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A New "General Theory"?
A review of *Capitalism* by Anwar Shaikh

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> "The goal of this book is to develop a theoretical structure that is appropriate from the very start to the actual operations of existing developed capitalist countries. Its object of investigation is neither the perfect, nor the imperfect, but rather the real. For this reason, the theoretical arguments developed here, along with their main alternatives, are constantly confronted with empirical evidence" (p. 4).

The main claim made by the French students in the "Open letter from economics students" in 2001 was that they wanted "to escape from imaginary worlds". Anwar Shaikh's new book *Capitalism: Competition, Conflicts, Crises* meet this expectation. Shaikh takes reality as a starting point and then comes back to it in order to test the theory proposed – far from the imaginary world, not to say delirious world, of the neoclassical theory.

According to James K. Galbraith, "there hasn't been one like it for 150 years". Even if the reviews are usually laudatory, it would be hard not to agree with him. *Capitalism* is an outstanding book as it proposes a general theory – that encompasses both microeconomics and macroeconomics – that is systematically confronted with empirical evidence. Shaikh describes his theoretical framework as "classical" since it is largely inspired by the work of Smith, Ricardo, and above all, Marx. His theory is constantly compared to the other major economic theories – neoclassical, Keynesian and post-Keynesian. The importance given to the confrontation of each assumption with empirical evidence is a major feature of the book.

Moreover, none of the assumptions made are contradictory to common sense – as opposed to neoclassical models. This book could provide the basis for a radical reform of economics teaching – from undergraduate to postgraduate. This reform has been long-awaited by the students that are sick and tired of the current microeconomics and macroeconomics courses[1] – that is, by "stories" ("fables", "parables"…) embellished with mathematics. This reform is obviously unthinkable for the moment – especially because the ideological stakes are high. But one can always dream…

A dense book that is not easily accessible

Capitalism is a long and dense book – almost 1000 pages. The first chapter ("Introduction") gives a detailed summary, but a prior knowledge and a lot of dedication are required if one wishes to read it to the end. This review aims to provide an overview of *Capitalism* to show that this is a work of great interest and to make it more accessible. It does not have to be read from beginning to end. Some issues (theory of value, costs, consumption, multiplier, money…) can be picked and the related chapters can be read separately – with particular

[1] The content of these courses (without the mathematical elaboration) could be taught in history of economic thought

regard to their respective role in the theoretical framework given in this review. That is why the issues mentioned in it are followed by references – chapters, sections and pages in which a more in-depth analysis can be found. Because of the length of this review, some major topics like money, finance and international trade will not be addressed. They are examined in some (excellent) chapters that can be read independently. They do not play a critical role in Shaikh's theoretical framework except for the fact that the money supply is endogenous – which is now widely recognized, even by orthodox economists who still dither.

Shaikh belongs to the "classical tradition" that starts

> "from the bottom up, from the actual world that we observe around us, and then build abstractions from there" (Shaikh, 2016).

The notion of competition is one of these "abstractions" and Shaikh starts by reconsidering competition – which set him apart from the neoclassical and the post-Keynesians economists.

A sharp break with the models of perfect and imperfect competition

All economists admit that the model of perfect competition is not realistic. But only a few – even among heterodox economists – will concede that it is not relevant. They would rather introduce "imperfections" to make it more realistic. As Anwar Shaikh argues:

> "Orthodox economics operates within a hypothesized world of perfect competition in which perfect consumers and firms act to bring about supposedly optimal outcomes. The discrepancies between this model and the reality it claims to address are then attributed to particular imperfections in reality itself. Most heterodox economists seize on this fact and insist that the world is characterized by imperfect competition. But this only ties them to the notion of perfect competition, which remains as their point of departure and base of comparison."

In short:

> "There is no imperfection without perfection".

