section continues the discussion of the rate of profit. Shaikh begins by noting:

The profit rate is central to accumulation because profit is the very purpose of capitalist investment and the profit rate is the ultimate measure of its success (66).

In this argument Shaikh follows Marx. While capitalists are sometimes referred to popularly as “job creators,” job creation is very much incidental to what they are about. It would be better to refer to them as “profit pursuers” instead of job creators, as that is what they actually do. Their profit seeking investment is what gives capitalism its dynamic character. In seeking profit, capitalists invest in profitable sectors of the economy. Shaikh argues that this ultimately has an “equalizing” effect on the profit rate. This is one of those important concepts that came up in the introduction, and we get our first discussion of it here. So how does this work? The process is as follows:

1. Investment goes to profitable sectors
2. Investment raises production
3. Production increases supply, and therefore lowers prices and profits
4. Investment goes to more profitable sectors

And the process is repeated *ad infinitum*. This is “turbulent arbitrage” – “A roughly equalized profit rate is an emergent property: it is not desired by any, yet it is imposed on all” (66). Very importantly, this is **NOT** a form of equilibrium! Equilibrium is a foreign concept to the sort of economics that Shaikh is defining, and readers would be well advised to not get equalization and equilibrium confused!

Shaikh's inspiration is classical political economy, which as Phillip Mirowski noted in his excellent *More Heat than Light* is a *substance* theory, as opposed to neoclassical economics, which is a *field* theory. The fundamental metaphor is of a growing substance in *motion*, whereas the fundamental metaphor of neoclassical economics is of a field of forces in *equilibrium* and *rest*. For example, consider Shaikh's statement:

...the movement is a never-ending one, with profit rates always overshooting and undershooting their ever-changing centers of gravity. There is never a state of equilibrium, but rather an average balance achieved only through perpetually offsetting errors. (67)

The "balance" that exists in this system is emergent because it is formed by the interaction of objects that are perpetually *out of balance*. In Hegelian terms, we might say here that "truth is error as such!" This is the concept of "order-in-and-through disorder" we saw in the introduction. Departing the discussion of physical metaphors, and getting back to profit, we see that "competition...produces a persistent distribution [of profit] around the average" and "...because this process is driven by the movement of new capital, the relevant profit rates are those on new investment. It is these profit rates...which we would expect to see equalized across sectors" (67). When we look at the movement of profit rates across sectors in these terms (of new investment) we see the following:

This is profit rate equalization in its true form: incremental rates that careen in rapid succession from one level to another, and even from positive to negative... (68)

Shaikh argues that this is characteristic of "real competition" where investment decisions are not made with reference to stable rates of profit. This "incremental rate of profit" is what is relevant in explaining the movement of stock and bond prices, and therefore interest rates. It also explains the structure of relative industrial prices, to which we now turn.

Section 7 – Relative Prices

This is a short section that discusses the composition of the prices of commodities. Shaikh argues that the prices of commodities are composed of two parts:

1. Vertically integrated labor cost
2. Vertically integrated ratio of profits to wages

These are "vertically integrated" in the sense that they are (to take labor costs as the example):

Sum of direct labor costs + Sum of labor cost of inputs + Sum of labor costs of inputs of inputs

The same structure holds for the ratio of profits to wages. Essentially this is the ratio of "labor's share" vs. "capital's share" in the price of a commodity. This kind of argument was first made by Adam Smith, and then refined by David Ricardo. Ricardo reckoned that labor costs were 93% of prices on a long-term average, and this idea was ridiculed by the neoclassicals, but Shaikh argues based on his research that Ricardo was not too far off the mark, placing the figure at 87%. This preponderance of "labor's share" will have important consequences down the line but they are not discussed here.

Section 8 – Convergence and Divergence on a World Scale

In this section Shaikh compares the economic development of different regions and countries between 1600-2000, based on the work of Maddison. What we find is that the capitalist era is associated with a growth in world inequality. While it is true that “...growth in living standards is a characteristic feature of successful capitalist development” (71) it is also true that “...in regions that are tangled in the coils of capitalism, such as Africa and Asia, we find stagnation and even decline for almost three centuries.” The relative rating of regions can change, as with the “western offshoots” (including the USA) overtaking Europe, or Asia surpassing Africa economically in the 20th century, but inequality remains the rule. If instead of looking at regions, we compare the four richest countries to the 4 poorest, we see a pattern of persistent and growing inequality. As Shaikh states:

...capitalist development is not just a matter of unequal gains but gains for some alongside extended periods of loss for others.

This is another important pattern that must be explained.

Section 9 – Summary and Conclusions

Surveying what he has discussed in the chapter, Shaikh writes:

The great debate of the times is about whether these deficiencies [declining share of wages relative to productivity and persistent world inequality] are to be remedied by channelling and curtailing capitalism, or by hastening its spread across the globe...The patterns shown in this chapter, and others yet to be elucidated, are deeply rooted in this system. Social and economic interventions have their say within the limits prescribed by these processes. The theoretical task is to show how they are linked. (74)

This brings us back to those “strict limits” we saw discussed above. The theoretical move that Shaikh is making is like that made by Marx. At first glance, it may seem that arguing that the contest between labor and capital, or between the “multitude” and the rulers, is nothing but a naked power struggle subject to total contingency would be a better way of thinking than claiming that the system imposes “strict limits” on what labor can achieve. Why not shoot for the stars? Yet by taking the “scientific” stance that the system has regularities and “regulates” limits, it is possible to argue that only with a profound revolutionizing of the capitalist system is it possible to secure the wellbeing of the working class *over the entire world*. The more “conservative” position is simultaneously the more radical one. Whether the reader considers this point of view overly rigid or powerfully motivating is something to consider as we go through the rest of this long journey through the book.