

**U. and P. Patnaik**, *Capital and Imperialism. Theory, History and the Present*, Monthly Review Press, 2021.

The latest work by Utsa and Prahabat Patnaik – winner of the Paul A. Baran – Paul M. Sweezy Memorial Award – is an extraordinarily challenging book that, by combining a deep understanding of economic thought and history, offers an original, complex, and thought-provoking interpretation of developments and trends in capitalism between the 19<sup>th</sup> century and today.

The starting point of the research, which is based on a critical and original vision of the theory of dependence and of the Marxist thought “of the three continents” (to use the definition given by Abdel-Malek), but also on the work of Baran and Sweezy, is the view of the capitalist reproduction system not as a single system in itself but as a system inserted – according to different modalities the different periods – within a wider set of economic relations, of a non-capitalist or pre-capitalist kind. However, while the influence of Luxemburg’s thought and her interpretation of imperialism on the two scholars is clear, they conceive the relationship between capitalist accumulation space and the pre-capitalist economic spaces in a particularly original and articulate way. In an equally original and compelling manner, the “Luxemborghian” analysis of Utsa and Prahabat Patnaik is compatible with the importance attributed by Lenin to the analysis of the factors of capital reproduction and accumulation in capitalism, and therefore to investment, labour and demand. A theme, that of production, which in the contemporary studies dedicated to imperialism – that are largely influenced by the contemporary agrarian question and the expulsion of peasants from the countryside of the third world – is obscured by the idea of an enlargement of the total circulating value through appropriation, determining the stimulation of the capitalist global economy.

Although the text is divided into five parts, thematically there are three distinguishable sections, articulated according to what is written in the title. The first section, through a close theoretical analysis articulated through a continuous comparison between the major currents of economic thought, mainstream and heterodox, shows that money cannot be a medium of circulation without also being a store of wealth, as stated, although differently by Marx and Keynes, who both – however differently – address the issue of the demand of money, and the role of money as reserve of value. From this, based on the demonstration offered by the two authors, several consequences follow. The first is the invalidity of Say’s law, and therefore of a substantial part of mainstream economic thought, which is based on the role of supply; the second consequence is the importance attributed by the authors to

inflation. Even if this can be surprising in a text of heterodox character, the theme of inflation is central. The authors identify inflation as an element at the basis of one of the internal contradictions of the capitalist system, determined by currency as an instrument of circulation based on abstract value.

If the Walrasian tradition doesn't consider money as a medium of holding wealth and therefore accept Say's Law and the impossibility of "unvoluntary unemployment", the Marxist and the Keynesian traditions, while considering the consequences of capitalism as a system using currency, consider this system as isolated. A consideration of the capitalist system that does not foresee any "outside", precludes the possibility of sustained growth. Similarly, these two traditions would not be able to explain how the system can sustain monetary wage increases, obtained by workers in order to increase their share of national income, without jeopardizing the value of money – a problem similarly related to the tendency to the increase of the price of raw materials. According to the authors, the only way to get out of these logical contradictions is to not consider capitalism as an isolated entity but as one that exists within a setting that not only interacts with it but with its help, and at its expense, overcomes the problems that it should face since it is an economy based on the monetary medium.

Therefore, the second of the distinguishable sections revolves around the questions of the role of the state in relation with the space of the capitalist economy and its administration. The authors argue that the "colonial pact" between metropolitan countries and the periphery typical of the period of "classical imperialism" represented – in a determined time and thus, in concrete system structures and international class power relationship – the optimum for the capitalist mode of reproduction.

This was perfectly capable of stimulating the growth of the system as a whole, by draining surpluses from the periphery to the centre. As an example it was the structure behind "classic imperialism" which allowed Britain, the capitalist leader of the time, to sustain its balance of payments deficit towards other industrial countries, stimulating their production and thus the capitalist system as a whole. Moreover, by virtue of the colonial drain, Britain benefitted from a surplus that enabled capital export to other metropolitan countries and, at the same time the imposition of the deflation necessary to preserve the value of money and accumulated wealth on colonies and semi-colonies. These countries absolved also the fundamental role of "market on tap", preserving the system from the spectre of both overproduction and underinvestment, and consequently, inflation in the metropolis.

These two mechanisms are analysed in depth with reference to India,

showing how the wealth drain on colonies was not the simple resultant of uneven exchange between “centre” and “periphery”. India’s example evidences how the exploitation of underdeveloped countries called into question the monetary and institutional structure of trade between the United Kingdom and its colonies, between the colonies and the other capitalist countries via intermediation of UK and between UK and other industrializing metropolitan countries, thus being a stimulus for the system. Therefore, the possibility to impose deflation rested, and rests, on de-industrialization, on the deflation of colonial wages implied by surplus drain and thus on the reduction in aggregate demand of periphery population.