The myth – elusive but widely accepted by the heterodox economists – that perfect competition would have (more or less) prevailed in the early stages of capitalism is recalled in his introduction (chapter 1):

> "Heterodox economics generally accept the perfectionist vision as adequate to some earlier stage of capitalism but argue that imperfections rule the modern world. In either case, such approaches actually serve to protect and preserve the basic theoretical foundation, which remain the necessary point of departure and primary reference to an ever accreting list of real world deviations" (p. 4).

Therefore, Shaikh proposes to his "many Keynesian and post-Keynesian friends":

> "that we reject the claim that perfect competition was ever appropriate and refuse the notion that observed outcomes should be attributed to historically arisen imperfections" (p. 747).

His critique is also aimed at those who claim to be classical economists and yet accept this historical fiction:

> "Almost all modern classical economists treat the competitive firm in the same manner as neoclassical theory, as a price taker" (p. 18).

"Real competition"

Competition in capitalism has nothing to do with the neoclassical fairy tale, where nice "price taking" agents are kindly making offers and demands – acting as if they were alone in this world – and whose only motive is to make everyone happy by matching buyers with sellers.

Real competition in capitalism is "the war of all against all" (p. 14), that is, of labor against capital, capital against capital, labor against labor, seller against buyer, seller against seller and buyer against buyer.

Real competition generates a "turbulent" process whereby

> "the tactics and strategy of price-setting and cost-cutting firms in the face of shifting advantages and disadvantages created by their own interactions" (p. 363)

are coming into play. No one is safe from competition. Even the firms with substantial market shares are threatened by new entrants with lower costs and have to lower their prices or their margins.

Shaikh blames the post-Keynesians for viewing the world through the lens of "imperfection".

He contests their analysis, based on the neoclassical deduction that each firm that sets prices has a monopoly power – since expected demand has to be taken into account.[2] In "real competition", the capacity to set prices is distinct from the monopoly power: all firms set prices but this does not necessarily mean that they enjoy a monopoly.[3] This is a major distinction because if the majority of the firms behaved like monopolies (even "small" ones), profit rates would not tend to equalize – a key element in Shaikh's theory.[4]

Throughout the whole book, theoretical arguments are constantly confronted with empirical evidence. In the second section of the chapter 8 "On perfect and imperfect competition" dedicated to the "Empirical Evidence on Competition and Monopoly" (p. 367), he reviews

[2] As opposed to perfect competition in which the expected demand would be "flat", "horizontal" or "perfectly inelastic".
[3] Shaikh recognizes the existence of monopolies which are characterized by persistent excess (normal) profit rates
[4] Each firm defines a profit margin that depends on a variety of specific factors. There is no reason to believe that this profit margin should converge towards a common rate.

several studies on the measure of the profit rate and on its equalization tendency. He concludes that the empirical evidence is consistent with the theory of real competition.

A world where real competition prevails is naturally "turbulent". The war of all against all takes on many forms and the motives and behaviors of those who wage it are diverse. It is therefore misleading to represent this world with hypothetical individuals characterized by well-defined behaviors and motives – as the neoclassical economists do. The right way is to draw from reality that arises from the interaction of heterogeneous units and to try to detect "hidden structures", "lawful patterns" or "empirical laws". It is then possible to try to introduce "microfoundations" on the basis of a few constraints faced by the individuals. This approach is used in the chapter 3, "Microfoundations and Macro Patterns", that deserves attention since it is one of the distinctive features of Shaikh's book.

Micro foundations and emergent properties

The diversity of individual agent behaviors is a witnessed fact that has to be taken into account, not ignored: "Diversity must be embraced, not suppressed" (p. 9).

Even if they are complex, "whimsy" and subject to "occasional madness", consumer behaviors give rise to four "empirical laws": downward sloping demand curves, characteristic income elasticity of necessaries and luxuries, the nonlinearity of Engel's curves, and the near-linearity of aggregate consumption functions. Shaikh proves that these "laws" can be derived solely from two undemanding constraints: (1) a limited income and (2) a minimum level of consumption for necessary goods. He then proceeds to the simulation of four contrasting models of individual behavior and find that the four cases give essentially indistinguishable aggregate results.

