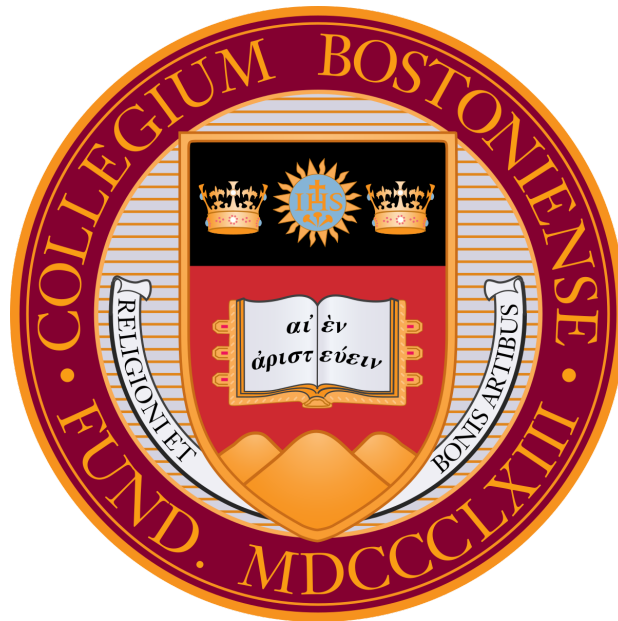


# The Ethics of Capitalism in Relation to Wealth Inequality

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## Abstract

*Contemporary American capitalism is sick. To determine what is wrong with it we must first go back to its conception and understand the theoretical advantages and drawbacks of this system. Once we come to understand what capitalism is, and how it developed, we will move on to see how it has evolved to its current state within an American mixed economy. Wealth inequality is at an all time high in America, exacerbated by the 2008 financial crisis, with warnings from men like Karl Marx coming to fruition more than a century later. Today, corporations praise capitalism on the way up, and exploit interventionist concepts such as bailouts on the way down to skew wealth to unprecedented levels. Multi-millionaire politicians accept lobbying funds and allow this to happen, stopping capitalism from running its natural course. The wealthy 1% are able to invest in economic vehicles and share in this massive wealth shift while most Americans cannot afford to, and as a result the average American is left behind. To rationalize whether capitalism is a system worth saving, we will then look to why some economic inequality is inherent to capitalism to some degree. Once this is understood, we can then analyze whether or not such wealth inequalities are immoral in itself. We will find that wealth inequality may be an unavoidable feature of capitalism, however under certain conditions it is not in itself immoral — it is the lack of economic opportunity and economic sufficiency for Americans that is. Perhaps there is a reason why corporations and politicians act the way they do, and if so we will look at potential remedies to limit inequality and hold corporations and politicians accountable. The thesis will conclude that if this pattern of growing wealth inequality continues as demonstrated in the recent COVID-19 pandemic, capitalism in America may be doomed.*

## Chapter 1

### Understanding Capitalism and its History



*“Capitalism is the astounding belief that the most wickedest of men will do the most wickedest of things for the greatest good of everyone.”*

— John Maynard Keynes

#### *I. Defining Capitalism: What is it?*

The term “capitalism” can be defined in a multitude of ways depending on its context or environment — a testament to its fluidity throughout its potentially long or short history. While its exact definition is still argued today, an early traditional account originating in classical eighteenth century liberal economic thought and still often articulated is the commercialization model. This sees capitalism originating in trade in an attempt to benefit both parties through a transaction. An example of this comes from when the “father of capitalism”<sup>1</sup> Adam Smith famously wrote: “It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest.”<sup>2</sup> In other words, both parties engage in a voluntary transaction for their own interest, but neither can obtain what he or she wants without also addressing what the other wants. This definition would suggest that capitalism, in its most basic formulation, has been naturally present in humanity in paleolithic times when cavemen would trade food or other items to better help themselves survive. If this

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<sup>1</sup> Although never using the term capitalism, this title was given to English philosopher and economist Adam Smith (1723-1790) due to his work *Wealth of Nations*, which articulated the modern principles and set precedents for what we now know today as free-market capitalism.

<sup>2</sup> Smith, Adam, and R. Campbell. *An Inquiry Into the Nature and Causes of the Wealth of Nations*, Volume 1. Volume 1 ed., Liberty Fund, 1982. bk.1, ch. 2

were to be the definition of capitalism, it would appear that capitalism is something society always lived with and practiced, almost naturally and inevitably, only to be limited by the technological and social environments of early societies. However, this simple definition based in trade is widely viewed today as just one part of what capitalism as a system is as a whole, but provides us a starting point for defining capitalism in its simplest form.

In the twenty-first century, the definition of capitalism has grown in complexity and is commonly defined in dictionaries as an “an economic system characterized by private or corporate ownership of capital goods, by investments that are determined by private decision, and by prices, production, and the distribution of goods that are determined mainly by competition in a free market.”<sup>3</sup> Here, critical key terms like “capital goods,” “investment,” and “free market” are introduced, which are associated with the economics of capitalism. Capital goods are goods that are used as means of production to create finished goods for the consumer. The general population then plays two roles: (1) as workers using capital goods to create finishing goods and (2) as consumers who buy the finished products in a free market. A free market is a place in which prices are determined by unrestricted competition between privately owned businesses, free of government intervention, and investments are made to expend money with the expectation of achieving a profit or material result.

The failure of these prior definitions, and ones like it, is in their attempts to pigeonhole the entirety of what capitalism is in a purely economic scope. Additionally do they allow for *any* type of governmental regulation. They are simply conceptualizations of an ideal type of ahistorical laissez-faire capitalism,<sup>4</sup> detached from any sort of place or time. Capitalism in solely

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<sup>3</sup> “Capitalism.” The Merriam-Webster.Com Dictionary, [www.merriam-webster.com/dictionary/capitalism](http://www.merriam-webster.com/dictionary/capitalism).

<sup>4</sup> Laissez-faire capitalism is capitalism in its rawest form. It is an economic system in which government should exist almost completely independently from the economy and instead allow individuals to freely carry out their own economic affairs.

an economic sense does not capture the complex integrated social system that depends on a specific ethical, political, legal, economic, and cultural foundation. It is synonymous with the freedom to choose, the protection of individual rights, and the pursuit of one's own desires.<sup>5</sup> It would be difficult, if not impossible, to inject any true form of capitalism into a society without these social values, and a political structure in place that does not foster these values.<sup>6</sup> For the purposes of this thesis, when referencing capitalism we will be primarily using the definition found in the *Macmillan Dictionary of Modern Economics* which defines capitalism as a:

Political, social, and economic system in which property, including capital assets, is owned and controlled for the most part by private persons. Under capitalism, the price mechanism is used as a signaling system which allocates resources between uses. The extent to which the price mechanism is used, the degree of competitiveness in markets, and the level of government intervention distinguish exact forms of capitalism.<sup>7</sup>

This definition does a far better job of capturing the wide breadth of capitalism as not only an economic system, but a social and political system as well. The key term “price mechanism” is used here, defined as the forces of supply and demand determining the prices of commodities and the changes therein. It is the buyers and sellers who actually determine the price of a commodity in a capitalist economy. It further introduces flexibility into the degree of competition and freedom in markets, as regulated by the government it is placed into. We will examine a real world application of capitalism in Chapter Two of this thesis using the United States as a case study.

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<sup>5</sup> Ideal, The Unknown. “Capitalism Is the Ideal Social System.” Capitalism.Org, Copyright 2021–1996 Capitalism Magazine, 2021, [www.capitalism.org](http://www.capitalism.org)

<sup>6</sup> A common question that is raised regarding this is what about China? China does have elements of capitalism such as commodity production, however China is not a capitalist country because the party retains control over the direction of the country, maintaining its course of socialist development.

<sup>7</sup> Pearce, D. *Macmillan Dictionary of Modern Economics* (Dictionary Series). 3rd ed., Palgrave Macmillan, 1986. p. 54.

