Will Capitalism Survive?

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Abstract

Will capitalism survive? This question was asked by Joseph Alois Schumpeter, one of the most respected economists of the 20th century. Decades after his forecasted question, the threat to the reign of capitalism in the 21st century is existential. The hallmark of capitalism is innovation, which is akin to change. As any business executive and scholar may allude to, change is essential to ensure business growth and sustainability. The bane of capitalism is its orient to profit maximization that favors only the owners of the capital and exploits resources without replenishing them. Social maladjustment and income inequality are rampant globally thus amplifying the calls for a change in the capitalism structure. In America for example, certain politicians have proposed a change to socialism, advancing programs such as “the green new deal”, universal health insurance policy, increased minimum wages, increased corporate taxes to ensure pay equity, and improved welfare programs for its citizens. Indeed, the emboldening of socialism proponents is intelligible. In our resolve to find solutions to societal problems and especially income inequality, it may be prudent to improve the nature of capitalism rather than encourage a change to socialism. In this article, the writer cautions against a change to socialism
and suggests a system of capitalism undergirded by a stakeholder framework with equality at its core, as opposed to the shareholder axiom.

**Keywords**: Capitalism, socialism, stakeholder, inequality, maladjustment.

**Introduction**

The conundrum in America’s political establishment is amplified with calls for a change from capitalism to socialism. In his state of the union address to the nation, President Trump reiterated his rejection of a change to a socialist structure. The calls for socialism may be justified considering the number of people left out of the American dream. There is widespread poverty further aggravated by the Covid_19 pandemic, which has led to an economic downturn and an unprecedented number of unemployed Americans. According to the U.S Bureau of Labor Statistics, the number of unemployed workers as of September of 2020, was 12.6 million or 7.9%, an increase from the pre-Covid-19 rate of 3.8 million in February.

Homelessness is rampant in every state and major city in America. In Columbia, South Carolina, for example, the lines formed by homeless people to get access to the Oliver gospel mission stretches about a quarter of a mile. At nearby Transitions, another facility that provides food and shelter for the homeless, there may be an overflow of people as they stand, sit, lay, and roam about the facility pouring onto the streets and buildings in the lower downtown area, in a situation that can best be described as disturbing.
The capitalist structure is considered by people favoring a change to socialism, to be tailored towards a few rich people. Rodney (2018) blamed the underdevelopment of African countries on the greedy nature of the European capitalist who looted Africa of its resources and exploited its labor. Rodney identified that the European capitalists developed their countries with African resources including humans vis-à-vis the slave trade, thus creating an unstable and deprived condition unfavorable for economic growth and development.

In capitalist countries such as the U.S., Germany, and France capital for growth and development is in the hands of a few rich people whereas most of the populace work for a meager income. Hanauer & Rolf (2020) in an article published in Time Magazine analyzed that, America’s top 1% earned $50 trillion from the bottom 90% due to income inequality or for that matter, labor exploitation.

The opponents of socialism argue that it stifles innovation and co-operation among citizens towards a common purpose and responsibility of growing and developing their communities. Venezuela is often cited as an epitome of the failure of socialism as citizens become overly reliant on the government for assistance thus relapse on the attributes of hard work and innovation. In Venezuela, the then President Hugo Chavez nationalized private corporations hitherto owned by rich capitalists and provided welfare assistance programs to millions of the populace (Acevedo & Cirocco, 2017).
The consequences of Chavez’s socialist agenda is that production in the economy declined as workers did not have the innovative incline and zeal for hard work to sustain production and improve profits. The decline in production in all sectors including agriculture and oil production led to widespread poverty in Venezuela. As Acevedo & Cirocco (2017) succinctly described, “we have been eating garbage, schools that do not teach, hospitals that do not heal, long and humiliating lines to buy flour, bread, and basic medicine.”

In this dialectical, the essential features of capitalism and socialism are highlighted. The writer suggests a modification of the capitalism structure with the stakeholder framework at its core and inculcating certain features of socialism including a purposeful welfare program based on equality to lift people out of poverty, rather than keep them in a vicious state of dependence on government for their basic needs.

