BOOK REVIEW

THE TROUBLE WITH CAPITALISM

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Harry Shutt, 1999, ***The Trouble with Capitalism: an inquiry into the causes of global economic failure,*** London: Zed Press, p. 256.

The historical backdrop Harry Shutt's objective in this book is to expose the grim realities of the evolution of the global capitalist system over the last half century and thereby dispel "the illusions which lie behind the neo- prospectus," as stated in the introduction. The objective of this book review is to ascertain whether his analysis captures essential aspects of the economic reality and the extent to which it does that. Given the rather large scope of the subject, it is unreasonable to expect a full, comprehensive coverage of this complex subject in a volume of 238 pages. The task undertaken here is to identify the strengths of his analysis, flag arguments not well grounded in contemporary economic research and also indicate important issues ignored or mis-diagnosed. The reviewer subscribes to Shutt's broad claim that the reality of globalization falls far short of the rose-tinted rhetoric of the apostles of globalism.

The book starts with a brief review of the emergence of the modern capitalist order in Western Europe, the USA and Japan in the late 19th and early 20th century period.

This is followed by an account of the worldwide depression of 1930, the events leading up to the second world war and the post-1945 world order under US hegemony. He briefly traces the political and economic institutions set up, nationally and globally, to rebuild and stabilize the international capitalist system in the wake of the cataclysmic events of the preceding years. Shutt describes and explains the reasons for the particular institutions and policies adopted and how they laid the foundations for the long post-war boom. Key features of the new order were the international financial system based on the dollar-gold exchange standard, a commitment to trade liberalization in the long run and political stability for the capitalist nations underwritten by American hegemony.

Shutt shows how post-depression and post-war reforms led to a strong, proactive role for the state as ultimate guarantor of economic stability and social security. Crises, instabilities, such as those that beset advanced countries in the previous period, would henceforth be managed by the new Keynesian stabilization policies. The new technologies launched from 1900-45 were linked to rapidly growing mass markets after 1945, which generated a near two decade upswing in productivity which supported rapidly rising incomes that served to further stabilize the new high-productivity, high-consumption economy. Many then believed that the capitalist system had permanently stabilized itself through new, superior institutional and technological innovations and the use of Keynesian demand management policies to prevent or curb slumps.

However, in the 1970s, instabilities re-emerged and growth slowed down throughout the world capitalist system. Keynesian policies also ceased to work as demand stimulation merely led to high inflation appearing alongside sluggish economic growth, the phenomenon of "stagflation." Other symptoms of the breakdown of post-war stability were the collapse of the Bretton Woods fixed exchange rate system and the oil-price hikes. Apart from the first two chapters, Shutt's book is primarily an analysis of the unravelling of this post-war system of regulated capitalism. In particular, he examines the theoretical and political responses to these events and how these have forged the neo-liberal consensus that has dominated establishment thinking from 1979/80.

The neo-liberal reaction (from 1979/80) to Keynesian policies gave way to monetarism, market liberalization and the privatization of public enterprises in the UK and US. However, monetary targeting was quickly abandoned and inflation brought under control only by raising interest rates and precipitating the deep 1980-82 recession which did considerable damage to the real economy. Shutt's argument is corroborated by the famous economist Paul Krugman (1994; ch. 1), but Shutt brings out the inconsistencies in the neo-liberal ideology more clearly. Unfortunately, Shutt persists in using the term "neoclassical" when he likely means neo-liberal, making a distinction between "neoclassical" and "Keynesian."In the US, the term "neoclassical" is commonly applied to mainstream economic thinking which includes the Keynesian-neoclassical synthesis and even more recent schools of macroeconomics (see Weintraub at http://www.econlib.org/library/Enc/NeoclassicalEconomics.html#further).

The 1980-82 recession and the elevated interest rates also gave rise to a chain of debt defaults in Latin America, starting with the Mexican debt crisis of 1982, which ushered in the famous "lost decade" of the 1980s for many developing countries, a point taken up later in the book.

