I: DIAGNOSIS AND CRITIQUE

3

WHAT'S SO BAD ABOUT CAPITALISM?

There is a great distance between the radical democratic egalitarian ideal and the social reality of 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 obstructs 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 the ways the economic structures of capitalism violate the normative ideals of radical democratic egalitarianism. This is not to say that all the deficits identified by those ideals can be traced back to capitalist economic structures. Radical democratic egalitarianism is an encompassing moral conviction that challenges all social and cultural practices which generate inequalities in access to the material and social conditions for human flourishing, and challenges all obstructions to equal access to the conditions for real individual freedom and collectively empowered democracy. These include structures of power and privilege linked to gender, race, ethnicity, sexuality, nationality, and citizenship. The idea of envisioning real utopias, therefore, must ultimately include an account of institutional arrangements for robust egalitarianism in all of these dimensions. Nevertheless, since capitalism so pervasively and powerfully structures the prospects of establishing both egalitarian conditions for human flourishing and democratic empowerment, any radical democratic egalitarian project of social transformation 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 twenty-first 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, in terms of 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 their use is controlled by the 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 goods and services 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 for different purposes.[2] The famous metaphor of "the invisible hand" captures the basic idea: individuals and firms, simply pursuing their own private interests, engage in bargaining and voluntary 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 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 undercut their rivals, increase their profits 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 all real capitalist economies. These institutional 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 abstract 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.

1 This is a highly simplified and abstract 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, abstract idea of a polarized class relation between capitalists and workers with the complexity of actual class structures, see Erik Olin Wright, *Class Counts* (Cambridge: Cambridge University Press, 1997), chapter 1. For a collection of alternative approaches to understanding class, see Erik Olin Wright (ed.), *Approaches to Class Analysis* (Cambridge: Cambridge University Press, 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. For a discussion of the issues of multiple processes of coordination, see Wolfgang Streeck, "Community, Market, State and Associations? The Prospective Contribution of Interest Governance to Social Order," in Wolfgang Streeck and Philippe C. Schmitter (eds), *Private Interest Government: Beyond Market and State* (Beverly Hills and London: Sage, 1985), pp. 1–29.

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 the liberal market model. All varieties of capitalism also contain a significant domain of economic activity that occurs outside of both the market and state regulation, especially economic activities within households and kin networks, but also within broader social settings often referred to as "community."[3]

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 5, 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.[4] Nevertheless, to the extent that these 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.[5]

3 Household economic activities include all of the various activities that go under the rubric "housework." Community economic activity includes a wide range of informal work, ranging from babysitting exchanges among friends to volunteer service activities through churches. These are all "economic" insofar as they involve laboring activity to provide goods and services to satisfy human needs. For an extended discussion of such "noncommodified" forms of economic activity, see J. K. Gibson-Graham, *A Postcapitalist Politics* (Minneapolis: University of Minnesota Press, 2006), chapter 3.

4 There are two theoretically distinct forms of variation across capitalist economies: 1) *Types:* 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) *Hybrids:* These are variations that come from the diverse ways in which capitalist and non-capitalist economic structures are combined and 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. This second form of variation is particularly important in understanding the problem of alternatives to capitalism. We will discuss this issue of hybrids at length in chapter 5.

5 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 as a whole "capitalism"? How much non-capitalism 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" cannot be given precise quantitative meaning.

ELEVEN 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 capitalism itself is simply not the sort of thing that one criticizes. One of the central tasks for 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 and possible.

The central criticisms of capitalism as an economic system can be organized into eleven 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.*
5. *Capitalism is inefficient in certain crucial respects.*
6. *Capitalism has a systematic bias towards consumerism.*
7. *Capitalism is environmentally destructive.*
8. *Capitalist commodification threatens important broadly held values.*
9. *Capitalism, in a world of nation states, fuels militarism and imperialism.*
10. *Capitalism corrodes community.*
11. *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 they might 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 aspirin. 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.

Two other preliminary comments: First, critics of capitalism are sometimes tempted to treat all of the serious problems and harms of the contemporary world—such as racism, sexism, war, religious fundamentalism, homophobia, and so on—as consequences of capitalism. This temptation should be resisted. Capitalism is not the root of all evils in the world today; there are other causal processes at work which fuel racism, ethno-nationalism, male domination, genocide, war, and other significant forms of oppression. Nevertheless, even in the case of those forms of oppression which capitalism may not itself generate, it may still be implicated by making the problems more difficult to overcome. Capitalism may not be the root cause of sexism, for example, but it could make it harder to overcome by failing to allocate sufficient resources to good quality, publicly provided childcare services. In the critique of capitalism, therefore, the critical task is to identify those harms which are directly generated by specifically capitalist mechanisms and to understand the ways in which capitalism may indirectly contribute to impeding the reduction of oppression.

Second, many of these eleven criticisms of capitalism can also be leveled against those economic systems in the twentieth century that were typically labeled "socialist," or what I will call in chapter 5 "statist." For example, one of the criticisms of capitalism (proposition 6) is that it is environmentally damaging, but

we know that the authoritarian central planning apparatus of the statist economy in the Soviet Union also gave little weight to negative impacts on the environment. If the only possible alternative to capitalism were statism—an economic structure in which the means of production are owned and controlled by the state and coordinated through a centralized bureaucracy—then the critique of capitalism in these terms would lose some of its force. But, as I will argue in chapter 5, there is another alternative, a conception of socialism anchored in the idea of meaningful democratic control over both state and economy.[6] The central argument of this book is that an economy so structured enhances our collective capacity to mitigate the harms discussed in the eleven propositions below.