**The Hallmark of Capitalism**

A capitalist economic structure allows private ownership of businesses on a free-market. Business owners compete to attract customers and financial investment locally and internationally, consistent with the features of a free market economy. Competition is an attribute of innovation needed to improve the quality and efficiency of the production process. Without competition on the free market, a business may become stale thus lose its innovative edge. It is essential to note that private ownership of businesses allows citizens to produce goods and services necessary for the improvement of their wellbeing and that of their communities. That is, individuals take
matters into their own hands--- a virtue of ownership which is an important element of
the theory of leadership. Taking matters into one’s hands is a symbol of democracy, as
individuals have the freedom of choice and liberty in their pursuant of happiness.

Under capitalism, members of the community have the liberty to pursue
innovations that would improve their wellbeing as opposed to having their fate
determined by the government. Having such freedom to pursue one’s interests is a
hallmark of democracy. As Schumpeter (2003) stated, “modern democracy is a product
of the capitalist process, and the two are mutually supportive parts of a rising modern
civilization.” In contrast, under socialism, the government becomes broad and controls
every aspect of the economy thus limiting private interest, contributions, and pursuant
of personal goals and happiness. As Edward Freeman assessed in an interview
published in the Global Finance Magazine and authored by Lyndsey Zhang (2020),
“capitalism is the greatest system of social co-operation ever invented.” Streeck (2016)
viewed capitalism as a social system influential to fostering relationships among
societal members.

Capitalism is the vehicle of social change, in that, it fosters the creation of
innovation, stemming from competition, needed to solve societal problems and enhance
development. Some of the greatest social change and development elements were
created by individual innovative acumen. Henry Ford found a way to build cheaper-
priced automobiles for, as he put it, “the masses”. Without Ford’s innovative acumen
many people would be priced out of cars thus stifling their production capacity needed
to improve economic growth. As a result of the affordable cars by Ford other businesses such as tire, steel, and aluminum improved their growth. Infrastructure had to be improved to accommodate the high number of vehicles on the roads thus creating jobs for others and improving overall economic growth and social development in communities (Christensen, Dillon, & Ojomo, 2019).

Based on the individual innovative acumen, a hallmark of capitalism, Jeff Bezos started in his garage and has now built Amazon into a global conglomerate of retailing with net revenue, according to Sananoglu, (2020), of approximately $280 billion in 2019. Amazon started as an online bookstore but it is now the world’s largest online retailer, making products available without the hustle of commuting to multiple physical outlets amidst vehicular traffic and long lines of shoppers, and ineffective customer service. In the comfort of ones’ home and with the click of the mouse, Amazon ensures that a customer can shop for almost everything in almost every corner of the world. Amazon provides employment to about 798,000 people as of 2019 (Sabanoglu, 2020), pays taxes, and invests in other viable economic opportunities thus contributing to the economic growth of the United States.

When President J. F. Kennedy advised that “ask not what your country can do for you but what you can do for your country”, he was inspiring capitalists to be innovative to find solutions to problems facing the country. A socialist appeal may be the opposite, “ask what your country can do for you, and not what you can do for your country.”
Exploitation without compunction: The soul of capitalism

Capitalism bears the brunt of the blame for widespread inequality within and between countries. Even the centers of the capitalist structure such as the U.S and the U.K are rife with increasing inequalities in income and economic instability among its populace. According to Butler (2018), income inequality and unemployment or job insecurity as a result of the capitalist structure wherein owners of the business earn a disproportionately high share of profits, undermines the overall wellbeing of citizens and may especially lead to mental problems. Individuals may face public humiliation and isolation if they are not gainfully employed and earning high income to reach a level of self-actualization. The impact of unemployment, job insecurity, or inequality on these individuals may affect their children who may drop out of school thus fail to attain the necessary skills needed to be gainfully employed and break the vicious cycle of poverty.

On the other hand, as Butler (2018) alluded to, a system of socialism, wherein government provides support for its citizens to acquire basic needs such as healthcare, food, education, and shelter may be needed to protect individuals’ wellbeing and curb this vicious cycle of poverty in families that do not own the capital for production.