Shutt goes on to describe how other aspects of the neo-liberal agenda were pushed through by the Thatcher and Reagan administrations. These were then taken up widely abroad starting with the nominally socialist governments of Australia and New Zealand. Again he points out the practical and conceptual inconsistencies in the policies followed and the great difficulties encountered in scaling back the role of the state. The Thatcher government was able to reduce fiscal deficits on account of North Sea oil. Not having a similar windfall, the Reagan administration presided over massive increases in budget deficits as its supply-side tax reduction policies failed to stimulate growth sufficient to offset the tax reductions and increases in defence spending.

While fiscal orthodoxy and monetary restraint figured strongly in the neo-liberal rhetoric, Shutt shows that it was more about institutional reform, trade and financial liberalization, privatisation and deregulation. While these policies failed to roll back the state, the broader market-promoting reform agenda gathered momentum and has now spread widely across the world as official policy if not actual practice. Shutt, however, fails to identify adequately the cogency and coherence of the political-intellectual current that supplied the underlying rationale for this fundamentalist, neo-Austrian alternative to Keynes, developed by Friedrich von Hayek. While the Thatcher and Reagan administrations had already been won over to the neo-Austrian agenda by 1980, Chinaís increasing turn to markets and the collapse of "Socialism" in the Soviet Union and East Europe by 1990 strengthened and widened its appeal. By centuryís end, a sea-change in economic policy has been carried through by pressures exerted over various channels. The story of that revolution in ideology is related with some neo-Austrian bias by Yergin and Stanislaw (1998).

What Shutt does well is to highlight the practical and theoretical contradictions arising out of the above policies, problems blithely ignored in neo-Austrian market triumphalism. He shows that despite rhetoric about shrinking the state, corporations and conservativegovernments turn to the state to resolve these contradictions. A prominent example is the Savings and Loan crisis in the USA which has its roots in earlier financial liberalization; the bankrupt financial institutions were bailed out by the Federal government. In fact the role of government in the economy has grown steadily from the 1930s to the present directly in response to various market failures which have been identified and addressed by governmental action and new regulatory institutions.

Financial liberalization and rising instability

An important outcome of the Reagan-Thatcher reforms well described in the book is deregulation of financial markets and its consequences. With safety constraints removed, such as separation between commercial and investment banking, banks have undertaken much riskier behaviour in the drive for higher profits, including highly speculative investments in property development. The Savings and Loan debacle in the USA, described above, is one example. Another was the activities of corporate raiders. Many companies have also been induced to take on excessive debt which undermines financial stability. Overall, Shutt points out that a new speculative climate has been created in which the viability of major companies and the livelihood of millions of workers have been mortgaged to give free rein to speculative orgies bordering on financial piracy. Though not so apparent at the time the book was published (1998) these warnings have been amply borne out by recent scams at Enron and other major companies.

Another consequence is the enormous expansion of speculative foreign exchange transactions, which destabilize entire countries. A particular problem is the short-selling of wobbly currencies by hedge funds which try to make very large profits from forced devaluation of target currencies. Shutt also notes the proliferation of offshore financial centres which facilitate money laundering, organized crime and large-scale corruption. Caught up with the imperative of maintaining laissez faire conditions for international financial transactions, the G7 countries often wring their hands about these abuses but fail to take any concrete action.

Implications of technological change

One of the most important issues raised by Shutt is the effect of technological change on demand for labour and capital. He observes that from around the early 1980s a great deal of investment in the services as well as in manufacturing, has been directed at cutting cost—that is raising labour productivity—without expanding capacity very much. As a result the real demand for capital and labour to support any particular expansion of output, has fallen from the norm for earlier periods in all industrial countries. This has led to "jobless growth" and contributed to a glut of financial capital. These are well known consequences of the revolution in information technology that has been sweeping through the world.