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 human potential. This is true whether we look at the world as a whole, or just at the conditions of life of people within the most developed capitalist countries. There are many possible explanations for this situation. It is possible that poverty in the midst of plenty constitutes simply a sad fact of life: "the poor will always be with us." Alternatively, it might be a temporary state of affairs which further economic development will eradicate: capitalism, given enough time, especially if unfettered by state regulation, will eventually eradicate poverty. Or, perhaps, the suffering and lack of fulfillment are simply the fault of the individuals whose lives go badly: contemporary capitalism generates an abundance

6 In terms of environmental destruction, capitalism and statism suffer a similar deficit: a failure of broad public deliberation over the trade-offs between present consumption, economic growth, and environmental protection, and the absence of democratic mechanisms capable of translating public deliberation into effective public policy. If anything this deficit was worse in the authoritarian statist economies, since neither the state nor the economy was under democratic control. In capitalist countries with democratic states, even if the form of democracy is relatively thin, there is greater public space for deliberation on environmental issues and a political process for imposing some constraints on environmentally destructive practices of the economic system.

of opportunities which some people squander because they are too lazy or irresponsible or impulsive to take advantage of them. But it is also possible that the situation of poverty existing 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 this theme.

To many people it will seem odd, perhaps even absurd, to indict capitalism as a pivotal source of poverty in contemporary society. The "free market" and profit-seeking entrepreneurialism are continually touted as the source of technological progress, economic growth, and increasing 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 rather to other social processes that just happen to coexist with capitalism in capitalist society. If 20 percent of children in the United States live in poverty at the beginning of the twenty-first century this is because of family breakdown, or cultural deficits in poor communities, or ill-considered public policies creating welfare dependency and poverty traps, or a poorly designed educational system which fails to prepare people for rapidly changing labor markets. The persistence of poverty is not due to 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 lifts 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—that capitalism is a growth machine and that growth can have 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 proposition, 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 relative to *possible* states of the world it perpetuates eliminable sources of suffering. This implies a counterfactual—that in the world today significant reductions in human suffering would be possible with appropriate non-capitalist institutions in place. This counterfactual is not shown to be false simply by citing the empirical observation that improvements in material conditions have occurred under existing capitalism. The claim is that these improvements fall far short of what is possible.

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.

Exploitation

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 personal greed of individual capitalists—although a culture of profit-maximizing undoubtedly reinforces 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 else risk decline.

A pivotal aspect of the pursuit of profits by capitalist firms centers on the laboring activity of employees. 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 constitutes 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 production costs) 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 as diligently as possible, since the more effort workers expend, the more will be produced at a given level of wages. The more produced for a given level of costs, the higher the profits.[7] The economic interests of capitalists—the profits they command—therefore depend upon extracting as much labor effort from workers at as little cost as possible. This, roughly, is what is meant by "exploitation."[8]

Of course, individual capitalists cannot unilaterally set wages nor unilaterally determine the intensity of work, both because

7 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 principal reasons: workers who are better paid are more likely to feel 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. Although they do not explicitly use the term "exploitation" in their analysis, these issues are brilliantly explored in an essay on the nature of work incentives by Samuel Bowles and Herbert Gintis, "Contested Exchange: New Microfoundations for the Political Economy of Capitalism," *Politics and Society* 18 (1990), pp. 165–222.

8 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 workers to sell their labor for less than its competitive market price. Some sociologists (for example, Aage B. Sørenson, "Toward a Sounder Basis for Class Analysis," *American Journal of Sociology* 105: 6 [2000], pp. 1523–58) have adopted a variant of this neoclassical economics notion by defining exploitation as a "rent" connected to various forms of "social closure." For an extended discussion of the issues involved in defining exploitation, see Wright, *Class Counts*, chapter 1, and G. A. Cohen, "The Labour Theory of Value and the Concept of Exploitation," in G. A. Cohen, *History, Labour and Freedom* (Oxford: Oxford University Press, 1989).

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 maintaining labor market conditions which both ensure 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 levels of 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.

Technological change

Technological change within the process of production is an inherent tendency of capitalist competition, since it 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 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 cost of social dislocation in moving to such jobs is considerable; and 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 a continual flow of displaced people, many of whom are unable to take advantage of any new opportunities. Technological change produces marginalization as well as new opportunities, and—*in the absence of some countervailing non-capitalist process*—marginalization generates poverty. This is inherent in the logic of capitalism, and in the absence of non-capitalist institutions, such marginalization perpetuates human suffering.

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 due to 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 the information and resources needed 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 processes—exploitation, negative social externalities of technological change, profit-maximizing competition—mean that while capitalism is an engine of economic growth, it also inherently generates vulnerability, poverty, deprivation, and marginalization. These processes are especially salient when capitalism is viewed as a global system. On the one hand, the global movements of capital and extensions

of capitalist exploitation, technological change, and profit-maximizing competition to the less developed regions of the world have in some cases contributed to rapid economic growth and development, most strikingly in the late twentieth century and early twenty-first century in China and India.[9] On the other hand, these same processes have also produced deep and devastating forms of marginalization and desperate poverty in various parts of the world.

In principle, of course, the fruits of growth could be distributed in ways that improved everyone's material welfare. It is unquestionably the case that capitalism has generated sufficient material wealth in the world today so that even with no further economic growth no person would have to be poor in the developed capitalist countries, and basic needs could be met for everyone even in poor third-world countries. However, there is no mechanism *internal to capitalism itself* to generate the redistribution needed to produce these effects, either within the rich countries or globally. For the rising tide to indeed raise *all* boats, counter-capitalist institutions must be created 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 cannot itself fully actualize that potential, that it can be indicted for perpetuating eliminable forms of human suffering.

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 complex ideas like alienation and exploitation. However, when the vision of an alternative to capitalism is sketched, the image is not simply that of a consumer paradise without poverty or material deprivation, but rather a social order in which individuals thrive, where their talents and creative potentials are nurtured and freely exercised

9 Marx, in fact, celebrated this aspect of capitalist expansion to the far corners of the world on the grounds that it was necessary for the modernization of less developed regions. Imperialism was the necessary process for generating a truly global capitalism, which in turn for Marx was the necessary condition for transcending capitalism. See Bill Warren, *Imperialism: Pioneer of Capitalism* (London: Verso, 1980).