Rodney (2018) lamented the underdevelopment of Africa which he blamed on the greediness of European capitalists who colonized much of Africa. The situation of exploitation is unabated on the African continent even after colonialism, through unfavorable trade deals. Profits accrued by the multinational corporations are all
repatriated from Africa to support growth and development in European countries. In a 2017 research published by Honest Account, profits repatriated from African countries in 2015 was estimated at $41.3 billion. According to the research, Multinational corporations in Africa among others such as illegal activities and payments by climate change decree were responsible for the repatriation of the money.

The capitalist multinational corporations’ modus operandi of exploitation without replenish or developing the resource base, including labor, is in orient with the capitalist framework. As Rodney (2018) identified African countries were doing better in terms of economic, social, and cultural growth and development before the European capitalists arrived. As the situation of capitalist exploitation persists mainly through trade and foreign direct investment, it is common knowledge that Africa is home to a high number of poor people than any other continent. This situation undergirds the lack of compunction imbued in the system of capitalism.

According to the World Bank (2019), 422 million Africans live in poverty. The situation may be dire than the definition of poverty may lead one to believe. There are people living in shantytowns earmarked by mud-built houses without electricity, and a good source of drinking water. One may have to journey about 100 miles on dirt roads to the nearest medical center and wait in line for days to be attended to by a physician. Many families do not know where their next meal would come from. Disheartening as it is, the problem of poverty is not secluded to the African continent alone.
According to a 2019 World Bank report, half of the world’s population live in poverty and 821 million people are malnourished as they can’t find food to eat or feed on unhealthy and unbalanced diets just to get by. The poverty situation is aggravated by the Covid-19 pandemic as according to the World Bank (2020) between 88 million and 115 million more people would fall into extreme poverty, defined as living on $1.90 a day. The situation, according to the report would further deteriorate with an estimated 150 million people falling into extreme poverty by 2021.

The question herein is: Would the capitalists who expatriate money to their foreign countries and engage in the exploitation of resources even in their homelands thus have earned extreme wealth for their good, do more to mitigate income inequality and poverty? This question is against the backdrop that the world’s richest person, Jeff Bezos, is worth $185 billion (Forbes Media LLC, 2020). The second richest person, Bernard Arnault, is worth $142 billion. Elon Must is next on the list with 129 billion, followed by Bill Gates with 119 billion, and Mark Zuckerberg the founder of Facebook with 101 billion (Forbes Media LLC, 2020).

One may also ask in good faith: Can the greedy capitalists spend all their money in their lifetime, while they watch others languish in poverty and the environmental conditions become perilous? In America where all these billionaires mentioned above, except Bernard Arnault, live and are citizens, there is widespread poverty especially manifested in the spate of homelessness in major cities including New York, San Francisco, Houston, Atlanta, to name a very few. According to a report by the
Congressional Research Service, unemployment rose from 3.8%, which was one of the lowest rates in history, to a record 14.7% in April of 2020, at the height of the Covid-19 pandemic.

**Cases of capitalist exploitation**

There’s no doubt that capitalism is mainly to blame for widespread income inequality that has led to racism, environmental and social maladjustments. Corporate leaders have enriched themselves and their shareholders at the expense of hardworking subordinates, community members, suppliers, and customers. The world’s largest manufacturer of healthcare products, Johnson & Johnson, put its customers’ health at risk, to maximize profit. According to reports, the decision-makers at the helm of Johnson & Johnson knew since 1970, the presence of asbestos, a cancer-causing substance, in their talcum powder product but refused to recall it (Mattera, 2020). 1,000 cases are pending in court with regards to the leadership of Johnson and Johnson’s knowledge of the link between its product and cancer. Twenty-two women who contracted ovarian cancer, as a result, were thus awarded restitution of $4.7 billion from a jury in St. Louis, Missouri in 2018 (Mattera, 2020).

