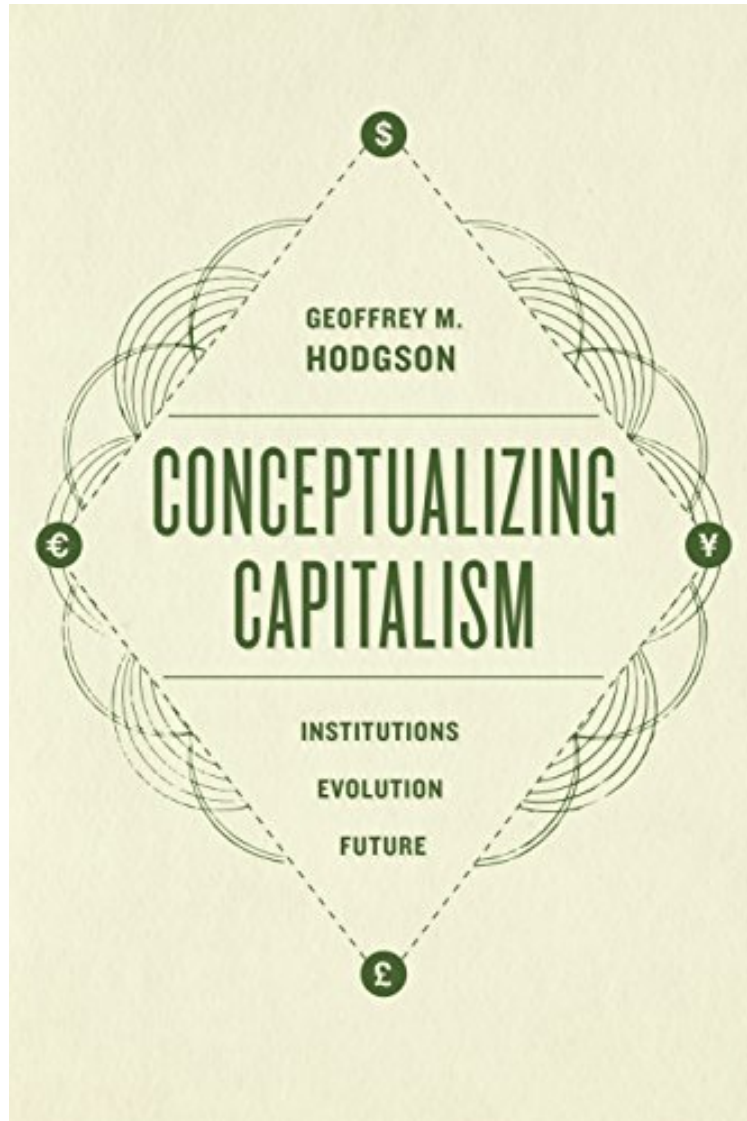


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# Conceptualizing Capitalism: Institutions, Evolution, Future

*Geoffrey M. Hodgson*

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**Geoffrey M. Hodgson : Conceptualizing Capitalism: Institutions, Evolution, Future** before purchasing it in order to gauge whether or not it would be worth my time, and all praised Conceptualizing Capitalism: Institutions, Evolution, Future:

0 of 1 people found the following review helpful. Five StarsBy Ida de JesusInteresting book.8 of 8 people found the following review helpful. Defining CapitalismBy Hans G. DespainGeoffrey Hodgson's new book "Conceptualizing Capitalism" aims to develop an accurate definition of capitalism that captures the structural systemic essence. I picked up this book after finishing both Anwar Shaikh's "Capitalism: Competition, Conflict, Crisis" (2016) and Jurgen Kockar's "Capitalism: A Short History" (2016).