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 that realization which lies at the 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 criticism of capitalism asserts that while capitalism may have significantly contributed to enlarging the potential for human flourishing, especially through the enormous advances in human productivity it has generated, and while it certainly has created conditions under which a segment of the population has access to the conditions to live flourishing lives, it nevertheless blocks the extension of those conditions to all people even within developed capitalist countries, not to mention the rest of the 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.

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 compared to earlier societies, 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 are facilitated by open, competitive markets. A vibrant market economy is also generally corrosive of various forms of non-economic status inequality, such as those based on gender, race, ethnicity, and religion, at least insofar as competitive labor markets create incentives for employers to seek out talent regardless of such "ascriptive" attributes. 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.[10]

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 and to have an impact on the next generation, 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 the different preferences and efforts 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 and much-reduced employment prospects at some point in the future. 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 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 non-market distributive mechanism, the material means for living a flourishing life will be very unevenly distributed both across the population within countries and across the regions of global capitalism. In an obvious way this has especially serious consequences for children, where material inequalities can severely constrain access to 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

10 Both Karl Marx and Max Weber saw the impact of capitalism on such "ascriptive" status inequalities—status inequalities linked to attributes of birth—as being one of its virtues. Marx, in the *Communist Manifesto*, sees such traditional forms of status as "melting into air" under the assault of capitalism, and Weber sees the dynamism of capitalist markets destroying rigid status orders. For a discussion of this similarity in Marx and Weber, see Erik Olin Wright, "The Shadow of Exploitation in Weber's Class Analysis," *American Sociological Review* 67: 6 (2002), pp. 832–53.

human intellectual, psychological and social capacities during childhood, but also the lifelong 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.

Work

Beyond the question of economic rewards for labor market activity, capitalism generates very large disparities in access to interesting and challenging work. 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 opportunities 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 the profitability of such jobs for the firm, and there is no reason in general for profitability to be maximized by creating meaningful, interesting, and challenging work for employees. What is more, when meaningful, interesting jobs are created in response to new technologies and conditions, if they require scarce skills and are thus highly paid, capitalist competition in general generates ongoing pressures to routinize the tasks associated with such jobs as much as possible in order to reduce the costs associated with hiring highly skilled employees.[11] The result is that in capitalist economies most people for most of their work lives face job opportunities which offer

11 There is thus a kind of cyclical process at work here: technical change often creates demands for high-skilled workers for new kinds of jobs; over time subsequent innovation is directed towards routinizing those jobs to remove the necessity for so many high-skilled workers. A good example of this is the trajectory over time of the job of computer programmer. In the 1960s this was an extremely skilled job requiring a great deal of education. By the early twenty-first century, with the tremendous growth in the importance of computers, many of the tasks of computer programming have been reduced to routine work that can be accomplished with relatively little training.

meager opportunities at best for creativity and challenge, and this obstructs human flourishing.

Destructive competition

The relationship between competition and human flourishing is a complex one. On the one hand, competition—trying to be better than others—is one of those 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 and Philip Cook call "winner-take-all" competitions—there is only one winner at the top who receives virtually all of the prizes; everyone else loses.[12] 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 become discouraged and give up altogether. More broadly, within 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

12 Robert H. Frank and Philip J. Cook, *The Winner-Take-All Society: Why the Few at the Top Get So Much More Than the Rest of Us* (New York: Penguin, 1996).

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.[13]

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.

3. Capitalism perpetuates eliminable deficits in individual freedom and autonomy

If there is one value that defenders of capitalism claim it achieves 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 for capitalism.[14] Capitalism generates stores filled with countless varieties of products, and consumers are free to buy whatever they want subject only to their budgetary constraints. 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 neither does it amount to 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

13 There is also a tendency in winner-take-all markets for people to overinvest in the development of certain kinds of talents because of an unrealistic expectation of the likely returns. This is most poignantly the case in the overinvestment of time and energy in developing athletic skills, especially among boys in poor central city neighborhoods. For a discussion of overinvestment in sports, see Frank and Cook, *The Winner-Take-All Society*.

14 Milton Friedman and Rose Friedman, *Free to Choose* (New York: Harcourt, 1980), and Milton Friedman, *Capitalism and Freedom* (Chicago: University of Chicago Press, 1962).

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 do what they are told.[15] 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 every aspect of employee behavior, and because in some labor processes the employer may grant the employee considerable autonomy. Nevertheless, for most workers in most capitalist workplaces, 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 to argue that if workers do not like what they are told to do, they are free to quit. They are thus not really being dominated since they continually submit voluntarily 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.

The second way in which capitalism undermines the ideal of individual freedom and autonomy centers on the massive inequalities of wealth and income which capitalism generates. As Philippe Van Parijs has forcefully argued, such inequalities imply that there is a significant inequality in "real freedom" across persons. "Real freedom" consists in the effective capacity of individuals to act on their life plans, to be in a position to actually make the choices which matter to them.[16] Large inequalities of wealth and income

15 In an important book on the meaning of democracy, Robert Dahl has argued that there is no logical reason why rights to private ownership confer rights to dictatorial power over employees. Just as we have abolished slavery even in cases where a person might want to voluntarily enter into a contract to be a slave, we could prohibit people from giving up their right to autonomy within the employment contract of capitalist firms. See Robert A. Dahl, *A Preface to Economic Democracy* (Berkeley and Los Angeles: University of California Press, 1985).

16 Philippe Van Parijs, *Real Freedom for All* (Oxford: Oxford University Press, 1997). Van Parijs emphasizes the ways in which the distribution of income generates inequalities in real freedom. For a discussion of how the vast inequalities in the distribution of wealth also curtail the freedom of most people, see Bruce Ackerman and Anne Alstott, *The Stakeholder Society* (New Haven: Yale

mean some people have much greater freedom in this sense than do 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.

