

Some modern defenders of capitalism claim that it operates as Smith envisioned and can be justified on the same utilitarian grounds. But not everyone agrees.

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## CRITICISMS OF CAPITALISM

These two arguments for capitalism have not persuaded everyone that it is a morally justifiable system, and there are both theoretical and operational objections to it that need to be considered. *Theoretical* criticisms challenge capitalism's fundamental values, basic assumptions, or inherent economic tendencies. *Operational* criticisms focus more on capitalism's alleged deficiencies in actual practice (as opposed to theory)—in particular, on its failure to live up to its own economic ideals.

The following criticisms are a mix of both theoretical and operational concerns. They raise political, economic, and philosophical issues that cannot be fully assessed here. The debate over capitalism is a large and important one; the presentation that follows should be viewed as a stimulus to further discussion and not as the last word on the pros and cons of capitalism.

### INEQUALITY

Chapter 3 and Case 3.3 documented the profound economic inequality that exists in our capitalist society. The disparity in personal incomes is enormous; a tiny minority of the population owns the vast majority of the country's productive assets; and our society continues to be marred by poverty and homelessness. With divisions of social and economic class comes inequality of opportunity. A child born to a working-class family, let alone to an unwed teenager in an inner-city ghetto, has life prospects and possibilities that pale beside those of children born to wealthy, stock-owning parents. This reality challenges capitalism's claim of fairness, and the persistence of poverty and economic misfortune provides the basis for a utilitarian objection to it.

Few doubt that poverty and inequality are bad things, but defenders of capitalism make several responses to those who criticize it on these grounds:

1. A few extreme supporters of capitalism simply deny that it is responsible for poverty and inequality. Rather, they say, government interference with the market causes these problems. Left to itself, the market would eliminate unemployment and poverty while ultimately lessening inequality. But neither theoretical economics nor the study of history supports this reply. Most economists and social theorists would agree that in the past eighty years or so activist government policies have done much, in all the Western capitalist countries, to reduce poverty and (to a lesser extent) inequality.
2. More moderate defenders of capitalism concede that in its pure laissez-faire form, capitalism does nothing to prevent and may even foster inequality and poverty. However, they argue that the system can be modified or its inherent tendencies corrected by political action, so that inequality and poverty are reduced or even eliminated. Critics of capitalism reply that the policies necessary to seriously reduce inequality and poverty are either impossible within a basically capitalist economic framework or unlikely to be carried out in any political system based on capitalism.
3. Finally, defenders of capitalism argue that the benefits of the system outweigh this weak point. Inequality is not so important if living standards are rising and if even

Critics argue that poverty and inequality challenge the fairness of capitalism and its claim to advance the interests of all. Defenders of capitalism respond to this in different ways.

the poor have better lives than they did in previous times. This contention rests on an implicit comparison with what things would be like if society were organized differently and is, accordingly, difficult to assess. Naturally, it seems more plausible to those who are relatively favored by, and content with, the present economic system than it does to those who feel disadvantaged by it.

Some critics of capitalism go on to maintain that, aside from inequalities of income and ownership, the inequality inherent in the worker–capitalist relationship is itself morally undesirable. John Stuart Mill found capitalism inferior in this respect to more cooperative and egalitarian economic arrangements. “To work at the bidding and for the profit of another,” he wrote, “is not . . . a satisfactory state to human beings of educated intelligence, who have ceased to think themselves inferior to those whom they serve.”<sup>6</sup> The ideal of escaping from a system of “superiors” and “subordinates” was well expressed by the great German playwright and poet Bertolt Brecht when he wrote that “He wants no servants under him / And no boss over his head.”<sup>7</sup>

### HUMAN NATURE AND CAPITALISM

The theory of capitalism rests on a view of human beings as rational economic creatures, individuals who recognize and are motivated largely by their own economic self-interest. Adam Smith’s defense of capitalism, for instance, assumes that consumers have full knowledge of the diverse choices available to them in the marketplace. They are supposed to know the price structures of similar products, to be fully aware of product differences, and to be able to make the optimal choice regarding price and quality.