In another case, leaders of Johnson & Johnson were adjudged to be guilty of deliberately concealing information about the adverse effects of its antipsychotic
medication, Risperdal. The drug was instead heavily promoted to doctors and pharmacists, who received payoffs, for subscribing it to their patients (Mattera, 2020). These amoral and illegal acts by the leadership of Johnson & Johnson are just a few examples out of millions more that show capitalists’ blatant disregard for the health and wellbeing of their own customers. There’s no doubt, they will kill to make profits.

The capitalist leadership of Walmart, FedEx, Bank of America, and about 493 other corporations and business entities on the Wage-theft list compiled by Good Jobs First (2020), have contributed to income inequality thus poverty and racism globally. This statement may be viewed as an exaggeration, but it is accurate and points to a problem at the heart of capitalism and for that matter, human growth and development. Walmart is accused of Wage-theft, a phenomenon that involves the failure of an employer to compensate its employees for overtime pay. In the case of Walmart, it is reported that employees are forced to work off the clock to avoid getting paid. According to a report by Good Jobs First (2020), Walmart’s fines for breaking the law and associated settlements with affected parties of wage-theft is estimated at $1,408,901,183. FedEx was next on the list with $502,165,827, followed by Bank of America with $381,499,089.

**Understanding Socialism**

A definition of socialism may be: An economic system wherein the means of production and other elements of societal wellbeing are controlled and distributed by the government to its citizens, as opposed to the citizens having the liberty to control
their own fate. Essentially, a socialist country may be referred to as a welfare state wherein the government provides free education, healthcare, food, housing, and other necessities of life to its citizens against a backdrop of high taxes on the working few. As Schumpeter (2003) articulated, “socialism is that organization of society in which the means of production are controlled, and the decision on how and what to produce and who is to get what, are made by public authority instead of by privately-owned and privately-managed firms.”

The definition of socialism is an affront to individual rights and more importantly, it is a defeat to an individual’s ability to be entrepreneurial thus seek an improvement of skills to be innovative and hardworking. In a socialist country, citizens may become lazy and fail to pursue goals critical to their personal growth and development. They may settle for welfare provisions by the government. The government on its part may become too powerful and dictatorial to its citizens thus defeating the essence of a democratic society. Economic production in a socialist country may rest on a few as majority of the citizens may opt for government welfare. A situation of this nature stifles production as the few working-class are also heavily taxed, leading to a vicious cycle of poverty.

**Socialism in Venezuela**

As Lee Edwards (2019) noted, “socialism has failed in every country in which it has been tried.” In Venezuela, for example, a country once considered one of the most prosperous in the world, but now is at the bottom of the list of the poorest countries,
socialism runs amok. The authorities of Venezuela on the heels of their socialist agenda nationalized all privately owned properties. All sectors of the economy including agriculture, oil production, the banking system, etc., are controlled by the government. The result of the socialist agenda is blamed for the vicious poverty situation in Venezuela. Acevedo & Cirocco (2017) lamented, “so socialism is the cause of the Venezuelan misery. Venezuelans are starving, eating garbage, losing weight. Anyone in Venezuela would be happy to eat out of America’s trashcans, it would be gourmet.” Acevedo & Cirocco (2017) would later caution that “socialism never works, no matter what Paul Krugman or Joseph Stiglitz says.”

Socialism in the U.K

Margaret Thatcher the former British prime minister steered her country away from socialism in the 1980s to a capitalist economic system, for Britain to become a world economic power. Thatcher resorted to the capitalism feature of privatization, as she allowed private investors to take ownership of many sectors of the economy, including airlines and airports, phone companies, steel and oil-producing companies, and utility jobs. Privately-owned jobs were estimated at 600,000 as a result of Thatcher’s policy. According to Lee Edwards (2019), Thatcher remarked that privatization was “one of the central means of reversing the corrosive and corrupting effects of socialism.”

Thatcher also reduced the taxes on individual incomes from a whopping 83% to 45%. Taxes on capital was also reduced from their perch of 98%. Union membership, a hallmark of socialism was reduced from 12 million in the 1970s to about 6 million, as
certain aspects of Union power such as strikes were outlawed. These capitalist actions by Thatcher, led to a booming British economy ranked second to Spain in the 1980s, as 3.3 million jobs were added, and GDP growth averaged 3.2% (Edwards, 2019).