4. Capitalism violates liberal egalitarian principles of social justice

Liberal egalitarian conceptions of justice revolve around the idea of *equality of opportunity*.[17] Basically the idea is that a system of distribution is just if it is the case that 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 for 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 full compensation for brute luck has been made, then everyone effectively has the same opportunity, and all remaining inequalities are the result of choices for which a person has moral responsibility.

Capitalism is fundamentally incompatible with this strong notion of equality of opportunity. The private accumulation of wealth and the large disparities in earnings in capitalism give some people inherent, unfair advantages over others. This is particularly the case 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 great advantages in the acquisition of human capital and because it gives some young adults access to large amounts of capital while others have none. Thus, even apart from the complex

University Press, 2000).

17 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 when specifying the conditions under which individual choices can be seen as generating just outcomes.

problem of how to compensate 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.[18]

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 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 onto 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, environmental clean-up costs, and the degraded aesthetics of the environment. Such instances of costs displaced onto others are called "negative externalities." They are not just a form of economic inefficiency—although they are that as well as we will see in proposition 5 below—but also of injustice.

A defender of capitalism can reply that if all property rights were fully specified and fully enforced, then there would be no "negative externalities." In a world of fully specified property rights, complete contracts, and perfect information, then in order for a capitalist firm to impose their pollution costs on me it 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

18 The argument here is not simply that existing capitalisms are imperfect because they have failed to correct for inequalities of opportunities. The argument is that they could not in principle fully compensate for such inequalities without ceasing to be capitalist. This means that an honest defender of capitalism would have to admit that capitalism necessarily violates meaningful equality of opportunity, and in this way is inherently unjust, but that it is desirable in other respects, and these other respects are sufficiently salient that on balance capitalism should be supported.

pollution or to 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 any "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 paid by resources users today.

Of course, this issue of the *intergenerational* injustice of imposing negative externalities on future generations will 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 the injustice of intergenerational negative externalities are particularly intense. While an economic system in which broad investment choices were subjected to 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 could be a central issue of deliberation rather than simply the result of the atomized private choices of self-interested individuals.

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. It "delivers the goods." 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 decision making. 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 leads to an increase in 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 the pressure 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 issue in useful results. 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 its market will decline. Competitive pressure thus tends to stimulate innovation, and this increases efficiency in the sense that gradually 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 the 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.

Six sources of inefficiency in capitalism are especially important: the underproduction of public goods; the under-pricing of natural resources; negative externalities; monitoring and enforcing market contracts; pathologies of intellectual property rights; and the costs of inequality.

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. The notion of public goods refers to a wide range of things satisfying two conditions: that it is very difficult to exclude anyone from consuming them when they are produced, and that 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 both for 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 constitute a fairly narrow category of things. In fact they are quite broad. One way of thinking of them is in terms of the idea of "positive externalities." A positive externality is some positive side-effect of producing something. Consider public transportation, for which there are many positive externalities—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 they are non-marketable: an urban transit company cannot charge people for the reduced healthcare costs or the less frequent repainting of houses resulting from the lower air pollution generated by public transportation. These are benefits experienced by a much broader group of people than those who buy travel 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 from an overall efficiency standpoint, and as a result of the higher ticket price there will be lower demand for public transportation, hence less will be provided, and the positive externalities will be reduced.[19] 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 directly consuming the service: it is better to live in a society of educated people than of 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 consume them; it is better to live in a society with extensive recreational activities for youth even if one is not young. If this is correct, then it is economically inefficient to rely on capitalism and the market to produce these things.

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 and investors. If the prices are significantly above the costs of producing something, this means that investors in those products will be earning extra profits, and this will send a signal to producers to increase production; if the prices

19 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 (including the positive externalities for future generations), then full subsidization with free public transportation for the riders would be the most efficient way of pricing the service.

are below the costs of producing, then this means that people are losing money, and this sends a signal that less should be invested and 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 basically lies with the time-horizons in which people experience the "costs of production" and therefore interpret the signals 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 of 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 over the long term.

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, however, the direct costs of catching fish are 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.[20] Again, this leads to a grossly inefficient allocation of resources.

20 This, of course, does not mean that there is no solution to the depletion of fisheries, but simply that the solution requires 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 non-market, non-capitalist mechanism—typically authoritatively by the state—but the allocation of rights within a quota could be organized on a market basis.

Negative externalities

We have already discussed negative externalities in terms of 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 onto 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 health and safety measures that might affect the workers in the firm in the long term. Unless unhealthy conditions have an effect on costs of production, there is an incentive for profit-maximizing firms to avoid these costs.

These considerations are not just theoretical arguments. In contemporary discussions of pollution control and occupational health and safety, corporations constantly complain that the regulations on such matters 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 so 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.

Capitalism itself cannot solve such problems; they are 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 attempts at state regulation of capitalist production are precisely a way of counteracting negative externalities by trying to prevent 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 to dump into the environment, become public, rather than private.

Monitoring and enforcing market contracts and private property

A fourth 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—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 exchanged in the market. This is inefficient in the sense that these resources are not being used to produce anything but simply to prevent cheating.

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.

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 a system of decentralized private insurance.

The employment contract involves an exchange of a wage for a certain amount of work. The problem is that while a 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, 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 pay increases), and supervision to monitor employee performance and enforce the sanctions.[21]

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 the firm in which they work. If they were, for example in the form of a worker-owned 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.[22] Since in general workers would work harder and 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 healthcare. In the United States healthcare 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. 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, in contrast, virtually all medical bills are paid for by the state in a system appropriately termed "single-payer." The Canadian government sets fees for different services in

21 For a discussion of the economic logic of the problem of extracting labor effort from workers, see Bowles and Gintis, "Contested Exchange," and Michael Burawoy and Erik Olin Wright, "Coercion and Consent in Contested Exchange," *Politics and Society* 18:2 (1990), pp. 251–66.