But the key choices facing today’s consumers are rarely simple. From foods to drugs, automobiles to appliances, fertilizers to computers, the modern marketplace is a cornucopia of products whose nature and nuances require a high level of consumer literacy. Even with government agencies and public interest groups to aid them, today’s consumers are rarely an equal match for powerful industries that can influence prices, control product quality, and create and shape markets. The effectiveness of advertising, in particular, is difficult to reconcile with the picture of consumers as the autonomous, rational, and perfectly informed economic maximizers that economics textbooks presuppose when they attempt to demonstrate the benefits of capitalism. Consumers frequently fall short of perfect rationality and often seem under the sway of social and psychological forces they are unaware of.

According to some critics of capitalism, however, what is objectionable about capitalism’s view of human beings as essentially economic creatures is not this gap between theory and reality but rather the fact that it presents little in the way of an ideal to which either individuals or societies may aspire. As George Soros puts it, “Humans are capable of transcending the pursuit of narrow self-interest. Indeed, they cannot live without some sense of morality. It is market fundamentalism, which holds that the social good is best served by allowing people to pursue their self-interest without any thought for the social good . . . that is a perversion of human nature.”<sup>8</sup> Not only does capitalism rest on the premise that people are basically acquisitive, individualistic, and materialistic, but in practice capitalism strongly reinforces those human tendencies. Capitalism, its critics charge, presents no higher sense of human mission or purpose, whereas other views of society and human nature do.

Christianity, for example, has long aspired to the ideal of a truly religious community united in *agape*, selfless love. And socialism, because it views human nature as malleable, hopes to see people transformed from the “competitive, acquisitive beings that they are (and that they are *encouraged* to be) under all property-dominated, market-oriented systems.” In the more “benign environment of a propertyless, nonmarket social system,”

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#### SUMMARY

Critics question the basic assumptions of capitalism (theoretical challenges) and whether it has delivered on its promises (operational challenges). One criticism is that capitalism produces severe inequality and is unable to eliminate poverty. Another is that capitalism wrongly assumes that human beings are rational economic maximizers and that well-being comes from ever greater material consumption. It is also alleged that capitalism offers us no higher sense of human purpose.

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Critics charge that capitalism reinforces materialism and offers no higher sense of human purpose.

Capitalism operates on the debatable assumption that human beings find increased well-being through ever greater material consumption.

Critics contend that capitalism's supposed commitment to competition is belied by oligopoly and corporate welfare. Some also challenge the belief that competition is desirable and beneficial.

socialists believe that more cooperative and less selfish human beings will emerge.<sup>9</sup> Such positive ideals and aspirations are lacking in capitalism—or so its critics charge.

Finally, an implicit assumption of capitalism is that human beings find increased well-being through ever greater material consumption. That's why the avid pursuit of economic gain, as mediated through the invisible hand of the market, is supposed to make us all better off. Moreover, contemporary capitalism needs people to keep on buying and consuming goods for the system to continue running. Consumer demand makes the economic wheels turn. And that, in turn, requires people in general to choose working more so they can consume more rather than working less, having more leisure, and buying fewer things. However, this bias in favor of material consumption runs up against the fact, according to social psychologists, that people today—in America, Europe, and Japan—are no more pleased with their lives than people were in the 1950s, despite the very substantial increase in standard of living that all these societies have enjoyed.<sup>10</sup>

### COMPETITION ISN'T WHAT IT'S CRACKED UP TO BE

As we have seen, one of the key features of capitalism is competition. Unfettered competition supposedly serves the collective interest while offering rich opportunities for the individual. But competition is one of the targets of capitalism's critics. They contend that capitalism breeds oligopolies that eliminate competition and concentrate economic power, that a system of corporate welfare protects many businesses from true marketplace competition, and finally that competition is neither generally beneficial nor desirable in itself.

#### Capitalism Breeds Oligopolies

As early as the middle of the nineteenth century, the German philosopher and political economist Karl Marx (1818–1883) argued that capitalism leads to **oligopolies**—a concentration of property and resources, and thus economic power, in the hands of a few. High costs, complex and expensive machinery, intense competition, and the advantages of large-scale production all work against the survival of small firms, said Marx. Many see proof of Marx's argument in today's economy.