He thus concludes that

> "aggregate outcomes are 'robustly indifferent' to microeconomic details" (pp. 96 to 101).

Hence,

> "the assumption of hyper-rationality (sic) is not useful because it systematically misrepresents the underlying motivations and is not necessary because we can derive observed patterns without it" (p. 8).

The same method is applied to production in chapter 14. The starting point is the observation that the division of the income generated by the production gives rise to a conflict between workers and their employers ("capital"). As with the consumption, Shaikh formulates two simple hypotheses that each firm must meet: the real wage must lie in between a lower limit and an upper limit (the former being "historically determined" while the latter corresponds to the productivity of labor – that is, the case where the workers get the whole surplus). If the conflict between capital and labor is (approximately) stable in firms – their distinctive features are relatively stable in time – then

> "disparate individual capital-labor struggles in a particular social climate lead to a particular ratio between the average wage and productivity" (p. 648).

This relation being

> “robustly insensitive to the micro details” (p. 648),

as with the consumption.

This relation between the average wage and productivity gives rise to a “classical curve” that plays a major role in Shaikh’s theory – as we shall see later.

In the last chapter (“Summary and Conclusions”), Shaikh rightly argues that:

> “A central finding [of *Capitalism*] is that lawful patterns can emerge from the interactions of heterogeneous units (individuals and firms) operating under shifting strategies and conflicting expectations because outcomes are ‘robustly indifferent’ to microeconomic details” (p. 748).

Classical approach and operative principles

Observed ”empirical laws” are not sufficient to build a theoretical framework: they can be used to verify the theory or they can be a part of it. Shaikh does not claim to start from scratch: he identifies himself with the classical tradition throughout *Capitalism* even if what is meant by classical is not specified. But we can progressively grasp what is implied, for example

> “The central goal of this book is to demonstrate that a great variety of phenomena can be explained by a very small of operative principles that make actual outcomes gravitate around their ever moving centres of gravity ...This is the system of *turbulent* regulation, whose characteristic expression takes the form of *pattern recurrence*” (p. 76).

Shaikh does not list the “operative principles” but three of them appear through the book*:* gain seeking behaviors, the “equalization principle” and the conflict between capital and labor for the division of value-added – to which we shall return.

The principles of equalization and of gain-seeking are jointly responsible for two emergent properties that play a critical role in the classical approach: price equalization and the profit rate equalization:

> “price and profit rate equalizations are *quintessential emergent properties*, unintended outcomes of constant jockeying for greater profits” (p. 14).

The “law of one price” thus appears as (approximately) resulting from a “turbulent” process and not as a premise – as in neoclassical theory.

All firms are involved in the equalization of the profit rate, including financial firms whose job is to make loans – as the banks. Bank profits are given by the interests earned on the loans that they make. Consequently, the interest rate gravitates around the general rate of profit –that is, the one that prevails in the economy. The interest rate is not determined by “supply and demand" or by some kind of "liquidity preference". They can nonetheless be part of a "turbulent" dimension of the gravitation around the profit rate.[5]

For the firm,

> "the interest rate is the benchmark for the return on capital left passively in the bank rather than being actively invested in risky capitalist enterprise" (p. 443)

and this function does not depend on whether or not an individual firm borrows. Hence, as

> "Marx and Keynes emphasize, the investment is driven by the difference between the rate of profit and the rate of interest" (p. 23).

The tendency towards the equalization of the profit rates carries over to net profit rates insofar as we consider a common benchmark interest rate. Finance – where the risk factor is an additional consideration– is also subject to this equalization tendency. Therefore, the net profit rate is the driving force of investment and growth. In our "turbulent" world where different kinds of firms coexist, the net profit rate can vary from one company to another. As a matter of fact, the equalization process only concerns the most dynamic firms. That is why Shaikh introduces the notion of the "normal" level of a variable.

Real values and "normal" values

The distinction made between what happens at an abstract level and at a more concrete level leads to the two important notions of a normal profit rate and of a regulating profit rate.