## *II. Pre-Capitalist & Early Capitalist Systems: A Brief History*

From the differences in these prior definitions, it is apparent that capitalism has been changing and evolving since its early emergence in paleolithic times. For the purpose of this section we will begin our journey with a brief look at the precapitalist systems of feudalism and mercantilism, and consider why capitalism did not occur sooner in human history. We will then discuss pre-industrial mercantilism in the late sixteenth to eighteenth centuries and conclude with eighteenth to twenty-first century post-industrial capitalism in its present day form. This form of capitalism is characterized as a society in which goods are produced for profitable exchange and capital assets including land, and even a competitive human labor market, are commodities for sale. Furthermore, a free market is dependent on producers and consumers relying on the price mechanism and the laws of supply and demand to regulate prices and efficiently allocate resources.<sup>8</sup>

Looking at the twenty-first century world, it is astounding how widespread and dominant capitalism is today. It is difficult to imagine a developed society that does not at least have some capitalist influence. This raises the question: what were the common political, social, and economic structures found in the world before capitalism? And why didn't capitalism occur sooner? Feudalism was the dominant system in Europe<sup>9</sup> roughly from the eighth century AD, and was gradually replaced by more of a mercantilist system in the sixteenth century. Feudalism brought some semblance of order out of a warring Europe in the middle ages and had two main classes; the nobles and the serfs. The general premise of feudalism was that in return for

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<sup>8</sup> These three criteria sum up what constitutes modern day economic capitalism as defined in Section I.

<sup>9</sup> For the purpose of this thesis, Europe will be the focus of pre-capitalist and early capitalist systems as it is generally referred to as the most advanced center of humanity for much of early-modern human history. It was the first of the major world regions to develop a modern economy based on commercial agriculture, industrial development, and the provision of specialized services.



protection and a place to live, serfs were required to farm the land and perform other jobs such as to serve as warriors that were requested by the lord. Roughly 90% of Europe's population were serfs, who did not own the land they worked, and were not permitted to leave their land. In short, they were largely stuck in their roles to survive.<sup>10</sup> Under this system, serfs had no interest in technological innovation, nor in cooperating with one another as what they reaped was largely for themselves and their families. Because lords were not producing to sell on the market, there was no competitive pressure for them to innovate. Furthermore, feudal lords primarily focused on military development to gain power and wealth through invasion or to protect their own kingdom, meaning they had no incentive to invest in developing new productive technologies. This stunted the growth of capitalism until the feudal system began to collapse in the fifteenth century.<sup>11</sup>

In the wake of post-feudal Europe in the sixteenth century a new form of organization began to emerge known as mercantilism, or merchant capitalism. With feudal serfs free from their land, as well as sailing and shipping technology growing in capabilities, markets began to arise in Europe. European governments began to establish colonies to collect raw goods, and the search for quick trade route passages are what led to major events like the Americas being discovered in the late fifteenth century. A new merchant class began to arise who would transport goods from markets where they could be purchased cheaply and attempt to sell them for a profit. At this time we begin to see early money lending institutions form, and even the first chartered joint stock<sup>12</sup> companies in the Muscovy and Dutch East India companies. This is an important

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<sup>10</sup> Herlihy, David. *The History of Feudalism*. Humanities Press, 1998, [link.springer.com/book/10.1007/978-1-349-00253-5](https://link.springer.com/book/10.1007/978-1-349-00253-5).

<sup>11</sup> Hilton, Rodney. "FEUDALISM AND THE ORIGINS OF CAPITALISM." *History Workshop Journal*, vol. 1, no. 1, 1976, pp. 9–25. Crossref, doi:10.1093/hwj/1.1.9.

<sup>12</sup> A chartered joint stock company is an entity in which stock can be owned by shareholders that are granted rights, usually by royalty or other government insulation for trade, exploration, or colonization.

step toward capitalism, as excess profits allow for reinvestment into companies for continued profit, an element new to human history and fundamental to modern capitalism and free markets.

This pre-industrial form of capitalism is widely regarded as the beginning of modern capitalism. Some economists, however, would argue this system more closely resembled feudalism with a profit incentive. Economist Karl Polanyi writes "mercantilism, with all its tendency toward commercialization, never attacked the safeguards which protected [the] two basic elements of production – labor and land – from becoming the elements of commerce."<sup>13</sup> In other words, this mercantilist system is missing capital assets needed for capitalism to fully form. This includes wage labor and land being able to be widely bought and sold on an open market. Land was still widely controlled by the ruling class, and a competitive labor market did not yet exist — two factors necessary for a true capitalist society. Regardless, whether this system is labeled a form of mercantilism or as a type of pre-industrial capitalism, the profit motivated kingdoms and merchant class focused on trade. This led to the development of new technologies and social structures, allowing for the industrial revolution and modern capitalism to develop shortly after.

In the eighteenth century the industrial revolution gave the boom of technology and degree of change necessary for a social, economic, and political event worthy of the title “revolution.” Production skyrocketed due to new technologies, such as the spinning jenny and steam engine, allowing for the first time factories to arise in which workers were separated from ownership of the means of production, instead being paid a wage. These workers further utilized an extremely efficient concept known as the “division of labor”<sup>14</sup> in which workers specialized in

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<sup>13</sup> Polanyi, Karl. *The Great Transformation: The Political and Economic Origins of Our Time*. 2nd ed., Beacon Press, 2001.

<sup>14</sup> The separation of a work process into a number of tasks, with each task performed by a separate person or group of persons.

doing more specific tasks within a factory and purchasing all else they needed on the market. Raw inputs were largely brought over from colonies shipped by joint stock companies and created into finished goods that were then sold on the open market to the English people. The driving force of the innovation was not through a government mandate — but private citizens, investing and naming their own prices in order to gain a profit.<sup>15</sup> Through globalization and trade, this process and technology spread throughout Europe and beyond, reaching places like America in the eighteenth century. To put this phenomenon in perspective, German philosopher Frederick Engels writes in his work *The Condition of the Working-Class in England* (1844):

The history of the proletariat in England begins with the second half of the last century, with the invention of the steam-engine and of machinery for working cotton. These inventions gave rise, as is well known, to an industrial revolution, a revolution which altered the whole civil society; one, the historical importance of which is only now beginning to be recognised.<sup>16</sup>

Thus, centuries of progress in the form of mercantilist trade routes, profit-motivated colonization, enlightenment, scientific discoveries, and technological advancements had finally created the perfect environment for the seeds of capitalism to grow. These seeds would grow, specifically and uniquely, into its modern form in eighteenth-century England.

With these examples, we can see that both commercial trade and capital have existed for most of human history. It was only until about the eighteenth century, however, that it led to industrialization or domination of the production process of society. That required a set of conditions never before seen, such as efficient factory technology, the ability to independently and an ability to privately own and trade in means of production. Furthermore, it required a class

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<sup>15</sup> Heller, Henry. *The Birth of Capitalism: A 21st Century Perspective* (The Future of World Capitalism). Pluto Press, 2011. JSTOR.org, doi:10.2307/j.ctt183p671.10.

<sup>16</sup> Engels, Friedrich, and David McLellan. *The Condition of the Working Class in England* (Oxford World's Classics). Reissue, Oxford University Press, 2009.

of workers willing to sell their labor power for a living, a legal framework promoting commerce, a physical infrastructure allowing the circulation of goods on a large scale, and security for private accumulation.<sup>17</sup> Even today, many of these conditions do not currently exist in some non-industrialized countries, although there is excess capital and labor. The challenges for the development of capitalist markets are therefore less technical and more social, cultural, and political. Even more, they are still rapidly changing in the twenty-first century.

### *III. The Benefits of Capitalism: A Strange New Idea*

Prior to writing about capitalism in its present day form in the United States, it is first necessary to see what the proposed theoretical benefits of capitalism are before looking at which it has truly lived up to. As we have discussed, capitalism harnesses natural human nature to look out for ourselves, something that has never been done before. This system at its implementation promised certain benefits to the world, some of which it has delivered and some that widely fell short. These benefits can widely be broken down into three promises by procapitalist thinkers like Adam Smith or Milton Friedman; (1) Freedom and opportunity in the form of consumer choice and the promotion of democracy, (2) the efficient use of resources allows for continual technological revolution and thus progressing humanity, and (3) growth in human living standards and reduction in global poverty.

