

Chapter 1

The Fading Promise of Capitalism

Capitalism has been extraordinarily beneficial to most of humanity. Wherever capitalism has been adopted it has improved lives, lifted many out of poverty, and increased the rate of innovation and economic growth. Yet, there is a rising tide of extremist populism spreading like a stain across Europe and North America. Extremists, often from the right of the political spectrum, have become more powerful or have been elected in Hungary, Poland, Austria, and Italy, and have brought extremist parties to power. The United Kingdom (UK) was driven by populists to elect to leave the European Union (EU) after four decades of increasing integration, with no plan to survive outside the EU. The United States (US) managed to elect a member of the capitalist class who promised workers a land of “milk and honey” but further entrenched the power of capital. Despite the rising wealth of the rich nations “the natives are restless” and only demagogues spouting simplistic, often hateful, solutions are receiving a hearing.¹ Many explanations for this disconnect have been offered and local conditions in each country cannot be ignored.² But clearly capitalism is failing to keep its promise of a better life for all.

It is popular to complain about capitalism. In this book we, too, point out the many failings of modern capitalism as practiced in the rich countries. Our central argument, however, is that capitalism has become unmoored from the principle that gave it birth. As originally conceived capitalism was intended to free the people to pursue their personal interests. An increase in the wealth of nations was an unintended consequence of the exercise of that freedom that would encourage

monarchs to accept the change in economic structure. But the demands of giant corporations aided and abetted by governments have usurped this original purpose all in the name of economic efficiency and growth. As governments increasingly worship these false corporate gods, they are less able to prepare for challenges like the scourge of automation, which may allow corporations to cast aside millions of workers, and the existential threat of climate change. We explain that returning capitalism to its philosophical roots would enable the personal pursuit of wellbeing even as nations can effectively combat these two massive challenges.

We recognize that capitalism has always brought forth the bad with the good. It has doubled life spans; brought technological wonders like electricity, indoor plumbing, cars, computers, and planes; and launched humans into space. But we also see that it has given us enormous inequality, “satanic mills,” industrial wastelands, and a warming climate. These and many more are legitimate causes for complaint about the impacts of modern capitalism. In addition, the distribution of the fruits of modern capitalism are increasingly enjoyed by the rich and powerful rather than spread more widely. In the last four decades, even as the rich nations have become richer, most of their workers have seen their incomes stagnate. Technological innovation, a feature of capitalism that once always improved everyone’s lives, now threatens democracy and freedom and disproportionately enriches those already wealthy and a handful of entrepreneurs. Governments are delivering fewer services, economic growth is stalling, and private and government debts are rapidly increasing. In the rich countries overflowing with the benefits of capitalism and its constant innovation, people are lining up for the latest smartphone or to buy new cars while a growing number are voting for politicians offering to radically change the economic system that produces so many new baubles. With the aid of these “negative” populists, voters are increasingly worried about the social “bads” spawned by capitalism while they thoughtlessly enjoy its supposed “goods.”

As assailants attack it from all sides, the social and environmental consequences of capitalism’s failures have become glaringly obvious. Scholars and pundits offer no consensus on what caused these problems or how to solve them. Thomas Piketty in his magisterial work *Capital in the Twenty-First Century* tells us that inequality in wealth and income is a natural consequence of modern capitalism. A natural positive feedback of wealth-to-income-to-wealth creation constantly grows capital’s share of the economy as labor loses power, income, and wealth. Piketty proposes

extensive redistribution by governments but because he is an economist does not explain the politics by which this could be achieved.

Others do though. From the right, crusaders want to shrink government, entirely remove it from the economy, and double down on the “free-market” principles that caused the problems. Concerned with the immorality of inequality, and the class relations that produce them, neo-Marxists demand a radical restructuring of the economy that includes substantial public ownership of the means of production. Most environmentalists would harness the power of government to regulate industrial processes and consumer markets to reduce toxic emissions and the consumption of the environment. Some press for abolition of industrial activities such as coal-fired electricity generation and radical restriction of others. A few argue that we need to embrace the concept of “degrowth,” to produce less but share it better to prevent the sinking of “Lifeboat Earth” on which we live.³ This calls into question many processes of production and consumption that are fundamental to the constant growth on which capitalism feeds, essentially negating it.

