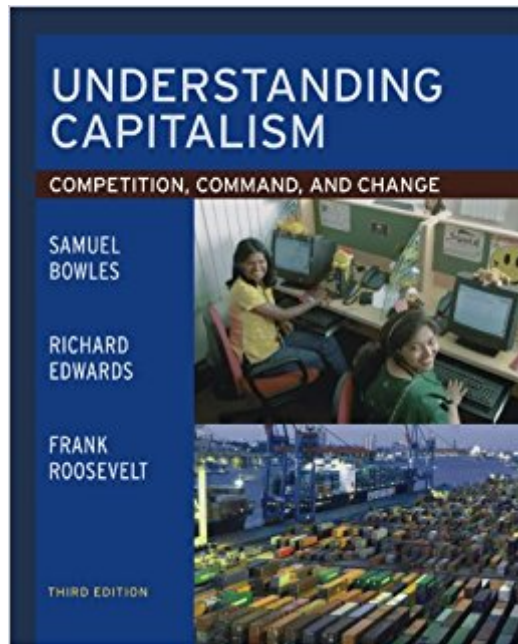


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# Understanding Capitalism: Competition, Command, And Change



## Synopsis

Understanding Capitalism: Competition, Command, and Change, Third Edition, is an introduction to economics that explains how capitalism works, why it sometimes does not work as well as we would like it to, and how over time it not only changes but also revolutionizes the world around us. The "three-dimensional approach" of the text focuses on competition in markets; command in firms, governments, and international relations; and change as a permanent feature of a capitalist economy driven by technical innovation and conflict over the distribution of income. The book covers the standard topics of supply and demand, market competition, imperfect competition, aggregate demand, inflation, and unemployment. It emphasizes the extraordinary dynamism and material productivity of the capitalist economy; the psychological foundations of human behavior; the logic and limitations of Adam Smith's invisible hand; technical change and the new information-based economy; global economic integration and its impact on national economies; the impact of economic activity on the environment; and inequality both within and among nations. In addition, it provides a critical evaluation of the tenets of neoclassical economics, a clear introduction to contract theory, and material drawn from new research in behavioral, institutional, and information economics. Understanding Capitalism, Third Edition, is ideal for undergraduate courses in economics and political economy. An Instructor's Manual is available to adopters.

**FEATURES OF THE THIRD EDITION**

- Offers a new chapter on the behavioral foundations of economics, showing that the selfishness of the "economic man" leaves out the important role of other social motives and how individual tastes and values evolve in response to experiences
- Includes a new chapter that examines how economic success (and poverty) are passed on from parents to children and also looks at the increasing inequality of income and wealth along lines of race and gender
- Presents a completely revised and expanded treatment of the revolutionary changes that have been associated with capitalism over the past three centuries
- Provides boxed treatments of issues that can serve as the basis of classroom discussions
- Defines important terms in the margins throughout the text
- Contains a section entitled "Sources of Economic Information" that helps readers locate relevant outside data, both in print and online

## Book Information

Paperback: 608 pages

Publisher: Oxford University Press; 3 edition (March 10, 2005)

Language: English

ISBN-10: 0195138651

ISBN-13: 978-0195138658

Product Dimensions: 9 x 1.3 x 7.3 inches

Shipping Weight: 2.2 pounds (View shipping rates and policies)

Average Customer Review: 4.9 out of 5 stars [See all reviews](#) (10 customer reviews)

Best Sellers Rank: #158,063 in Books (See Top 100 in Books) #96 in [Books > Business & Money > Economics > Free Enterprise](#) #110 in [Books > Textbooks > Business & Finance > International Business](#) #220 in [Books > Business & Money > International > Economics](#)

## Customer Reviews

As taught in most undergraduate courses, the world of mainstream economics is an orderly place: markets clear, economic actors are rational, and social harmony prevails. Readers wanting more realism should read "Understanding Capitalism," a superb introduction to economics written from a social democratic perspective. As in any introductory econ text, the book carefully analyzes market processes. However, it also analyzes "command" relationships within firms, and the relationship between capitalist dynamics and economic growth. This "three dimensional" approach to economics -- the authors prefer the term "political economy" -- offers a comprehensive view of the subject. The core chapters deal with microeconomics and macroeconomics. The micro section draws on Marx and Schumpeter, and focuses on profit-seeking and "accumulation" as the keys to understanding capitalist dynamics. The macro chapters draw on and update Keynes, and explain why unemployment is a persistent feature of U.S.-style capitalism (Swedish-style capitalism is a different matter). Throughout, economic concepts are related to ideas from anthropology, history, political science, and environmental science. Key points are illustrated with examples from the daily news; there is algebra, but no calculus; the writing is clear. This is a very reader-friendly econ text. It is also refreshingly non-dogmatic. Although the authors are leftists, they acknowledge that capitalism obliterates archaic economic structures and lifts standards of living. They also highlight the role of profit-seeking in the development of new technologies and production methods. Their tone is consistently reasonable and fair to all points of view. Of course, no book is perfect.

"Understanding Capitalism", as far as I know, is the best "alternative" introductory textbook dealing with how the economy works. Some of its content is similar to what one would find in a standard introductory economics textbook: the treatment of supply and demand, inflation, monetary and fiscal policy is fairly conventional, even when non-traditional notation is used. However, much else is fresh, insightful and non-dogmatic. It gives capitalism credit when it's due, and doles out criticism

when it applies. Throughout the book, a "three-dimensional approach" is used: competition (horizontal market relations), command (vertical class relations) and change (developments over time) are all examined to give a meaningful picture of the economy. The book has three main parts: political economy (chapters 1-7), microeconomics (chapters 8-13) and macroeconomics (chapters 14-19). I will elaborate on some of the themes developed.

**POLITICAL ECONOMY**

Chapter 2 contains an amazing discussion of agency: "homo economicus", or as Amartya Sen proclaimed, the "rational fool" is challenged with the help of experimental game theory. Chapter 4 refers to history of economic thought and briefly reviews the ideas of Adam Smith, Karl Marx, Joseph Schumpeter, John Maynard Keynes, Ronald Coase and Amartya Sen. Chapter 5 examines the concept of surplus product, the conflict it engenders and its different uses. Chapters 6 and 7 discuss capitalism and class in the context of different economic systems (slavery, feudalism, central planning, etc.) and review the different phases of American capitalism. An important insight that comes from this is that not all capitalisms are the same: different social and institutional arrangements exist.

This is an interesting, insightful, and accessible introduction to the nature of capitalism. The authors might best be characterized as social democrats or market socialists. Nevertheless, their presentation of a broad range of material that constitutes the substance of what 18th and 19th Century authors such as Adam Smith, David Ricardo, Thomas Malthus, and Karl Marx called "political economy" is really quite even-handed and devoid of dogmatism and histrionics. Some of the material in Chapter 10 Capitalist Production and Profits is graphically and algebraically a bit technical, but if you stop and think about the concepts you'll quickly get the hang of it. In addition, the authors ingeniously summarize this material in an instructive flow chart at the end of the chapter. Bowles, Edwards, and Roosevelt seem determined that no reader will be left behind, and they achieve this objective with clearly written explanations, judicious use of repetition, and construction and selection of examples that make their presentation unmistakably clear even to the uninitiated. While *Understanding Capitalism* is a book with many virtues, it probably does not serve as a good point of departure for someone considering a career as an economist. Yes, there are prominent economists such as Amartya Sen and Paul Krugman who recognize that economics is a social science through and through. However, the one-dimensional, mechanistic neo-classical perspective remains dominant among practicing economists and in colleges and universities throughout the U.S.

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