Unlike prior systems of feudalism and mercantilism, capitalism focuses on an individual's right to choose and determine the trajectory of their own life. This is reflected in the nature of a free market in which consumers are able to choose which products and services they want to buy,

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<sup>17</sup> Scott, Bruce R. "The Political Economy of Capitalism. " Harvard Business School Working Paper, No. 07-037, December 2006.

as well as choosing where to sell their own labor for a wage on the market. American-Canadian historian Ellen Meiksins Wood remarks:

Capitalism differs from other social forms because producers depend on the market for access to the means of production (unlike, for instance, peasants, who remain in direct, non-market possession of land); while appropriators cannot rely on 'extra-economic' powers of appropriation by means of direct coercion - such as the military, political, and judicial powers that enable feudal lords to extract surplus labour from peasants but must depend on the purely 'economic' mechanisms of the market.<sup>18</sup>

As opposed to feudal lords forcing peasants into farming roles and demanding excess labor under the capitalist system, workers can only be bought through a wage on the market. Producers, or the “capitalist” class, rely on this market wholly for their “proletariat”<sup>19</sup> workforce as well as the raw materials and other capital goods needed to produce their product. This promotes an environment, in theory, where workers are employees at will and must be paid a fair wage to work, as opposed to being coerced into labor through militant or political means. Due to this arrangement, and with open access to the market, skilled workers are able to demand higher wages as well as attempt to begin their own venture in a capitalist attempt to accumulate private wealth. Any private citizens that decide to become capitalists are able to rise in social class and accumulate wealth purely based on merit and the profit incentive — an opportunity scarcely found in most of human history. This system will only be able to function at its full capacity under a free, democratic nation. A country that adopts a capitalist economy, therefore, will be more likely to remain a democracy.

Using this free market and profit incentive, a capitalist can increase profits by increasing their productivity and by creating a product that consumers want to buy. This has led to a boom

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<sup>18</sup> Wood, Meiksins Ellen. *The Origin of Capitalism: A Longer View*. Reprint, Verso, 2017.

<sup>19</sup> Workers or working-class people, regarded collectively.

in technology beginning with the Industrial Revolution, but has continued at an exponential rate, largely progressing humanity technologically. In the capitalist system, the market is meant to make all inputs, finished products, and other capital commodities. The price mechanism is used as a signaling system which allocates resources between different efficient uses. Thus in theory, the “invisible hand of the market”<sup>20</sup> ensures that resources are distributed according to consumer preferences, and that businesses will not be rewarded for producing something consumers do not want. Austrian economist Joseph Schumpeter describes this occurrence as the idea of “creative destruction.” If firms become inefficient and outdated, they go out of business. This leads to short-term problems — unemployment. However, it allows resources such as capital and labor to shift to more innovative and efficient industries.<sup>21</sup> For example, if it takes ten material units to create a widget, and another capitalist finds a way to create a superior widget for only five material units through the use of a new technique or technology, he can sell it at a lower price. Thus, innovation is driven and prices are lowered as technology constantly improves and superior products are produced. Through a system of capitalist competition, technology is able to be furthered without coercion, but still be based on profit-motivated individuals.

With this technological innovation, large growth in human living conditions and the standard of living will rise in theory. Adam Smith saw that mercantilism, and certainly not feudalism, did not contribute to economic growth as the world's wealth remained constant. He saw that a state could only increase its wealth at the expense of another state. “Growing the pie” refers to a key belief from Smith and other economic liberals, which states that innovation driven

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<sup>20</sup> Adam Smith introduces the concept in his work *Inquiry into the Nature and Causes of the Wealth of Nations* published in 1776. The invisible hand is a metaphor for the unseen forces that move the free market economy. Through individual self-interest and freedom of production as well as consumption, the best interest of society, as a whole, are fulfilled. The constant interplay of individual pressures on market supply and demand causes the natural movement of prices and the flow of trade.

<sup>21</sup> Schumpeter, Joseph. *Capitalism, Socialism, and Democracy*: Third Edition (Harper Perennial Modern Thought). Unknown, Harper Perennial Modern Classics, 2008.

by capitalism helps individuals grow their wealth as a whole. This opposes prior alternative systems where the wealth is merely redistributed. Subsequently, this will vastly decrease global poverty and inequality, allowing for more people to enjoy a higher standard of life, as when the pie is grown, everyone benefits.<sup>22</sup> Furthermore, new technologies will increase human life expectancies, comfort, and happiness, while also decreasing both economic and social inequality. Capitalism additionally encourages trade between different nations and different people that may never have met in the normal course of life. This economic incentive works to break down barriers and go past narrow racial or ideological differences, as American economist Milton Friedman writes:

The great virtue of a free market system is that it does not care what color people are; it does not care what their religion is; it only cares whether they can produce something you want to buy. It is the most effective system we have discovered to enable people who hate one another to deal with one another and help one another.<sup>23</sup>

Thus, capitalism as a social form in theory promotes a free market in which people of all backgrounds, cultures, and races are forced to work together in order to buy each other's inputs, products, and labor, bringing humanity closer together.

#### *IV. The Drawbacks of Capitalism: A Marxist Critique*

While in theory, proponents of capitalism find it to be a system synonymous with freedom, prosperity, and the furtherance of technology, some theorists point out the implications of capitalism are not all positive. The most notable and popular economic thinkers on this topic

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<sup>22</sup> Smith, Adam, and R. Campbell. *An Inquiry Into the Nature and Causes of the Wealth of Nations*, Volume 1. Volume 1 ed., Liberty Fund, 1982.

<sup>23</sup> Friedman, Milton. *Why Government Is the Problem (Essays in Public Policy)* (Volume 39). 1st ed., Hoover Institution Press, 1993.

are Karl Marx and Friedrich Engels, whose writings criticize and question capitalism's potential shortcomings on its promised benefits. These again can widely be boiled down to three theoretical drawbacks to capitalism: (1) that capitalism promotes two distinct social classes, the bourgeoisie and proletariat,<sup>24</sup> and vast inequality will grow between them, (2) the bourgeoisie's exploitation of the proletariat will eventually lead to in class warfare, and (3) that capitalism fosters continual competition which in turn produces instability and unavoidable crises.

According to Marx, in a capitalist society, the means of production are separated from private labor, which in turn can have direct social, political, and economic consequences. In past systems like feudalism, the workers controlled the means of production in the form of land, ensuring they gained compensation for their work through what they produced. With the bourgeoisie solely in control of the means of production, workers must be compensated in a new way — through a wage. Due to the workers' lack of ownership of the means of production, they must sell their labor to capitalists for less than the full value of the goods they produce. This led to a bourgeoisie class continually growing in wealth through the profitable production of these goods, while the proletariat was left behind and forced to work for a set wage. One way this occurs is a market inefficiency known as monopsony; or when a single employer has an advantage over the workforce and a skilled employee has no other choice but to accept whatever wage is given. Firms that have monopsony power in employing workers then pay lower wages in order to be more profitable, but workers do not share the same level of proceeds as the owners of capital. Marx comments on this topic, observing:

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<sup>24</sup> Coined by Marx and Engels in their work *The Communist Manifesto* (1847), the bourgeoisie are capitalists class who own the means of production and the proletariats are the working classes who are employed by the bourgeoisies.



In pre-capitalist systems it was obvious that most people did not control their own destiny — under feudalism, for instance, serfs had to work for their lords. Capitalism seems different because people are in theory free to work for themselves or for others as they choose. Yet most workers have as little control over their lives as feudal serfs.<sup>25</sup>

Beyond the concept of the working class becoming “wage slaves,” Marx believed they would be exploited in other ways for the maximization of profits. This could be seen firsthand by Marx within the conditions of factory workers in industrial England. Workers commonly worked up to eighteen hours a day in the factories and lived in horrific conditions in the “booming” manufacturing towns. The worst of the capitalist system is perhaps best exemplified by its treatment of children. Women workers were used as cheap labor and with nowhere to leave their children, they had little choice but to bring them to work. It was not long before they were seen by capitalists as an even cheaper source of labor, so eventually even children as young as five could be found working up to twenty hours a day in factories and mines.<sup>26</sup> Marx believed that these conditions would only worsen, leading to not only vast wealth inequalities between the bourgeoisie and the proletariat, but two distinct social worlds completely alienated from each other. When the proletariat have become aware of their loss, of their alienation, and of their horrible conditions, it will be possible for them to proceed to a radical transformation of their situation by a type of class revolution.<sup>27</sup> This revolution will lead to the downfall of capitalism, as the greed of the bourgeoisie to increase profits will force the proletariat’s hand to replace capitalism and establish a new sort of economic, social, and political system.

