

Chapter 2

What's so Bad about Capitalism?

There is a great distance between the radical democratic egalitarian ideal and social reality in the world in which we live. The dream of democratic egalitarians is to create the institutions needed to further the realization of that ideal. The first step in turning the dream into a practical ambition is to figure out what it is about the world in which we live that blocks this realization. This diagnosis of the world of the actual provides the empirical context for exploring the world of the possible.

In this chapter we will focus on the problem of how the economic structures of capitalism block radical democratic egalitarianism. This focus is not because all of the obstacles to the radical democratic egalitarian ideal can be subsumed under the rubric “capitalism.” Radical democratic egalitarianism is an encompassing moral conviction that challenges all social and cultural practices that generate inequalities in access to the material and social conditions for human flourishing, and all conditions that obstruct people from empowered political participation. These include structures of power and privilege linked to gender, race, ethnicity, nationality, and citizenship. The idea of envisioning real utopias, therefore, must ultimately include an account of institutional arrangements for robust egalitarianism on all of these dimensions. Nevertheless, since capitalism so pervasively and powerfully structures the prospects of both egalitarian conditions for human flourishing and democratic empowerment, any radical democratic egalitarian project of social change must come to terms with the nature of capitalism and the prospects for its transformation. This is an especially urgent task at the beginning of the 21st century since capitalism has become such a taken-for-granted form of economic structure. This is where we will begin.

Defining Capitalism: a brief exposition

Capitalism is a particular way of organizing the economic activities of a society. It can be defined along two primary dimensions: the nature of its *class relations*, and its central mechanisms of *economic coordination*.

Class relations are the social relations through which the means of production are owned and power is exercised over their use. In capitalism, the means of production are privately owned and the use of those means of production is controlled by those owners or their surrogates. The means of production by themselves, of course, cannot produce anything; they have to be set in motion by human laboring activity of one sort or another. In capitalism, this labor is provided by workers who do not own the means of production and who, in order to acquire an income, are hired by capitalist firms to use the means of production. The fundamental class relation of capitalism, therefore, is the social relation between capitalists and workers.¹

Economic coordination in capitalism is accomplished primarily through mechanisms of decentralized voluntary exchange by privately contracting parties – or what is generally called “free markets” – through which the prices and quantities of the things produced are determined. Market coordination is conventionally contrasted with authoritative state coordination, in which the power of the state is used to command the allocations of resources to different purposes.² The famous metaphor of the invisible hand captures the basic idea: each individual and firm, simply pursuing their own private interests, engages in bargaining and exchanges with other individuals and firms, and out of this uncoordinated set of micro-interactions comes an economic system that is more or less coordinated at the aggregate level.

The combination of these two features of capitalism – class relations defined by private ownership and propertyless workers, and coordination organized through decentralized market exchanges – generates the characteristic competitive drive for profits and capital accumulation of capitalist firms. Each

¹ This is a highly simplified view of the class structure of capitalism in which there are only two class locations, workers and capitalists. While this is the core or fundamental class relation of capitalism, actual capitalist societies contain a variety of other kinds of class locations, particularly those loosely grouped under the heading “the middle class”, that do not neatly fit into one or the other of these two polarized categories. For an extended discussion of the problem of combining the simple idea of a polarized class relation between capitalists and workers with the complexity of actual class structures, see Wright (1997: chapter 1). For a survey of alternative approaches to understanding class, see Wright (2005).

² State and Market are not exhaustive of mechanisms of economic coordination. As many economic sociologists have argued, coordination is also accomplished by associations, communities and various kinds of social networks, including kinship networks. See Streeck (and other cites?)

firm, in order to survive over time, must compete successfully with other firms. Firms that innovate, lower their costs of production, and increase their productivity can under-cut their rivals and thus expand at the expense of other firms. Each firm faces these competitive pressures, and thus in general all firms are forced to seek innovations of one sort or another in order to survive. The resulting relentless drive for profits generates the striking dynamism of capitalism relative to all earlier forms of economic organization.

Actual capitalist economies, of course, are much more complex than this. As economic sociologists stress, no capitalist economy could function effectively, or even survive, if it consisted exclusively of the institutions of private property and market competition. Many other institutional arrangements are needed to make capitalism actually work and are present in the social organization of real economies. These properties of real capitalist economies vary considerably over time and place. The result is a wide variety of real-world capitalisms, all of which differ from the model of “pure” capitalism. Some capitalisms, for example, have strong, affirmative states which regulate many aspects of the market and empower workers in various ways to control certain aspects of the labor process. These are capitalist economies in which the “private” in “private ownership” has been partially eroded, and the voluntary exchange in markets is constrained by various institutional devices. In some capitalisms both firms and workers are organized into various kinds of collective associations that provide significant forms of coordination distinct from both market and state coordination. Trade associations, unions, chambers of commerce, and other kinds of association help constitute what some people have called “organized capitalism.” Other capitalisms lack robust forms of collective association of this sort and operate in ways closer to liberal market model.

These variations are important; they matter for the lives of people within capitalist societies and for the dynamics of the economy. And, as we shall see in chapter 4, some of these variations can be understood as reducing the “capitalisticness” of the economy: some capitalist societies are in a meaningful sense less capitalistic than others.³ Nevertheless, to the extent that these

³ There are two theoretically distinct forms of variation across capitalist economies: 1) Variations in the type of capitalism. This includes things like variations in the degree of competitiveness of markets, the size of firms, the level of development of technology, the mix of different industrial sectors, the nature of the division of labor within the labor process, etc. 2) Variations that come from the diverse ways in which capitalist and noncapitalist economic structures are combined and

variations all retain the core elements of the institution of private property in the means of production and markets as the central mechanism of economic coordination, they remain varieties of capitalism.⁴

Ten Criticisms of Capitalism

Capitalism is, for most people, simply taken for granted as part of the natural order of things. Particular behaviors by corporations or particular economic policies of the government might be the object of criticism, but for most people capitalism itself is simply not the sort of thing that one criticizes. One of the central tasks of socialists, therefore, has always been to convince people that capitalism as such generates a range of undesirable consequences and that, as a result, one should at least entertain the idea that an alternative to capitalism might be desirable.

The central criticisms of capitalism as an economic system can be organized into ten basic propositions:

1. *Capitalist class relations perpetuate eliminable forms of human suffering.*
2. *Capitalism blocks the universalization of conditions for expansive human flourishing.*
3. *Capitalism perpetuates eliminable deficits in individual freedom and autonomy.*
4. *Capitalism violates liberal egalitarian principles of social justice.*

interpenetrate. This includes variations in the extent to which the state directly organizes production, the importance of household production, the role of cooperatives and other forms of collective property, the continuing presence of precapitalist economic forms, etc. It is with this second form of variation that we are concerned here.

⁴ There is a knotty theoretical problem which we will sidestep here: when you have an economic system that combines capitalist elements with various kinds of non-capitalist elements, what justifies still calling the system “capitalism”? How much noncapitalism is needed before the resulting hybrid is something entirely new rather than a hybrid form of capitalism as such? There are a variety of apparent answers to this question. One might say, for example, that the system remains capitalist so long as the capitalist elements are “the most important” or are “dominant.” Or one might say that the system remains capitalist so long as the dynamics of social reproduction and development are primarily capitalist. These formulations capture an important intuition, but they all remain vague to the extent that words like “more” or “dominant” or “primarily” remain largely undefined.

5. *Capitalism is inefficient in certain crucial respects.*
6. *Capitalism is environmentally destructive.*
7. *Capitalism has a systematic bias towards consumerism.*
8. *Capitalist commodification threatens important values*
9. *Capitalism corrodes community.*
10. *Capitalism limits democracy.*

None of these criticisms is simple and straightforward, and certainly none of them is uncontroversial. They all involve a diagnosis of certain kinds of negative consequences that are hypothesized to be generated by the basic structure of capitalism as a system of production with class relations defined by private ownership and propertyless workers, and economic coordination organized through decentralized market exchanges. The propositions themselves do not indicate the extent to which these effects could be neutralized by creating counter-capitalist institutions inside of capitalist society. The diagnosis that these are harms generated by capitalism could be correct and it could also be true that these harms could be significantly ameliorated through various kinds of institutional changes that fall short of completely replacing capitalism. Headaches may be caused by stress, but the harm may be significantly reduced by aspirins. The problem of the transformations needed to remedy these harms is a theme on which we will focus in subsequent chapters. Here our objective is to diagnose the harms themselves and the specific mechanisms through which they are generated.

Proposition 1. Capitalist class relations perpetuate eliminable forms of human suffering.

Let us begin with a simple, indisputable observation: The world in which we live involves a juxtaposition of extraordinary productivity, affluence and enhanced opportunities for human creativity and fulfillment along with continuing human misery and thwarted lives. This is true whether we look at the world as a whole, or we look at the conditions of life of people within most developed capitalist countries. Now, there are many possible explanations for these facts. It is possible that poverty in the midst of plenty constitutes simply a sad fact of life: “the poor will always be with us.” Or, perhaps this might simply be a temporary state of affairs which further economic development will eradicate: capitalism, if given

enough time, especially if it is unfettered from the harmful effects of state regulations, will eradicate poverty. Or, perhaps, suffering and unfulfilling lives are simply the fault of the individuals whose lives go badly: contemporary capitalism generates an abundance of opportunities, but some people squander their lives because they are too lazy or irresponsible or impulsive to take advantage of them. But it is also possible that poverty in the midst of plenty is a symptom of certain fundamental properties of the socioeconomic system. This is the central claim of the socialist critique of capitalism: *capitalism systematically generates unnecessary human suffering* – “unnecessary” in the specific sense that with an appropriate change in socioeconomic relations these deficits could be eliminated. The harshest anti-capitalist rhetoric denouncing capitalism in terms of oppression and exploitation centers on these issues.