The new technologies associated with computers, communication and the internet, identified as the "information technologies," are radically changing the organization of business, the demand structure for skills, business information patterns and productivity in service and manufacturing operations. Managerial hierarchies are being flattened and personnel previously engaged in the processing of business information are drastically cut in numbers since now much of this work is done bycomputers running resource planning software. While the demand for personnel skilled in computer-related operations has risen, the demand for run-of-the-mill managerial, clerical and even manufacturing jobs has fallen. We see countries such as Germany and the USA seeking software engineers in India and Russia, while aggregate unemployment rises. This is because displaced workers cannot be absorbed in the new jobs being created since they do not have the training or even the aptitude for it. Shutt notes accurately that retraining schemes have generally failed to have any significant impact in bridging this skills gap.

The long-term changes described by Shutt are characteristic of transitions in the techno-economic paradigm (see Perez 2002) when the core technologies underlying the economic system undergo a fundamental change, such as from the age of steam and coal to the internal combustion engine and electricity and now to the information age. The old sets of skills are devalued and new skills are required. But since the re-investment in new "human capital" takes much longer, an increase in structural unemployment results. Shutt does not identify this phenomenon in these terms. But he correctly identifies a new feature, i.e. reduced demand for investment in physical capital with reduced incremental capital/ output ratios. The other feature is that computers and new software systems are significantly raising productivity in service operations and even managerial activity which reduces employment and flattens managerial hierarchies.

These trends are seen not just in Europe, Japan and the United States, but all over the world. This is one reason why globalisation with its intensified drive for higher productivity in all production and service operation s that are internationally competitive, is so unpopular: unemployment rises along with productivity. Even in fast growing China where East Asian-style productivity growth is transforming millions of rural folk into industrial workers on a scale not seen before in history, there is rising frustration directed against the Party leadership. In the drive for productivity the social support system of the "iron rice bowl" has been removed; the least skilled and least capable workers are thrown on the scrap heap to roam around its big cities, vainly looking for

The glut of financial capital

A central problem is that capitalism does not smoothly move from the initial phase of a transition in the techno-economic paradigm (a concept that is not clearly identified by Shutt) to a later and more mature phase in which rapid economic growth and increasing education and training lead to rising employment and even an excess demand for immigration. In the previous transition, the new technologies that were introduced in the early 20th century coalesced into a mature phase of high demand for labour only after 1945. This was preceded by social chaos, systemic breakdown in the worldwide depression of the 1930 and the second world war, which eventually cleared the economic and social ground for the new techno-economic paradigm to establish foundations that were resilient.

Of course, conditions were vastly different at that time: capitalism had been in political crisis from the First World War itself and the Russian Revolution; liberation struggles had broken out in most of the colonial world and the legitimacy of capitalism was threatened by the worldwide rise of interest in socialism. It is well understood today that capitalism survived the social-political crisis mainly because working people in Europe, North America and even in the colonies, saw the need to join with the ruling classes in the struggle against fascism and also because the barbaric nature of Stalinism effectively killed any interest in moving towards similar political experiments. Stalinism remained attractive only in emerging Third World revolutions where a new class of Jacobinist radical intellectuals seized state power and created authoritarian political systems which paid lip service to socialism but recreated medieval-style autocracies.

All that is past now, as global capitalism enters the present crisis. But new contradictions have arisen and Shutt traces some of these competently. A central theme in his book is the oversupply of financial capital which from the mid-to-late 1970s has been finding inadequateopportunities for profitable investment in the heartlands of industrial capitalism. What this means is that the supply of new technological innovations within the prevailing techno-economic paradigm is not adequate to absorb the mass of finance seeking investment opportunities.

Additionally there is the problem of maintaining adequate returns on existing investments; these returns tend to be driven down over time by rising competition from new domestic investments and international sources as trade gets liberalized. Shutt's analysis is particularly useful here because the systemic problems relating to global finance are rarely raised in mainstream analyses and even when they are, the true nature of the problems are shrouded in arcane terminology. Another irritant here is Shutt's failure to distinguish carefully between financial capital and physical capital.

Shutt also describes other ways in which surplus funds have been used. From the late seventies there had been a flow of funds to many "emerging markets" particularly in Latin America. After the Mexican default of 1982 there was an abrupt drop in capital flows to Latin America which led to the "lost (development) decade" of the 1980s. Capital flows revived again in the early 1990s until the 1994-5 crisis in Mexico and elsewhere.