22 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. Cooperative ownership by workers also underwrites a different set of moral norms about labor effort, which also reduce monitoring costs. These issues are extensively discussed in volume III of the Real Utopias Project: Samuel Bowles and Herb Gintis, *Recasting Egalitarianism: New Rules for Communities, States and Markets* (London: Verso, 1998). For a somewhat skeptical view of the general efficiency gains from cooperative ownership, see Henry Hansmann, *The Ownership of Enterprise* (Cambridge, MA: Harvard University Press, 1996).

a bargaining process with physicians and health organizations. The physicians submit all bills to a single place for reimbursement. One measure of the efficiency losses directly connected to the problem of enforcing private insurance contracts is the proportion of total medical costs absorbed in paperwork and administration associated with payment in the two systems. In 1999, healthcare administrative costs in the US amounted to 31 percent of healthcare expenditures but only 16.7 percent in Canada. What are called "overhead costs" within total administrative costs come to almost 12 percent of private insurance company spending on health in the US, but only about 1.3 percent of spending in the Canadian system.[23] While not all administrative costs are connected to contract issues, much of the difference between the Canadian and US administrative costs is connected to the complexities of monitoring and payment connected to the market. The simplified Canadian system of resource allocation and accounting is much more efficient than the US one based on capitalist property relations.

Intellectual property rights

Intellectual property rights include a variety of legal rules that prevent people from having free access to the use of various kinds of knowledge and information: patents restrict the use of inventions; copyrights prevent the duplication of intellectual products and artistic creations; trademarks protect the use of brand names. The justification for these forms of private property rights is that without them there would be little incentive to produce inventions, intellectual products, or artistic creations. Inventions require the investment of time, energy, and resources in research and development, much of it quite risky. Intellectual products like books and artworks also require much time and effort, and sometimes financial investment as well. Unless the people who make these investments know in advance that if the products turn out to be valuable they will have rights to the economic returns on the products, they will not bother making the investments in the first place.

This certainly seems like a plausible argument. It turns out, however, that there is very little empirical evidence to support the

23 These figures are reported in Steffie Woolhandler, Terry Campbell, and David U. Himmelstein, "Costs of Health Care Administration in the United States and Canada," *The New England Journal of Medicine* 349 (2003), pp. 768–75.

claim.[24] There are three major issues here. First, while intellectual property rights may provide incentives, they also impede the diffusion of information and use of new ideas to generate further advances. The net effect of patents and copyrights on invention, creativity, and intellectual production therefore depends upon the relative magnitude of these two opposing forces—the positive impact of incentives and the negative impact of impediments to use and diffusion. There is no reason to assume that the former generally outweighs the latter.

Second, the defenders of intellectual property rights assume that the only reliable incentive for creativity and invention is monetary reward, but this is simply not the case. A great deal of research and development is done in publicly financed projects in universities and other research settings. Scientists are driven by a range of motives other than monetary rewards: prestige, curiosity, solving problems for the sake of humanity. Most artists and writers, even the most dedicated, do not receive large financial rewards from their work and yet they persist because of their commitments to aesthetic values and a need to express themselves. This is not to say that financial reward plays no role, and certainly if producers of intellectual products receive no financial rewards for their creative work it may be difficult for them to continue. But for many—perhaps most—people engaged in creative intellectual activities, monetary incentives protected by intellectual property rights are of secondary importance.

Third, it may also be the case that the emphasis on monetary incentives and the strong protection of intellectual property actually undermines some of the other motivations that are important for innovation and creativity. There is good empirical research demonstrating that monetary incentives can undermine altruistic motivations for cooperation, thus having the net effect of reducing cooperation.[25] This could also affect scientific and artistic

24 For a thorough discussion of why patents do not, in general, promote innovation, see Michele Boldrin and David Levine, *Against Intellectual Monopoly* (Cambridge: Cambridge University Press, 2007).

25 The issue here is the extent to which altruistic or other moral motivations for cooperation are complementary to selfish motivations. Two motivations are complementary when the presence of one does not undermine the effectiveness of the other. If this is the case, then in a situation where people are motivated to cooperate for moral reasons, they will be even more motivated if monetary incentives are added. If, on the other hand, the motivations are substitutes or are contradictory, then adding monetary incentives reduces the force of motivations rooted in moral commitments. For a discussion of the problem of how self-interested motives can crowd out more altruistic motives, see Sam Bowles,

creativity: the presence of strong financial rewards for commercially profitable creative efforts may undermine the motivation to pursue more free-wheeling artistic work and scientific research.

While it may be true that some limited protection of intellectual property rights is needed for incentive purposes—for example, to insure proper attribution of authorship—the strong regime of private property in intellectual products that characterizes capitalism probably on balance fetters innovation and creativity. What has come to be called the "open source" movement in information technology is a practical demonstration of this. The open source movement is best known for the development of the Linux computer operating system. There is no patent or copyright on the source code for Linux. It has been created by thousands of programmers cooperating and contributing new codes and ideas to its development. By most accounts this has resulted in an operating system that is technologically superior to its main rival, the PC operating system developed by Microsoft.

The costs of inequality

Many defenses of capitalism argue that there is a trade-off between equality and efficiency: the redistribution needed to move towards greater equality, the argument goes, undermines the incentives to work hard and invest, thus ultimately reducing economic efficiency. Like the argument about intellectual property rights, this argument may seem intuitively plausible, but empirical research on the question has not been able to establish a direct relation between the levels of inequality in a country and rates of economic growth, productivity growth, or any other aggregate measure of efficiency.[26] As in the case of intellectual property rights, the issue here is that there are a number of important reasons why inequality beyond some level undermines efficiency, and these negative effects may swamp whatever positive incentive effects are connected to inequality. First, high levels of inequality, particularly when associated with marginalization

"Policies Designed for Self-Interested Citizens May Undermine 'The Moral Sentiments': Evidence from Economic Experiments," *Science* 320: 5883 (2008), pp. 1605–9.