To many people it will seem odd, perhaps even absurd, to indict capitalism as a pivotal source of many of the ills in contemporary society. The “free market” and profit-seeking entrepreneurialism are continually touted as the source of technological progress, economic growth, and prosperity. While social problems and human suffering certainly continue to exist in affluent capitalist societies, the argument goes, these cannot be attributed to capitalism as such, but to other social processes that just happen to coexist with capitalism in capitalist society. If 25% of children in the United States live in poverty at the beginning of the 21st century this is because of a breakdown of the family, or because of cultural deficits in poor communities, or because of ill-considered public policies which create welfare dependency and poverty traps, or because of a poorly designed educational system which fails to prepare people for rapidly changing labor markets. Persistent poverty is not because of anything connected to the capitalist nature of the economic system as such. True, the free market may generate economic inequality, but it also generates economic growth, and as defenders of capitalist institutions are fond of saying, “a rising tide raises all boats.” Why should anyone care about inequality if it has the consequence of improving the lot of the poor in the long run? And besides, all alternatives to capitalism create even more problems. Look at the fate of the state-run economies in the Soviet Union and elsewhere: capitalism won out because it was so much more efficient and able to provide a rising standard of living for most people, not to mention the fact that capitalism tends to support more individual freedom and political democracy than its alternatives.

It is certainly the case, if one takes a long-term view of the matter, that capitalism has generated dramatic technological and scientific progress over the last two centuries or so which has resulted in improved nutrition, reduced illness, and increased life-expectancy for a significant proportion of the population in many places on earth. What is especially relevant to our discussion is that these improvements are not simply concentrated in some privileged class or stratum, but have diffused quite broadly, including, more recently, to significant parts of the developing world. While this progress cannot be attributed exclusively to capitalism as such – state action has played an important role in public health, for example – capitalism has been central to the process. This fact about capitalism – that it is a growth machine and growth has significant positive effects on the living standards of large numbers of people – is one of the reasons capitalism remains such a robust social order.

The claim in this first criticism of capitalism, however, is not that capitalism has not in certain ways contributed to a reduction of human suffering relative to prior states of the world, but that it perpetuates eliminable sources of suffering. This implies a counterfactual – that significant reductions in human suffering would be possible with appropriate non-capitalist institutions in place. This counterfactual is not shown to be false by simply citing the empirical observation that improvements in material conditions have occurred under existing capitalism.

What then is the argument behind the claim that capitalism has an inherent tendency to perpetuate eliminable suffering? Three mechanisms are especially important here: exploitation; the uncontrolled negative social externalities of technological change; and competition under capitalist conditions.

1. Exploitation⁵

⁵ Exploitation is a controversial concept when applied to the analysis of capitalism. In neoclassical economics exploitation can only happen in capitalism if there is some form of coercion operating in market relations that forces people to sell things for less than their competitive market price. Thus, if workers are forced to work for wages below the true market value of their skills – for example, because of laws which restrict their ability to seek better employment or other mechanisms which give employers power over the labor market – then they could be said to be exploited. But if wages are set by “free market” mechanisms in which the transactions are free

Capitalism confers economic power on a category of people – owners of capital – who have an active economic interest in keeping large segments of the population in an economically vulnerable and dependent position. Here is the argument:

Capitalism is an economic system driven by the never-ending pursuit of profits. This is not primarily a question of the greed of individual capitalists – although a culture of profit-maximizing undoubtedly countenances the single-minded pursuit of self-interest that looks very much like “greed”. Rather, it is a result of the dynamics of capitalist competition and the pressures on firms to continually attempt to improve profits or risk decline.

A pivotal aspect of the pursuit of profits by capitalist firms centers on the problem of labor. Capitalist firms hire workers to use the means of production to produce the goods and services which the capitalist firm then sells. The difference between the total costs of producing those goods and services and the price at which they are sold constitute the profits of the firm. In order to maximize profits, such firms face a double problem with respect to labor: on the one hand, hiring labor is a cost that takes the form of wages and capitalists want to keep these costs (like all costs of production) as low as possible. The lower the wage costs, the higher the profits, all other things being equal. On the other hand, capitalists want workers to work as hard and diligently as possible, since the more effort workers expend, the more will be produced at a given level of wages. The more that is produced for a given level of costs, the higher the profits.⁶ The economic interests of capitalists – the profits which they command – therefore depends upon extracting as much labor effort from workers at as little cost as possible. This, roughly, is what is meant by “exploitation”.⁷

from coercion, then there can be no exploitation. Add discussion of exploitation-as-rents: References to Sorenson discussion.

⁶ These two objectives – getting workers to work as hard as possible while paying them as little as possible – are in some tension, since how hard workers work is in part affected by how much they are paid. This is true for two principle reasons: workers who are better paid are more likely to feel as a sense of obligation to their employers and thus work harder, and workers who are better paid have a greater stake in their job and more to lose if they are fired, and thus work more diligently. (see Bowles and Gintis, “Contested Exchange....”.)

⁷ The concept of exploitation is a sharply contested one. For an extended discussion of the technical issues involved in defining exploitation, see Wright 1997, chapter 1; Cohen --- comment on exploitation;

Of course, individual capitalists cannot unilaterally set wages nor unilaterally determine the intensity of work, both because they are constrained by labor market conditions and because they face various forms of resistance by workers. In order to maximize profits, therefore, capitalists also have an interest in insuring labor market conditions which both insure ample supplies of labor and which undercut the capacity of workers to resist pressures to intensify labor effort. In particular, capitalists have an interest in there being large numbers of workers competing for jobs, which will tend to drive down wages, as well as there being sufficiently high unemployment to make workers anxious about the prospects of losing their jobs. In other words, capitalists have a strong interest in increasing the vulnerability of workers.

2. Technological change

Technological change within the process of production is an inherent tendency of capitalist competition, since technological change is one of the key ways capitalists increase productivity in their efforts to sustain profits. In and of itself, increasing productivity is a good thing, since it means fewer inputs are needed to produce a given level of output. This is one of the great achievements of capitalism, emphasized by all defenders of this way of organizing economic activity.

So, what is the problem? The problem is that technological change continually renders skills obsolete, destroys jobs, and displaces workers, and this imposes great hardship on people. But, defenders of capitalism will reply, technological change also creates demands for new skills and new jobs, and on average this has led to a long term upgrading of the quality of jobs and wages in the economy. Far from perpetuating eliminable poverty, the argument goes, technological change makes possible a dramatic reduction of poverty. The problem with this reply is that capitalism as an economic system does not itself contain any mechanism for automatically moving people with outmoded skills and limited job opportunities into expanding jobs which require new skills. The task of providing new skills and new jobs for displaced workers is a very demanding one: many such workers are relatively old and capitalist firms have little incentive to invest in the human capital of older workers; the new job opportunities are often geographically distant from where displaced workers live and the costs of social dislocation to move to such jobs is considerable; and in any

case capitalist firms are often hesitant to provide effective training for workers of any age with inadequate skills, since such newly-trained workers would be free to move their human capital to other firms. Thus while it is true that technological change within capitalism often generates higher productivity jobs requiring new skills, and at least some of these new jobs may be better paid than the jobs that have been destroyed, the process of job destruction and creation generates continual flow of displaced people, many of whom are unable to take advantage of any new opportunities. Technological change produces marginalization as well new opportunities. This is inherent in the logic of capitalism.

3. Profit-maximizing competition

Technological change is a specific example of a broader dynamic in capitalist economies: the ways in which profit-maximizing competition among firms destroys jobs and displaces workers. It is a commonplace observation of contemporary discussions of free trade and global capitalism that capitalist firms often move their production to lower wage economies in order to cut costs and increase profits. This may not be because of technological change or technical efficiency, but simply because of the wage differentials between different places. In the course of such movement of capital, jobs are destroyed and workers marginalized. For all sorts of reasons capital is much more mobile than people: people have roots in communities which make it very costly to move; there are often legal barriers to movement across international boundaries; and even within national boundaries, displaced workers may lack information and resources to move to new jobs. The result is that even if capitalist competition and weakly regulated capital markets stimulate economic growth, they leave in their wake displaced workers, especially when markets are organized globally.

Taken together these three mechanisms – exploitation, negative social externalities of technological change, and profit-maximizing competition – mean that while capitalism is an engine of economic growth, it also inherently generates poverty, deprivation, and marginalization. In principle, of course, the fruits of growth could be distributed in ways that improve everyone's material welfare. It is unquestionably the case that capitalism has generated sufficient material wealth, at least in the developed capitalist economies, so that no person would have to be poor in these societies. However, there is no mechanism *internal to*

capitalism itself to generate the redistribution needed to produce these effects; this requires the creation of some sort of counter-capitalist institution capable of neutralizing the destructive impact of capitalism on the lives of many people. It is precisely because capitalism creates the potential to eliminate material deprivation, but itself cannot fully actualize that potential that it can be indicted for perpetuating eliminable forms of human suffering.

Proposition 2. Capitalism blocks the universalization of conditions for expansive human flourishing.