These flows of short-term capital were then directed to East Asia where their abrupt withdrawal in 1997 again led to the Asian crises of 1997-8, just as in Latin America. These triggered the currency crises in Russia (1998) and Brazil (1999). The Brazilian crisis contributed to economic collapse in Argentina in December 2001. Shutt identifies the problems posed by this excess of footloose funds sloshing around the world economy, but does not adequately analyse the destabilizing effect of short-term capital flows on vulnerable "emerging economies" possibly because at the time this book was being written, the problem was not well recognized. Today, however, the destabilizing effects of short-term capital flows are being hotly debated in many international fora (for details see *Economist*, 2003).

An important distinguishing feature of Shutt's analysis is the linking of the wave of privatization to the need to find adequate investment opportunities for excess financial capital. There are other reasons as well, such as the need to plug gaps in public finance. He shows that privatization has been sold to the public as necessary to raise productivity in the privatized sectors, but questions this justification.

He notes that rising public sector debt deriving from declining tax revenues and rising fiscal deficits brought about by neo-liberal policies, have also served as another investment opportunity for footloose finance seeking adequate returns. Other investment opportunities have been created by allowing private investment to fund public infrastructure and move into services such as postal, prison and garbage collection services, hitherto confined to the public sector. In the US, companies can now buy back stock, thereby raising the stock price to the advantage of top executives who are compensated partly with stock options.

There are some problems with this utilitarian justification of the neo-liberal programme started by the Thatcher and Reagan administrations. It is commonly known today that this missionary free-market zeal was inspired by neo-Austrian thinking transmitted to Thatcher via Keith Joseph. Shutt's story needs to be supplemented by the saga of ideological evolution told by Yergin and Stanislaw (1998) which has been briefly stated above. This reviewer believes that history is made as much by ideological waves as much as by perceived material interest. Otherwise it is hard to explain the short-sightedness of capitalist ideologues and Stalinists, whose gross misperceptions eventually undermine their own long-term interests. Ideas are certainly influenced by the concrete material conditions in which they arise, but they cannot be explained comprehensively by these conditions in a deterministic way. Thus ideological currents owe as much to the peculiar ideas of their founders as much as the material challenges they confronted. Shutt unfortunately largely ignores the ideological dimension as noted earlier; thus his explanations remain incomplete.

Transitional Economies and the Third World

Shutt also analyses the recent evolution of the former planned economies into more "emerging markets" and the "emerging" or more often "submerging" markets of the Third World. He does identify many weaknessesof the Soviet System and other planned economies. These include use of administratively determined priorities and quantitative targets rather than signals emanating from the market, poor cost accounting and control, unwieldy organizational hierarchies and distortion of information flows, corruption, suppression of criticism and other bureaucratic ills. He also points to crumbling public infrastructure, capital stock that has not been renewed for decades, increasing fiscal anarchy in public enterprises and the rise of organized crime, as major causes —and symptoms—of social breakdown. Rising defence expenditure was the crucial burden that broke the camels back and this derived largely from competition with the US in global power politics. Yet for this reviewer at least, he misses the most crucial issue leading to Soviet decline, the inability of that society to generate endogenous technological innovation unlike the more successful capitalist societies. This major lacuna in Shutt's conception of economics is discussed elsewhere in this review.

Shutt discusses the different modes of transition to market economies exhibited by Russia, China and Eastern Europe. He shows how "shock therapy" liberalization in Russia, inspired by illusions about market forces being able to instantly spring into action and operate as in mature capitalist nations, led to a disastrous collapse of production from which the country is still recovering. In the meantime, mismanaged privatisation has led to oligarchic control over industrial companies and set back the process of democratization. The lesson is that market forces operate best within a strong institutional structure which takes decades to build up, a point that appears to have been unknown to the various Western gurus that guided shock therapy strategies. Additionally, Russia has generated an extraordinary amount of lawlessness, including organized crime, which will be very hard to shake off now on account of the political and economic power amassed. He also shows that the transition worked better in Poland and the Czech Republic because policies there were quite different. He points out that China, the best performer of all, has totally ignored shock therapy ideas and gradually liberalized markets, concentrating on promoting FDI and exports without dismantling the administrative structures of the bureaucratic state. China was of course helped a great deal by the proximate East Asian examples from the early 1980 and by the readiness of the Chinese diaspora to bring productive investment to its coastal regions.

