

FRONTLINE

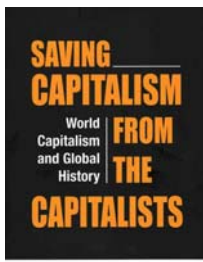
BOOKS

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Relook at capitalism

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- **Author:** Hartmut Elsenhans
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The author gives a clarion call to empower labour in a bid to “maintain and re-establish capitalism”, but the current state of global capitalism forces him to draw attention to its innate tendency to regress into rent-seeking. By C.T. KURIEN

During the past three decades or so, a number of publications that take a new look at capitalism have appeared. The reasons are fairly obvious. Socialism as an alternative to capitalism had remained a distant dream for long, but with the revolutionary changes in Russia early in the 20th century it had become something of a reality, spreading first in its neighbourhood and then to other parts of the world. After the Second World War, the world was said to be divided into two competing economic systems—capitalist and socialist—and their political counterparts were considered to be engaged in war, though only a cold war. In terms of economic growth and social conditions, the socialist bloc was believed to be ahead, but in terms of individual freedom and political organisation the capitalist bloc claimed superiority.

The scenario began to change by the mid-1980s, in the socialist periphery to begin with, but by the end of that decade and the early 1990s, the mighty Soviet Union itself collapsed. A few years earlier, China, which had charted its own path to socialism, had made a course correction, introducing many features of capitalism in the economic sphere. The success of capitalism as an economic system appeared to have been established clearly.

Almost simultaneously, capitalism also became visibly “global”, reaching out effectively to all parts of the world, including countries like India which until then had claimed to be following a middle path between capitalism and socialism in the economic sphere while taking a non-aligned position in international political affairs. It is this alleged superiority of capitalism as an economic order and its global spread that has led to a proliferation of writings re-examining its origins, characteristics, spread, strength and resilience.

This work of the German scholar Hartmut Elsenhans must be seen against this background. Of its 300-odd pages, the text consists of a little over 200 pages, the rest being bibliography, of some 1,500 items. In each chapter there are elaborate end notes drawing on the listed literature.

We may begin with a summary of the argument of the book. The underlying assumption of the author’s thesis, though not spelt out in so many words, is that past societies consisted of owners of property and those who had to depend on the owners for their survival. The difference between pre-capitalist and capitalist systems is that “although a non-capitalist landowner and a capitalist owner of a factory both expect to earn income from their property, there are important differences: the landowner can expect income even if he lives autarchically, as he can consume his own agricultural surplus or use it to feed his workers, whereas the capitalist will earn money only if there is a market for the product he manufactures in his factory. In contrast to the non-capitalist landholder he depends on demand or rather....on rising demand.”

Here, the author conveys the idea that capitalists need not only markets to realise income and profits but also increasing consumption, indeed, growing mass consumption. What follows is that empowerment of labour is necessary for capitalism to survive. Capitalists, of course, are not going to do it. According to the author, this is why capitalism has to be saved from the capitalists if it is to survive. Why must it survive? Because it is the only economic order whose survival depends on rising production (“growth”) for which capitalists may go beyond their national boundaries. Even that has its limitations. And if capitalists will not do what is good for them, who else will?

Naturally, the state, a democratic state, with the widest participation of its members. The role of the state as an ally of progressive capitalism is further reinforced by the author by pointing out that there are limits even to mass consumption of commodities, although market forces will continue to induce more and more consumption.

However, soon “post-materialist” needs may arise, typically the need for security in the future. Individuals or individual households may attempt to provide for this by saving for the future. But the act of saving at any given time is a reduction in consumption, which will be compensated only if there is corresponding investment, either by the capitalists themselves or by the state.

Hence, for the capitalist economic order to continue to perform, there has to be a complementary political system, democratic and participatory. In the words of the author: “When the structure of needs changes, capitalism has to be complemented by democracy as a principle of organising all spheres of society....It can be argued that both mechanisms of regulation, market and democratic participation are twin sisters.”

The internal dynamics of capitalism may constantly generate forces that cause disruption and hinder its performance, the author concedes. The rising power of finance is one such force. Money and markets are necessary for the functioning of capitalism at any given time. Finance is the extension of money into the future made possible by the banking system primarily to facilitate trade and productive activity spread across time.

However, the tokens that the banking system generates for this purpose soon come to have autonomy of their own, with transactions in them becoming quite profitable. What usually follows is a reduction in investment and productive activity, unemployment and under-consumption and soon, a collapse, as it happened in 2008.

Global capitalism has the potential to generate global crisis.

Even after granting this possibility, the author reiterates the need to strengthen the political structures “which allow a solution of the crisis in favour of the subalterns even if the negotiating power of labour is severely constrained in times of crisis”.

With such an analysis of capitalism, it is not surprising that the treatise ends with a call to the liberals and socialists of the world to unite for the common objective of “maintaining and re-establishing capitalism where possible”, adding that “liberals would have to accept the importance of empowerment of labour, and socialists the importance of competition”.

However, the work also draws attention to the innate tendency of profit-seeking capitalism to regress into a variety of rent-seeking opportunities, arising from two barriers to capitalism—the opportunities that the rich get to increase wealth without increasing production and the absence of empowerment of the poor, which blocks mass consumption.

In advanced capitalism, periodically the situation arises wherein the economic upper strata get the goods they want for consumption through imports (produced by workers in other parts of the world), which reduces the need for investment, and finance offers opportunities for speculative transactions that lead to quick increases in wealth. This may be followed by an economic collapse, but the state ensures that the system survives. In less-advanced countries, rent-seeking arises when the state initiates “development” either on its own or through encouraging and supporting those with resources to venture into productive activities.

There are, of course, a variety of ways by which individuals and even corporations can make use of the incentives and concessions for wealth creation without increasing investment or production. The author reluctantly concedes that, driven by finance, such is the nature of global capitalism now.