

Future of Capitalism

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Abstract

The moral foundation of capitalism should be reconsidered. Modern capitalism is disembodied from the social and cultural norms of society. Reciprocity and social capital play vital roles in providing public goods in advanced market economies. The stakeholder relationship is a key in the functioning of business in today's world, and identifying and analyzing stakeholders is a way to acknowledge the existence of multiple constituencies in a corporation.

The economic teachings of world religions challenge the way capitalism is functioning, and their corresponding perspectives are worthy of consideration.

Conserving and enabling call for a radical transformation of business. Business should contribute to the conservation and restoration of the ecology of the natural world and, at the same time, it should contribute to the enhancement of the capabilities and self-development of people.

Ethics and the future of capitalism are strongly connected. If we want to sustain capitalism for a long time we have to create a less violent, more caring form of it.

Keywords

market fundamentalism, civil society, stakeholder capitalism, world religions, conserving & enabling

14.1 The Legitimacy of Capitalism

In the Millennium capitalism is at a crossroads. Through the collapse of communism and the accelerated trend of globalization, a new stage of capitalism has arrived. The protest actions of 1999 and 2000 in Seattle and Washington, D.C., as well as those in Millau and Prague, clearly show that the legitimacy of capitalism is in many respect questionable. The *moral foundations of capitalism* should be reconsidered. [Zsolnai, L. (ed.), 2002]

Social critic *David Korten* writes, ‘we are experiencing accelerating social and environmental disintegration in nearly every country of the world – as revealed by a rise of poverty, unemployment, inequality, violent crime, failing families, and environmental degradation.’ Economic globalization has resulted in ‘shifting power away from governments responsible for the public good and toward a handful of corporations and financial institutions driven by a single imperative – the quest for short-term financial gain. This has concentrated massive economic and political power in the hands of an elite few whose absolute share of the products of a declining pool of natural wealth continues to increase at a substantial rate.’ [Korten, D., 1996, p.11. and p.12.]

One of the most successful capitalists of our age, *George Soros* calls the underlying ideology of global capitalism ‘*market fundamentalism*.’ According to market fundamentalism, all kinds of values can be reduced to market values, and the free market is the only efficient mechanism that can provide for a rational allocation of resources. [Soros, G., 1998]

The market as an evaluation mechanism has inherent deficiencies. First of all, there are stakeholders that are simply non-represented in determining market values. Natural beings and future generations do not have the opportunity to vote on the marketplace. Secondly, the preferences of human individuals count rather unequally; that is, in proportion to their purchasing power, the interests of the poor and disadvantaged are necessarily underrepresented in free market settings. Thirdly, the actual preferences of the market players are rather myopic; that is, the economic agents’ own interests are often misrepresented.

These inherent deficiencies imply that free markets cannot produce socially optimal outcomes. In many cases market evaluation is misleading

from either a social or environmental point of view. This means that market is a necessary but not a sufficient form of evaluating economic activities.

In its present form capitalism does need counter-veiling forces. Both international politics and transnational civil society could play important roles in correcting the deficiencies of market fundamentalism. The instabilities and inequalities of the global capitalist system could feed into nationalistic, ethnic and religious fundamentalism. In order to prevent a return to that kind of fundamentalism, we should correct the excesses of laissez faire capitalism on a global scale.

14.2 Capitalism as Economic Order

Three structural features can characterize *capitalism* as an *economic order*; namely, private ownership of the means of production, *profit* and utility maximization as the basic motivation for economic action, and coordination of economic activities by the market and price mechanism. The capitalist economy can show individuals the relative prices but cannot relieve them of the choice between goals and values. Modern capitalism is disembedded from the social and cultural norms of society. [Koslowski, P., 1996)

The *Czech privatization process* in the 1990s illuminates the point. *Lubomir Mlcoch*, of Charles University in Prague, demonstrated that introducing laissez-faire capitalism to Eastern and Central Europe without respecting the cultural norms and institutional settings of society necessarily led to great inefficiency and enormous social losses. Transition economies show that there is a possible trade-off between rapid institutional change and the quality of the emerging business ethics and legal and economic orders. Fast institutional changes could destabilize society and economy, endanger order, and undermine moral standards in business.

The economy is necessarily based on meta-economic values that should not focus exclusively on economic efficiency. The Czech style capitalism, which sacrificed ethical considerations in order to achieve economic rationalization and efficiency, was simply doomed to fail. Business ethics is not a luxury for advanced economies but a source of the wealth of nations. [Mlcoch, L., 1998]

The question of goals that individuals in a society set for themselves is as important as how these goals are fulfilled. One must ask about the reasonableness of the goals as well as the optimal allocation of resources for those goals. Pareto-optimum cannot define social or ethical optimization beyond the economic viewpoint of allocative optimization. Ethics requires considering the totality of aspects and not making decisions or evaluations solely on the basis of individual preferences.