> "While at the highest level of abstraction, competition appears to lead to a common technology and common price within an industry, that is to single point for each variable, at a more concrete level it can be shown to create and maintain a distribution for each variable" (p. 750).

That is because the different firms simultaneously use technologies that are relatively old or new. This affects their costs and in turn, their prices – the firms with newer technologies have lower costs and thus lower prices. For any given plant, new or old,

> "the normal capacity (potential) output is defined as the (normal) potential corresponding to the lowest average cost (cost being defined in the business sense)" (p. 32).

The "normal" rate of profit is therefore the profit rate obtained at normal capacity utilization. Given that

> "classical theory expects that new investment is embodied in the best generally reproducible plant and equipment" (p. 16),

[5] The interest rate is a source of considerable confusion for the neoclassical economists. In microeconomics, interest rates are real and specific to each good and each date – no money; in macroeconomics, it is confused with the profit rate (marginal productivity of capital). Keynesians and post-Keynesians have numerous theories of the interest rate.

it follows that there is also a normal rate of profit for the best generally available plant and equipment created by new investment in each industry. Shaikh calls these methods of production the "regulating" one because it is *their* normal profit rate which is subject to inter-industrial competition: an industry in which the normal profit rate of regulating capitals is above similar rates in other industries will attract more rapid investment flows and expand capacity relative to supply, thereby driving down prices and reducing the normal profit rate on regulating capitals. The opposite obtains when an industry's normal regulating rate of profit is lower than that in other industries. The end result is the turbulent equalization of regulating rates of profit. Hence for his theory of competition

> "the relevant measure [of the rate of profit] is the [normal] rate of return of new investment" (p. 16).

After explaining how to measure the rate of return on new investments, Shaikh examines the incremental rates of return on capital – which are a good approximation – across OECD industries. He concludes that:

> "in every case, average rates of profit tend to remain distinct while incremental rates of profit are strongly equalized" (p. 16),

which

> "provide considerable support for the classical hypothesis" (p. 16).

The equalization principle is thus operative – for profit rates and prices – provided that we focus on the appropriate profit rate. The profit rate of a firm largely depends on its costs. That is why Shaikh pays close attention to their measure – without dodging the issue of their relation with value and prices.

Value, prices and profit

The thorny question of the value and prices – of production and market prices – is not addressed until the chapter 9 ("Competition and Interindustrial Relative Prices") of *Capitalism.* After having reviewed the historical debate on this issue – especially focused on the transformation of value into production prices –, Shaikh analyses long time series on the US and shows that the measures of

> "market prices, direct prices (prices proportional to integrated labor times) and prices of production [...] give roughly the same results" (p. 21).[6]

The distances between the three measures are about 13 to 15% whereas the coefficients of determination are between 0,8 and 0,9. It can therefore safely be said that we can rely on the market prices to estimate the costs of firms. As with the "classics" and the "business practice", these costs are defined by

> "expenses on prime costs (material and wages) and fixed costs (amortization of fixed capital)" (p. 121).[7]

[6] In chapter 9, he points out that Sraffa says the very same thing (p. 440).

In chapter 4 on "Production and Costs", Shaikh revisits the neoclassical and post-Keynesian cost-curves – total cost, unit cost and marginal cost. He then develops his own theory that he relates to the classical tradition. As with post-Keynesians – nearly constant marginal cost, unit cost decreasing towards the marginal cost – special attention is given to the

> "length and intensity of the working day" (p. 121).

> And to the: "utilization of materials, fixed capital and labor" (p. 121).

Both have a significant impact on costs and hence on their measure.[8]

In the section VI "Empirical Evidence on Cost Curves" (p 160-164), Shaikh confronts his theory to several studies undertaken over the last decades to conclude that

> "the classical treatment of production is quite consistent with empirical evidence and that the theoretical cost curve derived on this base are similar to empirically observed curves and consistent with business experience" (p. 10).