Before the Industrial Revolution, capitalism was characterized by comparatively free and open competition among a large number of small firms. As late as 1832, for instance, hardly any private firms in the United States had ten or more employees.<sup>11</sup> Since then, the economy has come to be dominated by a relatively small number of enormous companies that, to a distressing extent, can conspire to set prices, eliminate competition, and monopolize an industry. For example, the five biggest oil refiners in the United States control 56 percent of the market (up from 35 percent in 1993).<sup>12</sup> Four airlines control 69 percent of domestic air travel, and two brewing companies sell 65 percent of the nation's beer.<sup>13</sup> Or take the banking sector. Although there are more than 8,000 banks in the United States, the four top lenders control more than 35 percent of all deposits (up from 5 percent in 1998), and the top ten financial institutions control 54 percent of all financial assets.<sup>14</sup>

Today, the 500 largest U.S. firms constitute at least three-quarters of the American economy. They frequently have revenues that exceed the revenues of state governments and the gross domestic product (GDP) of many countries: The annual revenue of General Motors, for instance, is greater than the GDP of more than 148 countries, and that of Walmart outweighs the combined GDP of all of sub-Saharan Africa.<sup>15</sup> Increasingly multinational in character, these giant corporations do business around the globe, disavowing allegiance to any particular nation. In fact, more than a quarter of the world's economic

activity comes from the two hundred largest corporations. Since the 1980s, wave after wave of corporate takeovers and mergers has further accelerated the trend toward oligopoly and ever greater economic concentration. The latest wave crested in 2007 with a record-setting \$4.74 trillion worth of merger and acquisition deals worldwide, since then receding to an annual rate of about half that.

True, antitrust laws have sometimes fostered competition by breaking up monopolies, as happened with Standard Oil and AT&T. More recently, the government went after Microsoft for “exclusionary and predatory” businesses practices. On the whole, however, such actions have proved ineffectual in halting the concentration of economic power. And despite calls to break up or restrict the operations of those banks and other financial institutions that are so large that the government cannot allow them to fail without endangering the whole economy (as happened in 2008), financial reform legislation passed by Congress in 2010 and intended to prevent future crises did not address this problem at all.

Because of their sway over the market and their political clout, the gigantic corporations that we know today have so altered the face of capitalism that Adam Smith would have trouble recognizing it. As a result, in terms of competition, our present-day economic system differs significantly from the textbook model of capitalism. One expert puts it this way:

In surveying the American business system it is obvious that competition still exists; however, it is not a perfect competition. Often it is not price competition at all. With the possible exception of some farm markets where there are still large numbers of producers of similar and undifferentiated products (wheat, for instance), virtually every producer of goods and services has some control over price. The degree of control varies from industry to industry and between firms within an industry. Nevertheless, it does exist and it amounts to an important modification in our model of a free-enterprise economy.<sup>16</sup>

These days, in fact, some of the most vigorous corporate competition occurs not in the marketplace but in Washington, D.C., where companies jockey for competitive advantage by getting Congress to pass laws that help them and hold back their rivals.<sup>17</sup> More than 500 American companies now maintain permanent offices there, employing 61,000 lobbyists.<sup>18</sup> And that doesn't include corporate-sponsored foundations, centers, and institutes that also try to steer public policy in profitable, industry-friendly directions. Altogether, U.S. companies spend well over \$3 billion a year lobbying Washington, with the pharmaceutical industry leading the pack. In a recent six-year period, it spent \$759 million to influence 1,400 congressional bills.<sup>19</sup>

### Corporate Welfare Programs Protect Businesses

When the United States slapped tariffs ranging from 8 to 30 percent on imported steel in 2001, it was continuing a thirty-year tradition of cosseting the steel industry with various subsidies and protections that have cost the country a small fortune. Moreover, what's good for one industry can be bad for the rest of the country. Businesses that use steel, for example, employ roughly forty times more people than do steel producers. According to the Institute for International Economics, until a ruling by the World Trade Organization led to the steel tariffs being canceled, between 45,000 and 75,000 jobs were lost because higher steel prices made U.S. steel-using industries less competitive.<sup>20</sup> Similarly, U.S. quotas on sugar imports in recent years have resulted in the domestic price of sugar being three and a half times the world market price. As a result, to survive, American candy makers have been forced to move production to countries where sugar is cheaper at the cost of thousands of U.S. jobs.<sup>21</sup>