When Socialists, especially those anchored in the Marxist tradition, criticize capitalism, a litany of harms is usually invoked: poverty, blighted lives, unnecessary toil, blocked opportunities, oppression, and perhaps more theoretically-dense ideas like alienation and exploitation. However, when the vision of an alternative to capitalism is sketched, the image is not simply a consumer paradise without poverty and material deprivations, but rather a social order in which individuals thrive, where their talents and creative potentials are realized and freely exercised to the fullest extent. The elimination of material deprivation and poverty are, of course, essential conditions for the full realization and exercise of human potentials, but it is the realization of such potentials that is core of the emancipatory ideal for socialists. This, then, is what I mean by the expansive sense of “human flourishing”: the realization and exercise of the talents and potentials of individuals.

The second proposition asserts that while capitalism may have significantly contributed to enlarging the potential for human flourishing, especially through the enormous advances in human productivity which capitalism has generated, and it certainly has created conditions under which a segment of the population has access to the conditions to live flourishing lives, it blocks the extension of those conditions to all people even within developed capitalist countries, let alone the entire world. Three issues are especially salient here: first, the large inequalities generated by capitalism in access to the material conditions for living flourishing lives; second, inequalities in access to interesting and challenging work; and third, the destructive effects on the possibilities of flourishing generated by hyper-competition..

1. Material inequality and flourishing

The relationship between markets and inequality is complicated. On the one hand, markets and competition have certain equality-promoting effects: capitalist markets create conditions for a certain real degree of class mobility, and this means that a person's location within the system of economic inequality is less determined by birth than in earlier forms of class society. Rags to riches sagas are real, if relatively rare events, and they are facilitated by open, competitive markets. A vibrant market economy is also generally corrosive of various forms of noneconomic status inequality, such as those based on gender, race, ethnicity and religion, at least insofar competitive labor markets create incentives for employers to seek out talent regardless of such ascriptive attributes.⁸ To the extent that capitalism has contributed to the destruction of such ascriptive discrimination it has advanced the process of universalizing the conditions for human flourishing.

But markets are also powerful engines for generating inequalities. Market competition produces winners and losers, and since there are strong tendencies for the effects of winning and losing to be cumulative within individual lives, in the absence of countervailing mechanisms inequalities in the market will tend to intensify over time.

Some of these inequalities are the result of factors at least partially under the control of individuals. In particular, people make decisions about how to allocate their time and resources when they make different kinds of investments, including investments in the acquisition of human capital (skills and knowledge), and thus even if everyone started out with the same human and financial endowments, over time inequalities would emerge reflecting preferences and effort of actors. But much of the inequality generated by markets is simply the result of chance rather than hard work and foresight. A worker can responsibly invest in education and training only to be confronted with outmoded skills at some point in the future and much reduced employment prospects. Even if this does not result in absolute poverty, it can result in a greatly diminished capacity for individuals to exercise their talents. Firms can go bankrupt, and employees lose their jobs, not because of poor planning and bad business practices, but because of market shocks over

⁸ Both Karl Marx and Max Weber saw the impact of capitalism on such "ascriptive" status inequalities – status inequalities linked to attributes of birth – as one of its virtues. citations. also citation on shadow of exploitation paper.

which no one has control. Rather than being robust mechanisms for rewarding “merit,” markets often function much more like brutal lotteries.

The large economic inequalities generated by markets mean that, in the absence of some countervailing nonmarket distributive mechanism, the material means for living a flourishing life will be very unevenly distributed across the population. In an obvious way this has especially serious consequences for children, where material inequalities can severely constrain access the conditions for developing their human potentials. But this is not just a problem for the early years of life. The idea of “flourishing” includes not just the development of human intellectual, psychological and social capacities during childhood, but also the life-long opportunity to exercise those capacities, and to develop new capacities as life circumstances change. Capitalist markets generate large inequalities in the realistic opportunities for such lifelong development and exercise of talents and capacities.

2. Work

Beyond the question of economic rewards for labor market activity, capitalism generates very large disparities in access to interesting and challenging work. This is at least as important for the problem of flourishing as material inequality narrowly understood. The incentive of capitalist employers is to design jobs in such a way that they can extract the maximum effort from workers at the lowest cost. Frequently – although not invariably – this is accomplished by adopting technologies which reduce the skill levels required to do the job, routinize the principal tasks, and simplify the monitoring requirements of the work. To be sure, it is also the case that technical change can open up demands for new kinds of highly skilled workers, and some of these jobs also involve considerable problem-solving and capacity for creativity. The problem is that the supply of such challenging jobs by capitalist firms is not determined by the needs of people for settings in which to do interesting work, but by profitability of such jobs for the firm, and there is no general reason for profitability to in general be enhanced by creating meaningful, interesting and challenging work for people. The result is that in capitalist economies most people for most of their work lives face job opportunities which offer meager opportunities at best for creativity and challenge, and this obstructs human flourishing.

3. Destructive competition

The relationship between competition and human flourishing is complex. On the one hand, competition – trying to be better than others – is one of social processes that push people to make the investments of time, energy and resources needed to develop their talents. This is not to say that the only motivation for developing one’s talents is the desire to be better than others – people are also motivated by the sense of accomplishment and fulfillment that comes from the mastery of skills and from the challenges of exercising those skills once they are developed. Still, competition is a powerful force for rewarding people for successfully developing their talents, and thus a certain degree of competition undoubtedly stimulates human flourishing. On the other hand, competition underwrites a culture of accomplishment which evaluates people only in terms of their relative standing compared to others. Achievement is defined not as the realization of one’s potential but as winning, as being better than other people. In the most intense versions of such competition – what Robert Frank calls “winner take all” competitions – there is only one winner at the top who receives virtually all of the prizes; everyone else loses. Such intense competition has potentially negative consequences for human flourishing. Most obviously, in winner-take-all competitions, once one realizes that one does not have a realistic chance of winning, it is very easy to get discouraged and give up altogether. What’s the point of continuing to develop one’s skills if only the very best get rewarded? More broadly, in systems of intense competition, most people will be relative “failures.” The resulting loss of self-esteem and self-confidence undermines the psychological conditions for flourishing. Furthermore, since in capitalism the allocation of resources to facilitate the development of talents is viewed primarily as an economic investment, and investments are evaluated in terms of their expected economic returns, there will be a strong tendency for resources for the cultivation of talents to become highly concentrated among the most talented. In a market, after all, it would be a bad investment to devote lots of resources to developing the talents of the less talented, and thus there will be a tendency for people with ordinary talents to generally have less access to the means of developing their talents. This too obstructs the universalization of human flourishing.

Competition as such has thus both positive and negative effects on the universalization of conditions for human flourishing. The net affect is likely to be a function of the intensity of competition and the extent to which competition is balanced with other mechanisms that facilitate flourishing. The more an economy is organized on a purely capitalist basis in which market competition and private ownership dictate the allocation of resources to different tasks, the less likely it is that this balance will be achieved.

Proposition 3. Capitalism perpetuates eliminable deficits in individual freedom and autonomy.

If there is one value that capitalism claims to achieve to the highest possible extent, it is individual freedom and autonomy. “Freedom to choose”, rooted in strong individual property rights is, as Milton Friedman has argued, the central moral virtue claimed by defenders of capitalism.⁹ Capitalism generates stores filled with countless varieties of products, and consumers are free to buy whatever they want subject only to their budget constraint. Investors are free to choose where to invest. Workers are free to quit jobs. All exchanges in the market are voluntary. Individual freedom of choice certainly seems to be at the very heart of how capitalism works.

This market and property based freedom of choice is not an illusion, but it is not a complete account of the relationship of individual freedom and autonomy to capitalism. There are two reasons why capitalism significantly obstructs, rather than fully realizes, this ideal. First, the relations of domination within capitalist workplaces constitute pervasive restrictions on individual autonomy and self-direction. At the core of the institution of private property is the power of owners to decide how their property is to be used. In the context of capitalist firms this is the basis for conferring authority on owners to direct the actions of their employees. An essential part of the employment contract is the agreement of employees to follow orders, to do what they are told. This may, of course, still allow for some degree of self-direction within work, both because as a practical matter employers may be unable to effectively monitor the details of employee behavior, and because in some labor processes the employer may grant the

⁹ ref. Milton Friedman, *Free to Choose*.

employee considerable autonomy. Nevertheless, in most capitalist workplaces for most workers, individual freedom and self-direction are quite curtailed. This lack of autonomy and freedom within the world of work is an important part of what has been called “alienation” in the critique of capitalism.

One response to this by defenders of capitalism is that if workers don’t like what they are told to do, they are free to quit. They are thus not really being dominated since they continually voluntarily submit to the authority of their boss. The freedom of individuals to quit their jobs, however, provides only an illusory escape from such domination since without ownership of means of production or access to basic necessities of life, workers must seek work in capitalist firms or state organizations, and in all of these they must surrender autonomy.¹⁰

The second way in which capitalism undermines the ideal of individual freedom and autonomy centers on the large massive of wealth and income which capitalism generates. Such inequality implies, as Philippe van Parijs has argued, that there is a significant inequality in “real freedom” across persons. “Real Freedom” consists in the effective capacity of people to act on their life plans, to be in a position to actually make the choices which matter to them.¹¹ Large inequalities of wealth and income mean some people have a much greater freedom in this sense than others. While it is certainly true that relative to previous forms of society capitalism enhances individual autonomy and freedom, it also erects barriers to the full realization of this value.

Proposition 4. Capitalism violates liberal egalitarian principles of social justice.