In a separate chapter, Shutt covers the evolution of Third Wold economies over the last 50 years or so. Except for East Asia, the general picture is one of catastrophic decline, particularly after the debt crises of the 1980s. He shows that the public sector in many countries has failed to meet up to the challenges of development, the growth of population, environmental decay and the rise of lawlessness and separatism. Many of the reforms foisted on developing countries by the World Bank and the IMF have not succeeded in generating economic dynamism in the private sector in most countries. The flow of finance to developing nations and the instabilities generated by hasty liberalization of financialinstitutions, leading to a series of financial crises in Latin America and Asia, have been described earlier. Shutt sees the "Third World catastrophe" as the broader playing out of the contradictions that beset the capitalist system worldwide.

While it is hard to quarrel with the broad thrust of his analysis of the Third World, he is probably somewhat over-pessimistic. Latin American nations have indeed made some progress in cutting down deficits and getting better control over macroeconomic management. Though enormous problems remain in Brazil, Argentina and Mexico, they have learnt some lessons from mistakes of the past. If one is to judge by recent postings on their web-sites, so also have the IMF and the World Bank, at long last. They are now less likely to impose disastrous policies on client states. Furthermore these countries are now much stronger exporters, so much so that Brazil faces many trade disputes with the USA, Canada and Europe. Nevertheless, Shutt is right to point to serious weaknesses in these countries, growing inequality and lawlessness.

The recent privatization wave in most countries, has also generated a great deal ofcorruption.

Many Asian countries have made much more progress than Latin America, particularly the first tier East Asian tigers. This is another blind spot with Shutt. He argues that South Korea, Taiwan, Hong Kong and Singapore have grown on the basis of imported capital and technology and by exploiting cheap domestic labour. Here he completely misses the scope and scale of the East Asian achievement. Since 1960, labour productivity and wage rates have grown steadily and very rapidly on the basis of the fastest building up of technological capability seen in recent times. Hong Kong and Singapore now boast standards of living higher than Spain, Portugal or Greece and Taiwan and South Korea are close behind. Thesefour countries are developed countries by any measure and labour is highly skilled there and no longer so cheap.

Obviously any developing country must grow initially on the basis of adapted technology, but today, except for Hong Kong, they are fullyintegrated with the networks of technology development of the advanced industrial world (see Rodrigo, 2001 for details). One has only to see the products exported by South Korea and Taiwan to see the extent of their technological mastery. Finally these nations have exhibited the highest savings rates in history and are a large source of capital and FDI for the rest of the world. They also have the largest foreign currency reserves in the world, next to Japan and China. It is hard to understand how someone as critically observant as Shutt could be so profoundly wrong about East Asia. In his eagerness to develop the case for general capitalist collapse, he dismisses East Asia without any serious assessment of their achievements.