26 See Lane Kenworthy, "Equality and Efficiency: The Illusory Tradeoff," *European Journal of Political Research* 27: 2 (2006), pp. 225–54, and *Egalitarian Capitalism: Jobs, Incomes, and Growth in Affluent Countries* (New York: Russell Sage Foundation, 2007), chapter 4.

at the bottom, generate social conflict and social disorder. Police, guards, courts, prisons, not to mention the direct costs of crime itself, are all costs of inequality. Second, even apart from the costs of social disorder, high levels of inequality erode social solidarity, a sense that "we are all in the same boat together." Solidarity is an important source of efficient cooperation—cooperation that does not require large payments and surveillance to elicit effort and responsibility. Third, and perhaps most crucially for the questions of efficiency, high levels of inequality imply a huge waste of human talents and resources. Steven Jay Gould, the eminent evolutionary biologist, put it this way: "I am somehow less interested in the weight and convolutions of Einstein's brain than in the near certainty that people of equal talent have lived and died in cotton fields and sweatshops."[27] High levels of inequality mean, necessarily, inequalities in access to the material means to develop talents and human potentials. This is massively wasteful.

Most of these 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. There will always be difficult issues of combining material incentives and intrinsic motivations for creativity and innovation. 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 and difficult to counteract 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.

6. Capitalism has a systematic bias towards consumerism[28]

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

27 Stephen Jay Gould, "Wide Hats and Narrow Minds," in *The Panda's Thumb* (New York: W.W. Norton, 1980), p. 151.

28 The discussion of this proposition draws heavily from two books by Juliet Schor: *The Overworked American: The Unexpected Decline of Leisure* (New York: Basic Books, 1992) and *The Overspent American: Upscaling, Downshifting and the New Consumer* (New York: Basic Books, 1998).

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 increases in productivity into increased consumption rather than increased "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 impose 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 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 is 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.

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 left-wing 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. This is an implausible assumption. 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 lifestyles 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." Many capitalist firms prefer to hire fewer workers for longer hours 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. These would include the costs of formal training, the costs of 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 allow employees to freely choose the number of hours they want to work (or, equivalently, it leads employers to impose a severe wage and fringe benefit penalty on reductions in working hours, making the trade-off between work and leisure much more costly for workers).

Third, the argument that consumerism is simply a preference (rather than a systematic bias) assumes that if large numbers of people were to choose a much less consumerist lifestyle, this would not have significant disruptive macroeconomic effects of the sort which would eventually make anti-consumerism itself 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 time, this would precipitate a severe economic crisis, for if demand in the market were to significantly decline, the profits of many capitalist 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 have a significant impact on the market.

The state's role in promoting the consumption bias inherent in capitalist economies is particularly sharply revealed in times of economic crisis. In an economic downturn, governments attempt to "stimulate" the economy by, in various ways, encouraging people to consume more by reducing taxes, by reducing interest rates so borrowing is cheaper or, in some cases, by directly giving people more money to spend. In the severe economic crisis that began in 2008, economists warned that not only was consumption declining because of rising unemployment, but people were beginning to save more and this would only make matters worse. In order to get the economy back on track it was essential that people start spending more, saving less. Reinvigorating mass consumerism is a condition for reinvigorating capitalism.

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 do not lead to increased life satisfaction and happiness.[29]

29 For a review of research on the link between economic standing and happiness, see Richard Layard, *Happiness* (New York: Penguin, 2005).

People find meaning and happiness through their connections with other people, through their engagement in interesting work and activities, and through their participation in communities, much more than through lavish consumption. Consumerism as a cultural model for living a 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 ways of life. It is this bias, rather than consumerism per se, that is the central problem.

7. Capitalism is environmentally destructive

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

First, the systematic pressure on profit-maximizing firms to generate negative externalities means that in the absence of some strong countervailing mechanism, capitalist firms will ignore environmental costs. This is a stronger claim than a simple argument about the 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 of 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 onto the environment is a good strategy for 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, where economic growth in parts of the developing world fuels consumerism as a worldwide 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 in these countries is environmentally destructive on a global level.

8. Capitalist commodification threatens important broadly held values

The word "commodification" refers to the process by which new spheres of human activity become organized through markets. Historically this has mainly involved 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 also refers to the shift of production from the state to the capitalist market.[30] 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 twentieth century most people in developed capitalist societies purchased all food ingredients in

30 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 typically remain fairly heavily regulated by public power.

the market, but still transformed these inputs into meals within the home. Increasingly, since the closing decades of the twentieth century, the food purchased in the market came closer and closer to a final meal—frozen pizzas, microwave meals, etc.—and fully commodified meals in restaurants became an increasingly important part of food consumption for most people in developed capitalist economies.

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 wrong to create a capitalist market for the production and adoption of babies.[31] Even if it 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.[32] In part, this is because of the belief that such markets would inevitably prey on the vulnerabilities of the poor and lead to many

31 Some libertarians argue that a market for the production and adoption of babies would improve the lives of everyone involved: poor women would have their income 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? Furthermore, some strong libertarians argue that parents have a kind of property right in their children, and thus they should have the right to sell this property just like any other property. For a defense of these kinds of positions, see Murray Rothbart, *The Ethics of Liberty* (New York: NYU Press, 1998), chapter 14.

32 There is less consensus about the desirability of markets in renewable body parts, most notably in the case of blood. Many people feel there is nothing wrong in having for-profit commercial blood donation firms. Research on blood donation, however, generally shows that both the quality and quantity of blood acquired through market mechanisms is lower than in well-organized non-market systems that rely on (and reinforce) altruism. See Jane Piliavin and Peter Callero, *Giving Blood: The Development of an Altruistic Identity* (Baltimore: Johns Hopkins University Press, 1991) and Kieran Healy, *Last Best Gifts: Altruism and the Market for Human Blood and Organs* (Chicago: University of Chicago Press, 2006).