Lastly, Marx theorized that capitalism fosters continual competition, instability, and growth that cannot be supported by finite resources. With great shifts in capital and rapid

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<sup>25</sup> Singer, Peter. “Marx: A Very Short Introduction” (Oxford: Oxford University Press, 2000) P. 91.

<sup>26</sup> Solidarity Federation. “The Origins of Capitalism | Solidarity Federation.” *Solfed*, 29 Oct. 2012, [www.solfed.org.uk/a-s-history/unit-1-the-origins-of-capitalism](http://www.solfed.org.uk/a-s-history/unit-1-the-origins-of-capitalism).

<sup>27</sup> Marx, Karl, et al. *The Communist Manifesto*. Independently published, 2020.

economic growth fostered by capitalism, it is reasonable to wonder whether this continued growth could last. While the booms in industry that Marx witnessed were spectacular so were the busts, as a journal published in the *London Commonwealth* of March 1st, 1885, under the heading “England in 1845 and in 1885” writes:

Forty years ago England stood face to face with a crisis, solvable to all appearances by force only. The immense and rapid development of manufactures had outstripped the extension of foreign markets and the increase of demand. Every ten years the march of industry was violently interrupted by a general commercial crash, followed, after a long period of chronic depression, by a few short years of prosperity, and always ending in feverish over-production and consequent renewed collapse.<sup>28</sup>

These early capitalist occurrences are written by Marx in his “crisis theory,” which states that there is a lack of sustainable profitability in an economic system that depends on profit being made for private owners in order for investment and production to take place. Marx argues that economic crises are not a flaw of capitalism, but an unavoidable feature. To this end, capitalism sows the seeds of its own destruction, as always seeking to maximize profit is not sustainable and will lead to its eventual downfall. This is not to say there were no crises before capitalism. For instance, scarcity, famine, and natural disasters are all examples of pre-capitalist crises. Now, however, such crises are man made products of a profit-making economy. In addition to this, Marx comments on the potential effect this growth will have on the environment, writing: “all progress in increasing the fertility of the soil for a given time, is a progress towards ruining the lasting sources of that fertility.”<sup>29</sup> In other words, the material needs and advanced techniques

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<sup>28</sup> Engels, Frederick. “England in 1845 and 1885.” *The Commonwealth: The Official Journal of the Social League*, Volume 1 No. 2, Feb. 1885, pp. 12–14.

<sup>29</sup> Marx, Karl, Ben Fowkes, et al. *Capital: Volume 1: A Critique of Political Economy* (Penguin Classics). Illustrated, Penguin Classics, 1992.

used to fuel continued growth can potentially ruin its very source — our earth's natural resources.

Thus, while capitalism promises to grow the wealth of many, Marx questions whether it truly will be for the many or simply for the capitalist class. If this was to occur, a system meant to benefit all, can in theory, result in vast inequalities and the formation of two distinct social classes; the capitalists, or the bourgeoisie, and the working class, or the proletariat, which will become so alienated from each other a revolution will ensue. Furthermore, while capitalism promises continued growth and technological advancement such as the Industrial Revolution, it is possible that this growth is not sustainable. It can lead to endless cycles of booms and busts, as well as strip the earth of its resources in the name of profit. Perhaps these early issues can be remedied to still reap the benefits proposed by the capitalist system. It is important, however, to see the theoretical drawbacks of early capitalism to reflect on how modern capitalist societies like America may have adapted to combat them.

## Chapter 2

### “Capitalism” in America: Twenty-First Century Problems



*“We work harder and we earn less. Income inequality is at the highest point in over a century. While American capitalism never guaranteed success, it did guarantee opportunity, for too many, the dream of economic mobility has been replaced with a nightmare of economic stagnation”.*

— Mario Cuomo

#### *I. What is American “Capitalism” and its Features?*

Since the conception of capitalism and its early examples, arguably no other country has centered its identity around the merits of capitalism quite like America. Early America, perhaps as much as contemporary America, prides itself on being a beacon of capitalism with its political and social structure deeply intertwined around it. This sentiment is held by many Americans today, summed up well by U.S. Representative Markwayne Mullin, who states: “Since its beginning, America has been known as the land of opportunity. Millions of immigrants left their own homes to find something in our country not readily available in their own: an opportunity to succeed.”<sup>30</sup> As discussed in the prior chapter, capitalism proposed the theoretical benefits of an individual's freedom to privately choose their own destiny — largely free of government interference. In this way, United States citizens were promised that with hard work and equal opportunity, they could succeed through individual achievement. While this was true for some, it has never fully been true for all. As America progressed from a fledgling country in the nineteenth century to a global superpower in the early Twentieth century, it seemed that

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<sup>30</sup> Mullin, Markwayne. “Mullin’ It Over Column.” Mullin.House.Gov, 22 June 2017, [mullin.house.gov/news/documentsingle.aspx?DocumentID=612](http://mullin.house.gov/news/documentsingle.aspx?DocumentID=612).

inequality and exploitation made the American dream of equality less than attainable for the average person.

Just as capitalism evolved throughout Europe the same phenomenon occurred within America with its form of capitalism generally becoming less and less laissez-faire.<sup>31</sup> In response to its country's inequalities, the American government began to implement policies that increased government regulation in an effort to eliminate them. Our prior definition of capitalism allows for some level of government intervention, stating: "...the level of government intervention distinguish exact forms of capitalism,"<sup>32</sup> This allows for some level of government intervention, however, these policies are still generally anti-capitalist and largely labeled "socialist." Socialism is another economic, social, and political system often associated with Karl Marx that in many ways is antithetical to capitalism. This system is best defined by the Encyclopedia Britannica as:

A social and economic doctrine that calls for public rather than private ownership or control of property and natural resources. According to the socialist view, individuals do not live or work in isolation but live in cooperation with one another. Furthermore, everything that people produce is in some sense a social product, and everyone who contributes to the production of a good is entitled to a share in it. Society as a whole, therefore, should own or at least control property for the benefit of all its members.<sup>33</sup>

In summary, this system allows the public, or its government, to make decisions on where to allocate resources for the population instead of private citizens as in capitalism. It further allows for a governing body the power to attempt to remedy inequalities found in a society that may

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<sup>31</sup> Reminder: Laissez-faire is a term coined by Adam Smith associated with capitalism in its purest form. An economic system in which transactions between private groups of people are free from or almost free from any form of economic interventionism such as regulation and subsidies.

<sup>32</sup> Macmillan Dictionary of Modern Economics, 3rd Ed., 1986, p. 54.

<sup>33</sup> Ball, Terence. "Socialism | Definition, History, Types, Examples, & Facts." Encyclopedia Britannica, 2021, [www.britannica.com/topic/socialism](http://www.britannica.com/topic/socialism).

arise in one purely left to its own devices such as in a laissez-faire capitalist society. The primary goal of a socialist system is economic egalitarianism, or the belief every member of society should have equal access to wealth regardless of what they contribute. This starkly contrasts a capitalist system that seeks to reward those who work harder with increased wealth and success.