Technology as a public good: a lacuna in Shutt's conception

Another major issue on which Shutt is out of touch with contemporaryresearch on the advance of technology is in his conception of state support for technology advancement. He see this as another case of private companies relying on the state to bail them out. That is profoundly false. The advance of technology is a very complex kind of human activity. At the surface level we see companies developing commercially exploitable technologies to produce goods and services for profit. They are after all motivated by profit, not by philanthropic considerations. Commercially exploitable technologies, however, arise out of an underlying stratum of generic technologies, also called general purpose technologies. This stratum in turn develops out of more fundamental advances in knowledge carried out in universities and research institutions. Therefore knowledge advance in science and technology takes place at roughly three distinct but interconnected levels The bedrock stratum of knowledge advancement is clearly a public good or even more a global public good. The development of scientific knowledge is clearly the responsibility of public, not-for-profit institutions like the universities and government research labs and programmes. Even if carried out by private firms, they need to be funded by public investment, since firms cannot turn these into profit-making activities. The intermediate layer of generic technologies also has many features of public goods. Even if developed by individual firms, they generate technological spillovers to other firms within the nation and also to firms outside. In short the development of generic technologies is rife with what economists call "positive externalities" in which the social returns are much greater than the private returns that can be secured by the firm initiating the innovation. In the case of a "negative externality" such as industrial pollution, the social costs are higher than the costs borne by the polluting firm; hence society must exact clean-up costs from the firm. The crucial outcome of this conception is that private firms will invest insufficient effort in developing generic technologies since they cannot capture most of the returns.

Hence if a society wants the optimum development of technological innovation, the public sector needs to get involved in the development of generic technologies. Ever since the late19 century governments in Germany, Britain, France and the USA have shouldered this responsibility to a greater or lesser degree. Public-private cooperation in the development of generic technologies has been most spectacular inthe USA during and after the second world war, under Federal, i.e. central government leadership. Thus was developed advances in semiconductors, computers, aerospace technologies, electronic communications, the internet, biotechnology and many others. There is another important consequence of state involvement in technological change. Since the progress of technology is evolutionary, it is rife with uncertainty, especially at the beginning of a techno-economic paradigm. Even firms that operate at the leading edge of technology are liable to make disastrous mistakes as evidenced from a casual reading of business journals. The guiding hand of the state can greatly reduce the uncertainty associated with technical change.

Hence state involvement in technology development is a necessary function under capitalism, not just a class-conspiracy as seen by critics on the left or an unnecessary interference with market forces as charged by market fundamentalists on the right. If the private sector is to be induced to undertake risky investments in innovative generic technologies, it is entirely appropriate that part of the risk and investment cost be borne by the public sector, since society will draw much larger benefits than will accrue to the firm alone. It is hardly an accident that in the USA where public-private cooperation in the advancement of technology has been developed to a higher level than elsewhere, we also have the strongest advance of technological innovation in general. An explicit goal of the European Union project has been to mobilize public and private productive resources of the aggregate of nations to match technological innovation in the US. One example of success is the European aircraft producer Airbus Industrie, which has now achieved competitive parity with the US giant Boeing, directly as a result of organized support from European states.

Conclusion: many strengths and some weaknesses

Shutt concludes his book by emphasising the crisis of political legitimacy for the profit system as presently constituted, on account of its manifest inability to address the growing contradictions of the system as a whole. Thus rising inequality and technology-related unemployment in advanced and developing countries is accompanied by more frequent episodes of systemic macroeconomic instability. Corruption and internationally organized crime are definitely on the rise, with Russia and other transitional economies contributing a disproportionately large share. Additionally, there is increasing international discord over trade, investment and intellectual property rights issues and about appropriate global collective action to safeguard the environment and restore shrinking fish stocks caused by overfishing. Developed nations seem to be facing increasing difficulty in maintaining health care benefits, adequate education, social security for the unemployed and the aged, keeping crime under control and so on.

If Shutt were to be update his book today in the light of developments over the last 5 years or so since his book was published, he would undoubtedly strike a more pessimistic note. Global problems have got intensified and a few new ones have been added. He is likely to see the rise of militant Islamic fundamentalism as a failure of leaders of hegemonic nations to address historic injustices and resolve contemporary conflicts. Drug related crime and corruption have got worse as has the exploitation of Eastern European women for prostitution. Separatist violence has not got better and crime and violence in Brazil, Mexico, China and elsewhere has risen alarmingly. Following the stock market collapse in 2000 in the USA, recessionary conditions have appeared throughout North America and Europe. Japan continues in recession, unable to fix its major economic and institutional problems and now Germany has slipped into the same quagmire. Serious problems have arisen about malfeasance by corporate executives relating to gross manipulation of financial statements for their personal benefit, an issue that Shutt deals with briefly in his book. From the perspective of 2003, his 1998 claims seem excessively cautious.