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 capitalist 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 moral issues. Consider the following examples:

Childcare

Children require labor-intensive care. This can be provided through a variety of social organizations: the family, state-organized childcare services, various kinds of community-based childcare, or for-profit market-based childcare organized by capitalist firms. The market solution to this problem does not mean that all for-profit childcare will be of poor quality and harmful to the well-being of children. What it means is that the quality of the care will often 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 matter only to the extent that it contributes to this goal. In order to maximize profits, firms will have strong incentives to seek low-cost labor for the staff of childcare centers, especially for those servicing poor families. The training of care-givers 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 in 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 at all, and in any case the parents can choose to provide the childcare at home if they prefer.[33] It is only because it involves an overall improvement in their situation that they choose the poor quality market-based childcare over 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 poor 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 of 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 capitalist 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 non-market 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.

33 Milton Friedman, in *Capitalism and Freedom*, makes a similar argument for doctors: It would be desirable to eliminate official licensing of doctors since this would make lower-cost medical services available to the poor. Official licensing of doctors is simply a way to create a monopoly of services by certified doctors. Without official certification there would be private quality-rating services, and consumers could then decide whether they wanted high-priced doctors with high-quality private certification, or cheaper alternatives.

Product safety

One of the issues that 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 rigorous 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 about which we have good empirical evidence. One of the most notorious cases was the decision over the 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 Dowie:[34] The Ford Pinto had a design flaw in its fuel tanks which made it prone to explosion 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 of civil suits resulting from injury and death caused by the defect. To make this cost-benefit analysis, the Ford Motor Company calculated what, from their point of view, 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 per car. With these numbers, what should Ford do? The retrofitting would cost Ford about $137 million—$11 for each of the 12.5 million vehicles on the road. Roughly 180 people died every 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 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 cannot do everything and scarce resources ultimately have to be allocated. The issue here is that capitalist markets reduce this problem to the question of *what is most profitable to capitalist firms* and this is corrosive of human values.

34 This account is based on research by Mark Dowie reported in his essay "Pinto Madness," *Mother Jones*, September/October 1977.

The arts

Many people regard the arts as a vitally important domain of human activity for exploring life, meaning, and beauty. 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. If the main source of such funding is from the capitalist 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 they like to 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. A 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.

9. Capitalism, in a world of nation states, fuels militarism and imperialism

As I will use the terms here, both militarism and imperialism refer to the properties and strategies of states. *Militarism* refers to the development of military power beyond a level needed for narrow defensive purposes. A highly militaristic state is one in which military personnel, beliefs, and values permeate the state, subordinating state policy to military priorities. Examples would include Japan in the 1930s and the United States since the mid twentieth century. In the US, military priorities dominate the budget of the national state, military spending plays a pivotal role in the relationship between the state and economy, and military values and perspectives permeate foreign policy. These patterns may have intensified in the first decade of the twenty-first century, but they have characterized the US state since the 1950s. *Imperialism* refers to strategies of states in which states use political and military power for purposes of economic domination outside of the state's immediate territorial

jurisdiction.[35] The political and military power used may involve territorial conquest or overthrow of regimes, but it may also involve "softer" forms of power like international loans and foreign aid so long as such transfers reinforce economic dependencies. The central idea is that imperialism is a political-economic system in which state power is used internationally to support global forms of economic exploitation and domination.

Imperialism and militarism are obviously connected, since military power is one of the central forms of power deployed to extend and defend global forms of imperialist economic relations. Nevertheless, it is useful to distinguish these since militarism is not simply in the service of economic objectives but is also shaped by geopolitical dynamics,[36] and economic imperialism does not rely only on military power.

Defined in this way, militarism and imperialism are hardly unique to capitalism. Feudal states were centrally organized around military power and forms of subordination anchored in military command, and the imperial domination of territories for purposes of exploiting human and natural resources has occurred since the earliest city-states were formed. So capitalism as such does not create militarism and imperialism. Nevertheless, capitalism does, in specific ways, fuel both imperialism and militarism and shape their distinctive character in the world today.

Imperialism has accompanied capitalism from its beginnings. At the core of a capitalist economy is the search for markets and profits, and frequently this involves extending markets to new places and seeking sources of profits globally. Sometimes this kind of global market-making and capitalist expansion takes place through purely

35 The word "imperialism" is sometimes used to refer to the strategies of empires in which a state conquers and subordinates other parts of the world, either in the form of colonies or as components of an expanded multi-national state. At other times it is used to refer to global economic systems in which capitalist corporations from the developed capitalist world economically dominate economic activities and capital accumulation in other parts of the world. I am using the term to describe a particular intersection of the strategies of states and economic domination across territories.

36 By "geopolitical dynamics" I mean dynamics that are generated by rivalries among states in an inter-state system. These rivalries are fueled by a variety of processes, some of which may be economic and closely tied to capitalism, but which also include ideological and cultural forces. Nationalism as an ideological and cultural process, for example, can animate drives for state formation and conflicts between states which contribute to militarism in ways distinct from economically grounded imperialism.

economic means: merchants extend their trade networks, find new supplies of particular commodities and new outlets for profitable investment across long distances. But frequently such global expansion of capitalism has been backed by military power.