Twenty-First century America is the amalgamation of both private capitalist and socialist policies, giving us what we know today as a mixed economy.<sup>34</sup> Therefore, though American “capitalism” cannot be described as being purely capitalist, it is important to note that it is generally believed that America is a majority capitalist country with select socialist policies.<sup>35</sup> Common policies such as a progressive taxation system, antitrust legislation, and social safety nets have been enacted by the government to regulate the private sector in an attempt to mitigate capitalism's natural tendencies towards great inequality. These socialist policies all strive to promote equality in some form whether it be economic, political, or social equality and have succeeded in many ways. However, despite the proposed merits of capitalism and government policies seeking to remedy issues, it can be seen in the growing economic inequality in the United States that it is not a perfect system. This thesis argues that this gross inequality is not a direct result of capitalism, but the result of the greed of large corporations abusing socialist policies to undermine the natural flow of capitalism. Opponents of capitalism like Karl Marx famously argued that this is a feature of capitalism being inherently flawed and unfixable, writing that it therefore must be dismantled.<sup>36</sup> Conversely, others such as Keynes believed that

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<sup>34</sup> Cambridge Dictionary. “Mixed Economy Meaning: 1. an Economic System in Which Some Industries Are Controlled Privately and Some by the Government.... Learn More.” Cambridge Dictionary, 5 May 2021, [dictionary.cambridge.org/us/dictionary/english/mixed-economy](https://dictionary.cambridge.org/us/dictionary/english/mixed-economy).

<sup>35</sup> While the U.S. is a mixed economy, exhibiting characteristics of both capitalism and socialism, it is generally still agreed by most economists that America is more capitalist than socialist, however by just how much is a debated subject.

<sup>36</sup> Engels, Friedrich, and David McLellan. *The Condition of the Working Class in England* (Oxford World's Classics). Reissue, Oxford University Press, 2009.

these issues can be reformed if action is taken to combat them.<sup>37</sup> Nonetheless, it is apparent that growing inequality in America is a problem, and in my findings is one that is inherent to capitalism in some capacity. If this growing inequality is left unchecked, it could cause a capitalist system to implode from within. However, necessary measures such as a separation of business and politics to allow for efficient government intervention can remedy this, allowing for the formation of a sustainable capitalistic society. This chapter will be one critical of the current state of capitalism in America, largely forgoing the positives it has contributed until later chapters. In our prior definition of capitalism from the Macmillan Dictionary of Modern Economics, we began by defining capitalism as a “Political, social, and economic system...”<sup>38</sup> Thus, we will focus specifically on the three issues of economic inequality, political inequality, and social inequality, as well as whether they are temporary flaws or features of capitalism.

## *II. Growing Economic Inequality in America*

America as a whole has seen incredible economic growth in its relatively brief history, largely attributed to its capitalistic economy. This allowed the average American the ability to start their own businesses and claim a part of the growing economic pie for themselves. Since 2008, the GDP per capita<sup>39</sup> has increased since the great recession from \$47,100 in 2009 to \$65,298 in 2018.<sup>40</sup> At face value, this seems wholly positive — however, where this money is actually going is better revealed by American Economist Robert Reich. He states that “95 percent of economic gains since the “so-called” recovery started in 2009 have gone to the top 1

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<sup>37</sup> Skidelsky, Robert. “The Crisis of Capitalism: Keynes versus Marx.” *Indian Journal of Industrial Relations*, vol. 45, no. 3, 2010, pp. 321–35. JSTOR, [www.jstor.org/stable/27768265](http://www.jstor.org/stable/27768265).

<sup>38</sup> Macmillan Dictionary of Modern Economics, 3rd Ed., 1986, p. 54.

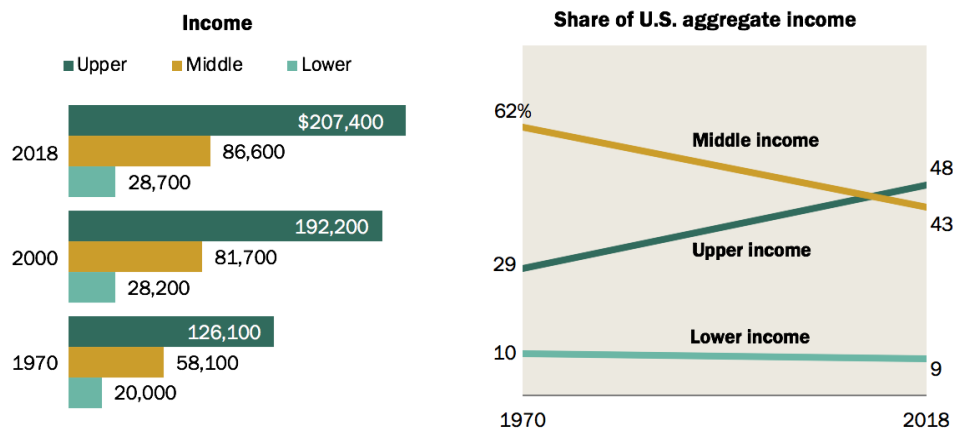
<sup>39</sup> Gross domestic product per capita is an economic metric that shows a country's economic output per person. It is calculated by dividing the GDP of a country by its population.

<sup>40</sup> “U.S. GDP Per Capita 1960–2021.” MacroTrends, 2021, [www.macrotrends.net/countries/USA/united-states/gdp-per-capita](http://www.macrotrends.net/countries/USA/united-states/gdp-per-capita)

percent by net worth.”<sup>41</sup> This shocking statistic paints a far different picture of who really shares in the growth of America’s economy, and echoes Marx’s warning of a wealth disparity so great that only two disparate social classes will eventually arise. In contemporary America this is known as the erosion of the middle class, or the increasing gap between the rich and the poor. These two charts from the Pew Research Center illustrate the growing wealth disparities between economic classes, as the rich gain wealth at a staggering rate compared to a declining middle and lower class.<sup>42</sup>

**The gaps in income between upper-income and middle- and lower-income households are rising, and the share held by middle-income households is falling**

*Median household income, in 2018 dollars, and share of U.S. aggregate household income, by income tier*



Note: Households are assigned to income tiers based on their size-adjusted income. Incomes are scaled to reflect a three-person household. Revisions to the Current Population Survey affect the comparison of income data from 2014 onwards. See Methodology for details. Source: Pew Research Center analysis of the Current Population Survey, Annual Social and Economic Supplements (IPUMS). "Most Americans Say There Is Too Much Economic Inequality in the U.S., but Fewer Than Half Call It a Top Priority"

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This great wealth shift is largely a result of what has become America's sickness: financialization. Financialization has affected America's economy in two major ways. It has done

<sup>41</sup> Svaldi, Aldo. "Robert Reich: Income Inequality the Defining Issue for the US." The Denver Post, 27 Apr. 2016, p. 1.

<sup>42</sup> "1. Trends in Income and Wealth Inequality." Pew Research Center's Social & Demographic Trends Project, 30 May 2020, [www.pewresearch.org/social-trends/2020/01/09/trends-in-income-and-wealth-inequality](http://www.pewresearch.org/social-trends/2020/01/09/trends-in-income-and-wealth-inequality).



so by (1) changing finances' traditional role from serving the people to serving their own interests, and (2) allowing increasingly for the magnification of capital through financial vehicles only the wealthiest Americans can realistically use. For the vast portion of America's history, from about 1790 to the 1970's, finance primarily served as a tool for both individuals and businesses to productively allocate capital to generate wealth, new jobs, and to grow the American economy. This has drastically changed in recent decades, with financial firms shifting away from serving the people and instead pilfering them while creating little to no new economic value or job creation. Debt is the primary sword wielded by these financial institutions, with no noble goal in mind, simply the maximization of profits for themselves through debt-fueled speculation over productive lending.<sup>43</sup> The reality is, these firms are doing just this with little resistance. A private equity firm, Blackstone, for instance, is now the largest commercial landowner in the United States, after preying on housing foreclosures caused by predatory lending by banks and credit default swaps sold by insurance companies.<sup>44</sup> Such an example contributes to the reason why while the wages of the average American are stagnating, rent still rises. In summary, financial institutions have become purely motivated by profit, sparking an increased number of financial firms looking for their share. This is done at the expense of the people, as opposed to their traditional role of lending out to people and small businesses, further driving a wedge between the rich and poor in America.

