

Hartmut Elsenhans, Saving Capitalism from the Capitalists

Anne Henow PhD candidate

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Book Review

Hartmut Elsenhans, *Saving Capitalism from the Capitalists* (New Delhi, London, and Singapore: Sage, 2015), ISBN: 978 93 515 0056 8, \$47.50, 325 pp.

ABSTRACT

Hartmut Elsenhans's *Saving Capitalism from the Capitalists* presents an intriguing argument: capitalist elites have induced unsustainable capitalism to the disadvantage of labor and the system as a whole. The author proposes a fairly unconventional solution. He suggests that democratic socialism can be the necessary political complement to our capitalist system. By drawing on the socialist capacity to empower labor and increase mass consumption, we could achieve a more balanced and sustainable capitalism. The book is ideally suited for readers of Keynesian and post Keynesian analysis on contemporary capitalism and it fits in the discourse on problems of low income growth, declining demand, and investment opportunities in major world economies.

KEYWORDS

Capitalism; international political economy; labor; socialism; world history

JEL CLASSIFICATIONS

P1; B5; N3

Saving Capitalism from the Capitalists is an ambitious book. With a bibliography covering over a third of the page count, it thrusts the reader into the great academic debates of the twentieth century and provides a discerning analysis in the field of international political economy and world history. Given its scope, the book is tangential and at times disorganized. Nevertheless, it is a must-read that exposes the flaws in conventional economic thinking and delivers a full range of brilliant arguments to tackle the mainstream.

The book argues that the capitalist system is an unusual occurrence in world history. It is a particular socioeconomic arrangement based on the empowerment of labor and rising mass incomes. This definition seems uncommon as capitalism is often understood as a system of (free) markets. However, Hartmut Elsenhans argues correctly that trade and exchange of goods long preceded the establishment of capitalism as we know it. In his view, capitalism emerged due to the establishment of equal political participation of both laborers and capitalist entrepreneurs (the “capitalists” of the title). This equal participation was possible because workers’ incomes increased, providing capitalists opportunities to invest and earn a profit. Ever since industrialization created this environment, the big challenge of capitalism has been to preserve the balance between labor and capitalists.

The book shows that several factors endanger this balance today. Investment rates are low despite great advancements such as the information revolution, the expansion of the service sector, and the technological innovation in microelectronics. Elsenhans blames this lack of investment on the

disempowerment of labor, which has led to a decline in income growth and reduced demand in advanced economies. Without demand, there is little incentive to invest.

Globalization in the late twentieth century has accelerated this process. Elsenhans fears that developing countries base their catching-up on mechanisms of anticapitalist rent seeking and mercantilism in order to be “winners” of globalization. Similarly, advanced economies increasingly pursue mercantilist policies in order to retain leadership in world markets. To Elsenhans, these practices are fundamentally in opposition to capitalism. He suggests that globalization should become more Keynesian: capitalism would need more government intervention on the national level to ensure rising incomes and consumption and more free trade on the international level to prevent beggar-thy-neighbor policies.

Currently we find things to be reversed; the free market ideology is imposed on domestic markets to reduce labor costs, while mercantilist strategies are pursued globally. Capitalism has been turned into a system serving only capitalists whose interests are in protection from international competition to the disadvantage of labor and the system as a whole. This is where the question arises: How do we save capitalism from the capitalists?

Elsenhans proposes a political solution. Capitalism has to be complemented by democracy “as a principle of organising all spheres of society”—which is Marx’s original definition of socialism. The term *socialism* might confuse the English-speaking audience. What Elsenhans means is not the introduction of a planned economy akin to the socialism of the former Soviet Union, but the strengthening of social groups through the creation of stronger working and middle classes. By relying on the consumption of these classes, countries would become less reliant on mercantilist policies in international trade.

Who could enforce such a change, is the question of the last two chapters. For Elsenhans, the answer is a resigned “no one.” The power of most nongovernmental organizations is curtailed since they generate their incomes from Western capitalist donors, and funding is often conditioned by their ideologies. Support for civil society movements that originate in the developing world, such as the Arab Spring or the color revolutions in Eastern Europe was largely held back by Western countries, although these were movements of gradually empowered labor for further democratization.

Another way to enforce a social democratic system could be through government intervention. But the paradox seems to be that governments are caught up in promoting the “competitiveness” of their economies rather than supporting domestic consumption and investment. Instead, export-driven trade strategy causes a global bias of “winning” surplus countries versus “losing” deficit economies.

The book ends with two possible scenarios for the future of capitalism, both of which take place in an international system with a multipolar balance of

power between the large economies of the twenty-first century: the United States, Europe, China, Russia, India, and Brazil. In the first scenario, capitalists continue to overpower labor. Domestic demand is low and rent-seeking strategies in international trade will prevail. These tendencies will ultimately lead to the end of capitalism. In the second scenario, the development of major economies could have important implications on the empowerment of labor. Rising incomes in previously low-wage economies could cause a rise in global demand and revive investment opportunities. However, Elsenhans remains skeptical regarding whether the newly created demand would be sufficient to reduce international protectionism.

Furthermore, Elsenhans assumes something that has yet to be proven: to what extent is rent seeking harmful to economic development? South Korea and Japan, for example, developed successfully, using industrial policies showing that rents are not always wasteful. If the inertia of rent seeking can be overcome, a multipolar world could change the dynamic in the international system toward a third option—increasing dependencies could incentivize countries to decrease competitive protectionism and strengthen international cooperation. Strong domestic economies would regain importance as they can be a safe source for profits. In this scenario it would be a matter of time until working- and middle-class incomes rise in order to revive investment to the benefit of both national and global capitalism.

Which scenario will become reality is yet to be seen. The ideas discussed in this book suggest that if there is a future for capitalism, it may hinge solely on the success of developing countries.

Anne Henow, PhD candidate
University of Cambridge, Centre of Development Studies

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