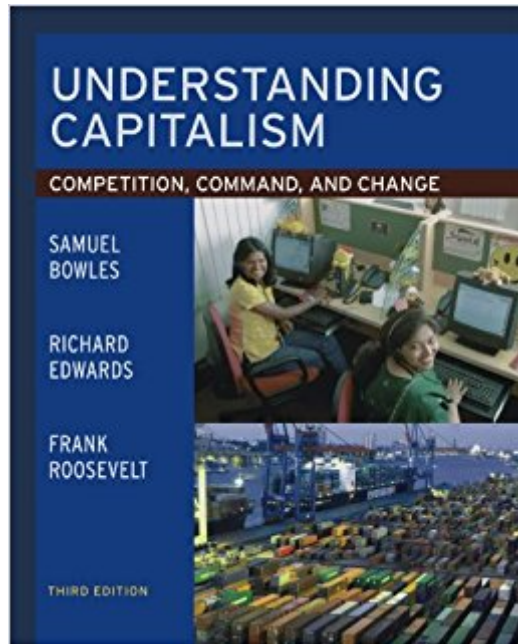




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# Understanding Capitalism: Competition, Command, And Change



## Synopsis

Understanding Capitalism: Competition, Command, and Change, Third Edition, is an introduction to economics that explains how capitalism works, why it sometimes does not work as well as we would like it to, and how over time it not only changes but also revolutionizes the world around us. The "three-dimensional approach" of the text focuses on competition in markets; command in firms, governments, and international relations; and change as a permanent feature of a capitalist economy driven by technical innovation and conflict over the distribution of income. The book covers the standard topics of supply and demand, market competition, imperfect competition, aggregate demand, inflation, and unemployment. It emphasizes the extraordinary dynamism and material productivity of the capitalist economy; the psychological foundations of human behavior; the logic and limitations of Adam Smith's invisible hand; technical change and the new information-based economy; global economic integration and its impact on national economies; the impact of economic activity on the environment; and inequality both within and among nations. In addition, it provides a critical evaluation of the tenets of neoclassical economics, a clear introduction to contract theory, and material drawn from new research in behavioral, institutional, and information economics. Understanding Capitalism, Third Edition, is ideal for undergraduate courses in economics and political economy. An Instructor's Manual is available to adopters.

**FEATURES OF THE THIRD EDITION**

- Offers a new chapter on the behavioral foundations of economics, showing that the selfishness of the "economic man" leaves out the important role of other social motives and how individual tastes and values evolve in response to experiences
- Includes a new chapter that examines how economic success (and poverty) are passed on from parents to children and also looks at the increasing inequality of income and wealth along lines of race and gender
- Presents a completely revised and expanded treatment of the revolutionary changes that have been associated with capitalism over the past three centuries
- Provides boxed treatments of issues that can serve as the basis of classroom discussions
- Defines important terms in the margins throughout the text
- Contains a section entitled "Sources of Economic Information" that helps readers locate relevant outside data, both in print and online

## Book Information

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## Customer Reviews

Samuel Bowles is Research Professor at the Santa Fe Institute, U.S.A., and Professor of Economics at the University of Siena, Italy. Richard Edwards is Professor of Economics at the University of Nebraska-Lincoln. Frank Roosevelt is Professor of Economics at Sarah Lawrence College.

Slow read for me, but only because I have a visceral aversion to the subject. I would say, however, that it's entirely accessible for anyone completely new to economics. The book is a welcome relief from neoclassical economics, which achieves its bogus "scientific" rigor only by excluding reality. The use of algebraic formulas is at times a little annoying but ultimately not a big deal since the accompanying text always explains the concept more clearly than the formulas do. It's very helpful to see a discussion of economics that includes consideration of politics, power, and government. Could have used a tad more exploration of monetary policy, but that's a quibble. Highly recommend this for anyone, even those addicted to the myth of the invisible hand.

This is an interesting, insightful, and accessible introduction to the nature of capitalism. The authors might best be characterized as social democrats or market socialists. Nevertheless, their presentation of a broad range of material that constitutes the substance of what 18th and 19th Century authors such as Adam Smith, David Ricardo, Thomas Malthus, and Karl Marx called "political economy" is really quite even-handed and devoid of dogmatism and histrionics. Some of the material in Chapter 10 Capitalist Production and Profits is graphically and algebraically a bit technical, but if you stop and think about the concepts you'll quickly get the hang of it. In addition, the authors ingeniously summarize this material in an instructive flow chart at the end of the chapter. Bowles, Edwards, and Roosevelt seem determined that no reader will be left behind, and they