From 1995 to 2012, U.S. taxpayers spent more than \$256 billion on subsidies to farmers, with the fattest subsidies going to the richest farmers.<sup>22</sup> In fact, 10 percent of the recipients received 65 percent of the loot.<sup>23</sup> When it comes to cotton, the disparity is even greater. Of the \$19.1 billion that cotton growers received in a recent ten-year period, more than 80 percent went to only 10 percent of the recipients.<sup>24</sup> Meanwhile, more than 200 different kinds of subsidies support America's ethanol program. The oil industry itself receives a 51-cent federal subsidy for each gallon of ethanol it mixes with gasoline, and there is a 54-cent per gallon tariff on imported ethanol.<sup>25</sup> Subsidies for farmers and tariffs on steel, sugar, and ethanol are only the most blatant examples of the way **corporate welfare** assists business and protects it from competition. Thanks to duties, fees, and restrictions on imported products, American consumers pay far more for goods than they otherwise would. And that, of course, is in addition to what corporate subsidies cost consumers as taxpayers.

Not content with handcuffing their foreign competition, some American companies seek to benefit even more directly from tariffs and other trade restrictions. For instance, in recent years, the Commerce Department has imposed anti-dumping duties on Chinese manufacturers of wooden furniture who are believed to sell their products at "less than fair value." U.S. law allows companies hurt by competition they believe to be unfair to submit to the department every year a list of exporters that should be reviewed. The department then has eighteen months to determine whether to subject those foreign companies to tougher duties. Fearing the uncertainty of the review process and a possible increase in duties, many Chinese companies pay cash to the American furniture makers in return for being removed from the review list. Although this appears to be legal, "everyone in the industry in the United States and China understands that these payments are clever shakedown," says William Silverman, a lawyer representing U.S. furniture retailers who import Chinese products.<sup>26</sup>

Every year the federal government doles out billions of dollars to private business in direct subsidy programs.<sup>27</sup> For example, the U.S. Agriculture Department's Market Access Program spends millions funding both generic and brand-name advertising abroad for American agricultural products, and the U.S. Forest Service builds roads and subsidizes logging in national forests for the benefit of private timber companies. The Foreign Military Financing Program assists foreign countries to purchase U.S. military products—to the tune of around \$4.5 billion a year. Other government-sponsored corporate welfare programs include the Export Enhancement Program, the Export-Import Bank, and the Overseas Private Investment Corporation. The latter two agencies provide loans and financial guarantees for corporate energy projects. Among the beneficiaries are Unocal, which was loaned \$350 million to develop an oil and gas field in Indonesia, and ExxonMobil, which received \$500 million in financing to build a pipeline in Cameroon.<sup>28</sup>

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**SUMMARY**

Critics of capitalism also charge that competition is not what it's cracked up to be because (1) capitalism breeds oligopolies, (2) corporate welfare often shelters business from competition, and (3) competition is not a good thing.  
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Precise figures are impossible to come by, but the federal government clearly spends more on corporate welfare than it does on either homeland security or on social welfare programs for the poor.<sup>29</sup> In addition, there are the tax breaks that corporations receive. A recent U.S. government report revealed that during a seven-year period of soaring profits, 55 percent of large U.S. corporations had at least one year of paying no tax at all.<sup>30</sup> It's not surprising, then, that some American companies pay more in taxes to foreign governments than they do to their own government—in ExxonMobil's case five times as much.<sup>31</sup>

State governments also pamper business with subsidies and protectionist restrictions on competition. It's impossible to put a price tag on these, but looking at the Internet alone, experts calculate that state impediments to buying and selling cost consumers \$15 billion a year. For example, Georgia forbids the online sale of contact lenses, and