In the chapter 7, Shaikh recalls that all the studies undertaken between the early 1930s – including those of the *Oxford Economists Research Group* and of Hall and Hitch - and the late 1990s – including those reported in the book *Asking about prices* of Blinder, Canetti, Lebow and Rudd – are at odds with the standard presentations. Unfortunately, the U-shaped average cost curves and the rising marginal cost still dominate textbooks[9].

A decisive parameter: the struggle between labor and capital

Labor is the only "good" that cannot be produced by capital:

> "Labor capacity is used by capital but it is not produced by capital" (p. 639).

As capitalists, workers have an autonomous power of decision. More specifically, the labor struggles play a significant role in the division of the value-added.

Unemployment is an inherent feature of competition in capitalism:

> "Competition creates a persistent pool (Reserve Army) of unemployment of labor" (p. 42).

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[7] According to Shaikh, the neoclassical economists add to costs a "normal " gross margin. Indeed, the "authentic" neoclassical economists – those of the general equilibrium – don't for a an obvious reason: the profit rate is meaningless for them.
[8] Shaikh draws a distinction between the engineering capacity, which is the maximum production possible, and effective capacity – that is subject to regulatory and social constraints. As always, Shaikh focuses on the latter – that is, to those implemented by the businesses.
[9] Shaikh recalls how the "rebels" – Chamberlin, Joan Robinson, Sraffa, among others – who stood against the model of perfect competition in the 1930s have totally failed. After "neoclassical counterattack" – led by Stigler and Friedman –, perfect competition "ended up being elevated to new heights" (pp. 358-59).

Shaikh notes that not only the neoclassical but even the post-Keynesians, economist models conclude that workers are powerless in the determination of the wage-share:

> "a striking implication of both orthodox and heterodox approaches is that workers have nothing to say in their own standard of living. In the neoclassical approach, the real wage is determined by the full employment condition, in the post keynesian theory it is determined by productivity and the monopoly markup set by firms" (p. 42).

However, workers "have something to say" and their struggles must be taken into account in the analysis:

> "But once it is recognized that labor force and growth may themselves respond to accumulation through increases in labor force participation and/or immigration rates and through accelerated technical change, then there is full room for the effects of labor struggles for the real wage and wage share" (p. 42).

Shaikh's aim is

> "to develop a framework capable of accommodating the Keynesian and post-Keynesian understanding that accumulation is driven by profitability and that the aggregate demand has a central impact on output and unemployment" (p. 646)

along with the "classical recognition" that

> "labor struggles play a significant role in determining the real wage and that accumulation maintains a normal rate of capacity utilization alongside a persistent pool of unemployed labour" (p. 646).

Shaikh shows how a particular relation between the average wage and productivity can emerge from "disparate individual capital-labor struggles" in the firms (p. 648) by incorporating what he calls the "social-historical level of labor strength". Hence, he infers that *the rate of change of the wage share is a negative function of the unemployment rate*.

He calls this relation "classical curve" and adds it to the other "emergent properties".

The classical curve crosses the horizontal axis at a point corresponding to the "critical unemployment rate"

> "that will generally differ from the effective full employment rate" (p. 649).

In other words, critical unemployment – that for which the rate of change of the wage share is null – is, at least partly, involuntary (unlike the "natural" rate of unemployment of Friedman-Phelps and some "Keynesians"). The section VI of the chapter 14 is dedicated to "the relation of the classical wage curve to the Phillips curve". As usual, empirical evidence is considered.

Classical macro dynamics

The themes explored so far were mainly related to the "supply side" of the theory: production, costs, profit rate, labor struggles. The "demand side" is not addressed until the chapter 13 on "Classical Macro Dynamics" that starts with "a reconsideration of the theory of effective demand". Shaikh reconsiders the "micro foundations" of effective demand. He (partly) rejects the "Keynesian" idea that saving and investment are independent. This may be the case for the household savings, but not for the business savings:

> "The business component of the savings rate (i.e. the fraction of profit that goes into retained earnings) cannot be independent of the business investment rate, since both decisions are made by the same firm" (p. 604).