achieve this objective with clearly written explanations, judicious use of repetition, and construction and selection of examples that make their presentation unmistakably clear even to the uninitiated. While *Understanding Capitalism* is a book with many virtues, it probably does not serve as a good point of departure for someone considering a career as an economist. Yes, there are prominent economists such as Amartya Sen and Paul Krugman who recognize that economics is a social science through and through. However, the one-dimensional, mechanistic neo-classical perspective remains dominant among practicing economists and in colleges and universities throughout the U.S. For proponents of the neo-classical perspective economics is, to closely paraphrase Lawrence Summers, a former economic adviser to President Obama, a form of engineering based on scientific laws that economists have mastered and expressed mathematically. Fundamentally, this is the same commitment shared by Paul Ryan, Congressional Republicans' most conspicuous author of provocatively conservative budgets and most of his economics-minded colleagues across the political spectrum. Are there differences among them? Sure. But the commonalities are of over-riding importance. Perhaps this is one reason Obama has so readily lurched to the right in negotiations concerning the national debt limit. In any case, mainstream neo-classical economics is best learned from a substantively conventional text rather than from authors writing in the tradition of multi-disciplinary political economy. A good choice among mainstream textbooks would be Samuelson and Nardhaus' (2009) introductory volume titled simply *Economics*. *Understanding Capitalism* could be used as ancillary reading, providing an alternative to the dominant neo-classical perspective. On the other hand, if you're interested in political economy as construed by the authors of *Understanding Capitalism*, there are many other extremely interesting sources for which this volume prepares you. One of my favorites, a classical example that still has pertinence today, is Thorstein Veblen's best book, *The Theory of Business Enterprise* (1904). Veblen characterizes the dominant economic perspective of his day as well-suited to the 16th Century world of independent artisans, craftsmen, merchants, and peasant farmers. Emerging markets then closely approximated the ideal of fair exchange of commodities among individuals, none of whom exercised market power. When Veblen put pen to paper in the beginning of the 20th Century, however, independent individuals exchanging equal-valued commodities in free markets had been replaced by the dominance of wealthy trusts. Once self-governing, independent producers of commodities of all kinds had been reduced to the status of wage labor. As such, they were unable to compete in the market place with corporations that had the investment capital needed for mechanization, large-scale organization, and applying political pressure. Today, the set of circumstances that led Veblen to question the value of mainstream economics has been

enormously exaggerated such that we live in a two-class world, capital and labor, and capital emphatically has the upper hand. Yes, there continues to be much fretting and hand-wringing about the gradual demise and precarious circumstances of the middle class. In truth, however, the middle class survives as an identifiable social entity only insofar as it is in the interest of capital. Even most professionals are no longer autonomous, but work for corporations. They are, in effect, well-paid wage laborers. Physicians' traditionally sacred solo practice, for example, has given way to the organizationally regulated, time-studied, cost-effective environment of HMOs and chains of for-profit hospitals. As a matter of everyday experience, contemporary neo-classical economists must see this. Nevertheless, as put forth in *Understanding Capitalism*, these pesky departures from the simpler economic world of centuries past rarely make it into professional economists' textbooks, research monographs, or journal articles. As a result, economic actors are reduced to the status of totally self-serving automatons for whom all behavior is governed by principles of rational calculability, and increasing returns to scale are treated as if they don't exist, meaning that market power is nothing but a myth shared only by radical kooks. In addition, markets for labor are presented as devoid of conflict, places where precisely specified work is done according to an explicitly agreed-upon schedule in exchange for a wage that accurately reflects the dollar value of duties performed. Changes in the way the economy is organized and functions come about only through intrusion of external factors; otherwise the routine working of the economy is an inherently stable complement of equilibrating processes. These simplifying assumptions make neo-classical economics rigorously tractable, something that can be expressed in terms of graphs where supply and demand curves slide easily and according to iron-clad rules -- indeed, natural laws! -- that also permit seemingly precise determination of employment levels, rates of profit, suitable wage rates, and all the other information an economist might need to do his job. Delve deeply enough and acquire the right skills, and neo-classical economics can be formalized in mathematical and statistical models, bearing testimony to its scientific rigor. This is the kind of economic thinking that Paul Samuelson, one of the most brilliant and influential economists of the 20th Century, had in mind when, asked what Marxist economics included that was not covered by neo-classical economics, he facetiously replied "class conflict." When Bowles, Edwards, and Roosevelt invoke the concepts "class" and "class conflict," however, they are not being facetious. Though they are not Marxists, they persuasively argue that the world, including its contemporary economic manifestations, is inherently conflictual. Much of what multi-national corporations do and much of what governments do in furtherance of economic objectives is aimed at controlling the working class, meaning just about all of us. The authors' discussion of the near-inevitability of unemployment,