Oklahoma the online sale of caskets. And all fifty states shield their car dealers from competition by prohibiting manufacturers from selling directly to consumers over the Internet.<sup>32</sup> In addition, cities and states frequently provide tax breaks to corporations to lure them to, or prevent them from leaving, the local area. These subsidies cost taxpayers \$50 billion a year, but for many reasons, they rarely pay off in jobs or higher overall tax revenues.<sup>33</sup> State and local governments also allow private companies to fund projects with tax-exempt bonds.<sup>34</sup>

As staggering as corporate welfare already is, it was taken to a whole new level in 2008 by the federal government's \$700 billion Troubled Assets Relief Program (TARP). Put together in response to the financial meltdown, TARP enabled the government to purchase non-liquid, difficult-to-value assets from banks and other financial institutions, in particular so-called collateralized debt obligations, which had been hit hard by foreclosures caused by the real estate slump. The theory was that by authorizing the Treasury Department to buy these "troubled assets"—assets, that is, that the banks couldn't sell on the open market for the simple reason that no one was willing to buy them—TARP would increase the banks' liquidity and improve their balance sheets, thus stabilizing the financial system. In addition to "cash for trash," TARP provided funds for the government to purchase loans from and make direct equity investments in the banks themselves, and the Treasury Department was creative in finding ways to assist the banks outside the TARP framework at a potential cost to tax payers that was greater than TARP itself. Given the crisis that the nation was facing, few doubt the necessity of something like TARP or of the Treasury Department's taking bold measures. And in the end almost all the TARP funds were repaid. Nevertheless, with few strings attached, and with most banks choosing to shore up their bottom line by sitting on the money (or using it for executive bonuses) rather than to help stimulate the economy by lending it out, the bailout represents an unprecedented commitment of taxpayer money to save what had been some of the largest and wealthiest firms in the country, and their well-heeled managers, from the consequences of their own greed, recklessness, and mismanagement.

### Competition Is Not a Good

Because the profit motive governs capitalism, it should not be surprising that even those companies that preach the doctrine of free competition are willing to shelve it when collusion with other firms, or government tariffs and subsidies, make higher profits possible. How else to explain the fact that the United States forbids foreign companies from owning airlines in America and prevents foreign airlines from flying routes that pick up passengers at more than one American city? In these ways, capitalism fails to live up to its own ideal. This was something that worried Adam Smith, who once wrote, "People of the same trade seldom meet together, even for merriment or diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices."<sup>35</sup>

Unlike Adam Smith, however, some critics of capitalism repudiate competition as an ideal, arguing that it is neither beneficial in general nor desirable in itself. They point to empirical studies establishing that in business there is frequently a negative correlation between performance and individual competitiveness.<sup>36</sup> In other words, it is often cooperation, rather than competitiveness, that best enhances both individual and group achievement. According to Alfie Kohn, the reason is simple: "Trying to do well and trying to beat others are two different things."<sup>37</sup> Competition is an extrinsic motivator; not only does it not produce the kinds of results that flow from enjoying the activity itself, but also the use of extrinsic motivators can undermine intrinsic motivation and thus

Critics of competition contend that cooperation leads to better individual and group performance.

Critics also contend that cooperation is more efficient than competition.

adversely affect performance in the long run. The unpleasantness of competition can also diminish people's performance.

The critics also contend that competition often precludes the more efficient use of resources that cooperation allows. When people work together, coordination of effort and an efficient division of labor are possible. By contrast, competition can inhibit economic coordination, cause needless duplication of services, retard the exchange of information, foster copious litigation, and lead to socially detrimental or counterproductive results such as business failures, mediocre products, unsafe working conditions, and environmental neglect. When presented with examples of the beneficial results of competition, the critics argue that on closer inspection the supposed advantages turn out to be short-lived, illusory, or isolated instances.

### EXPLOITATION AND ALIENATION

Karl Marx argued that as the means of production become concentrated in the hands of the few, the balance of power between capitalists (bourgeoisie) and laborers (proletariat) tips further in favor of the bourgeoisie. Because workers have nothing to sell but their labor, said Marx, the bourgeoisie is able to exploit them by paying them less than the true value created by their labor. In fact, Marx thought, it is only through such **exploitation** that capitalists are able to make a profit and increase their capital. And the more capital they accumulate, the more they can exploit workers. Marx predicted that eventually workers would revolt. Unwilling to be exploited further, they would rise and overthrow their oppressors and set up an economic system that would truly benefit all.

