

IS CAPITALISM GOOD FOR THE ECONOMY?

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Sustained economic growth is generally regarded as essential to long-term improvements in living standards. However, a large volume of theoretical and empirical research has emerged in recent decades suggesting that this capitalistic approach may actually represent a barrier to long-term economic growth.

The findings pose a serious challenge to capitalism and have attracted heated debate in the post-recession years.

At the heart of this debate there is a fundamental question that few dare to ask: “Is there an inherent clash between

the power of capitalism and sustainable economic recovery?”

It might seem absurd to even consider such as a proposition but, given the implicit elements within capitalism, we may be warranted to question some of the conventional wisdom surrounding capital accumulation (defined simply as the gathering or amassing of objects of value). It is widely acknowledged within the so-called ‘utilitarian’ framework that capital accumulation plays an instrumental role in the process of optimizing ‘real capitalist wealth’. The reason for this is straightforward - if we assume that capitalists maximize their individual

utility through consumption, then the accumulation of more capital and hence more consumption will ensure that their utilitarian objective is satisfied.

But Karl Marx reminds us of the inherent dangers of this self-centered philosophy: “Accumulation of wealth at one pole is at the same time accumulation of misery, agony of toil, slavery, ignorance, brutality, mental degradation, at the opposite pole.”

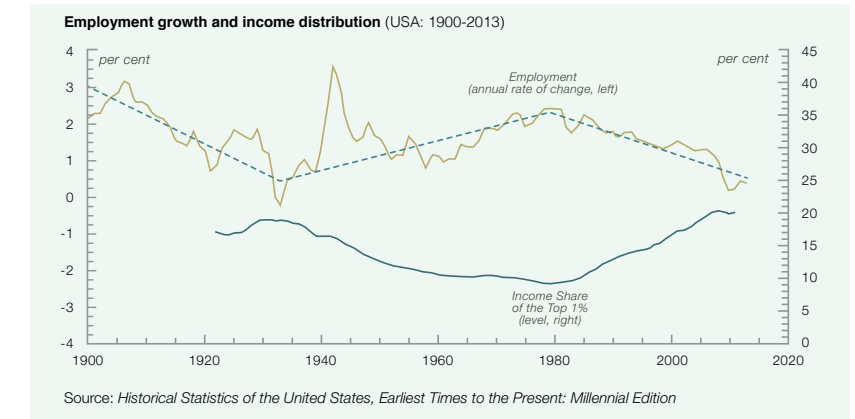
With this mainstream utilitarian approach there is a real danger that, whilst trying to achieve the greatest value from our purchases, we become obsessed with the notion that more is better. The contemporary capitalistic process of accumulation is intentionally channeled towards the maximization of personal earnings and wealth and thus towards a skewed redistribution of national income. The concern is that this model of capitalism may outstrip labour in terms of an equitable and socially acceptable share of both income and assets, thus conferring greater power on capitalists.

The implications of this potentially more sinister interpretation of the capitalists’ objective are of considerable significance if you take into account the overall distribution of income between capitalists and other groups in society. More specifically, it can be argued that the incessant struggle of capitalists to acquire a larger share of the national income manifests itself in the current precarious state of many economies around the world as a byproduct of the global financial crisis.

A more refined way of looking at the power of capitalists is to focus on what is known as the ‘Top 1%’ – which includes the world’s highest earners whose incomes derive (directly or indirectly) from the use of capital. It is here that accumulation and ownership of capital is the very essence of national income distribution. The chart depicts the century-long relationship between

the income share of the Top 1% of earners and the annual growth rate of employment in the USA.

governments, business and society when considering whether or not economic recovery is compatible with



These statistics illustrate that the growth of capitalism may have been at the expense of job creation and consequently long-term economic growth. Overall, the figures indicate a negative relationship between employment growth and the national income share of the Top 1% in the USA.

They also show that periods of economic stagnation with rising unemployment have been accompanied by increases in the income share of the Top 1%.

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Within the current socio-economic environment there is the danger that workers and capitalists are on track for a ‘head-on collision’, with each side seeking to increase their relative share of national income in order to improve their individual well-being.

This power struggle challenges whether capitalism is a fair and self-sustaining economic system and raises a host of questions for

the rising power of capitalism. For example:

- Will this power struggle lead to even greater income and wealth inequalities across the globe?
- What are the implications for government tax revenues and national regulations?
- If left to its own devices, will capitalism deliver the hoped-for needs and aspirations of society in terms of living standards, jobs, equality, etc.?

There is the danger that the growth of income inequalities across the globe will result in unmanageable tensions manifested in the form of strikes, social unrest and a breakdown of the market economy which could lead to another severe global financial crisis. With this in mind we must think seriously about the impact of a capitalistic approach to the global recovery. **MF**