Market does not properly deal with certain values (e.g., public goods, the environment, future generations). There is a need for reembedding business, the market, and economic motivation into ethical and social norms. Capitalism should be *reembedded* in the ethics and culture of *society*. [Koslowski, P., 1996]

14.3 Reciprocity and Stakeholder Capitalism

Italian economist *Stefano Zamagni* argues that successful societies enable people to undertake *cooperative ventures* for mutual advantages. In such societies the so-called social capital is well developed as an efficient network of non-profit and voluntary organizations functioning to provide public good of various kinds. *Reciprocity* plays a vital role in the functioning of advanced market economies. Reciprocity ties may increase the outcome of the economic game either by stabilizing cooperative behavior among the agents or by endogenously altering the preferences of the agents themselves. [Zamagni, S., 2002]

The most detrimental effect of the self-interest doctrine and the culture of contract is dissemination of the belief that behaviors inspired by motives other than self-interest are conducive to economic disaster. Quite the contrary, trust, reciprocity and altruism contribute significantly to the civilizing process our societies are undergoing.

The civil society, which is based on the principle of subsidiarity and functions by the mechanism of reciprocity, could contribute significantly to the development of an environmentally sustainable and socially just form of capitalism. The post-modern, global reality of our age requires a new model of social and economic governance that integrates a

constructive symbiosis with the invisible hand of the market, the visible hand of the government, and the humanizing hand of civil society. [Zamagni, S., 2002]

Business ethicist *Edward R. Freeman* emphasizes that the *stakeholder relationship* is a key to understand the functioning of business in today's world. Identifying and analyzing stakeholders is a way to acknowledge the existence of multiple constituencies in a corporation. The more the stakeholders participate in the decisions that affect them, the greater the likelihood that they will be committed to the future of the corporate enterprise. [Freeman, E.R., 1996]

Freeman has developed the idea of *stakeholder capitalism*, which is determined by principles that could allow business to become a fully human institution, asking managers to *create value for all stakeholders*. Stakeholder capitalism is based on four principles. [Freeman, E.R., 1996]

(i) *Stakeholder cooperation*

Value is created because stakeholders can jointly satisfy their respective needs and desires. Capitalism works because entrepreneurs and managers create and sustain relationships among customers, suppliers, employees, financiers and communities. The support of each group is vital to the success of the endeavor.

(ii) *Complexity*

Human beings are complex creatures capable of acting from many values. Sometimes they are selfish and sometimes altruistic. Many values are shared. Capitalism works because of this complexity rather than in spite of it.

(iii) *Continuous creation*

Business as an institution is a source for the creation of value. Cooperating with stakeholders and motivated by values, business people continuously create new sources of value. And the beauty of the modern corporate form is that it can be designed to be continuous rather than destructive. One creation does not have to destroy another. Rather there is a continuous cycle of value creation that raises the well-being of everyone.

(iv) *Emergent competition*

Competition emerges from a relatively free and democratic society so that stakeholders have options. Competition emerges out of the cooperation among stakeholders rather than being based on the urge to 'get the other guy.' Competition is important in stakeholder capitalism but it is not the primary force.

There is much work to be done to articulate stakeholder capitalism in a way that allows business to occupy the moral high ground. Seeing business as anything less than an institution that is a vital part of our conception of the good life gives away too much.

14.4 World Religions and their Economic Teachings

World religions have alternative views on economic activities, which have great relevance for the renewal of capitalism. The economic teachings of *Judaism, Catholicism, Buddhism* and *Taoism* will be presented. Each of them challenges the way capitalism functions in our days. [Zsolnai L. 1990] Other world religions (Hinduism and Protestantism e.g.) have developed their own alternative economic views which are also worthy of study. [Chakraborty, S.K., 1995; Cobb, J.B. & Daly, H.E., 1990]

14.4.1 Jewish Economic Man

Meir Tamari has reconstructed the principles of Jewish economic ethics and the main features of the 'Jewish Economic Man.' [Tamari, M., 1987, 1988]

Judaism considers the role of the *entrepreneur* as legitimate and desirable. Entrepreneurs are morally entitled to a profit in return for fulfilling their function in society. The real problem is the challenge of *wealth*. How should the Jewish Economic Man use his or her accumulated wealth?

What are his or her obligations to the other members of the community, especially to the poor and disabled?