Secondly, while the health of America's economy has been traditionally evaluated in terms of the production of employment or rising standards of living, in recent years it has been evaluated by the steady rise of the stock market. The issue with this picture painted by the

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<sup>43</sup> Foroohar, Rana. "American Capitalism's Great Crisis." Time, 12 May 2016, [time.com/4327419/american-capitalisms-great-crisis](http://time.com/4327419/american-capitalisms-great-crisis).

<sup>44</sup> Credit default swaps are a financial derivative primarily sold by insurance companies to banks in the early 2000s that guarantees against bond risk. It essentially allowed banks to predatorily loan money to Americans looking to enter the housing market with little to no risk.

success of the stock market does not reflect the entirety of America's success. In fact, it does not reflect how the vast majority of Americans are doing financially. Middle and lower class Americans earn the vast amount of their incomes from wages and salaries. The top one percent of Americans, however, only earned two-fifths of their 2007 incomes from wages. The majority of their obtained wealth, close to three-fifths, comes from sources of capital income, such as capital gains from stock, profits, dividends, rent, and interest. This divide only grows larger as the richest Americans earned around 70% of their 2007 incomes from capital income sources.<sup>45</sup> This process is an exponentially increasing pattern, as the top 1% of Americans keep gaining more wealth they have more to reinvest and continually grow, and pass onto the next generation. This immense shift of wealth is not sustainable, as this parasitic financial cycle cannot drain the average American forever, and could potentially lead to another economic crisis of a greater scale than that of 2008. As this occurs, the less affluent have less disposable income<sup>46</sup> available to share in the economic growth enjoyed by the stock market or through other capital good ownership to an equal degree as the wealthiest Americans.

This raises the question as to why Americans feel that this economic inequality is problematic for American society, as it seems to be an unavoidable feature of capitalism to some degree. The more capital a person has, the more they are able to invest and grow it by entrepreneurial or financial means. Then why should this inequality be an issue? Contemporary American economist Joseph Stiglitz provides an argument that inequality is harmful both in causing poverty and in other ways that would persist even in a society with a decent minimum standard of living. In “The American Economy is Rigged ” Stiglitz comments: “Wealth is even

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<sup>45</sup> Hicks, Alexander. “How the Wealthiest of Americas Rich Make Their Money.” Scholars Strategy Network, 2013, pp. 1–2. SSN, [www.scholarsstrategynetwork.org](http://www.scholarsstrategynetwork.org).

<sup>46</sup> Disposable income is income remaining after taxes and other expenses that are available to be spent or saved as one wishes.

less equally distributed, with just three Americans having as much as the bottom 50 percent—testimony to how much money there is at the top and how little there is at the bottom.”<sup>47</sup> This statement illustrates perhaps the most important issue with inequality in America in relation to capitalism: that it will lead to economic inefficiencies detrimental to a capitalist economy. If inequality becomes so large that the workers are not able to purchase the very goods that they produce, the very engine of the economy dies and the bottom of the economy will drop out. This is backed by research on consumer spending, which reveals that consumer spending makes up for  $\frac{2}{3}$  of American GDP.<sup>48</sup> If this were to occur the foundation of America's economic and political structure would crumble, leading to economic crisis and the potential failure of capitalism in America. These economic inequalities make it more difficult for the average individual to share in the growth of the American economy or become rich, despite serving as the backbone of production and consumption in America.

With this divide growing, it would be injudicious not to consider Karl Marx’s prediction that this would occur as a result of the instability of capitalism, and as the wedge grows too large, two distinct social classes inevitably form. We see this in the form of both the mass wealth redistribution in America, as well as a separate wealthy class coming to own the means of production in America with full control over the poorer working class. It is reasonable to conjecture, then, that economic inequality may be a feature of even a mixed capitalistic society like America. However, I argue that these gross inequalities stemming from the financialization of America are not inherent to an efficient mixed capitalist economy. These immense inequalities of recent decades have largely resulted from a failure to properly regulate the US economy by an

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<sup>47</sup> Stiglitz, Joseph E. “A Rigged Economy.” *Scientific American*, vol. 319, no. 5, 2018, pp. 56–61. Crossref, doi:10.1038/scientificamerican1118-56.

<sup>48</sup> Toossi, Mitra. “Consumer Spending: An Engine for U.S. Job Growth.” *Monthly Labor Review*, 2002, pp. 1–11, [www.bls.gov](http://www.bls.gov).

incompetent, or perhaps even corrupt government. Financial firms and large corporations have manipulated politics, promoting policies that allow them to act recklessly, undermining democratic and capitalist ideals. This will be discussed in further detail in the following section.

### *III. Political Inequality and the Dominance of Corporations*

This mass redistribution of wealth and power is not exclusive to individuals, and is arguably more impactful at the corporate level. Capitalism works best to serve the majority when there are high levels of competition, as wages are kept higher and prices lower. What has occurred, however, is a small number of large corporations controlling the means of production and gaining immense power and profits as a result. This is not the first time this has occurred in American history, and as a response antitrust policies were put in place to protect the average American from unfair competition while keeping prices down and quality up.<sup>49</sup> This has worked fairly well in regulating big businesses, up until the point of financialization, which places unprecedented power in the hands of the few. These large corporations spend billions of dollars on lobbying, or the practice of legally “donating” money to politicians in some way to further their own agenda. This has resulted in the deregulation of policies meant to protect the average American from exploitation, as well as leading to the facilitation of numerous bailouts for avaricious corporations that help cause an economic collapse. Thus, corporations have succeeded in undermining the consequences they would naturally face under capitalism through bankruptcy by effectively exploiting socialist government intervention. By reaping the benefits of both sides, inefficient and predatory corporations and their leaders are able to continually thrive without significant contribution to the economic prosperity of America as a whole.

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<sup>49</sup> “The Antitrust Laws.” Federal Trade Commission, 15 Dec. 2017, [www.ftc.gov/tips-advice/competition-guidance/guide-antitrust-laws/antitrust-laws](http://www.ftc.gov/tips-advice/competition-guidance/guide-antitrust-laws/antitrust-laws).

These large corporations have succeeded in the skewing of the political system in favor of the rich through monetary lobbying, undermining American democracy. Lobbying is simply defined to seek to influence a politician or public official on an issue. This can be a powerful tool for people to have their voices heard on an issue, such as unions did in the 50's and 60's for fairer labor laws.<sup>50</sup> However, in today's corporate world, lobbying takes on a much different role as a vehicle for corporations to monetarily buy over politicians to pass policies that will solely benefit the few. Large corporations often find themselves in this place of power, and take advantage of it through large lobbying efforts to influence almost sacred American democratic elections. It is estimated that in 2018 an almost unimaginable 3.4 billion dollars were spent on lobbying efforts in America. To contextualize this number, the combined salary of all elected officials and appointees of the United States in 2018 was only 116.015 million dollars, a mere 3.4% of total lobbying spending.<sup>51</sup> Yet despite this minor percentage, the combined net worth of the US congress in 2011 was approximately 4.95 billion dollars, an average of 7.89 million dollars, despite having a yearly salary of only \$174,000.<sup>52</sup> This is a relatively recent development starting around the late 1970s paralleling the beginning of financialization, so how did this happen? In short, as corporations began to grow in size and power, in part due to financialization and a widening wealth gap, they began undermining strict anti-corporation political donation precedents. Large corporations slowly began whittling the law away as they realized they now had the capital necessary to influence American policy and law.<sup>53</sup> The crux of this comes in the

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<sup>50</sup> "How States Define Lobbying and Lobbyist." National Conference Of State Legislature, 2020, [www.ncsl.org/research/ethics/50-state-chart-lobby-definitions.aspx](http://www.ncsl.org/research/ethics/50-state-chart-lobby-definitions.aspx).

<sup>51</sup> Casselbury, Kelsey. "How Much Money Do Government Officials Make?" Work - Chron.Com, 30 Mar. 2018, [work.chron.com/much-money-government-officials-make-1946.html](http://work.chron.com/much-money-government-officials-make-1946.html).

<sup>52</sup> "Net Worth of United States Senators and Representatives." Ballotpedia, [ballotpedia.org/Net\\_worth\\_of\\_United\\_States\\_Senators\\_and\\_Representatives](http://ballotpedia.org/Net_worth_of_United_States_Senators_and_Representatives). Accessed 2021.