the orchestrated expansions and contractions of national economies (including planned recessions), and determination of suitable wage rates makes clear that much of public economic policy is aimed at assuring the profitability of the large economic actors that dominate the world economy. Assuring profitability, of course, requires a docile work force. The tools that governments use, whether monetary policy, fiscal policy, or both, are easily and realistically illustrated by the authors of *Understanding Capitalism*. The economic and political pressures that corporations use to gain desired objectives are simple to understand, but remarkably effective. For example, if a state in the U.S. -- or an entire nation embedded in the global economy -- adopts social welfare measures that require an increase in corporate tax rates, this is quickly evident to big-money decision-makers and, without consultation, picketing, speech-making, or anything else collusive or conspicuous they can tacitly call a "capital strike." The offending governmental entity is deemed no longer suitable for investment, and capital goes elsewhere or simply sits and waits. This brings to mind current calls for reduction or elimination of already low corporate income tax rates while corporations headquartered in the U.S., according to former Labor Secretary Robert Reich, sit on two trillion dollars worth of surplus product. Capitalism changes over time, but it has today basically the same political and economic tools that it had during the Post-World War II period from 1946 to 1972. Then, however, labor was in a better position. An unspoken but effective social contract between capital and labor spread the surplus product a bit more evenly. For most families, one bread-winner was enough. Married women with children worked at their discretion, and moderately prosperous working class families were commonplace. Subsequently, however, as pursuit of profit gave rise to internationalization, out-sourcing, down-sizing, and labor-saving technological developments, working class became coterminous with working poor, most families needed two bread-winners, payoffs for investments in education declined and became uncertain, and labor unions suffered dramatic losses in membership and political clout. The hand-in-glove relationship between capital and government became even tighter. Those of us who lived through even part of the era of the capital-labor social contract remember that it seemed certain to last forever, with the circumstances of working people continuing to improve. We were wrong. Using a concept taken from *Understanding Capitalism*, we moved from one "social structure of accumulation" to another, a long process that leaves capitalism fundamentally unchanged, but manifests itself in more effective patterns of extracting labor time and transforming it into profits. *Understanding Capitalism* is a painfully honest book that seeks to disabuse contemporary economic thinking of its willfully one-dimensional naivete'. Without being acerbic or polemical, it succeeds in doing so, but the authors' well-informed, well-intentioned suggestions as to how ordinary people can collectively

improve their circumstances and prospects look like pretty hopeless long-shots. One wonders, in fact, if nations such as Sweden and Belgium, where capital and labor have reached a seemingly lasting and mutually beneficial accord are not likely to develop in ways that will make their versions of capitalism much more like the capitalism that now prevails in the U.S. In any case, with the American political climate suffused with an ethos of Reaganesque rugged individualism, we're all pretty much on our own. Anything we get from capital is in capital's interest to give, or it's just blind luck.

I purchased this book after reading "Microeconomics: Behavior, Institutions, and Evolution". In fact, I was curious about S. Bowles vision of macroeconomics after reading its view on microeconomics. Taking into account that, I felt a little disappointed because I was looking for a more advanced textbook in macroeconomics. Of course, the scope of this book is different. It is meant to be a general introduction to the mainstream economic system nowadays (i.e. capitalism). The book is an excellent introduction to the subject. I found enlightening and quite refreshing the explanations on profit, unemployment, and its relationships. The only "but" is the small amount of discussion regarding growth and crisis/recessions (although he discusses the issue through "accumulation"). I really recommend it!

I love it

As taught in most undergraduate courses, the world of mainstream economics is an orderly place: markets clear, economic actors are rational, and social harmony prevails. Readers wanting more realism should read "Understanding Capitalism," a superb introduction to economics written from a social democratic perspective. As in any introductory econ text, the book carefully analyzes market processes. However, it also analyzes "command" relationships within firms, and the relationship between capitalist dynamics and economic growth. This "three dimensional" approach to economics -- the authors prefer the term "political economy" -- offers a comprehensive view of the subject. The core chapters deal with microeconomics and macroeconomics. The micro section draws on Marx and Schumpeter, and focuses on profit-seeking and "accumulation" as the keys to understanding capitalist dynamics. The macro chapters draw on and update Keynes, and explain why unemployment is a persistent feature of U.S.-style capitalism (Swedish-style capitalism is a different matter). Throughout, economic concepts are related to ideas from anthropology, history, political science, and environmental science. Key points are illustrated with examples from the daily news;

there is algebra, but no calculus; the writing is clear. This is a very reader-friendly econ text. It is also refreshingly non-dogmatic. Although the authors are leftists, they acknowledge that capitalism obliterates archaic economic structures and lifts standards of living. They also highlight the role of profit-seeking in the development of new technologies and production methods. Their tone is consistently reasonable and fair to all points of view. Of course, no book is perfect. I would have preferred a more traditional analysis of microeconomics (complete with graphs showing average cost, marginal cost, and so forth). The sections on international trade and finance are too skimpy for a book trying to make sense of modern globalized capitalism. But overall, "Understanding Capitalism" is superb. No one taking a mainstream lower-division course on economics should miss it -- and anyone teaching such a course should consider using it as a supplemental text.

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