It is an axiom of Judaism that stronger and more successful members of the community have a duty to provide for those who do not share their prosperity. The Hebrew word for charity [Tzedakah] has the same root as the word for 'justice.' Jewish Economic Man should give 10–20% of his or her profit for *charity* – to aid weaker and less successful members of the community.

The central point of the Jewish Economic ethics is the insistence that one should *not cause damage* – directly, indirectly or even accidentally. As the rabbinic dictum says, 'One has a benefit and other does not suffer a loss.' This principle poses hard ecological and human constraints for economic activities. Jewish Economic Man needs to choose second- or third-best alternatives, which do not harm anybody.

In Judaism man is the pinnacle of God's creation so that everything exists for the benefit of humans. However, this imposes an obligation on men and women to hand over the world to *future generations* in a state that provides *equally well* for them.

In sum, we can say that Jewish Economic Man has two fundamental obligations. First, he or she can make profit if and only if his or her enterprise does not harm anybody. Second, he or she should give a portion of the generated profit for charity.

14.4.2 Catholic Social Teaching

The Catholic vision of economic life is based on the *Social Teaching* of the *Church*. However its new, controversial formulation was presented in the U.S. Bishops' Pastoral Message entitled '*Economic Justice for All*.' [U.S. Bishops, 1986]

According to Christianity, the *human person* is sacred because he or she is the clearest reflection of God on the Earth. Human dignity comes from God, not from nationality, race, sex, economic status or any human accomplishment. Thus every economic decision and institution must be judged in light of whether it protects or undermines the *dignity* of human persons.

Catholic Social Teaching generates an interconnected web of duties, rights and priorities. First, *duties* are defined as love and justice. Corresponding to these duties are the *human rights* of every person. Finally, duties and rights entail several *priorities* that should guide the economic choices of individuals, communities and the nation as a whole.

Love is at the heart of Christian morality: ‘*Love thy neighbor as thyself.*’ In the framework of contemporary decision theory this commandment can be formulated in such a way that actors should give the same weight to others’ payoffs as their own.

Justice has three meanings in Catholic Social Teaching. Commutative justice calls for fairness in all agreements and exchanges between individuals and social groups. Distributive justice requires the allocation of income, wealth and power to aid persons whose basic needs are unmet. Finally, social justice implies the participation of all persons in economic and social life.

In Catholic Social Teaching human rights play a fundamental role. Not only are the well-known civil and political rights emphasized but also those concerning human welfare at large. Among these ‘*economic rights*’ are the rights to life, food, shelter, rest, medical care and basic education, because all of these are indispensable to the protection of human dignity.

The main priorities proposed by the U.S. Bishops for the economy include the following:

- (i) the fulfillment of the basic needs of the poor;
- (ii) increased participation of excluded and vulnerable people in economic life;
- (iii) the direction of investments toward the benefit of those who are poor or economically insecure;
- (iv) economic and social policies to protect the strength and stability of families.

All persons are called on to contribute to the common good by seeking *excellence* in production and service. The freedom of business is protected but *accountability of business* to the common good and justice must be assured. Government has an essential moral function: *protecting human rights* and *securing justice* for all members of society.

In sum, we can say that Catholic Social Teaching favors serving the dignity of human persons. Economic activities are subordinated to this goal.

14.4.3 Buddhist Economics

Buddhist economics is based on the Buddhist way of life. The main goal of a Buddhist life is *liberation* from all suffering. *Nirvana* is the final state, which can be approached by want negation and purification of human character.

Schumacher described Buddhist economics in his best-selling book '*Small Is Beautiful*.' [Schumacher, E.F., 1973]

Central values of Buddhist economics are *simplicity* and *non-violence*. From a Buddhist point of view the optimal pattern of consumption is to reach a high level of human satisfaction by means of a low rate of material consumption. This allows people to live without pressure and strain and to fulfill the primary injunction of Buddhism: 'Cease to do evil; try to do good.' As natural resources are limited everywhere, people living simple lifestyles are obviously less likely to be at each other's throats than those overly dependent on scarce natural resources.

According to Buddhist economics, production using local resources for local needs is the most rational way of organizing economic life. Dependence on imports from afar and the consequent need for export production is uneconomic and justifiable only in exceptional cases.

For Buddhists there is an essential difference between renewable and non-renewable resources. *Non-renewable resources* must be used only if they are absolutely indispensable, and then only with the greatest care and concern for conservation. To use non-renewable resources heedlessly or extravagantly is an act of violence. Economizing should be based on *renewable resources* as much as possible.