<sup>53</sup> OpenSecrets. "Money-in-Politics Timeline." OpenSecrets, [www.opensecrets.org/resources/learn/timeline](http://www.opensecrets.org/resources/learn/timeline). Accessed 2021.

form of the Supreme Court's 2010 ruling in *Citizens United v. Federal Election Commission*, 558 U.S. 310. It is stated in the decision that corporations are allowed to spend money on electioneering communications and to directly advocate for the election or defeat of candidates, labeling corporations as “people.”<sup>54</sup> This decision now allows corporations to openly further their political agenda and promote the ideals of the wealthy class.

This increase in corporate control through donations and lobbying has resulted in policies promoting the deregulation of big businesses. With this deregulation, corporations and financial institutions are now able to make riskier financial maneuvers. This oftentimes leads to an economic downfall and the failure of these institutions through bankruptcy. In a true capitalist society, these institutions would fall, and better more efficient ones would arise to take its place. However, through lobbying and gain of political power, corporations are able to utilize intervention policies like bailouts to avoid the natural course of capitalism. We saw a large-scale example of this occur in 2008, an economic downturn caused by overzealous deregulated corporations intoxicated with greed. When the corporate economic prosperity, financed by stock buybacks, record high executive compensation, and risky lending all came crashing down, corporations lobbied to be saved. Politicians owned by these corporations forced the Fed<sup>55</sup> to pump \$4.5 trillion in monetary stimulus into the economy after 2008, primarily bailing out sinking corporations. This resulted in record stock prices while only a mere 2% economy growth and almost no income growth. Thus demonstrating just how concerned politicians are with

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<sup>54</sup> “NPR Cookie Consent and Choices.” Npr.Org, 28 July 2014, [choice.npr.org/index.html?origin=https://www.npr.org/2014/07/28/335288388/when-did-companies-become-people-excavating-the-legal-evolution](https://www.npr.org/2014/07/28/335288388/when-did-companies-become-people-excavating-the-legal-evolution).

<sup>55</sup> “The Fed,” is the central bank of the United States. It was created by the Congress to provide the nation with a safer, more flexible, and more stable monetary and financial system.

helping the people as opposed to corporations and the wealthy few.<sup>56</sup> This sentiment is passionately described in an interview with NYU Stern professor Scott Galloway who argues:

What young people are seeing today is not capitalism. We have capitalism on the way up where five CEOs of airline companies make 150 million bucks, use all their excess cash flow to buy back stocks so they can artificially inflate their own compensation. Then shit gets real and a pandemic comes and they don't have any money and all the sudden we're all in this together. When you have capitalism on the way up and socialism on the way down, that's not capitalism or socialism, it's cronyism. It is the worst of all worlds.<sup>57</sup>

It is the years of lobbying and deregulation that make actions like this possible, undermining both natural capitalism and socialist intervention policies meant to help the people.

Another way we see this undermining of the natural course of capitalism is through rent-seeking. In a capitalistic society, when a business becomes inefficient or a more efficient business performing similar function arises, the former would likely go bankrupt leaving room for the latter to grow. Rent-seeking is an issue as it seeks to stop new entrants from being able to compete as large corporations have learned that they can generate increased profits easier by excluding others. Here, corporations lobby the government for assistance in tax breaks, competition, subsidies, grants, and tariff protection.<sup>58</sup> This limits competition, a driving force behind capitalism, and progress without any added productivity or capital at risk. In addition to this, antitrust laws meant to prevent corporations from becoming so large have become increasingly less enforced and have allowed few powerful corporations to only grow bigger. This

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<sup>56</sup> "American Capitalism's Great Crisis." Time, 12 May 2016, [time.com/4327419/american-capitalisms-great-crisis](https://time.com/4327419/american-capitalisms-great-crisis).

<sup>57</sup> Real Time with Bill Maher. "Scott Galloway & Larry Wilmore on 'Crony Capitalism' | Real Time with Bill Maher (HBO)." YouTube, 13 Mar. 2021, [www.youtube.com/watch?v=0H8AshEYrKw](https://www.youtube.com/watch?v=0H8AshEYrKw).

<sup>58</sup> Katz, Eliakim, and Jacob Rosenberg. "Some Implications of Corporate Taxation for Rent-Seeking Activity." Public Choice, 2000, pp. 149–62. Springer, doi:10.1023/A:1005085629271.

will only exacerbate the cycle of power and inequality these corporations have over new competition, as well as increase political control.

This issue is not one exclusive to corporations, as wealthy individuals have further found ways to influence policies. Taxation policies are also playing a role in increasing inequality. While we do have a progressive taxation system in place in America, many of America's rich have found ways to hide their money in offshore accounts, among other attempts to manipulate the taxation system. Abusing laws for charity write-offs or hiding wealth in assets are popular strategies the rich use to avoid policies meant to limit inequality, all while lobbying for lower tax rates and high stock market growth. These developments in recent decades are an immense issue for America and capitalism, as the government is supposed to be acting in the best interests of all of its citizens equally but has become corrupted by the economic power of the rich. This demotivates people to vote in democracies as they do not feel represented and as if their votes mean anything. Again, this thesis argues that this gross inequality is not inherent to capitalism, but the result of a recent intertwining of politics and big business undermining natural capitalism as well as taking advantage of socialist policies meant to reduce these inequalities. This is not capitalism. It is an extremely inefficient mixture of capitalist and socialist ideals that favors corporations and contributes to rising inequality among Americans. If this issue is not resolved it will lead to further economic inequality and corporate control of America's democracy.

#### *IV. Social Inequality and Poverty in America*

We have discussed the trends caused by financialization and corporate control of politics that add to the growth of inequality on a macro scale. However, this has affected the majority of Americans' daily lives as they struggle financially despite record economic growth shown by the



stock market. While the wealthy are able to share in this growth along with the large corporations that make it up, Americans that cannot afford to invest are being left behind. This leads to an array of social problems and inequalities felt by Americans who are struggling to make ends meet at an unprecedented rate. In this concluding section, we will analyze on a more micro scale the situation resulting from vast inequalities and poverty in America, and why we should care about the growing wealth disparity. We will begin by looking at the cycle of poverty and the lower standard of living the majority of Americans face today, as well as possible social consequences if this is not resolved.

In a capitalist society, citizens are promised the opportunity to succeed economically through hard work and perseverance. While Americans today are still “free” to do this, the current economic condition of the average American makes it incredibly difficult to start a business, or grow meaningful wealth through financial vehicles like the stock market. The disadvantages faced by the majority of Americans is perhaps best exemplified in a quote from Terry Pratchett Novel, *Men at Arms*. The main character, Sam Vimes, reasons that the rich were only so rich because they managed to spend less money, stating:

Take boots, for example. He earned thirty-eight dollars a month plus allowances. A really good pair of leather boots cost fifty dollars. But an affordable pair of boots, which were sort of OK for a season or two and then leaked like hell when the cardboard gave out, cost about ten dollars. Those were the kind of boots Vimes always bought, and wore until the soles were so thin that he could tell where he was in Ankh-Morpork on a foggy night by the feel of the cobbles. But the thing was that good boots lasted for years and years. A man who could afford fifty dollars had a pair of boots that'd still be keeping his feet dry in ten years' time, while the poor man who could only afford cheap boots would have spent a hundred dollars on boots at the same time and would still have wet feet.<sup>59</sup>

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<sup>59</sup> Pratchett, Terry. *Men at Arms: A Novel of Discworld*. HarperCollins e-books, 2009, [novel80.com/242258-men-at-arms.html](http://novel80.com/242258-men-at-arms.html).