¹⁰ cite Marx quote on freedom, property, Bentham, etc. Also comment on the relationship between the traditional concept of “alienation” and this notion of deficits in autonomy.

¹¹ cite *Real Freedom for All*. Also reference to Ackerman and Alstott, *Stakeholder Society*.

Liberal egalitarian conceptions of justice revolve around the idea of *equality of opportunity*.¹² Basically the idea is that a system of distribution is just if it is the case all inequalities are the result of a combination of individual choice and what is called “option luck”. Option luck is like a freely chosen lottery – a person knows the risks and probabilities of success in advance and then decides to gamble. If they win, they are rich. If they lose, they have nothing to complain about. This is contrasted with “brute luck”. These are risks over which one has no control, and therefore over which one bears no moral responsibility. The “genetic lottery” which determines a person’s underlying genetic endowments is the most often discussed example, but most illnesses and accidents would also have this character. For the liberal egalitarian, people must be compensated for any deficits in their opportunities or welfare that occur because of brute luck, but they do not need any compensation for the consequences of option luck. Once this has been done, then everyone effectively has the same opportunity, and all remaining inequalities are the result of choices.

Capitalism is fundamentally incompatible with this strong notion of equality of opportunity. The private accumulation of wealth and large disparities in earnings in capitalism give some people inherent, unfair advantages over others. Particularly with respect to children, the huge inequalities in the material conditions under which children grow up violates principles of equality of opportunity, both because it gives some children large advantages in the acquisition of human capital and because it give some young adults access to large amounts of capital and others none. Thus, even apart from the complex problem of compensating people for “bad brute luck” in the genetic lottery, so long as there is inheritance of private wealth, and so long as investments in children’s human capital is strongly linked to inequalities in parental resources, equality of opportunity will be a fiction. Capitalism, since it necessarily generates such inequalities in the conditions of life for children, is thus incompatible with equality of opportunity.

Capitalism also violates ordinary liberal ideals of justice, not just the strong views of equality of opportunity of liberal egalitarians. One of the core ideas of liberal notions of justice is that, in the pursuit of one’s self-interest, it is

¹² Liberal egalitarians share with liberals an emphasis on individual choice and liberty in their conceptions of justice, but they differ in how demanding they are in specifying the conditions under which individual choices can be seen as generating just outcomes.

unjust to impose unchosen burdens on others. This is why theft is illegitimate: stealing coercively imposes a cost on the victim. The private profit-maximizing logic of capitalism means that capitalist firms have an inherent tendency to try to displace costs on others: all things being equal, profits will be higher if some of the costs of production are born by people other than the owners, i.e. if unchosen burdens are imposed on others. The classic example is pollution: it is generally cheaper for capitalist firms to dump waste products in the environment than to pay the costs of preventing the pollution. But such pollution imposes costs on others – in the form of such things as increased health costs, more frequent repainting of houses, or simply the degraded aesthetics of the environment. Such negative externalities are not simply a problem of inefficiency – although they are that as well as we will see in proposition 5 below – but of injustice.

A defender of capitalism can reply that if all property rights are fully specified and fully enforced, then there will be no “negative externalities.” In order to impose the pollution costs on me a capitalist firm would have to purchase permission from me. I could, if I wanted to, sell my personal right to breathe clean air for a price. Capitalist firms would then decide whether it was cheaper to prevent the pollution or pay these costs. If the firm decides to pollute the air this would simply be a voluntary exchange between those who breathe the pollution and the firm. The same idea could apply to all other kinds of negative externalities: the decline in the value of homes when a large firm moves production to a new location; the unpleasant noise generated by airplane traffic; and so on. So the argument goes.

This kind of comprehensive specification of property rights and the creation of complete markets in which those rights can be exchanged is impossible for many reasons. The information conditions which would be needed to make such markets work are impossible to achieve. Even if a rough approximation were achieved, the transaction costs of actually executing these exchanges would be monumental. But even more fundamentally, since many of the negative externalities of profit-maximizing behaviors are imposed on future generations, the actual people who bear the unchosen burdens cannot be party to “voluntary exchange.” There is simply no way that future generations can participate in a market bargaining process where the costs to them of resource depletion generated by profit-maximizing markets are given a price to be born by resources users today.

Of course, this issue of the intergenerational injustice of imposing negative externalities on future generations would be a problem for any economic system in which there are long-term consequences of present production and consumption decisions. The question is whether the problem is worse in some economic systems relative to others. Because of the ways in which capitalism promotes narrow self-interest, shortens time horizons, and organizes economic decisions through decentralized markets, such problems of intergenerational negative externalities are particularly intense. While an economic system in which broad investment choices were subjected democratic control would not guarantee that the interests of future generations were adequately met, at least in such a system the balancing of present and future interests would be a central issue of deliberation rather than simply the result of atomized private choice of self-interested individuals.

Proposition 5. Capitalism is inefficient in certain crucial respects.

If the ideals of freedom and autonomy are thought to be the central moral virtues of capitalism, efficiency is generally thought to be its core practical virtue. Whatever one might think about the enduring inequalities of capitalism and its injustices, at least it is supposed to promote efficiency. The market and competition, the argument goes, impose a severe discipline on firms in ways which promote both static efficiency and dynamic efficiency. Static efficiency (sometimes also called “allocative efficiency”) refers to the efficiency in the allocations of resources to produce different sorts of things. Capitalism promotes allocative efficiency through the standard mechanism of supply and demand in markets where prices are determined through competition and decentralized decisionmaking. The story is familiar: if the supply of some good falls below the demand for that good, prices will be bid up, which means that the producers of that good will in general make extra profits (since they can sell their goods at higher prices without their costs per item proportionately increasing). This higher than average level of profits stimulates increasing the production of the product in short supply, and thus resources are reallocated from less profitable activities. This reallocation continues until the price of the good falls as the demand is met. Dynamic efficiency refers to technological and organizational innovation that increases productivity over time. This has already been discussed in conjunction with proposition 1 above: Under the threat that other capitalist firms will innovate

and lower costs (or innovate and improve quality), each firm feels pressures to innovate in order to maintain profits. Of course, devoting time, resources, and human energy to innovation is risky, since much of this effort will not result in useful innovation. But it is also risky to refrain from seeking innovation, since if other firms innovate, then in the long run a firm's viability in the market will decline. Competitive pressure thus tends to stimulate innovation, and this increases efficiency in the sense that fewer inputs are needed to produce the same output.

These are indeed sources of efficiency in capitalism. In these respects, compared to earlier forms of economic organization as well as to centralized authoritarian state-organized production, capitalism seems to be more efficient. This does not mean, however, that capitalism does not itself contain certain important sources of inefficiency. Whether or not on balance capitalism is more or less efficient than alternatives thus becomes a difficult empirical question, since all of these forms of efficiency and inefficiency would have to be included in the equation, not just efficiency defined within the narrow metric of the market.

Four sources of inefficiency in capitalism are especially important: 1. the underproduction of public goods; 2. the underpricing of natural resources; 3. negative externalities; 4. monitoring and enforcing market contracts.

1. Public Goods

For well-understood reasons, acknowledged by defenders of capitalism as well as its critics, capitalism inherently generates significant deficits in the production of public goods. Public goods are a wide range of things which satisfy two conditions: it is very difficult to exclude anyone from consuming them when they are produced, and one person's consumption of the good does not reduce another person's consumption. Clean air and national defense are conventional examples. Knowledge is another example: one person's consumption of knowledge does not reduce the stock of knowledge, and once knowledge is produced it is pretty hard to prevent people from consuming it. Capitalist markets do not do well in providing for public goods, since it is hard to capture profits when you cannot easily exclude people from consuming the thing you have produced. And, since many public goods are important for both the quality of life and for economic productivity, it is inefficient to rely on markets to produce them.

At first glance it might seem that public goods are a fairly narrow category of things. In fact they are quite broad. One way of thinking of the broad category of public goods is with the idea of “positive externalities”. A positive externality is some positive side-effect of producing something. Consider public transportation. There are many positive externalities of public transportation, for example energy conservation, reduced traffic congestion, and lower pollution. These are all valuable positive side-effects that can be viewed as public goods. But these effects are nonmarketable: an urban transit company cannot charge people for the reduced health care costs or the less frequent repainting of houses resulting from the lower pollution generated by public transportation. These are benefits experienced by a much broader group of people than those who buy tickets. If a public transportation company is organized in a capitalist manner, it will have to charge ticket prices that enable it to cover all of the direct costs of producing the service. If it received payment for all of the positive externalities generated by its service, then the ticket price for individual rides could be vastly lowered (since those prices would not have to cover the full cost of the transportation), but there is no mechanism within markets for public transportation to charge people for these positive externalities. As a result, the ticket prices for individual rides have to be much higher than they should be, and as a result of the higher price of the tickets, there will be lower demand for public transportation, less will be provided, and the positive externalities will be reduced.¹³ This is economically inefficient.

The same kind of argument about positive externalities can be made about education, public health services, and even things like the arts and sports. In each of these cases there are positive externalities for the society in general that reach beyond the people who are directly consuming the service: it is better to live in a society of educated people than uneducated people; it is better to live in a society in which vaccinations are freely available, even if one is not vaccinated; it is better to live in a society with lots of arts activities, even if one does not directly

¹³ These positive externalities of public transportation are one of the main justifications for public subsidies for public transit systems, but typically these subsidies are relatively small and transit systems are expected to cover nearly all of the operating costs of producing the service through user fees. This is economically irrational. It could easily be the case that if all of the positive externalities of public transportation were taken into consideration, then full subsidization with free public transportation for the riders would be the most efficient way of pricing the service.

consume them. If this is correct, then it is economically inefficient to rely on capitalism and the market to produce these things.