A suggested solution to the problems of capitalism

Freeman, et al. (2010) postulated the stakeholder theory; a proposition that identifies a broader spectrum of people other than shareholders only, as being important to an organizational structure thus deserving of a better share of the profit pie. Capitalists have operated under the axiom of shareholder profit maximization at any cost thanks to the indoctrination of Milton Friedman. The ownership of an organization no doubt is important, in that, they provide the capital for its daily operation and bears the brunt in case of any losses from investment. There are however other parts of the organization without which it would not function thus have equal importance.

The employees including leadership and subordinates are responsible for the critical decision-making and daily operation of the organization that determine its success or failure. Employees thus should be treated equally as shareholders, if not better. Cases of businesses such as Walmart, Bank of America, FedEx, etc., actively engaging in Wage-theft as mentioned above is disheartening and counter-strategic to business growth and sustainability.
Customers are considered the single most important element of an organization but are they really treated as such? Customers are deceived and taken advantage of for their money. The example given above, wherein the leadership of Johnson & Johnson knowingly ignored the dangers of using asbestos in their talcum powder product just to get or in this case, rob customers of their money is just one of probably a million cases of capitalist greed even to the detriment of the wellbeing of the customer.

Community members and the environment are important resource bases for the business organization. However, under the shareholder axiom, these important elements are mainly exploited without replenishing. Community members may be an important employee pool ready to be tapped. They may also be a supply source for an organization. The destruction of the environment by gas producing companies such as Shell in Ogoni land, Chevron-Texaco in Ecuador, and B.P oil spills in the Gulf of Mexico, are examples of the capitalist nature of exploitation without replenishing and compunction.

According to a 2013 report by European Greens, Chevron which bought Texaco acknowledged their amoral and illegal act of dumping 18.5 billion gallons of toxic water into the Ecuadorian region of the Amazon forest between 1964 and 1992. Apart from destroying the trees and the lives of animals in the forest, the toxic water seeped into the pools and waterways of the indigenous people causing cancer, lung diseases, and chronic skin lesions. An Ecuadorian court in 2011, ordered Chevron to pay $9.6 billion in compensation to the indigenous people and provide a public apology, failure of
which would increase the amount of compensation to $18 billion (European Greens, 2013). Since capitalists exploit without compunction as I had pointed out, it is not surprising that Chevron refused to apologize or even pay the initial fine. The good news is that they stopped production, or rather, the destruction in that region.

**The Scandinavian blueprint**

Capitalist and industrialized countries such as the U.S., the U.K., Germany, and France have elements of socialism though not prevalent as the countries of Scandinavia, namely Norway, Denmark, Sweden, and Finland. Apart from the inescapable private ownership of properties on the free market, globalization, foreign investments, etc., the government of these countries provides certain forms of welfare that may include food subsidies, low-cost housing, free healthcare, and free education. In the U.K. although there is free public healthcare, education is not free, as students are given loans. In the U.S. although there is no free healthcare, education is free until the college level.

What is striking between the Scandinavian countries and the capitalist countries of the U.S., U.K., France, and Germany is that the Scandinavian governments’ purpose of the welfare system is to ensure equality in the distribution of wealth as opposed to providing basic needs for the poor. That is, in the predominantly capitalist countries, such welfare programs are only meant to help low-income earners survive, and not to improve their lives.

In Scandinavia there are higher income taxes compared to the capitalist U.S and other countries in Europe. In Denmark the income tax rate is 55.6%, and in Sweden it is
57% (Iqbal and Todi, 2015). In the U.S. the highest income tax bracket is 37%, and in the U.K., the average tax rate is 23.3% according to a report by the organization of economic co-operation and development (OECD, 2020). These comparatively higher taxes in Scandinavia are necessary to provide a good welfare system or for that matter, public services such as schools and free education, hospitals and free healthcare, good roads and bridges to support business growth and more importantly as noted by Iqbal & Todi (2015), to ensure “equality among individuals.” Equality is the key to eliminating racism in the world. Equality in economic opportunities and social amenities, emanating from equality in education, job value, and income distribution would ensure that racism which is a product of poverty is eradicated.