The assumption that

> "business savings are a fixed proportion of net income or profits implies that the business savings (retained earnings) are not linked to the needs of investment finance, which is contrary to business practice and empirical evidence" (p. 38).

Indeed, in the United States, where retained earnings are substantial,

> "the business savings rate closely tracks investment rate (to which it is roughly equal)" (p. 41).

Shaikh reminds us that a fully endogenous savings rate would imply a "zero multiplier" while the "full multiplier" holds if the savings rate is fixed. A "generalization" of the multiplier with a partially endogenous savings rate is presented in detail and with some mathematics in the Appendix 13 of *Capitalism.*

Another important implication for the theory of effective demand is that the successive waves of spending resulting in a multiplier effect are only possible if there is an extension of bank credit:

> "Less noted is the implication that each round in this process is generated by a fresh injection of purchasing power by bank credit because the excess of investment over saving in any particular round is assumed to be financed by bank credit." (p. 602)

A widening economic circuit necessarily implies a rise in business debt – which is the counterpart of the bank credit extension. Plus, the balance of power shifts in favor of labor – the reserve army falls. The combination of these two factors has an impact on the profitability of the firms and may lower future growth. This is probably the most controversial analysis in *Capitalism.*

A controversial statement

A demand stimulus will usually have two effects. On the one hand, it will boost production and employment. But on the other hand, it can lower the profitability of the firms and thus the growth rate. As Shaikh puts it:

> "Newly created purchasing power can pump up output and employment, just as Keynes argued, but [we will see] that this can lead to a reduction to the rate of growth. Then while short run output will be higher than it would otherwise have been, long-run output will be lower than it would otherwise have been" (p. 6).

He therefore considers that

> "the belief [of Keynesians/post-Keynesians] that persistent involuntary unemployment can be eliminated through appropriate fiscal and monetary policies" (p. 38)

is totally illusory. This may be acknowledged, even by persons who disagree with the previous point.

It may be impossible to permanently eliminate involuntary unemployment because it is inherent to the very working of capitalism. But it does not necessarily means that each stimulus will result in failure – by lowering the future rate of growth. We can consider that things are more complex – without sticking to the obvious fact that in cyclical economies, the booms are inevitably followed by busts. As a matter of fact, Shaikh is aware of it.

It is no coincidence that the last chapter's title is "Growth, Profitability and Crisis". Shaikh applies his theory to the post-war period in order to provide a "classical" reading of the economic crisis. It is unlikely that he reaches a consensus given the complex and sensitive nature of the issue. Nonetheless, he provides a solid basis for discussion, open to various developments – which is highly valuable.

(Minor) criticisms

Nobody's perfect. Some sentences in *Capitalism* are of doubtful validity – especially on central bank intervention or on the *Efficient Market Hypothesis*. But a closer look reveals that these sentences are ambiguously formulated, not erroneous.

There is one exception though: on some (important) points, Shaikh gives a distorted view – and sometimes an erroneous view – of the perfect competition model that lies at the heart of the neoclassical theory. He probably focuses too much on the textbook models.

1. Agents in the perfect competition model *are supposed to be "hyper-rational"* (a concept not defined by Shaikh) whereas it is quite the opposite that is true. Price taking agents, especially firms, are not "hyper-rational" but rather stupid or naive or

"myopic"[10] – the choice is yours. Indeed, neoclassical economists like to claim that the superiority of capitalism comes from the fact that the information given by the "price signals" emanating from "the market" is sufficient for an efficient allocation of resources.

2. "Perfect knowledge contradicts perfect competition" (p. 346). I disagree: *"perfect knowledge" (whatever that means) isn't an assumption of the perfect competitive model* – no matter what textbooks or Wikipedia claim. Thus, it cannot "contradict" perfect competition. Neoclassical economists only *assume* that firms *believe* that they will sell or buy anything at "given prices", and that their supplies and demands will not influence prices. Arrow and Debreu explain in their seminal article, *Existence of an Equilibrium for a Competitive Economy*, that they "*instruct* each production and consumption unit *to behave as if* the announcement of price *p* were the equilibrium value" (point 1.4.1, my italics)". These assumptions are "unrealistic", or ridiculous, but they prevent inconsistencies[11].