2. Under-pricing and over-consumption of natural resources

In standard economic theory, in a competitive market the price of things closely reflects the costs of producing them. This is seen as efficient because it means that the prices are sending the right signals to producers. If the prices are significantly above the costs of producing something, this means that those producers will be earning extra profits, and this will signal to producers to increase production; if the prices are below the costs of producing, then this means that people are losing money, and this sends a signal that less should be produced.

This standard argument of efficient market signals generated by the costs of production interacting with supply and demand breaks down in a crucial way with respect to the extraction and processing of nonrenewable natural resources. The problem is basically the time horizons in which people experience the “costs of production” and therefore interpret the signals of generated by prices. We know that sometime in the future the costs of production of fossil fuels will be vastly higher than they are today because of the depletion of the resource. If these future higher costs of production were part of the calculation of profitability today, then it would be clear that current prices are not covering these costs. Production would accordingly be reduced until prices rose sufficiently to cover these future higher costs. The market, however, is incapable imposing these long-term costs on present production. The result is under-pricing of nonrenewable natural resources and thus their overexploitation. This is an inefficient use of these resources.

In some cases this same mechanism also affects renewable resources. This happens when the short-term costs of production are such that a resource is exploited at a faster rate than it can be renewed. The classic example here is the rapid depletion of large fishing stocks. Fish in the ocean are certainly a renewable natural resource so long as the rate at which fish are caught does not exceed the capacity of the fishing stock to reproduce itself. With modern technology, the direct, immediate costs of catching fish, however, is so low that the price of fish in the market leads to under-pricing and thus over-consumption. Because of the time horizons in which the market imposes costs on producers, there is no way

that a capitalist market itself can solve this problem.¹⁴ Again, this leads to a grossly inefficient allocation of resources.

3. Negative externalities

We have already discussed negative externalities in terms of the liberal notions of justice. Negative externalities are also a source of inefficiency in the allocation of resources. Again, an efficient allocation of resources in a market only occurs when producers experience monetary costs that reflect the true costs of production, because only in this situation will the demand for these products send the right signal to producers. The problem in capitalist economies is that capitalist firms have a strong incentive to displace as much of their costs on other people as possible, since this increases their ability to compete in the market. As already noted, pollution is the classic example: from a strictly profit-maximizing point of view it would be irrational for capitalist firms not to dump waste material into the environment if they can get away with it. The same can be said about expensive safety and health measures that might affect the workers in the firm in the long-term. Unless unhealthy conditions have an immediate effect on costs of production, there is an incentive for profit-maximizing firms to ignore these costs.

These considerations are not just theoretical arguments. In contemporary discussions of pollution control and occupational safety and health, corporations constantly complain that these regulations make them less competitive. Firms in developing countries, the complaint goes, are not subjected to these regulations and thus face lower costs of production and can sell their products at lower prices. What this actually means is that the unregulated producers are able to impose costs on others. It could well be that the complaining corporations are correct that they will go out of business unless regulations are relaxed, but this simply means that capitalist market competition, under these conditions, forces inefficiency in the allocation of resources.

¹⁴ This, of course, does not mean that there is no solution to the depletion of fisheries, but simply that these solution require a violation of market principles and capitalist competition, although not necessarily the complete abolition of market processes. When an aggregate quota is set for fishing, for example, one could still have capitalist firms bidding competitively over the right to particular quotas. The imposition of the quota is done through a nonmarket, noncapitalist mechanism – typically authoritatively by the state – but the allocation of rights within a quote could be organized on a market basis.

Capitalism itself cannot solve such problems of negative externalities; it is an intrinsic consequence of private profit-driven economic decisions. This does not mean, of course, that in capitalist societies nothing can be done about negative externalities. The widespread proliferation of state regulation of capitalist production is precisely a way of counteracting negative externalities by preventing firms from displacing costs onto others. The state-regulatory mechanisms, however, always have the character of eroding the strictly private property rights associated with capitalism: some of those rights, such as the right to decide how much waste from production to dump into the environment, become public, rather than private.¹⁵

4. Monitoring and enforcing market contracts and private property

A final source of inefficiency in capitalism centers on the costs associated with enforcing market-based contracts. At the center of market exchanges is the problem of contracts – the voluntary agreements to exchange property rights of various sorts. Contracts are not self-enforcing, and there are a range of costs associated with the monitoring and enforcement of these agreements. The more resources have to be devoted to this task, the less are available to actually produce the goods and services that are exchanged in the market.

The massive amount of money spent on lawyers and litigation over such things as contract disputes, civil suits, enforcement of intellectual property rights, and challenges to government regulations of corporations are obvious examples of ways in which capitalist property rights generate efficiency losses. Such expenditures of resources may be entirely rational given the stakes in the disputes, and they may be necessary for production to take place under capitalist conditions, but nevertheless they deflect resources from directly productive activities.

¹⁵ There are a range of regulatory devices – such as the buying and selling of “pollution rights” – which at first glance might seem to work through principles of private property and the market. This is largely an illusion, for political authority is needed to set the threshold values for these pollution rights and monitor compliance with the level of pollution rights a firm has purchased. Pollution rights and pollution credits may be a good way of regulating pollution insofar as it gives firms more flexibility in accommodating to anti-pollution requirements, but they are nevertheless a form of state imposed reduction of private property rights.

The efficiency problems generated by contract enforcement, however, go beyond issues of litigation. They also affect the mundane operation of contractual relations. Two examples will illustrate the scope of this problem: the costs associated with supervising employees within the labor process, and the enormous paperwork costs of paying for medical care through systems of decentralized private insurance.

The employment contract involves an exchange of a wage for a certain amount of work. The problem is that while the worker can formally agree to perform this laboring activity, it is impossible for the worker to actually give up real control over the expenditure of effort to someone else. Since people are not robots, they always retain some measure of control over their activities. Because, in general, employers want workers to work harder than the workers themselves would like to work, this means that employers face a problem in actually extracting effective effort from employees. The solution to this problem is some combination of threats for shirking (especially the threat of being fired), incentives for good performance (especially job ladders and seniority based pay increases), and supervision to monitor employee performance and enforce these sanctions.¹⁶

Of course, potentials for shirking exist in any cooperative activity. The specific class relations of capitalism, however, intensify this problem, since workers within the labor process are not themselves owners of firm in which they work. If they were owners of the firm, for example in the form of a workers co-op, then their individual interests would be much more strongly aligned with those of the firm in which they worked, and fewer resources would have to be devoted to the tasks of social control.¹⁷ Since in general workers would work

¹⁶ For a discussion of the economic logic of the problem of extracting labor effort from workers, see Bowles and Gintis (Contested Exchange), and Burawoy and Wright (commentary on B&G).

¹⁷ The claim here is that although there will still be issues of free-riding even in cooperative enterprises, the costs of solving the problem will be less since workers will engage in more consistent mutual supervision by virtue of the greater stakes in the collective enterprise. These issues are extensively discussed in volume III of the Real Utopias Project, *Recasting Egalitarianism: new rules for communities, states and markets*, by Sam Bowles and Herb Gintis (Verso, 1998). For a somewhat skeptical view of the general efficiency gains from cooperative ownership, see Hansmann, *The Ownership of Enterprise*. (Cambridge, Mass: Harvard University Press, 1996)

harder with less monitoring when they own the means of production, the heavy social control apparatus of capitalist production is a source of inefficiency.

A second example of efficiency problems linked to enforcing contracts in capitalist markets concerns health care. In the United States health care is paid through a variety of mechanisms: some organized by the state, some by individuals paying doctors on a fee-for-service basis, and some through private insurance organized on capitalist profit maximizing principles. In Canada, in contrast, virtually all medical bills are paid for by the state in a system appropriately termed “single-payer”. One measure of the efficiency losses directly connected to the problem of enforcing the private insurance contracts is the proportion of total medical costs absorbed in paperwork associated with payment in the two systems. In the US this amounts to about 15% of all health care costs. *[get precise figures and give citation]* Doctors, clinics and hospitals have to hire many people to process insurance forms and keep track of co-payments from patients; insurance companies have to hire people to monitor claims and evaluate the risk profiles of potential purchasers of insurance; and of course patients have to spend considerable time and energy keeping track of the many confusing and incomprehensible bills. In Canada the figure is only about 5% *[get precise figures and give citation]*. The Government sets fees for different services in a bargaining process with physicians and health organizations. The physicians submit all bills to a single place for reimbursement. This simplified system of resource allocation and accounting is much more efficient than one based on capitalist property relations.

These various problems of economic inefficiency are not unique to capitalism. In any developed, complex industrial economy with high levels of interdependency, there will be a problem of potential negative externalities and temptations to overexploit natural resources. Shirking and other forms of opportunistic behavior are issues in any form of economic organization. So, the criticism of capitalism in terms of these sources of inefficiency is not that they are unique to capitalism, but rather they are likely to be especially intense in capitalism by virtue of the centrality of private, profit-seeking motivations in the operation of the capitalist market and the conflictual character of capitalist class relations.