A common refrain from the left, and from academia, is that “neoliberalism” is the cause of the present parlous state of capitalism. It is a slippery idea. Even its most trenchant critics cannot nail it down. Colin Crouch, for example, considers it a derivative of liberalism but it really is a huge distortion.⁴ Where liberalism aims at individual liberty, neoliberalism is only concerned with liberty of the market and, as we shall demonstrate, of the largest corporations. It has been disparaged as “capitalism with the gloves off.”⁵ Since about 1980 the idea of neoliberalism has become embedded in policymaking in many countries, and used to justify a shrunken government and weak “safety net” that does little to mitigate the potential harms, now realized, of rampant untamed capitalism.

The idea that capitalism should be untamed was conceived more than a century ago. In the late nineteenth century a group of economists gathered around the idea that all economic activity started with the desires and behaviors of individuals. From this the “Austrian School,” which would now be considered “libertarian,” concluded that governmental interference in markets reduced individual freedom. Horrified by the carnage of World War I initiated by governments, a group of Austrian economists led by Friedrich Hayek and Ludwig von Mises gathered in Geneva in the 1920s to work out how to protect capitalism from governments and the people.⁶ Democracy, they thought, was a threat. It

would lead to calls to distribute wealth more equally, weaken essential property rights, and nationalist politics would impede the global flow of goods that classical economic theory says makes all nations wealthier. They advocated construction of supranational institutions to make and enforce the rules of a free global market. Rather than democratically elected governments, they crafted a convincing narrative in which “the free market . . . is advanced as the only rational, fair, and democratic allocator of goods and services.”⁷ In other words, they and their neoliberal disciples did not want to liberate markets but to “encase” them by “redesigning states, laws, and other institutions” to insulate markets from hostile politics.⁸ Actually, from politics in general.

In some ways, the EU comes close to this neoliberal ideal with power allocated to a European council of government leaders, unelected Brussels technocrats to implement policies, and a toothless European parliament. These features also make it supranational as well as international in nature. Yet, interestingly, many scholars of international relations (who often are liberal minded) also support strong international institutions and the rule of law applied at the global level.⁹ In an international system without a government, they argue, governance through a “liberal world order” of rules, institutions, and norms keeps the peace. But it also protects and encourages “free” trade, leaving to national governments the task of combating any negative effects of globalization such as income inequality, unemployment, and climate change.

That is all very well in theory. What is the reality though? In this book, we start by showing why capitalism in its current form is neither liberal nor neoliberal. While neoliberalism promises efficient markets free of government interference, massive corporations now dominate most industries. This hands-off approach has allowed a small number of very large multinationals corporations—which we call “MegaCorps”—to dominate most industries within countries and in global trade.¹⁰ MegaCorps have accumulated so much economic and political power that governments cater to their interests and accede to their demands. This is capitalism of, by, and for corporations—what we call “CorpoCapitalism”—in which governments have enabled and empowered the rich and powerful and the corporations that they own or manage. The losers are the great majority of the people and the natural environment. The most important consequence of what is supposedly a neoliberal strategy has thus been a massive growth in corporate power coupled with a political capture of the state. Not only is there nothing neoliberal, and certainly

nothing liberal, about this as an ideological stance; there is also nothing neoliberal or liberal about the outcomes produced.

Nowhere has this transition to CorpoCapitalism proceeded farther or faster than in the US. Therefore, throughout this book we use the US as the lodestar that most rich countries are following, though at a slower pace and in varied ways. For a while after CorpoCapitalism took hold in the US and many other countries around the world, inflation fell, and economic growth increased. Apart from financial crises in peripheral countries like Thailand and Russia a “Great Moderation” seemed to have settled in.¹¹ But then CorpoCapitalism delivered the Great Recession, banking crashes, a massive increase in public and private debt, and rising income inequality, while it accelerated climate change. Now the concern is that economies are again stagnating. Lawrence Summers has argued the problem is excessive savings and reduced demand.¹² Because of the concentration of wealth, ageing populations, and a dearth of investment opportunities, he sees a future of “secular stagnation” punctuated by periods of debt-infused booms followed by deep recessions. A different version of secular stagnation suggests the cause is the ability of consumers and producers to “game” economic institutions constructed around a strategic policy.¹³ Robert Gordon worries that economic growth has stagnated because we have plucked the low-hanging fruit of technological innovation, and that technology is not improving people’s lives.¹⁴ In his view electricity, mass production, fossil-derived energy, and science increased living standards and ended common diseases, but today’s innovations are more entertaining than life enhancing. And information and communications technology (ICT) and nascent artificial intelligence (AI) are beginning to rule our lives as much as enhance them and destroy many low-skilled jobs while creating a few high-skilled jobs.

