COMMENTS ON LECTURE 2 by Professor Anwar Shaikh

Capitalism: Competition, Conflict and Crises

By Ed Dodson / 3 August, 2017

Here, he offers important criticisms of the givens in modern microeconomic theory from the perspective of the real relations people have with one another. Thus, microeconomics is based on an “absurd starting point” of how consumers behalf and hold firms behave. This also has serious consequences for macroeconomics because of the assumptions of perfect knowledge and rational expectations.

Imperfections are explained as only deviations from the model of perfect capitalism. A general theory of imperfections requires abandoning the model.

He introduces the subject of “real competition” as distinct from “perfect competition.” In real competition no firm is guaranteed a profit. There are winners and losers. Firms use strategy and tactics (close to warfare) in the classical tradition of competition. It is the mobility of customers that causes firms to change prices to maximize sales.

In orthodox economics the consumer has set preferences, is a machine disconnected from all the complexity of relationships. Differences are ignored. Social norms are ignored.

Also, in the real world the system shapes preferences and decisions.

He believes that the standard microeconomic tools (e.g., consumption functions, demand curves, etc.) can be used while basing analysis on real competition. He argues that we can examine agents who make choices under social constraints and derive all the observed elements of consumer micro behavior.

He raises the question of why economists do what they do. A main answer is that this is what is taught and what a future economist must learn to teach. A second answer is that this is how people behave, even if this is not the case. A third answer is that these assertions are convenient because they allow coming to results. However, assumptions must be supported empirically. Economic theory also asserts that all behavior is out of self-interest.

He argues that the presumptions of game theory are still based on rationality and assumptions made to get expected results. Game theory does not consider violence and the cost of opposing others with greater power. Human behavior is not a series of voluntary contractual markets. Moreover, game theory has been empirically challenged from the start.

He brings up the case of Robinson Crusoe, landing on the island and making choices without interaction with other individuals (until the capture of the man he called Friday). It is a story of imperialism made clear.

He refers to Marxist economists who have tried to overcome anti-Marxist sentiment by siding with neoclassicists that the whole is nothing more than the sum of individual behaviors.

I kept thinking of how powerful is Henry George’s observation or axiom that we seek to satisfy our desires with the least exertion, the result of which is a tendency to try to monopolize natural opportunities. George saw a tendency in aggregate human action over time, without being able to predict what any individual would do under any specific set of circumstances.

Toward the end of the lecture he puts up a graph purporting to show a set of choices on average based on the budget of an average individual. Changes on price or changes in income determine whether necessary or luxury goods will be purchased. Of course, this is a gross simplification of real life. Even if the population included only individuals with incomes in a relatively narrow range, it will still be very difficult to forecast what percentage of the group will spend “x” percentage of income on necessaries versus luxuries. He shows charts on working class budgets. A key unknown, for example, is whether these individuals and households live in public subsidized housing, share housing costs with extended family groups, and other such factors.