Buddhism does not accept the assumption of man's superiority to other species. Its motto could be, '*noblesse oblige*'; that is, man must observe kindness and compassion towards natural creatures and be good to them in every way.

In sum, we can say that Buddhist economics represents a middle way between modern growth economy and traditional stagnation. It seeks the most appropriate path of development, the *Right Livelihood* for people.

14.4.4 The Taoist Economy

Taoism (and Confucianism) greatly influences the economies of Far Eastern countries. Studying the economic system of Taiwan, *Li-the Sun* described the main features of the Taoist Economy. [Li-The Sun, 1986]

‘*Tao*’ is the fundamental concept, which represents the way of *equilibrium* and *harmony* among myriad things of the Universe. Taoists believe that in the Universe two basic forces exist: yin and yang. *Yin* is the feminine principle; the yielding, co-operative force. *Yang* is the masculine principle; the active, competitive force. Yin and yang are complementary to each other. Humans need to find a balance between yin and yang forces in their own selves as well as in their societies. This results in the fulfillment of *Tao*.

In the Taoist economy two basic values play decisive roles, the *inner equilibrium* of individuals and *social harmony*. The former is necessary in resolving microeconomic problems while the latter is fundamental in handling macroeconomic issues.

At the *microeconomic* level the following yin and yang pairs are balanced in the Taoist economy:

- (i) public interest versus self-interest;
- (ii) morality versus profit;
- (iii) want negation versus want satisfaction;
- (iv) cooperation versus competition;
- (v) leisure versus work.

In the Taoist economy economic activities are directed not only by self-interest. Entrepreneurs should promote the supply of public goods, and services too. Profit cannot be the sole incentive of work and investment. Since profit comes from society, a portion of it should be returned to society in the form of social responsibility. The Taoist consumer is a want regulator even without income constraints. Want negation is valued. The maximization of wants is unwise and has detrimental effects on the community and the natural environment. In production the cooperative and competitive instincts are balanced. Competition without cooperation would create chaos, but cooperation without competition would generate poverty. For

people, leisure and work have equal importance. Work produces wealth while leisure is necessary for moral development.

At the *macroeconomic level* the following yin and yang pairs are balanced in the Taoist economy:

- (i) the poor versus the rich;
- (ii) labor versus capital;
- (iii) public sector versus private sector;
- (iv) planning system versus market system;
- (v) stagnation versus growth;
- (vi) full employment versus price stability.

Balance between the poor and the rich requires equitable distribution of income and wealth. Taoist social policy aims at the elimination of artificial inequalities among people but does not try to eliminate natural inequalities altogether. Balance between labor and capital has two faces: one is the right proportion between labor production and machine production, and the other is the right proportion between labor ownership and capital ownership. Balance between the public sector and the private sector is necessary because the public sector provides public goods and services while the private sector assures economic efficiency. Balance between the planning system and the market system is also important, for similar reasons. Balance between stagnation and growth requires some reduction of the natural growth rate of the economy. In the Taoist economy there is no trade-off between unemployment and inflation. Since yin and yang forces rule the economy, a balance between employment and price stability is feasible.

In sum, we can say that the Taoist economy is based on the balance of yin and yang forces and tries to actualize the inner equilibrium of individuals as well as social harmony.

Table 14.1 summarizes the different responses of the studied world religions to the economic problematic. Like other world religions Judaism, Catholicism, Buddhism and Taoism represent *life-serving modes* of *economizing* which assure the livelihood of human communities and the permanence of natural ecosystems.

Table 14.1
World Religions and the Economic Problematic

	<i>Basic Values</i>	<i>Economic Means</i>
<i>Judaism</i>	causing no harm, solidarity	constraints on profit making, charity
<i>Catholicism</i>	love, justice	personal excellence, responsible enterprises, duties of the government
<i>Buddhism</i>	simplicity, non-violence	reduced consumption, using local resources, ecological conservation
<i>Taoism</i>	inner equilibrium of the individual, social harmony	yin & yang forces at micro-economic and macro-economic levels

14.5 Conclusions

Ethics and the *future of capitalism* are strongly connected. If we want to *sustain capitalism* for a long time we have to create a *less violent, more caring* form of it.

Two basic principles are emerging that business should realize in order to be legitimate in the 21st century reality: (i) Business should be *conserving*, that is, should contribute to the conservation and restoration of the ecology of the natural world; (ii) Business should be *enabling*, that is, should contribute to the enhancement of the capabilities and self-development of people. [Robertson, J., 1990]

Conserving and enabling call for a *radical transformation of business*. The future of capitalism is highly dependent on its ability to adapt to contemporary ecological and social realities.

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