The development of capitalist systems since Marx's time belies his forecast. Legal, political, and economic changes have tempered many of the greedy, exploitative dispositions of early capitalism. The twentieth century witnessed legislation curbing egregious worker abuse, guaranteeing a minimum wage, and ensuring a safer and more healthful work environment. The emergence of labor unions and their subsequent victories significantly enlarged the worker's share of the economic pie. Indeed, many of the specific measures proposed by Marx and his collaborator Friedrich Engels in the *Communist Manifesto* (1848) have been implemented in capitalist countries: a program of graduated income tax, free education for all children in public schools, investiture of significant economic control in the state, and so on.

Still, many would say that although democratic institutions may have curbed the excesses of capitalism, they can do nothing to prevent the alienation of workers that results from having to do unfulfilling work. Again, because of the unequal positions of capitalist and worker, laborers must work for someone else—they must do work imposed on them as a means of satisfying the needs of others. As a result, they inevitably come to feel exploited and debased. And this is true, critics of capitalism claim, not just of manual laborers but also of white-collar workers, many of whom identify with the cubicle dwellers of the cartoon strip *Dilbert*.

But what about workers who are paid handsomely for their efforts? They, too, said Marx, remain alienated, for as the fruits of their labor are enjoyed by someone else, their work ultimately proves meaningless to them. The following selection from Marx's "Economic and Philosophic Manuscripts" (1844) summarizes his notion of **alienation** as the separation of individuals from the objects they create, which in turn results in one's separation from other people, from oneself, and ultimately from one's human nature:

The worker is related to the *product of his labor* as to an *alien* object. For it is clear . . . that the more the worker expends himself in work the more powerful becomes the world of objects which he creates in face of himself, the poorer he

Marx argued that under capitalism workers are alienated in several different ways.

becomes in his inner life, and the less he belongs to himself. . . . The worker puts his life into the object, and his life then belongs no longer to himself but to the object. . . . What is embodied in the product of his labor is no longer his own. The greater this product is, therefore, the more he is diminished. The *alienation* of the worker in his product means not only that his labor becomes an object, assumes an *external* existence, but that it exists independently, *outside himself*, and alien to him, and that it stands opposed to him as an autonomous power. . . .

What constitutes the alienation of labor? First, that the work is *external* to the worker, that it is not part of his nature; and that, consequently, he does not fulfill himself in his work but denies himself. . . . His work is not voluntary but imposed, *forced labor*. It is not the satisfaction of a need, but only a *means* for satisfying other needs. Its alien character is clearly shown by the fact that as soon as there is no physical or other compulsion it is avoided like the plague. External labor, labor in which man alienates himself, is a labor of self-sacrifice. . . . Finally, the external character of work for the worker is shown by the fact that it is not his own work but work for someone else, that in work he does not belong to himself but to another person. . . .

We have now considered the act of alienation of practical human activity, labor, from two aspects: (1) the relationship of the worker to the *product of labor* as an alien object which dominates him . . . [and] (2) the relationship of labor to the *act of production within labor*. This is the relationship of the worker to his own activity as something alien and not belonging to him. . . . This is *self-alienation* as against the above-mentioned alienation of the *thing*.<sup>38</sup>

In Marx's view, when workers are alienated they cannot be truly free. They may have the political and social freedoms of speech, religion, and governance, but even with these rights, individuals still are not fully free. Freedom from government interference and persecution does not necessarily guarantee freedom from economic exploitation and alienation, and it is for this kind of freedom that Marx and Engels felt such passion.

Some would say that one need not wade through Marxist philosophy to get a feel for what Marx and others mean by worker alienation. Just talk to workers themselves, as writer Studs Terkel did. In different ways the hundreds of workers from diverse occupations whom Terkel interviewed speak of the same thing: dehumanization.