*Proposition 6. Capitalism has a systematic bias towards consumerism*¹⁸

One of the virtues of capitalism is that it contains a core dynamic which tends to increase productivity over time. When productivity increases, there are two sorts of things that in principle can happen: we could produce the same amount of things with fewer inputs, or we could produce more things with the same amount of inputs. The criticism of capitalism is that it contains a systematic bias towards turning increasing productivity into increased consumption rather than increasing “free time”. There are times, of course, when the best way of improving the conditions of life of people is to increase output. When an economy does not produce enough to provide adequate nutrition, housing and other amenities for people, economic growth in the sense of an increase in total output would generally be a good thing. But when a society is already extremely rich there is no longer any intrinsic reason why growth in aggregate consumption is desirable.

The dynamics of capitalist profit-driven market competition imposes a strong pressure on capitalist economies to grow in total output, not just in productivity. Profits are made from selling goods and services. The more a capitalist firm sells, the higher the profits. Capitalist firms are therefore constantly attempting to increase their production and their sales. Enormous resources are devoted to this specific task, most clearly in the form of advertising and marketing strategies, but also in terms of government policies that systematically facilitate expansion of output. In the aggregate, this creates a strong dynamic towards a trajectory of growth biased towards increased production. Since this implies a dynamic ever-increasing consumption supported by cultural forms which emphasize the ways in which increased consumption brings individual satisfaction, this bias is appropriately called “consumerism.”

This output bias is enshrined in the standard way in which “growth rates” are reported: the growth in the gross national product or gross domestic product are evaluated in terms of market prices. In such a calculation, free time is given zero value (because it is not sold on the market), and thus a process of economic growth in which productivity was turned into more time would be viewed as stagnation, and a country in which people worked shorter work weeks and had longer vacations than another country with similar levels of productivity would be viewed as a “poorer” country.

¹⁸ The discussion of this proposition draws heavily from two books by Juliet Schor, *The Overworked American* and *The Overspent American*.

A defender of capitalism might reply to the criticism of consumerism by arguing that the basic reason capitalism generates growth in output instead of growth in leisure is because this is what people want. Consumerism simply reflects the real preferences of people for more stuff. It is arrogant for leftwing intellectuals to disparage the consumption preferences of ordinary people. If people really preferred leisure to more consumption, then they would work less hard.

This reply rests on three incorrect assumptions about the conditions under which people make choices between leisure, work and consumption. First, the claim that consumerism simply reflects what people really want assumes that the preferences of people for consumption and leisure are formed in an autonomous manner, unaffected by the strategies of capitalist firms. What people feel they need in order to live well is heavily shaped by cultural messages and socially diffused expectations. To imagine that preferences for consumption are formed autonomously is to claim that advertising, marketing and the promotion of consumerist life styles in the mass media have no effects on people.

Second, the claim that people would work less hard if they really wanted to assumes that there are no significant institutional impediments to people freely choosing the balance between work and leisure in their lives. This is simply not the case; there are significant obstacles other than individual consumerist preference which prevent people from freely choosing the balance between work, consumption and “free time”. In general capitalist firms prefer to hire fewer workers for longer hours rather than to hire more workers for fewer hours since in many jobs there are fixed overhead costs of employment per worker. Some of these are the result of the rules governing the employment contract over things like fringe benefits and payroll taxes, but some of the fixed overhead costs of production are intrinsic to various production processes. This would include the costs of formal training workers, the costs acquiring tacit knowledge of workplaces, the costs of building social capital within workplaces (i.e. the development of networks and smooth communication among participants in the labor process). All of these mean that it is generally cheaper to hire one worker for 40 hours than two for 20 hours, and this creates disincentives for employers to people to choose the number of hours they want to work (or, equivalently, it leads employers to impose a severe wage penalty on hours reduction, making the trade-off between work and leisure much more costly for workers).

Third, the argument that there is not real bias towards consumerism assumes that if large numbers of people were to choose a significantly less consumerist lifestyle that this would not have significant macro-economic effects which would make the anti-consumerism unsustainable. If somehow it were to come to pass that large numbers of people in a capitalist society were able to resist the preferences shaped by consumerist culture and opt for “voluntary simplicity” with lower consumption and much more leisure, this would precipitate severe economic crisis, for if demand in the market were to significantly decline, the profits of many capitalists firms would collapse. In the absence of an expanding market, competition among firms would become much more intense since any firm’s gain would be another firm’s loss, and, more broadly, social conflicts would intensify. For these reasons, the state in capitalist economies would adopt policies to counteract anti-consumerist movements if they were to gain sufficient strength to significantly impact on the market.

This bias towards consumerism is a problem, of course, only if there are negative consequences of ever-increasing consumption. Four issues are especially important here: First, as discussed in proposition 7 below, consumerism is environmentally damaging. Second, many people in highly productive societies feel enormous “time binds” in their lives. Time scarcity is a continual source of stress, but the cultural pressures and institutional arrangements that accompany consumerism make it difficult for people individually to solve these problems. Third, a good case can be made that capitalist consumerism leads to less fulfilling and meaningful lives than do less manically consumption-oriented ways of life. Certainly research on happiness indicates that once a person has a comfortable standard of living, increased income and consumption does not lead to increased life satisfaction and happiness.¹⁹ People find meaning and happiness through their connections with other people, through their engagement in interesting work and activities, and their participation in communities much more than through lavish consumption. Consumerism as a cultural model for living the good life, therefore, hinders human flourishing. Finally, even if one takes a culturally relativist stance on the good life and argues that consumerism is just as good a way of life as less consumerist alternatives, it is still the case that capitalism is not neutral with respect to this choice, but erects systematic obstacles to less consumption-oriented

¹⁹ (cite *Happiness*)

ways of life. It is this bias, rather than consumerism per se, that is the central problem.

Proposition 7. Capitalism is environmentally destructive

Capitalism significantly contributes to environmental problems in three principle ways. Each of these has been discussed under other propositions above, but the issue of environmental destruction is sufficiently important that it is worth re-iterating them.

First, the systematic pressure on profit-maximizing firms to generate negative externalities means that in the absence of some strong countervailing pressure, capitalist firms will ignore environmental costs. This is a stronger claim than a simple argument about rational action of individuals with selfish motives. Individuals may litter the environment by throwing a can out of a car window because this is a low-cost way of disposing a can and they are indifferent to its negative impact on others, but it is not the case that there are strong pressures on individuals to act this way. Capitalist firms face competitive pressures to reduce costs, and externalizing those costs on the environment is a good strategy of doing this. This pressure cannot be countered by the market itself; it requires some form of non-capitalist intervention either by the state or by organized social forces.

Second, nonrenewable natural resources are systematically under-priced in the market since their value to people in the future is not registered in the dynamics of supply and demand in the present. The result is that actors in capitalist markets over-consume these resources. Capitalist markets are inherently organized around relatively short time horizons, and thus the only way that the value to future generations of these resources can be taken into account in decisions about present uses is through the imposition of constraints on capitalism, again, by the state or by organized social forces.

Finally, the strong bias towards consumerism in the dynamics of capitalist markets has dire ecological consequences. In principle productivity growth could be quite beneficial for the environment, since this means that fewer inputs are needed to produce a given output. However, the bias generated by capitalist competition towards the expansion of markets and the consumption of ever-greater quantities of things means that productivity growth is, in general, translated into more production and higher consumption standards within capitalism. Particularly if we look at this issue in global terms in which economic

growth in parts of the developing world fuels consumerism as a world-wide phenomenon, it is hard to imagine how this could be ecologically sustainable. This does not mean that consumption standards in poor countries shouldn't rise. By any standard of social justice, this is desirable. But it does imply that an economic system that fosters escalating consumerism in already rich countries and blocks any long-term plan to constrain consumption growth is environmentally destructive.

Proposition 8. Capitalist commodification threatens important values

Commodification refers to the process by which new spheres of human activity become organized through markets. Historically this mainly concerns the shift in production from the household, where goods and services were produced for the direct consumption of family members, to production by capitalist firms for the market, but in the contemporary period commodification can also refer to the shift of production from the state to the market.²⁰ The classic example of the commodification of household production is food: there was a time in which most people grew most of their own food, processed it for storage, and transformed it into meals. By the 20th century most people in developed capitalist societies purchased all food ingredients in the market, but still transformed it into meals within the home. Increasingly in the closing decades of the twentieth century, the food purchased in the market became closer and closer to a final meal – frozen pizzas, micro-wave meals, etc. – and fully commodified meals in restaurants became an increasingly important part of food consumption for most people.

Markets may be an economically efficient way of organizing the production and distribution of many things, yet most people feel that there are certain aspects of human activity which should not be organized by markets even if it would be “efficient” in a technical economic sense to do so. Virtually everyone, except for a few extreme libertarians, believes that it would be a wrong to create a capitalist market for the production and adoption of babies.²¹ Even if it

²⁰ The extensive “privatization” of state services – including such things as public utilities like water and electricity, public transportation, health services, and even such core state services as welfare agencies, prisons, and public education -- are examples of partial commodification, since in these cases the provision of the services remain fairly heavily regulated by public power.

²¹ Cite an example of a defender of baby markets. Libertarians argue that a market for the adoption of babies would improve the lives of everyone involved: poor women would have the income

were the case that the exchanges on such a market were entirely voluntary, the idea of turning a baby into a commodity with a market price and selling the baby to the highest bidder is seen by most people as a monstrous violation of the moral value of human beings. Most people also object to a market in voluntary slaves – that is, a market in which you are allowed to sell yourself voluntarily into slavery. And most people object to markets in most body parts and organs, whether the organs come from live donors as in the case of things like kidneys and corneas, or from deceased donors, as in the case of hearts. Partially this is because of the belief that such markets would inevitably prey on the vulnerabilities of the poor and lead to many types of abuse, but also it is because of wariness in reducing the human body to the status of a commodity with a market price attached to it. So, even in highly commodified capitalist societies, most people believe that there are moral limits to the domains in which markets should be allowed to organize our activities. Human beings should not be treated like commodities.