A variety of different forces historically have come into play in linking economic expansion with military force. The use of military power to expand and defend markets can be a way of excluding rival capitalist classes from those markets. This was particularly important in the era of mercantilism and colonialism where large capitalist trading companies were closely connected to states which enforced monopolies on their trading activities. The use of military power can also play a pivotal role in overcoming resistance to capitalist penetration, as was the case in the imperialist wars against China in the nineteenth century. In the second half of the twentieth century military power played an important role in preserving the possibilities for capital accumulation on a global scale by attempting to repress anti-capitalist revolutionary movements and policies in various parts of the world, both through direct military intervention and through a variety of forms of indirect intervention.[37]

In addition to militarism being fueled by capitalism because of its link to imperialism, militarism is also connected deeply to capitalism through the economic importance of military spending. This is particularly central in the US where military spending plays a critical role in the capitalist economy and underwrites the profits of many large corporations, but even in countries with a less militarized state such as Sweden, the production of military hardware can be a very profitable sector of capitalist production. While it would be an exaggeration to argue that the direct interest of capitalist firms in military spending explains militarism, the economic importance of military spending creates significant, powerful constituencies who oppose demilitarization.

37 The use of military force by the developed capitalist countries, especially the United States, against anti-capitalist movements in the Third World was politically framed in terms of containing the Soviet Union and China as geopolitical threats to US security. While it was undoubtedly the case that there was a geopolitical dynamic of conflict in play in this period, it was also the case that US military interventions—whether in the form of direct US military involvement as in Vietnam or indirect involvement in supporting military coups in Iran, Guatemala, Chile and many other places—was a response to various kinds of threats to global capitalist economic structures in these places.

10. Capitalism corrodes community

"Community" is one of those flexible terms in social and political discussions which are 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 about 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. Access to community in this sense is one aspect of the social conditions for human flourishing. But community is not just a question of what defines a good society in a moral sense; 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 mutual concern as a moral ideal, one can still acknowledge that community is instrumentally valuable in lowering the costs of social cooperation.[38]

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

38 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. 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.

obligation is essential for market exchanges and contracts to be possible. Emile Durkheim referred to this as the "noncontractual basis of contract."[39] Polanyi emphasizes the ways in which markets would destroy society if they were not constrained by effective communal institutions.[40] 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.

The central motivations 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 to 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.[41]

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.

---

39 Emile Durkheim, *The Division of Labor* (New York: The Free Press, 1947).
40 Karl Polanyi, *The Great Transformation: The Political and Economic Origins of Our Time* (Boston: Beacon Press, 2001).
41 G. A. Cohen, "Back to Socialist Basics," *New Left Review* 207 (September–October 1994), p. 9.

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 within the exploited class. He believed that the dynamics of capitalism would generate increasing interdependency and homogeneity of conditions among the broad mass of workers, and that 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 have instead 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 non-capitalists, capitalism has generated ever narrower circles of niche solidarity among people with unequal, segmented opportunities in the market. Community is thus narrowed and fractured both because of the inherent principles of greed and fear that drive competition, and because of the structure of inequality which results from that competition.

11. 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*. 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, Friedman argues, 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 percent of cases (so far), in no capitalist society in which the per capita income is above about $6,000 (in 1985 "purchasing power parity" dollars) has a democratic government ever turned into a dictatorship.[42] Nevertheless, if we take the idea of democracy as "rule by the people" seriously, there are three important ways in which capitalism limits democracy.

First, by definition, "private" ownership of means of production means that significant domains which have broad collective effects are simply removed from collective decision making. While the boundaries between the aspects of property rights that are considered private and the aspects that are subjected to public control are periodically contested, 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 uses of resources in a society should be made through collective-democratic processes. The key issue, then, is that the private decisions made by the owners of capitalist firms often have massive collective consequences both for employees 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 are meaningful forms of workers' democratic control within firms, as well as external democratic public controls, is a more democratic society than one which lacks these institutional arrangements. Of course, as defenders of capitalism argue, there may be reasons for the exclusion of non-owners from such decisions, either on the grounds of

42 Adam Przeworski, "Self-enforcing Democracy," in Donald Wittman and Barry Weingast (eds), *Oxford Handbook of Political Economy* (New York: Oxford University Press, 2006).

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.[43]

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 flows and movement of capital undermines the ability of democracy to set collective priorities even over those activities which capitalist firms themselves do not directly organize. The ability of communities to decide how best to provide public education or childcare 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.[44]

43 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 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).

44 The threat of disinvestment has been identified by many writers as the pivotal form of structural power of capital within a capitalist democracy. This dependency of the state on private investment is identified by Göran Therborn as one of the key characteristics that renders it a "capitalist state." Charles Lindblom identifies it as the essential reason the state is forced to worry about creating a favorable "business climate." Joshua Cohen and Joel Rogers identify it as the core of the "demand constraint" on democratic politics: people can only effectively demand those things which are compatible with ongoing capitalist investment. In all of these analyses democracy is limited by the power of capital.

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—such as race, gender, religious affiliation, wealth, income, and so on—generating 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. Someone 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 someone who lacks these attributes. These, however, are attributes morally relevant to public deliberation over collective decisions. The key to political equality is that morally irrelevant attributes should not generate inequalities in political power. Capitalism violates this condition. While the violation of political equality may be more severe in the United States than in most other developed capitalist countries, the wealthy and those 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 a much greater ability to contribute to political campaigns. Powerful people in corporations are embedded in social networks which give them access to policy makers in government, and 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 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 undermined by the deep interconnections between political and economic power within capitalism.

These eleven 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, left to its own devices, would in time remedy all of these harms, then the impulse to articulate the parameters of

---

See Göran Therborn, *What Does the Ruling Class Do When it Rules?* (London: Verso, 1980); Charles E. Lindblom, *Politics and Markets: The World's Political Economic Systems* (New York: Basic Books, 1977); Joshua Cohen and Joel Rogers, *On Democracy* (New York: Penguin, 1982).

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 judgment is correct, then any serious effort to ameliorate these harms must ultimately confront capitalism itself.

This immediately poses two serious problems. First, what is the alternative to capitalism? Unless one believes that a viable alternative which would actually reduce these harms is possible, what would be 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 rest of this book will explore a way of thinking about these questions.