There are many explanations, or theories, but in total they suggest that the stagnation may be the ultimate gift of CorpoCapitalism. MegaCorps do not need innovation: to protect their position they can crush nascent competitors with their financial might, or just purchase them. In principle they support free competition, but in practice they prevent it. They sell hedonism, prioritize profits, and manage markets with the assent or support of governments. They may privately deliver social welfare to their employees (sick and parental leave, health care, wellness programs, etc.), relieving governments of that task, while increasing automation and outsourcing substantial work to contractors who can be dropped at will in this “gig” economy.

Liberalism and Capitalism

To find a better way, it is necessary to return to first principles. Scholars and policymakers want to “play with parameters,” which Donella Meadows disparaged as tinkering at the periphery, tweaking a policy here or establishing an institution there.¹⁵ Yet, to develop a comprehensive approach to capitalism we must start with the question of the purpose of the economy before we consider which form of economy is optimal. *What is the economy really for?* Should the economy float freely, unattached to society or the environment and unconcerned about its effects on either, as neoliberals recommend? Separating it from society in this way simplifies analysis with mathematical models and glib political platforms that avoid difficult debates about values and ethics not amenable to quantitative analysis. But it also means the economy, especially a market economy, serves no purpose beyond existing.

As we explain in chapter 2, liberal political philosophy was the foundation both of capitalism and of the United States. Yet, in recent years both have become unmoored from that vital guiding light. Liberalism is not, as commonly understood in the US and many other countries, a form of socialism. It is instead the ancient idea that the purpose of the economy and of its governance is *as far as possible to secure for each of its members the opportunity to pursue their wellbeing as they see it*. Liberal capitalism does not guarantee a good life for all; it offers opportunities for each to improve their life. “Deaths of despair” from suicide and opioid addiction show that capitalism as currently practiced fails by that measure alone.¹⁶

The premise for this economic purpose is the values represented by the liberal philosophy that gave rise to capitalism in the first place. Despite—perhaps because of—two centuries of social change, the principles of liberal philosophy have become ever more relevant. Political elites have forgotten—or been misled about—the principles of liberalism that brought forth capitalism out of feudal monarchy. The tradition of liberalism inspired Adam Smith’s *The Wealth of Nations*, founded the United States, freed slaves, grew more food, delivered medical innovations that lengthened lives, gave us the forty-hour work week, increased personal security, and broadened the same democracy that populists now threaten. But nor has the average person understood what liberalism entails for them, why they need it, and what their responsibilities would be in a genuinely liberal capitalist economy.

The founding documents of the United States clearly reflect a sense of liberty as “freedom from” the intrusions and restraints of government. This idea of rights-based individualism championed by thinkers such as John Locke fitted the moment as the US was attempting to throw off the shackles of colonial British rule. Similarly, Adam Smith in his *Wealth of Nations* explained how commerce could reject the rule of the monarchy. The classical liberal philosophy of John Locke, Adam Smith, and John Stuart Mill has progressively adapted over the years to the reality of advanced industrial societies, making it still relevant today and in the future. Unfortunately, espousing an extreme version of this philosophy, of which the Austrian economists would approve, Margaret Thatcher declared that there is no such thing as society. For her “there are individual men and women and there are families.”¹⁷ She then proceeded to espouse a libertarian view that people should help themselves and each other and not look to government entitlements. But that is not the only logical conclusion from her statement. For example, the strand of liberalism that emerged from the French Revolution adds a “common good” delivered through moral and ethical leadership, democracy, and equality.¹⁸ While government does not have a duty to deliver the “good life” to all, it does have a responsibility to create “life chances” or opportunities through which everyone can pursue their wellbeing in their own way. Yet, CorpoCapitalism directly supports the wellbeing of corporations, or rather the elites who benefit most from their wellbeing, but only indirectly and sparingly the wellbeing of the vast majority of men, women, and their children.