If commodification threatened important moral values only in a few special cases, then the critique of capitalism in these terms would be relatively limited. This is not, however, the case. On closer inspection there is a fairly broad range of activities for which commodification raises salient normative issues. Consider the following examples:

Child care

Children require labor intensive care. This care can be provided through a variety of social organizations: the family, state-organized childcare services, various kinds of community-based child care, or for-profit market based child care. The market solution to this problem does not mean that all for-profit child care will be of poor quality and harmful to the well-being of children. What it means is that the quality of the care will be a function of the capacity of parents to pay. Capitalist firms providing childcare services will be organized around the objective of maximizing profits, and meeting the needs of children will only matter to the extent that this contributes to this goal. In order to maximize profits, firms will have strong incentives to seek low cost labor for the staff of childcare

substantially raised; prospective adoptive couples would find it easier to get babies; the babies would live better lives; and there would be fewer abortions. Since everyone would gain from the exchange, the argument goes, why prohibit it?

centers, especially for those servicing poor families. The training of caregivers will be low, and the staffing ratios suboptimal in most centers. Parents with lots of resources and a capacity to obtain good information about the quality of providers will be able to purchase good quality childcare, but many families will not.

For strong defenders of the market, this sharp differentiation of quality of childcare is not a problem. After all, the reasoning goes, poor quality market-provided childcare may still be better than no childcare services, and in any case the parents can choose to provide the childcare at home if they prefer. It is only because it is an overall improvement in their situation that they choose the poor quality market based childcare over the higher quality family provided care. If anyone is devaluing the needs of children in this process, it is the parents, for it is they who decide the balance of trade offs between on the one hand buying substandard care on the market and earning more income from their jobs and, on the other, providing their own childcare and earning less. The capitalist childcare firms in the market merely respond to their preferences.

This defense ignores the ways in which it is precisely the capitalist character of the economy that imposes these trade-offs on people. Other systems of organizing the provision of care-giving services would create other trade-offs – between providing good quality childcare services for everyone and having lower taxes, for example – but they would not inherently impose the choice between higher earnings and poor quality childcare on parents. In any case, whether one believes that the morally-accountable agent for the devaluation of the needs of children is the consumer (parents) or the capitalist firm, the fact remains that a market-based for-profit organization childcare services will have this effect.

These problems in the quality of childcare services can, of course, be moderated by state licensing, quality standards and monitoring, but to the extent that these are effective, they interfere with the functioning of the market, restrict the operation of the rights of private property and thus render the provision of the service less purely capitalistic. If such regulation retains the underlying market structure of production, it will, necessarily, have the effect of raising the costs of such services and pricing poor families out of the market unless some other nonmarket mechanisms are introduced, such as cost-subsidies from the state. This too moves the provision away from a purely commodified form. The important point here is that so long as non-family childcare services are provided strictly through the capitalist market, there will be a strong tendency for the

commodification of childcare to contribute to the devaluation of the needs of children.

Product safety

One of the issues which any producer for the market must deal with is the safety to the consumer of the things they produce and sell. This is especially salient in certain domains of production, such as food or transportation. Generally, improving the safety of a product increases its cost, at least when safety requires more expensive designs or product quality controls. The question then becomes this: under conditions of competitive capitalist markets, how do profit-maximizing firms make choices about the costs and benefits of improved safety.

This is an issue around which we have good empirical evidence. One of the most notorious cases was the decision over fuel tank safety of the Ford Pinto in the 1970s. Here is the basic story, based on internal memos from the Ford Corporation as analyzed by Mark Downy²²: The Ford Pinto had a design flaw in its fuel tanks which made it prone to explosions in certain kinds of accidents. Once this flaw was discovered, the company had to decide whether it was cost effective to fix the problem or, alternatively, to pay the costs of settlements to civil suits resulting from injury and death caused by the defect. To make this cost-benefit analysis, the Ford Motor Company calculated what was the value of each life lost in such accidents. They calculated this primarily on the basis of the future income lost because of death, which in 1971 (in their estimate) came to around \$200,000. The cost of recalling all Pintos and fixing the problem came to about \$11/car. With these numbers, what should Ford do? This retrofitting would cost Ford about \$137 million -- \$11 for each of the 12.5 million vehicles on the road. Roughly 180 people died a year because of the defect. The total “benefit” of the repair to the Ford Motor Company, therefore, came to only about \$36 million (180 x \$200,000). Even if the court settlements got considerably higher, the company executives figured it was cheaper to be sued in court and pay out to victims than pay for the repairs, so they didn’t do the repairs.

This kind of calculation makes perfect sense in a profit-maximizing capitalist market. The only way to “rationally” figure out the cost/benefit trade-off

²² This account is based on research by Mike Downy reported in his essay “Pinto Madness”, *Mother Jones* (ref)

here was to estimate the “market value” of a human life. This virtual commodification of life then makes it possible to weigh costs and benefits from the point of view of the profit maximization strategy of the firm. Of course, it will always be the case that in assessing risks and allocating resources some kind of calculation of costs and benefits has to be done, since you can’t do everything and scarce resources ultimately have to be allocated. The issue here is that the way capitalist markets reduce this problem to the question of what is most profitable to capitalist firms and how this effectively is corrosive of human values.

The Arts

Many people regard the arts as a vitally important domain of human activity for exploring problems of life, meaning, beauty, creativity. Of course, artists and performers of all sorts have often been prepared to make considerable personal economic sacrifices in order to participate vigorously in the arts, and much arts activity takes place outside of the discipline of the capitalist market. But still, the arts do need financial resources to thrive: drama needs theaters; symphonies need concert halls; and all performers and artists need to eat. And if the main source of such funding is from the market, then the autonomy and vitality of the arts are threatened. Many theaters face enormous pressures to produce only those plays that will be a “commercial success,” rather than plays that are controversial, innovative, or less accessible. Musicians are hampered by the commercial imperatives of “record deals.” Writers find it difficult to publish novels when profit-maximizing strategies of publishers become oriented to producing “blockbusters”. A fully commodified market for the arts thus threatens the core values of human artistic activity. This is one of the central reasons why in most countries there is substantial public subsidy of the arts. It is also why the wealthy subsidize through philanthropy the kinds of arts which they consume – opera, art museums, symphonies. They realize that if these organizations had to rely strictly on commercial success through the sale of tickets to the consumers of the performances they would not be able to survive.

Religion and Spirituality

Religion and spirituality grapple with some of the deepest issues people confront: death, life, purpose, ultimate meaning. All religions see these issues as

transcending the mundane world of economic activity; religion is valued because of its importance in helping people come to terms with these matters. The distinctive value of religion is continually threatened by commodification. The most notorious example, decried by many religious Christians, is the commercialization of Christmas. But perhaps even more profoundly, the commodification of churches themselves – turning churches into profit-maximizing sellers of religion – threatens religious values.

These examples are not meant to suggest that it is always inappropriate to use market criteria and market rationality in making decisions about the allocation of resources. The argument is simply that for many important economic decisions, the logic of the market needs to be balanced with other values, and for certain kinds of allocations, market criteria should be largely marginalized. This is a complex task because of the heterogeneity of different values that come into play in many contexts. The kind of dialogue and deliberation required to navigate these problems is impossible when commodification is regarded as the universally best solution to the problem of economic provision, and when the specific form of rational calculation of costs and benefits embodied in the market is taken as a universal paradigm for making choices. This is precisely the discipline imposed by capitalism.

Proposition 9. Capitalism corrodes community

“Community” is one of those flexible terms in social and political discussions which is used in a wide variety of ways for different purposes. Here I will define the idea of community quite broadly as any social unit within which people are concerned for the well being of other people and feel solidarity and obligations towards others. A “community” need not be a small geographical locale like a neighborhood, but often communities are geographically rooted, since such deep attachments and commitments are often built on direct, face-to-face interactions. One can also talk about the degree of community in a particular social setting, since reciprocity, solidarity, mutual concern and caring can vary in intensity and durability. A strong community is one in which these mutual obligations run very deep; a weak community is one in which they are less demanding and more easily disrupted.

Community as a moral ideal refers to the value of such solidarity, reciprocity, mutual concern and mutual caring. But community is not just a moral question of what defines a good society; it is also an instrumental question of how best to solve a deep, inherent practical problem for human beings: we can only survive, and above all, thrive, if we cooperate with each other. Cooperation can be built on a foundation of pure self-interest, but such cooperation is more fragile and requires more sanctions and monitoring than cooperation that grows out of a sense of reciprocity, obligation and solidarity. So, even if one does not especially value mutual caring and concern as a moral ideal, one can still acknowledge that community is instrumentally valuable in lowering the costs of social cooperation.²³

Capitalism, as a system of organizing economic activity, has an intensely contradictory relation to community as a way of organizing social cooperation. On the one hand, capitalism presupposes at least weak forms of community, since some degree of mutual obligation is essential for market exchanges and contracts to be possible. Emile Durkheim referred to this as the “noncontractual basis of contract”.²⁴ Polanyi emphasizes the ways in which markets would destroy society unless they are constrained by strong communal institutions.²⁵ On the other hand, capitalism undermines community. Two considerations are especially important here: first, the ways in which markets foster motivations antithetical to community, and second, the way capitalism generates inequalities that undermine broad social solidarity.