At the very end, Shutt also discusses some of the political issues arising out of the major storm he sees on the horizon. He goes on to enumerate some guidelines for a more viable, equitable world order. This is not the place to critically review the brief framework he has laid out in his last chapter since he seems to have developed this theme more fully in a later book (Shutt,2002) which is probably well worth reading.One crucial point is worth highlighting: Shutt does not appear to suggest that a more sustainable world economic order would do away with market forces completely. Instead, he sees market forces and profit incentives being redirected squarely towards serving major social ends. This approach can be interpreted as an attempt to redirect productive activitystrongly towards the production of crucially important public goods, away from the present excessive production of private goods for private consumption. At least that is the interpretation that this reviewer imputes to Shutt in accordance with his own prejudices.

To sum up, Shutt does manage to capture many of the essential features of the world economy in its evolution over the last half century. He does seem to understand economic issues much, much better than most of the critics of globalization. Because he understands the economic logic and political exigencies behind major events such as the formation of the IMF, the World Bank and the WTO, he rarely needs to conjure up fantastic conspiracy theories, such as are purveyed in some of the left literature. This book will provide the reader a sober and plausibleaccount of how the post-war system evolved and its major problems and shortcomings. There are some serious flaws in his analysis, particularly his conception of technological change, which have been identified above. A better understanding of this issue will explain why capitalism has so far muddled through despite serious contradictions. It is also crucial to understanding why planned economies were not able to develop the productive forces beyond a certain level.

The major weakness is the conception of technological innovation and the central, symbiotic linkage between innovation and capitalist dynamism. Though Shutt talks about technology from time-to-time and even has achapter titled "technological nemesis," he seems to implicitly believe that innovation is an exogenous process, i.e. it is something that happens "outside the system." This is a weakness of mainstream economics as well; even most professional economists have the vaguest notion of the role of technological innovation. Neoclassical growth theory actually models technological change as if it were manna dropping from heaven, using this exact phrase to explain why this is treated as an exogenous input. New growth theory, developed since 1986, tries to endogenize innovative activity. But it has hardly shed any new light on this problem, as pointed out by experts of technology such as Richard Nelson (1997).

There is a much better understanding of technology now within a small circle of economists who specialize in the analysis of technology. These include distinguished economists such as Nelson who are respected across the profession. As a result more realistic ideas about technological innovation are diffusing through the profession. Schumpeter is back in fashion, since he was the first economist to see the central role of innovation and the entrepreneur, in the progress of capitalism. Actually, Marx was the first major economist to understand the role of technological innovation in regenerating the dynamism of capitalist processes. Schumpeter, who was a great admirer of Marx, acknowledged this. But Marx did not arrive at the more comprehensive insights of Schumpeter, possibly because the processes of innovation were in their infancy up to 1870.

A major theme that runs through Shutt's analysis is the implicit presumption that the global capitalist system is moving inexorably towards a catastrophic breakdown. While this is a distinct possibility, this reviewer takes that position that a softer landing may also be within the realms of possibility. There are many complex, self-regenerating processes within capitalism. For example crises often lead to reforms that strengthen the system, making it more resilient. This is what has happened in South Korea and Taiwan after the 1997-8 crisis. As pointed out earlier, capitalist dynamism waxes and wanes over long periods of time as new technological paradigms replace existing ones. Currently we are witnessing the spread of information technology replacing and transforming the older industries at the same time that industrial capitalism is spreading rapidly into a broader swathe of developing countries, particularly in Asia and Latin America.

To make sense of these processes, it is necessary to suspend, or at least relax, some of the mental models of the past, such as the implicit belief that capitalism has been in "permanent collapse" from the beginning of the twentieth century, which is manifestly false. The historical process is more complex than we can imagine and its prudent to be prepared for a range of possible outcomes. The transition from the present predicament of capitalism to a superior social order need not be contingent on a catastrophic collapse, though that outcome cannot be ruled out by any means. For the present this book provides a pretty good account of the problems that need to be fixed.

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