Mike Fitzgerald . . . is a laborer in a steel mill. "I feel like the guys who built the pyramids. Somebody built 'em. Somebody built the Empire State Building, too. There's hard work behind it. I would like to see a building, say the Empire State, with a foot-wide strip from top to bottom and the name of every bricklayer on it, the name of every electrician. So when a guy walked by, he could take his son and say, 'See, that's me over there on the 45th floor. I put that steel beam in.' . . . Everybody should have something to point to."

Sharon Atkins is 24 years old. She's been to college and acidly observes, "The first myth that blew up in my face is that a college education will get you a worthwhile job." For the last two years she's been a receptionist at an advertising agency. "I didn't look at myself as 'just a dumb broad' at the front desk, who took phone calls and messages. I thought I was something else. The office taught me differently."

. . . Harry Stallings, 27, is a spot welder on the assembly line at an auto plant. "They'll give better care to that machine than they will to you. If it breaks down, there's somebody out there to fix it right away. If I break down, I'm just pushed over to the other side till another man takes my place. The only thing the company has in mind is to keep that machine running. A man would be more eager to do a better job if he were given proper respect and the time to do it."<sup>39</sup>

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#### SUMMARY

Karl Marx was an important nineteenth-century critic of capitalism. He argued that workers are exploited by capitalism and inevitably experience alienation.

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## TODAY'S ECONOMIC CHALLENGES

Capitalism faces a number of important critical questions, both theoretical and operational. These criticisms are a powerful challenge, especially to capitalism in its pure laissez-faire form. But, as we have seen, today's capitalism is a long way from the laissez-faire model. Corporate behemoths able to control markets and sway governments have replaced the small-scale entrepreneurs and free-wheeling competition of an earlier day. And governments in all capitalist countries actively intervene in the economic realm; they endeavor to assist or modify the so-called invisible hand; and over the years they have reformed or supplemented capitalism with programs intended to enhance the security of the workforce and increase the welfare of their citizens.

This reality complicates the debate over capitalism. Its defenders may be advocating either the pure laissez-faire ideal or the modified state welfare capitalism that we in fact have. Likewise, those who attack the laissez-faire ideal may do so on behalf of a modified, welfarist capitalism, or they may criticize both forms of capitalism and defend some kind of socialism, in which private property and the pursuit of profit are no longer governing economic principles. We thus have a three-way debate over the respective strengths and weaknesses of laissez-faire capitalism, state welfare capitalism, and socialism.

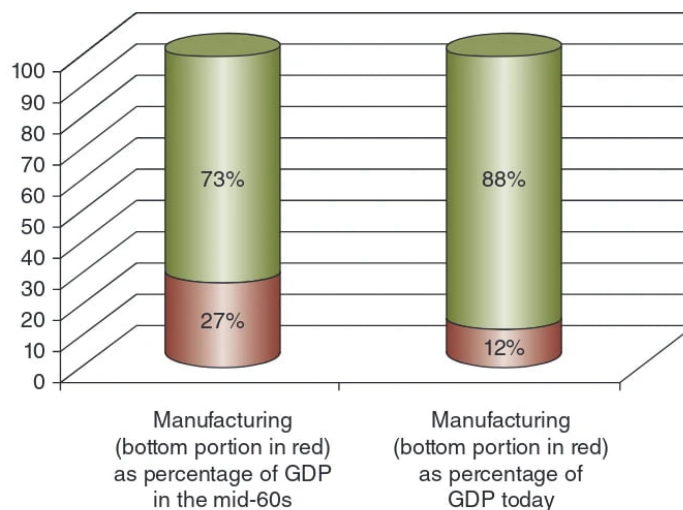
The rest of this chapter leaves this fundamental debate behind. Instead of looking at criticisms of capitalism in general and at issues relevant to any capitalist society, it examines some of the more specific socioeconomic challenges facing the United States today. These include (1) the decline of American manufacturing and the related problems posed by the outsourcing of jobs and the growing U.S. trade deficit; (2) business's obsession with short-term results; (3) and changing attitudes toward work.

### THE DECLINE OF AMERICAN MANUFACTURING

Manufacturing has declined in the United States as American companies have conceded manufacturing dominance to foreign competitors.