3. Like most heterodox economists, *Shaikh wastes time on minor criticisms and misses the major issue: if all agents are "price takers", who set prices*? The "mythical auctioneer" is mentioned – pp. 345-346, for example – but the issue is not sufficiently addressed. Shaikh even uses the image of the "large number" of consumers or "very small firms" (pages 17, 329, 341, 351, 357, 367, 368, 431) – a metaphor that neoclassical economists use systematically to avoid the question of price setting. By doing so, Shaikh implicitly validates the idea that the model of perfect competition is "unrealistic" whereas it is *irrelevant*. When he writes that "if the theory of perfect competition were empirically valid, all firms would have the same profit rate" (p. 272), *he implies that the model of perfect competition is relevant* – nobody would have the idea to confront an irrelevant model with empirical evidence[12].

4. Similarly, *Shaikh gives credibility to the New Classical models*. After explaining that they are of the Robinson Crusoe type (p. 565), he talks about "Pareto efficiency" (p. 581) – a notion that implies *at least two agents* –, "wages", "prices", "markets", "employment", "general equilibrium framework" (p. 582), "State", "economic policies" and "econometric tests" – as if it meant something in the world of a schizophrenic Robinson (Varian *dixit*). Even some prominent neoclassical economists (Solow, Arrow and Hahn, among others) observed that this is nonsense.[13] Shaikh lends even more credibility to these models by considering their empirical relevance. For example when he writes that "*Real Business Cycle* theory … is … far too weak to account for observed variations over the cycle" (p. 582), or that "in the end, RBC theory rests on weak empirical foundations" (p. 582).

All of this is unfortunate, but it does not have any impact on the overall quality of the book.

[10] Expression used by Shaikh in the first chapter : "Competition is taken to prevail only if there is a multitude of small (sic) price-taking firms each of which pursues its own myopic interest" (p. 17).
[11] An unrealistic theory can survive – there will always be some "epistemologist" to defend it with Friedman-type arguments. But an inconsistent theory cannot survive. That is why the neoclassical economists are past masters in the formulation of preposterous hypothesis.
[12] It should also be noted that the profit rate is not defined (the capital neither) in the model of perfect competition. Shaikh thus confuses micro and macro, endorsing the myth that models with an aggregate production function represent a "competitive" economy.
[13] Kirman's article "Whom and What Does the Representative Individual Represent ?" can be found in Shaikh's bibliography, but Shaikh doesn't refer to it when he examines "representative agent models".

Conclusion

When it comes to capitalism, two radically opposed views are possible. Capitalism can be seen as the war of all against all – and notably of workers against capitalists. It can also be seen as a "cooperation" between "factors" that contribute to the production – in that case, the coordination between agents is achieved by the "market". Shaikh embraces the former view while the latter is adopted by the neoclassical economists. Both visions are eventually tempered in order to match with the observed facts. Keynesians and post-Keynesians are in a relatively uncomfortable in-between position – given the exclusive nature of these polar views. Shaikh manages to build a "general theory" – in which issues are addressed both at a micro and macro level – that is based on few "operative principles" and "empirical laws" and that remains true to his initial vision. And that is a major achievement. Of course, we could argue that notions like "hidden structures", "turbulent regulation", "gravitation" or "emergence" are unclear and may reduce the scope of his theory and further developments. We could also express some doubts about the way in which data are processed to reach his conclusions. Finally we could criticize him because he does not come up with "solutions" to the major problems facing capitalist economies or because he only makes some general observations – derived from his theory – and no "predictions". But the same is even more true of other theories. Above all, no theory provides such a good foundation for thinking and discussion – that is, such a factual, rich and diverse one. *Capitalism* is a book that any self-respecting economist should, at least, have on his or her bookshelf.

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