**Modifications to capitalism**

Getting rid of capitalism is not realistic and tantamount to seizing privately owned businesses and eliminating the free-market, foreign investments, globalization, and perhaps the innovative acumen of individuals. Imagine a government takeover of Walmart and Amazon. That would be a travesty as government agents or civil servants are not well equipped to handle the rigorousness associated with the daily operation and strategic management of a business. However, allowing capitalism to progress unchecked is as good as condoning exploitation of natural resources without replenishing and putting lives and the environment in peril. Unchecking capitalism also means promoting income inequality, poverty, and more importantly racism.
A capitalist structure would be best served based on the stakeholder framework and a consideration of the purpose of the welfare program in countries. The stakeholder framework takes into consideration the welfare of all parties affected by the operations of a business as opposed to only the shareholder (Freeman et al., 2010). Sustaining natural resources are important. Improving the wellbeing of employees by increasing wages, and other benefits and incentives in the areas of health insurance, pension programs, and education are at the core of the stakeholder theory. A government welfare structure combined with corporate initiatives would suffice in providing improved minimum incomes, free education, and free healthcare to people living below the poverty line.

As noted earlier, customers, employees, members of the community, suppliers, and the natural resources of the environment are equally important as the shareholder, to an organization. Profit from businesses may thus be allocated purposefully among these different parties instead of the shareholders and CEOs taking three-quarters of the profit and engaging in wage-theft and customer deception. In the U.S. for example, CEOs earn 265 times more than the average worker, who only earns 40,000 a year (Statista, 2020). In other capitalist countries such as Germany, CEOs receive 136 times more in income than the average worker. In the U.K., the ratio is 201:1. There is no reason to not improve employee wages.

The Business Roundtable comprising CEOs of about 100 leading companies in the U.S. support a stakeholder approach to their business strategy. The CEOs have
undertaken initiatives to ensure the economic security of their employees and community members. Through improved employee wages and skills training, provision of healthcare, and retirement benefits, and investing to improve communities where they are located, the CEOs hope to create an economic and social development structure to improve wellbeing and reduce poverty and social maladjustments (Business Roundtable, 2020).

Governments of capitalist countries on their part may be more purposeful with their welfare program as are the governments of the Scandinavian countries. The purpose of a welfare program may be to lift people out of poverty as opposed to keeping them in poverty. A system of free education for all, without any private institutions, would ensure parity of skills and expertise among the populace instead of a privileged few. In the U.S. for example, many fail to enroll in colleges and universities while some drop out because of the lack of funds. A system of an improved minimum wage, a limitation to CEO wages or perhaps a fairer distribution of profits among all stakeholders may be necessary.

The government may also be supportive of new and small businesses. The lack of capital for starting a business may be blamed for income inequality and poverty. There are many people who have viable business plans but lack the capital to implement their ideas. Financial organizations refuse to lend to poor people who do not have any collateral and good credit background. The government may pass legislation to force banks to lend a minimum amount of $10,000 without collateral to would-be businesses
with viable strategic plans. The government may support individuals with viable business plans by providing loans that may be accrued upon default by the borrower through various means including government-sanctioned jobs wherein the money may be collected through income taxes or a credit repayment plan.

Conclusion

Will capitalism survive? The core nature of capitalism such as private ownership of properties, free-market, and globalization, will survive. However, elements of socialism that hinge on a purposeful welfare program aimed at creating a system of equality, in contrast to helping people survive on basic needs, suffices. The rate of income inequality and poverty has increased. As many people languish in the abjectness of poverty, and as environmental destruction has led to vagaries and dire weather phenomenon, a modification of the capitalist structure may be more intelligible, as opposed to a complete change to socialism. The stakeholder approach, at the core of which is the fairness in allocation of profit vis-à-vis improvement in employee wages and benefits, a limitation to CEO pay, increased lending opportunities, and a focus on natural resource sustainability, may perhaps be the new capitalism structure.

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