The contrast between these books is striking. Allow me to preface this review with my preference for Shaikh's account. However, as pointed out in my review of Shaikh's book, one glaring weakness of Shaikh's account is a relative neglect of the state. Kockar's book really takes a "historical" account of capitalism and its development, and the theoretical understanding of its development. Shaikh's book is an attempt to "describe" the tendencies of capitalism as a system. Hodgson's book is an attempt to "define" what capitalism is in its essence. Thus, while having many commonalities, these books do not ultimately talk past one another in the different intentions each of their authors has as a theme. In the end, all three authors are aiming to contribute to our understanding of contemporary capitalism and the financial/monetary structure to better understand the instability, inequality, and power relations involved in the current capitalist structure, and to consider future ideas of addressing these problems of contemporary life within capitalism. Hodgson's primary aim in part one, first 265 pages, is an analytical definition of capitalism, geared toward explaining the post-1700 explosion in economic growth. Hodgson's definition of capitalism begins with the State and the rule of "law" as constitutive primary elements of capitalism as a system. This is a crucially important beginning and adds a very important (perhaps unfriendly) amendment to Shaikh's description of capitalism. Hodgson develops a "legal institutionalism" definition of capitalism; this necessarily implies that capitalism is not simply private property relations and markets. There is a particular legal structure and State order that is necessary as constitutive elements of capitalism. Hodgson brilliantly establishes the importance of Law as a reaction to a dispute in a breached social custom. The emphasis on the legal structure and State pronounces a heavy leaning on John Commons and F. A. Hayek, and new institutionalism. Thus, the first and second characteristics of capitalism are: (1) widespread individual liberties to own, buy and sell private property supported by a legal structure and a State to enforce these liberties; (2) widespread exchange and markets involving money. In short, capitalism requires a legal system, State, and markets, but these alone do not define capitalism. Moreover, Hodgson underscores the Hayekian insight that a particular institutional arrangement is "necessary to sustain real property, exchange, and markets." To put it a bit differently, there is a necessary symbiotic relationship between a legal system/State and market exchange/money. As Karl Polanyi and other economic historians have emphasized, the State and markets emerge together and are integral institutions. Nevertheless, these insights and two characteristics do not fully define capitalism. Hodgson argues there are additional institutional criteria to define capitalism. More specifically, capitalism's definition has four more characteristics: (3) Widespread private ownership of the means of production by firms, motivated by profits; (4) Widespread separation of production from the home and family; (5) Widespread wage labor and employment contracts; and (6) A developed financial system with banking institutions, the widespread use of credit and property as collateral, and the selling of debt. The development of financial institutions was crucial to the birth and emergence of capitalism and its 18th century take-off. This is an essential element often neglected or understated by theorists. The normative implications of Hodgson's definition are provocative. Here is a very short list that struck me in my reading: First, the "unprecedented explosion" in production, innovation and human longevity is not fully explained simply by the increase in scientific knowledge and technological change. Rather Hodgson has underscored the importance of first understanding the institutional conditions and particular institutional physiology that allows and initiates the development and diffusion of scientific knowledge and new technology. This means that the emerging capitalist countries necessarily need to establish incorruptible legal and institutional forms to achieve a capitalistic take-off. Second, Hodgson claims that when it comes to a debate between the spontaneous order of market exchange versus "widespread planning," as was articulated in the "calculation debate," the advantage is given to the position of spontaneous order or market exchange. At the same time Hodgson emphasizes the "institutional thinness" of the entire debate. In this sense Hodgson's so-called advantage is illusory in that the entire debate suffers from an ill-conceived notion of "both" capitalism and socialism. Hodgson himself points out: "Neither side invested the concepts of property and exchange with sufficient institutional texture and historical specificity." Hodgson has made an important contribution to a better understanding of capitalism, but not for socialism. In my reading of Hodgson, the "calculation debate" is opened a new, and not closed toward one side or the other! Third Hodgson develops a notion of "corporeal exploitation." This simply underscores that labor (most typically) must be "present" on the job to receive a reward or income, while the capitalist or owner of capital may reap a reward without actually being present. Furthermore, "exploitation through unequal collateralizability," i.e. labor assets are not typically assets of collateral, the holder of capital/money has an accumulation and power advantage over holders of labor-power only. Together corporeal exploitation and unequal collateralizability is the basis of inequality. That is, capital or wealth (in Hodgson's sense) is the foremost generator of inequality, not market exchange. Inequality alleviation requires access to education "and" a basic income guarantee and income supplements. Hodgson provides us no details of what this would entail, but I appreciate the direction he pushes the debate and the fact that in the history of economic thought and contemporary economists these commitments cut across the political spectrum (i.e. some of the most conservative economists have supported income guarantees and supplements!!). Fourth, because of missing markets, e.g. markets for future labor, imperfections and suboptimal outcomes often prevail. Hodgson is optimistic that self-employed workers and worker cooperatives can

