Book Review:

Capitalism: Competition, Conflict, Crises, by Anwar Shaikh
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Anwar Shaikh's Capitalism: Competition, Conflict, Crises is an extraordinary book which will transform the way in which economists, sociologist, historians and social scientists understand and study capitalism. It aims to develop a theoretical structure, rooted in the classical political economy tradition, appropriate to analyze the real operation of existing developed capitalist countries. Its broad object of investigation took the author more than fifteen years of writing and a whole life of studying economic theory in order to understand and reveal many of the secrets and hidden relations of capitalism. The result is undoubtedly an indispensable tool to understand economics and social relations in the XXI century.

Capitalism: Competition, Conflict, Crises is beautifully written and all arguments are clearly exposed allowing the reader to confront their ideas with the reasoning of the author along every step of the road. The book is organized in three main parts: Foundations of the Analysis (chapters 1-6); The Theory of Real Competition (chapters 7-11); and The Theory of Turbulent Macro dynamics (chapters 12-17). In the first part, after a useful introductory chapter where the author explains his goals and the structure of the book, Chapter 2 presents empirical evidence on characteristic long run economic patterns in advanced capitalist countries; while Chapter 3 takes up the methodological questions raised by the very existence of persistent long term patterns and develops the micro foundations for the analysis. Shaikh's goal is to answer the question of how it is possible for capitalist societies to generate recurrent aggregate patterns given that it is composed of mutable individuals embedded in evolving social structures. Chapter 4 deals with the study of the structure of social production, the role of active labor, the production at the level of the firm and the importance of distinguish between production relations and production functions when analyzing capitalism. Chapter 5 approaches the question of money, exchange and prices, and the author beautifully traces the evolution of money from its origins in exchanges until more recent forms such as state fiat money, allowing the author to develop a classical theory of money.

Finally, chapter 6 is a long chapter centered on the determination and measurement of profit and capital. It investigates the two sources of aggregate profit (from a transfer of
wealth and from the production of new wealth in the form of a surplus product) and it is demonstrated that changes in the relative prices of commodities generally have different impacts on the circuits of capital and revenue, and can give rise to transfers between the two circuits. The general framework is used to address financial profit arising from realized capital gains and other transfers. Overall, the first part of the book provides the theoretical arguments developed by Shaikh in order to understand the way in which capitalism works. It also reveals a crucial methodological aspect of Shaikh's approximation: he uses a methodology that moves from empirical evidence to theoretical development and then returns back to empirical evidence to test if the theoretical ideas are consistent with long run economic patterns.

The second part of the book analyses the process of real competition and involves five chapters. Chapter 7 presents the theory of real competition, which is the central regulating mechanism of capitalism. Shaikh studies this process at different levels (how it operates within and between industries) as well as the role played by regulating capital, and backs up his ideas with empirical evidence on the behavior of firms and on profit rate equalization. Chapter 8 confronts various alternative views of competition (Classical, Post-Keynesian, Schumpeterian, Austrian and Marxian) and examines empirical evidence on pricing and profitability. Meanwhile, Chapter 9 focuses on competition and inter-industrial relative prices. Shaikh states that the prices of production are competitive relative prices generated by three essential processes: selling prices are equalized across sellers, labor incomes are equalized across workers, and profit rates are equalized across regulating capitals; all equalization is turbulent. Chapter 10 extends the classical approach to the theory of finance and the interest rate. The author focuses on the competitive determination of interest rates, extends profit rate equalization to equity prices, analyzes bond prices, and considers the related empirical evidence. In the final chapter of second part (Chapter 11), Shaikh extends the notion of real competition to international competition and the theory of exchange rates. Starting with a strong critique of the crucial premises of the theoretical foundations of orthodox trade theory, the author examines Ricardo's principle of comparative cost and shows that the theory of real competition has a very different set of implications for international trade from orthodox theory.

The second part of the book complements the first one and develops the dynamics of competition, the different views that exist on competition, the effects of it on relative prices and the specific way in which manifests itself in international competition and exchange rate theory. Thus, Shaikh develops the core elements of the theoretical framework, how the main variables are connected and influence each other, and the lines of continuity with the classical tradition as well as his main differences with other theoretical frameworks.

Finally, the third part of the book combines the theoretical concepts already developed with the study of actual and turbulent macro dynamics, with the aim of uncovering the linkages between real competition and effective demand. Chapter 12 reviews the rise of modern macroeconomics; it explores Keynes' General Theory and its capture by neo-
Walrasian economics with the ISLM model, and some new developments in the heterodox “imperfectionist” tradition. Chapter 13 takes up the task of building a classical approach to macroeconomics founded on real competition and the centrality of profits. Starting from a discussion among the Keynesian, Kaleckian and Postkeynesian views on the relationship between investment and savings and the role played by the multiplier, Shaikh studies the responsiveness of the savings rate and applies Soros’ theory of reflexivity in order to explain the connection between expected net profitability and actual net profitability. Chapter 14 derives the crucial linkages between unemployment, wages, profitability and growth; and addresses the capacity that workers have on wage bargaining. In light of this, Shaikh develops a framework in which accumulation is driven by profitability, it maintains a normal rate of capacity utilization alongside a persistent pool of unemployed labor, and labor struggles play a significant role in determining real wages.