²³ The claim that a sense of community lowers the cost of cooperation can be clarified through the familiar story of the “free rider” problem in collective action. A free rider problem occurs when it is possible to personally benefit from some collective action without incurring the costs that come from participating in the collective action. For example, all workers may benefit from a wage increase after a successful strike even if they did not go on strike, and thus continued to draw their wages during the period of the strike. If everyone is motivated exclusively by self-interest, with no sense of collective obligation or mutual concern, then any collective action faces a serious problem of preventing people from defecting from the costs of the collective action and free-riding on the efforts of others. In a world in which people are exclusively motivated by self-interest it is usually fairly costly to block such free riding, since it requires a fair amount of coercion or special incentives. When people are motivated by a sense of community – shared obligations, reciprocity, mutual caring, etc. – then free riding becomes a less pressing issue.

²⁴ Durheim reference.

²⁵ cite *The Great Transformation*....

The central motivations that are built into capitalist markets are deeply antagonistic to the principles of community. G.A. Cohen explains this antagonism brilliantly in his essay “Back to Socialist Basics”:

I mean here by ‘community’ the anti-market principle according to which I serve you not because of what I can get out of doing so but because you need my service. This is anti-market because the market motivates productive contribution not on the basis of commitment to one’s fellow human beings and a desire serve them while being served *by* them, but on the basis of impersonal cash reward. The immediate motive to productive activity in a market society is typically some mixture of greed and fear...In greed, other people are seen as possible sources of enrichment, and in fear they are seen as threats. These are horrible ways of seeing other people, however much we have become habituated and inured to them, as a result of centuries of capitalist development.

The market cultivates dispositions in people that sharply contradict the kinds of motivations needed for strong community. This does not mean, of course, that community and market cannot coexist: there is no sociological law that states that societies cannot exist with deeply contradictory principles at work. But it does mean that in capitalism a large domain of important social interaction is dominated by motives antithetical to community and thus in order to strengthen community one has to struggle against the pervasive presence of markets and market thinking. The scope of community, therefore, tends to be narrowed to the level of personal relations and local settings rather than extended to broader circles of social interaction.

Capitalism also undermines community through the ways in which it fosters economic inequality, particularly given the underlying mechanisms of exploitation within capitalist class relations. In an exploitative relation, the exploiting category has active interests in maintaining the vulnerability and deprivations of the exploited category. This generates antagonisms of interests that undermine the sense of shared fate and mutual generosity.

Marx thought that this fracturing of social solidarity within capitalist society would be counterbalanced by the deepening of solidarity among the exploited class. He believed that the dynamics of capitalism would generate increasing interdependency and homogeneity of condition among the broad mass of workers, and that interdependency and homogeneity would generate an

increasing sense of solidarity. The community of workers, then, would be the basis for the eventual transformation of capitalism into a community of all people. Unfortunately, the dynamics of capitalism have not generated this radical homogeneity of class situation, but instead have produced ever more complex forms of economic inequality and intensified forms of labor market competition. Instead of a tendency towards ever-wider solidarity among the mass of noncapitalists, capitalism has generated ever-narrower circles of niche solidarity among people with unequal, segmented opportunities in the market. Community is thus narrowed both because of the inherent principles of greed and fear that drive competition, and because of the fractured structure of inequality which result from that competition.

Proposition 10. Capitalism limits democracy

Defenders of capitalism often argue that capitalism is an essential condition for democracy. The best known statement of this thesis comes from Milton Friedman's capitalist manifesto, *Capitalism and Freedom*.²⁶ The great virtue of capitalism, Friedman argues, is that it prevents a unitary concentration of power by institutionally separating economic power from state power. Capitalism thus underwrites a social order with competing elites, and this facilitates both individual freedom and democratic political competition. To be sure, capitalism does not guarantee democracy; there are many examples of authoritarian states in capitalist societies. Capitalism is thus a necessary, but not sufficient condition, for democracy. But it is a crucial necessary condition, and when combined with economic development (which capitalism also generates), eventually makes democracy almost inevitable.

Even if one rejects the strong version of Friedman's argument – that without capitalism, democracy is impossible – there is no doubt that capitalism under conditions of high levels of economic development is strongly associated with democratic forms of the state. As Adam Przeworski has shown, in 100% of the cases, capitalist societies in which the per capita income is above \$6000 have stable forms of representative democracy.²⁷ Nevertheless, if we take the idea of

²⁶ Milton Friedman, *Capitalism and Freedom*

²⁷ Przeworski paper on democratic stability.

democracy seriously as “rule by the people”, there are three important ways in which capitalism limits democracy.

First, by definition, “private” ownership of means of production means that significant domains of decisions that have broad collective effects are simply removed from collective decision-making. While the boundaries between the dimensions of property rights that are considered private and the dimensions that are subjected to public control is periodically contested, the fact of the matter is that in capitalist society the presumption is that decisions over property are private matters and only in special circumstances can public bodies legitimately encroach on them.

If it were the case that the private decisions of owners of capitalist firms had no significant consequences for the well-being of people not party to the decisions, then this would not constitute an important limit on democracy. The idea of democracy is that people should collectively make decisions over those matters which affect their collective fate, not that all allocations of resources in a society should be made through collective-democratic processes. The key issue, then, is that the private decisions of owners of capitalist firms often have massive collective consequences both for the workers inside of the firm and for people not directly employed in the firm, and thus the exclusion of such decisions from public deliberation and control reduces democracy. A society in which there is serious workers democratic control within firms and external democratic public control over firms is a more democratic society than one which lacks these institutional arrangements. Of course, there may be good reasons for the exclusion of non-owners from such decisions, either on the grounds of economic efficiency or on the grounds that people have the right to dispose of “their” property as they see fit even if this has large consequences for others, but these considerations do not change the fact that capitalist property rights reduce democracy.²⁸

²⁸ A defender of capitalism who also believes in the value of democracy can defend capitalism against this critique in three ways: 1. Restricted democracy is the only stable form of democracy. While on paper it would be nice for people to have broad democratic control over the full range of things which affect their collective fate, this is just not possible. Any attempt at building such institutions will fail. 2. An expansive democracy is possible and it could be stable, but it would result in undesirable losses in efficiency. The optimal trade-off between these two values – efficiency and democracy – requires removing basic investment decisions from direct democratic control. 3. There are two values which clash here: the moral right people have to dispose of their property as they wish, and the right of people to collective control decisions that affect their

Second, even apart from the direct effects of the exclusion of democratic bodies from control over the allocation of investments, the inability of democratic bodies to control the movement of capital undermines the ability of democracy to set collective priorities over even those activities which capitalist firms themselves do not directly organize. The ability of communities to decide how best to provide public education or police and fire services, for example, is reduced by the fact that the local tax base depends upon private investment, and the amount of that investment is under private control. The democratic collectivity has very limited power to ask the question: how should we allocate the aggregate social surplus to different priorities – economic growth, individual consumption, public amenities, publicly supported care-giving, the arts, the police, etc. The issue here is not simply that many of these decisions are made outside of democratic deliberation, but that because investments are made privately, the threat of disinvestment heavily constrains all other allocative decisions within democratic bodies, even over those things in which capitalists do not make investments.

Third, the high concentrations of wealth and economic power generated by capitalist dynamics subvert principles of democratic political equality. Political equality means that there are no morally-irrelevant attributes that generate inequalities in the opportunity of people to participate effectively in democratic politics and influence political decisions. This does not mean that every person in fact has an equal influence on political outcomes. A person who is seen as trustworthy and honest and capable of expressing ideas clearly and persuasively may have factually more influence on a political process than a person who lacks these attributes. These, however, are morally relevant attributes to public deliberation over collective decisions. The key to political equality is that morally irrelevant attributes such as race, gender, religious affiliation, wealth, income, and so on, do not generate inequalities in political power. Capitalism violates this condition. While this violation of political equality may be more severe in the United States than most other developed capitalist countries, people with lots of money and people who occupy powerful positions in the economy invariably have a disproportionate influence on political outcomes in all capitalist societies. There are many mechanisms in play here. Wealthy people have greater ability to contribute to political campaigns. Powerful people in corporations are embedded

collective fate. For a variety of reasons elaborated by libertarians, the first of these has lexical priority of the second (i.e. it must be fully met before the second value comes into play).

in social networks which give them access to policy makers in government, and they are in a position to fund lobbyists to influence both politicians and bureaucratic officials. They have greater influence on the media, especially the private capitalist media, and through this control are able to influence public opinion. While one-person-one-vote in electoral competition is a critical form of political equality, its efficacy in insuring broad political equality in capitalist democracies is severely undercut by deep interconnections between political and economic power within capitalism.

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These ten propositions define what is wrong with capitalism from a radical egalitarian, democratic normative standpoint. If it could be shown that these propositions are false in the sense that capitalism, if left to its own devices, would in time remedy all of these harms, then the impulse to articulate the parameters of an emancipatory alternative to capitalism would be significantly undercut. But given our current state of knowledge about the inherent properties and dynamics of capitalism, this seems quite implausible. If this is correct, then any serious effort to ameliorate these harms ultimately must confront capitalism itself.

This immediately poses two serious problems. First, what is the alternative to capitalism? Unless one believes that a viable alternative is possible which would actually reduce these harms, then what is the point in challenging capitalism itself? Second, how do we challenge the power relations and institutions of the existing society in order to create this alternative? How do we get from here to there? The next chapters will explore alternative ways of thinking about these questions.