If capitalism is to become more liberal there is not just the need to correct the errors of the recent past, but also to do so while adapting to changing economic and social conditions going forward. In chapter 3 we explain three modern challenges to liberalism. First, it must correct the social harms caused by CorpoCapitalism. There is ample evidence that there is a yearning for a better quality of social life, not just for more goods and services offered by modern economies. Anyone born into a rich capitalist country is taught from the cradle that things bring happiness, that possessions display our worth to the world.¹⁹ In other words, capitalism has so affected perception that most adults in many rich countries have a severely distorted understanding of how to find happiness or wellbeing. Wellbeing is the lifelong process of exploring and developing personal possibilities. Not only does CorpoCapitalism drown out wellbeing with hedonism (delivering pleasures and satisfying emotions)

but it also is notoriously poor at enabling or supporting it, which is the true goal of liberalism. Indeed, it counters or distracts us from most of the ways we can increase our wellbeing. Thus, liberalism demands that space must be created *within* capitalism, for communities to secure their environment and individuals to pursue their personal wellbeing.

Second, the present and growing threat of climate change reduces the personal security of millions, even in the rich countries. Many atmospheric scientists are becoming increasingly alarmed about the potential for social collapse as the climate changes.²⁰ If governments are responsible for the security of citizens individually and collectively, then they are derelict in that duty for doing too little to prevent dangerous climate change or help communities adapt to its effects. This means that governments must create a space within capitalism for communities and individuals to build resilience and flourish in a low-carbon but warmer world. Third, the world of work is already changing, and this transformation will accelerate. Automation and artificial intelligence will cause mass unemployment, increase the wealth of the rich, and grow inequality, yet further straining the bands of common purpose that hold societies together.

As we explain in chapters 4 and 5, armed with the ideology of “free markets”—as if free markets exist anywhere in the universe free of the rules and institutions that political processes provide—MegaCorps have accumulated so much economic and political power that governments generally cater to their interests and accede to their demands. CorpoCapitalism means that, in effect, the profit motivations of MegaCorps have come to rule policy. One result is the collapse of the welfare state. As we explain in chapter 6, all rich countries have some form of welfare state to support the weak and powerless, the unemployed and unskilled, the halt and the lame. Some do much more than this, but in a liberal context this is what welfare is supposed to be about. Yet, in supposed liberal countries they no longer do, because they are designed for the challenges of the past and do little to improve wellbeing, reduce inequality from automation, or to mitigate climate change. They patch the scars of CorpoCapitalism as they are designed to prevent a further decline in living standards but not to increase opportunities for wellbeing. In chapter 7 we look at how governments raise the revenues and manage the distribution of social welfare benefits. We assess the social and personal harms (despite social welfare systems) caused by CorpoCapitalism in chapter 8. Where it has advanced furthest it has increased inequality,

reduced social mobility, and even halted the advance in longevity.

If the economy is to support, protect, and improve society and the lives within it, what should liberal capitalist economies provide to society and its members? Technological innovation is widely accepted as a primary way to combat climate change. The current innovation systems rely heavily on the serendipity of market innovation largely directed by the search for private profit. Chapter 9 assesses how technology might mitigate dangerous climate change and direct it toward social improvements rather than solely private gain. Then in chapter 10 we consider several potential changes to the distribution of opportunities for wellbeing and the sources of revenues that would support them. Liberal capitalism demands many and substantial changes to institutions that MegaCorps will oppose. As chapter 11 explains, institutions that are constructed to oppose or delay change must themselves evolve to change the underlying ideology from CorpoCapitalism to Liberal Capitalism.

Climate change is a unique threat to capitalism. Despite the efforts of the United Nations, three decades of international negotiations have not produced an effective agreement to avoid dangerous climate change. In chapter 12 we propose a different approach that emphasizes building global resilience through localized acceptance of the required radical lifestyle changes. Finally, in chapter 13 we sketch the principles by which the people might take back their governments from the MegaCorps and move toward *Liberal Capitalism*.