overcome much of the market imperfections and suboptimal results. I am far less optimistic than Hodgson. Developments in labor market, including segmentation and "fissuring" have intensified the degree of both corporal exploitation; moreover college school loans have hardly helped to overcome unequal collateralizability, but instead allowed Universities, employers, and financial institutions to tighten the economic screws. I am further far less optimistic than Hodgson (and Piketty) that policy can circumvent the instability, stagnation, inequality, and political crisis, economic crisis, and financial crisis tendencies of capitalism. Shaikh's "description" of capitalist law-like tendencies has the advantage over Hodgson's generalities regarding institutional arrangement. Additionally I am stuck by the attention (i.e. chapter etc.) Hodgson gives to the firm and corporations, yet only the most abstract mention of ownership of means of production makes his definition of capitalism. I stand with Eli Heckscher and Maurice Dobb that capitalism emerges because of, with, and promotes monopoly-like power. Paul Baran and Paul Sweezy are also correct to underscore the importance of oligopolization as an integral part of the contemporary development. Shaikh's notion of "real competition" underscores the hierarchy of power and industrial control that is generated toward particular corporations in capitalist development. Relatedly, Kockarsquo;s book "Capitalism: A Short History" underscores the fact the 18th century take-off necessarily is intertwined with imperialism, colonialism, violence and blood. John Smith's new book (which I have not yet finished) "Imperialism: In the Twenty-First Century" (2016) may further suggest that Hodgson's neglect of these matters may have severely weakened his definition. Far more attention needs to be given to these aspects of capitalism. In short the imperialist conditions of capitalist development may very well circumvent or even prohibit the ability of developing nations to establish incorruptible legal and institutional forms to achieve a capitalistic take-off. Oligopolization and imperialism seem not only particular historical developments but essential characteristics of capitalism. If they are not, there has not yet been an historical example of the absence of oligopolization and imperialism. Hodgson has certainly made a very important contribution to pushing forward the debate concerning the future of capitalism. Whether you agree or disagree with his analytical definition of capitalism, it is undeniable that this analytical definition is most helpful clearing the ground for better understanding what capitalism is, and for fruitful debate.

A few centuries ago, capitalism set in motion an explosion of economic productivity. Markets and private property had existed for millennia, but what other key institutions fostered capitalism's relatively recent emergence? Until now, the conceptual toolkit available to answer this question has been inadequate, and economists and other social scientists have been diverted from identifying these key institutions. With Conceptualizing Capitalism, Geoffrey M. Hodgson offers readers a more precise conceptual framework. Drawing on a new theoretical approach called legal institutionalism, Hodgson establishes that the most important factor in the emergence of capitalism—but also among the most often overlooked—is the constitutive role of law and the state. While private property and markets are central to capitalism, they depend upon the development of an effective legal framework. Applying this legally grounded approach to the emergence of capitalism in eighteenth-century Europe, Hodgson identifies the key institutional developments that coincided with its rise. That analysis enables him to counter the widespread view that capitalism is a natural and inevitable outcome of human societies, showing instead that it is a relatively recent phenomenon, contingent upon a special form of state that protects private property and enforces contracts. After establishing the nature of capitalism, the book considers what this more precise conceptual framework can tell us about the possible future of capitalism in the twenty-first century, where some of the most important concerns are the effects of globalization, the continuing growth of inequality, and the challenges to America's hegemony by China and others.

"In standard economics, capitalism has become an ill-defined concept, its analysis flawed from the very initial definition. Hodgson's book reintroduces a sharp and precise definition, showing how a successful analysis of capitalism requires an understanding of the interactions of numerous complementary institutions, including sophisticated legal institutions. This is a remarkable and highly original piece of interdisciplinary scholarship that will greatly contribute to the understanding of contemporary capitalist economies."