Chapter 15 tackles the theory of inflation under modern fiat money. The chapter provides a review of the historical path from private money to state money, a detailed survey of chartalist and neo-chartalist claims about money, the effects and limits of fiat money, and a critical analysis of the crucial propositions of the neo-chartalist tradition. Once the general notions regarding fiat money are developed, Shaikh constructs a classical theory of inflation, which combines demand-pull and supply-side arguments. Chapter 16 provides a classical view of the economic crisis that swept across the world in 2007. Since crises are recurrent phenomena, Shaikh reviews the main characteristic of the UK and US accumulation process in order to explain the causes underlying the crisis, examines the general consequences of it, and presents his views on the policy debate on austerity versus stimulus. The final chapter of the book summarizes the main conclusions and addresses further implications. As this summary illustrates, the third part of the book combines previously developed elements while the author shows the specific way in which they are connected to each other. The result is the classical approach to macroeconomics, which is driven by profitability, a specific relationship between unemployment, wages, profits and growth, the theory of crisis, and the theory of inflation under modern fiat money.

The book masterfully shows that theory is crucial to economic analysis and policy. While neoclassical theory supports perfect competition, Say’s Law and full employment, and Post Keynesian economics starts directly from imperfect competition in order to build its macroeconomic theory and policy; Shaikh shows that his theory is appropriate to explain the intrinsic forces of capitalism, the essential conflicts, and the causes of booms and recurrent crises.

Every subject covered in Capitalism, from demand and supply, the determination of wage and profit rates, real competition, technical change, prices, interest rates, growth, capacity utilization, unemployment, inflation, to long booms and recurrent crises, is contrasted with corresponding neoclassical and Keynesian/Post Keynesian views, and confronted with empirical evidence. This comparison of theories allows the reader not only to discover the main assumptions and critical elements of each theory, but also to
understand the importance of each element and the differences between the theoretical frameworks.

Shaikh’s book challenges the foundations of the main theoretical frameworks in economics. This can be illustrated by several examples. Firstly, the theory of real competition can explain the observed patterns that led Kalecki (and later Post Keynesians and Monopoly theorists) to posit markup pricing without requiring any resort to imperfect competition. Shaikh shows that the patterns of real competition arise not only from competition within an industry but also from competition between industries. According to the author, regulating capitals are the price-leaders in an industry and its price becomes the benchmark for market prices, while non-regulating capitals are price-followers and their profits are residuals, which depend on their own costs. The mobility of capital leads to the equalization of the profit rates of capitals on the best reproducible conditions of production (regulating conditions) in a turbulent and ceaseless process. Therefore, the equalization of regulating rates of profit implies that for regulating capitals, profit margins will be higher in industries with higher capital/output ratios. Insofar as industry average variables are correlated with regulating ones, one would expect similar correlations for the former. Kaleckian, Post Keynesian and Monopoly capitalism schools interpreted these patterns as evidence of imperfect competition (i.e. monopoly or oligopoly power); but Shaikh shows that this is the consequence of real competition.

A second example is that the theory of real wages can explain that the observed wage share is the result of social structure, which is achieved through labor struggle (unions, welfare state, etc.) and the degree of unemployment. Thus, a shift in the balance of forces can lead to changes in income shares. This is radically different from the Post Keynesian notion that relies on some form of monopoly markup pricing, where firms are assumed to determine their own share of profits in total costs (individually and collectively). Therefore, they also set the wage share, and at given levels of productivity, the real wage. This is of course also radically different from the neoclassical notion in which each factor of production receives its marginal product.

The final example relates to the classical theory of inflation, which is rooted in the practices of real competition and harks back to the Keynesian and Monetarist notion that increases in purchasing power result in increases in nominal output. In the classical theory of inflation the limit to real output growth comes from the degree of growth-utilization rather than through the degree of labor-utilization (employment rate) upon which neoclassical, Keynesian and Post Keynesian traditions rely. As a result, inflation is the portion of demand augmentation, which cannot be absorbed by supply growth, except that in Shaikh’s scheme supply growth has a different determination.

The book is the result of a long process of work and several ideas have been advanced by the author in previous works. However, the value of the previous contributions is incomparable to the dimension of this book, as these ideas are combined into a comprehensive and unified theoretical framework. It is important to note that this book also
Brings together a lot of new material that has never been published. Among the most important new topics are the new insights regarding the turbulent macro dynamics, the micro foundations, the classical theory of money, new developments regarding the choice of technique, the treatment of international competition as an instance of international choice of technique, the alternative treatment of fixed capital as a joint product, the discovery of the correct adding-up rule for chain indexes, the classical theory of finance, interest rates and stock market theories, the use of Soros’s notion of reflexivity to understand some macro dynamics, the notion of an endogenous savings rate, the theoretical derivation of a wage-share curve as the classical equivalent of the Phillips curve and its empirical analysis, the new developments regarding the classical theory of inflation, and the classical account of accumulation that can explain the actual patterns leading up to the current crisis.

The book also sets up a research agenda that could be pursued further. Particular topics for future study are the link between profit-driven accumulation and recurrent long wave patterns, the patterns that turbulent equalization of prices and profit generates in each variable, the shapes and forms of wage distributions, the econophysics “two-class” theory of income distribution, and the relations between developed and developing regions of the world. Regarding this last issue, the book is relevant to the Global South, as the analysis of capitalism in its most developed form is essential for an adequate understanding of the relations between the developed, developing, and under-developed regions of the world. A central argument throughout the book is that the capitalist economic system generates powerful ordered patterns that transcend historical and regional particularities, and that the forces that shape these patterns are moving limits whose gradients define what is easy and what is difficult at any moment of time. Therefore, understanding these limits and how to move them is crucial to address the challenges that developing countries face, in order to improve the living conditions of people in the developing world.

Anwar Shaikh’s magnum opus is the most important work of political economy since Marx’s Capital and it will be a reference point for classical political economy for decades to come. With this book Shaikh not only provides an extraordinary interpretation of the world but he also succeeds in transforming the way we think of it.