Historically, capitalists have made money by producing goods. Manufacturing was the backbone of the American economy and the basis of our prosperity. In industry after industry, however, U.S. companies have conceded manufacturing dominance to foreign competitors. Today, for example, one can't buy a television made in the United States, Walmart employs more people than the Big Three automakers do, and more Americans work in government than in manufacturing. Whereas manufacturing accounted for 27 percent of GDP in the mid-1960s, since then it has fallen to half that,<sup>40</sup> and for the

As a percentage of gross domestic product, manufacturing in the United States has declined by more than 50 percent since the 1960s.



first time since the Industrial Revolution, manufacturing employs less than 10 percent of the American workforce.<sup>41</sup>

Since the 1980s, many U.S. manufacturers have been closing up shop or curtailing their operations and becoming marketing organizations for other producers, usually foreign. The result is the evolution of a new kind of company: manufacturers that do little or no manufacturing. They may perform a host of profit-making functions—from design to distribution—but they lack their own production base. Instead, they **outsource**, buying parts or whole products from other producers, both at home and abroad. The traditional vertical structure of manufacturing, in which the manufacturer makes nearly all crucial parts, is thereby replaced by a network of small operators. Companies that in years past were identified with making goods of all sorts now are likely to produce only the package and the label. In contrast to traditional manufacturers, they have become, in current business jargon, **hollow corporations**.

Proponents of the new system describe it as flexible and efficient, a logical outcome of the drive to lower the costs of doing business. But critics worry whether the United States can prosper without a strong manufacturing base. As Tsutomu Ohshima, a senior manufacturing director of Toyota Motor Corporation, puts it: “You can’t survive with just a service industry.”<sup>42</sup> In wages, productivity, and innovation, the service sector fails to compare with basic industry. Manufacturing jobs generate significantly more goods and services from other industries than do service jobs and three times as many additional employment opportunities.<sup>43</sup> Because the rate of technical change is higher in manufacturing than in other sectors, it’s hard to imagine the United States sustaining its technological leadership with a withered manufacturing sector.<sup>44</sup>

### Outsourcing Jobs

As America’s manufacturing base dwindles and U.S. firms outsource more and more of their operations, millions of jobs have moved abroad. That’s not surprising when a Barbie doll that retails in America for \$9.99 costs only 35 cents for a Chinese factory to make, including the price of labor.<sup>45</sup> But it’s no longer just blue-collar jobs that are disappearing. Many upscale, nonmanufacturing jobs also are migrating overseas. Engineers, financial analysts, computer technicians, and other white-collar workers living in countries such as Russia, India, and the Philippines now handle airline reservations, design chips, edit books, draw architectural blueprints, provide accounting services, process loans and insurance claims, and engage in research and development for American corporations.<sup>46</sup> Because skilled, highly educated foreigners work for far less than do their American counterparts, outsourcing these jobs overseas makes U.S. firms leaner and more profitable. But can America lose these jobs and still prosper, especially if outsourcing also exerts downward pressure on the salaries of the jobs that remain? That’s the question that is worrying more and more people.

Most mainstream economists are upbeat. They believe that outsourcing jobs increases shareholder wealth and benefits consumers by keeping prices down and that as old jobs move overseas, the economy will create new ones at home—higher-level jobs that add greater product value than the lost jobs did. Although they can’t predict the new industries and occupations that will emerge to replace the old ones, these economists are confident that it will happen. Even in this optimistic scenario, however, there are genuine human costs. Sometimes economists refer to this downside as “short-term friction,” but of course that’s not how it feels to those workers whose relatively high-paying jobs are outsourced. They still have bills and mortgages to pay. And there’s no reason to suppose that they will be the ones who eventually fill the “replacement” positions that the economy will supposedly create. Moreover, if they remain unemployed, settle for lower-paid

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#### SUMMARY

Our capitalist socioeconomic system is facing a number of challenges. These include the decline of American manufacturing and the related problems of job outsourcing and a growing trade deficit. Economists disagree about whether outsourcing benefits America overall and about the risks posed by our foreign indebtedness.

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