Consequently, the role of the periphery for the capitalist system is decisive in terms of both the stimulus exerted on the system as a whole, as a market on tap, from which to extract and in which to reinvest, and – and this constitutes the originality of the contribution – as a space in which to implement that deflation without which the enlargement of reproduction, the very objective of capital, would be fatal to it by virtue of the contradiction of which inflation is an expression. Within this perspective, the crisis that affected capitalism between the two wars, culminating in the Great Depression, must also be considered in the light of the exhaustion due to saturation of the colonial markets. This passage – occupying an entire chapter and in which the thesis is expounded through the critical analysis and partial adoption of Hansen’s thesis on the “closure of the frontier”, Baran’s and Sweezy’s thesis based on the Kaleckian theory of the effect of monopolies, and Kindleberger’s thesis on the transition of leadership in the capitalist world – would, in the writer’s opinion, deserve a closer examination. Similarly, the theme of the “exhaustion” of colonial markets would deserve, because of its importance in the discussion, but also because of the interest of the matter, to be developed in a more comprehensive way. It seems clear that this exhaustion finds in the deflation function of the colonial markets a relative term that determines its meaning, and the clarification of this point would be very interesting not only for colonial history but also for development and the relationship between centre and periphery.

As the Patnaiks point out, the nation-based controlled demand policies and the political decolonization that marked the post-war period were largely the result of a compromise, both in the centre and in the periphery. This was made necessary by international class relations and by the effects that a worldwide socialist movement and the strength of Soviet Union had on national liberation movements. However, according to the authors, the arrangements that enabled the “golden age” of capitalism growth were mutually contradictory. In

fact, while full-employment and demand-management policies (“military Keynesianism” in the USA, welfare in Europe) provided an efficient stimulus to growth, favoured by the declining worker’s share in total output hidden by a significant, (although inferior to labour productivity growth), salary growth, the absence of a deflationary system implied by political decolonization enforced by power relation, made the system prone to inflation and incapable to cope with a disproportion between supply and demand or inflation caused by a shock to the latter. Moreover, the role of the USA as leader of the capitalist world, given the absence of the colonial prop UK had, determined its passage from a surplus in current account country to a deficit country. It was precisely this deficit – paid with debt in the form of formally good-as-gold dollars – that, permitting to boost the demand and thus the growth of the entire capitalist system, ended up reinforcing finance’s pressure for capital freedom of movements. A pressure strengthened by the fact that an adjustment under Bretton Woods was imposed only to deficit countries, therefore eager to postpone it through short-term financing, as happened to UK in the 1960s. The possibility of attracting these capital flows was determined by the confidence of investors, which was in turn directly linked to the degree of openness to the movement of capital: this impulse to liberalisation first occurred independently, and then was fostered by IFIs, and extended to the periphery.

Therefore, the Patnaiks implicitly support the Minskian thesis according to which a stable inflation situation is an exception and that the idea that a capitalistic economy can be stabilised forever at a high level of employment through demand control and management policies is false. Interesting is the thesis according to which commodity prices and terms of trade remain low until the late 1960s as result of both the investments made by Third World states in quest for industrialization that – differently from colonial states policy – determine an expansion of output and consequently of the concurrence between the underdeveloped countries themselves determined by the necessity to earn foreign currency with which to finance industrial development and the deficit implied by it.

As the previous period, also the neoliberal one is considered as the result of precise power relations. The collapse of Bretton Woods left the world without a stable medium of holding wealth. Thus, the new set-up emerged gradually and the authors underline the difference between what happened in 1973-1975 – as a resultant of a shift in world income away from oil-consuming countries, particularly advanced countries, and OPEC countries, which nevertheless kept much of their wealth in the form of bank deposits in metropolitan banks, and deter-

mined in turn the strengthening of finance and a depression of demand – and what happened during the 1980s, a decade that saw concerted restructuring, liberalization and the deliberate imposition of world income deflation.

In the authors' view, the role of deflation characterises what they define the neoliberal regime, analysed in the third section and accompanied by some political consideration descending from that analysis. The common feature of neo-liberal policies is to reduce the consumption of the working population on the wage side and not on the price side of goods: a replica of the deflation that the system imposed on peripheral and semi-peripheral workers in the colonial era, but incapable of stimulating the demand in the metropolis. In a context where colonial drain is no longer possible, deflation is imposed anyway, thus, the Patnaiks affirm, neoliberalism is a reassertion of colonialism and should not be understood as a retreat of the state before the market, as liberal propaganda portrays it, but as a change in the nature of state intervention, in the periphery as in the centre.

The only way that capitalist neoliberalism has to boost demand is asset-bubble. In fact, debt, which has kept metropolitan workers' consumption high despite a fall in or stagnation of real wages, is tied to a certain loan-to-income ratio. This is where the growth in asset prices comes in, and its function is to encourage lending, to make it possible for workers to borrow, and in turn to stimulate investment, and to remunerate it.

For this reason, the text closes with the two scholars – who, rejecting mechanistic determinisms, believe that the political element is the decisive one – outlining some perspectives for the future opposition to capitalism. In this sense, the action of the periphery is seen as decisive, and in particular a strategy is outlined which, while starting from previous experiences in the third world – i.e. solutions of partial delinking aimed at self-centred development – foresees a greater consideration of the role of the rural populations and peasants compared to what was realised during the second part of the 20th century within the national fronts composed of the working classes and non-comprador bourgeoisie. A proposal that, as made explicit, moves from the current situation and the power relations that characterise it.

In short, this is a text that for its depth but also for the observations and analysis and for the boldness and originality of the general theses formulated – the result of a repositioning of the analytical point of view compared to that of mainstream economics but also of the heterodox and in particular Marxist – deserves to be read and widely debated. And the same goes for the questions that it has the merit of posing and that make a decisive contribution on a variety of singular

## BOOK REVIEWS

topics but mostly to the contemporary debate on capitalist system of production and imperialism.

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