While a work of fiction, this example illustrates just what happens all too frequently to struggling Americans in reality. The rich are able to afford newer products that will last longer, better insurance to reduce medical expenses, and have more disposable money available to invest and continually grow wealth. In order to avoid this continuous cycle of poverty, government economic security programs such as the social safety net are funded via a progressive taxation system that taxes the wealthy at a higher rate. Large and wealthy corporations have found ways around these by manipulating tax laws, hiding money in offshore accounts, or through charity write off loopholes. These actions remove money that should be redistributed in a mixed economy that typically allows the bottom of Americans to be able to live comfortably, thus leading to an inefficient system where only the wealthy reap significant financial reward.<sup>60</sup>

This is not a problem exclusive to those below the poverty line in America, although in 2018, 11.8 percent were below it.<sup>61</sup> While some will argue that poverty is on decline in America, the way it is calculated has not been revised since 1963. In this time things like education or child care have drastically made up a greater percentage of a families' budget, nor does a national poverty line analysis account for regional differences. According to analysts at the Economic Policy Institute, "Most poverty analysts strongly believe that the official poverty statistics are inadequate to the task of determining who is poor in America."<sup>62</sup> This sentiment is supported by the U.S. Financial Health Pulse Report which uses eight indicators to determine whether Americans are financially healthy, financially coping, or financially vulnerable. The study found

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<sup>60</sup> Marr, Chuck, et al. "Substantial Income of Wealthy Households Escapes Annual Taxation or Enjoys Special Tax Breaks." Cbpp.Org, 13 Nov. 2019, [www.cbpp.org/research/federal-tax/substantial-income-of-wealthy-households-escapes-annual-taxation-or-enjoys](http://www.cbpp.org/research/federal-tax/substantial-income-of-wealthy-households-escapes-annual-taxation-or-enjoys).

<sup>61</sup> US Census Bureau. "Income and Poverty in the United States: 2019." The United States Census Bureau, 15 Sept. 2020.

<sup>62</sup> Mishel, Lawrence, et al. *The State of Working America, 2008/2009* (Economic Policy Institute). 1st ed., ILR Press, 2009.

that 17% of Americans are struggling with most, if not all aspects of their financial lives, 54% are struggling with some aspect of their financial lives. Conversely, only 29% of Americans consider themselves financially stable. This paints a far different picture of just how many Americans are affected by this inequality, with over 70% having some type of financial struggle, a number that is only growing.<sup>63</sup>

An example of how this economic wealth disparity generationally affects Americans is how roughly one-third of school district funding is usually tied to property taxes. This means that richer neighborhoods will receive more school funding and have better resources to educate their children. Oftentimes, this leads to a situation where graduates of the rich neighborhoods will go on to college at a greater rate and get better jobs than the graduates of poorer neighborhoods. This leads to a feedback loop where poorly funded education programs suffer in the poor neighborhoods while funding continuously increases in the rich ones. Furthermore, this inequality can lead to wasteful government spending in the form of “emergency room costs.” As people grow poorer and medical costs become increasingly expensive the poor are unable to afford costly procedures that they need to survive. Much of the time the burden of these costs falls on the US government, leading to another form of economic inefficiency caused by inequality.<sup>64</sup> Additionally, Stiglitz maintains that because of high inequality, U.S. life expectancy, which is exceptionally low to begin with, is experiencing sustained declines.<sup>65</sup> Inequality is literally leading to shortened lifespans of Americans as new medicine and medical technology is becoming unaffordable to the poor. This is undeniably an issue in America today, as it is

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<sup>63</sup> Brockland, Beth, et al. “US Financial Health Plus.” Financial Health Network, 2019, [s3.amazonaws.com/cfsi-innovation-files-2018/wp-content/uploads/2019/11/13204428/US-Financial-Health-Pulse-2019.pdf](https://s3.amazonaws.com/cfsi-innovation-files-2018/wp-content/uploads/2019/11/13204428/US-Financial-Health-Pulse-2019.pdf).

<sup>64</sup> Iceland, John. *Poverty in America: A Handbook*. Third, University of California Press, 2013.

<sup>65</sup> Stiglitz, Joseph E. “A Rigged Economy.” *Scientific American*, vol. 319, no. 5, 2018, pp. 56–61. Crossref, doi:10.1038/scientificamerican1118-56.

unquestionably immoral for people to die simply because they lack the economic means to afford medicines that could save their lives. It is important to note that these issues impact minority communities at a greater rate, contributing to racial inequalities and injustices in addition to solely in an economic sense.<sup>66</sup>

American citizens have long pictured America as a classless society with limitless upward mobility. This has never truly been the case for America, but has been exacerbated beyond any reasonable level in recent decades. The results of this trend in terms of Marxist theory could lead to alienation, disillusionment, and erosion of social trust. As the rich grow richer and the poor grow poorer, greater social differences will form between the two groups. Already, we are seeing a divide beginning to form as the rich and poor have begun attending different schools, living in different areas, and working different jobs. In time, this can lead to a less unified citizen body with the rich having control of America and the poor feeling alienated from society. In the eyes of Marx, this will inevitably lead to class tensions between the rich capitalists and the poor laborers, leading to some form of class revolution. This will result in either the reset or replacement of capitalism with a new economic, political, and social system.<sup>67</sup> For these reasons, it is imperative that inequality be efficiently regulated if capitalism is to be saved, if it is even truly worth saving. In conclusion, American capitalism is sick. Financialization and corporate control of politics has undercut the benefits of capitalism, harming the majority of Americans and resulting in an inefficient system benefiting only the already wealthy.

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<sup>66</sup> Wills, Vanessa. "What Could It Mean to Say, 'Capitalism Causes Sexism and Racism?'" *Philosophical Topics Gendered Oppression and Its Intersections*, vol. 46, no. 2, 2018, pp. 229–46. JSTOR, [www.jstor.org/stable/26927957](http://www.jstor.org/stable/26927957).

<sup>67</sup> Kelley, Jonathon, and Herbert S. Klein. "Revolution and the Rebirth of Inequality: A Theory of Stratification in Postrevolutionary Society." *American Journal of Sociology*, vol. 83, no. 1, 1977, pp. 78–99. JSTOR, [www.jstor.org/stable/2777764](http://www.jstor.org/stable/2777764).

## Chapter 3

### The Morality of an Ideal Capitalist System



*“The test of our progress is not whether we add more to the abundance of those who have much, it is whether we provide enough for those who have little.”*

— Franklin D. Roosevelt

#### *I. Why Some Inequality is Inherent to Capitalism*

Hearing these gross inequalities that have resulted from even a regulated capitalist economy, it is easy to rule capitalism as an inherently doomed system. We see that American capitalism has been overrun by corporate and political greed, which in the eyes of men like Marx this is an unavoidable feature of capitalism. We further found in Chapter Two that the issues with capitalism in America all relate to inequality, and its greatest opponent socialism promotes a seemingly noble goal of economic egalitarianism: universal equality. For the purposes of this chapter, we will assume capitalism is in fact sick, and can be cured. In assuming this, we are able to separate *how* it can be done and more deeply focus on *should* it be done.<sup>68</sup> However, it is plausible that even an efficient capitalist system with uninfluenced government regulation and the curbing of corporate greed may simply be a lost cause. This leads us to the crux of this thesis: is capitalism inherently an immoral system due to its inherent inequality of wealth distribution? Even before the recent events highlighted in Chapter Two some level of inequality was still found in America, and as previously discussed is inherent and necessary for a capitalist system.

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<sup>68</sup> If we do conclude capitalism should be saved, the following chapter will focus on ways to remedy it.

We will then discuss whether any level of inequality in itself is immoral in a capitalist society, in order to determine whether capitalism is a moral system in any form.

Capitalism functions on the core belief that hard work will put oneself ahead of others economically, and through assuming entrepreneurial risk an individual will receive economic reward. It is common for people to see universal equality as a noble goal to achieve, like in many socialist systems, but this blind notion of equality as a moral goal may not be morally justifiable. Surely there is some justice in an individual who contributes more to building their society getting a proportionally larger reward from their labor.<sup>69</sup> This efficient allocation of resources of a free market is unique to capitalism in its optimal form, as any individual who wishes to work hard will be rewarded for the fruits of their labor largely free from governmental control. While we have seen that this is often not the case in contemporary America, it is still the driving force behind the innovation and progression of mankind that we have seen since the conception of capitalism. The fourth principle of economics, that almost all economists agree on, is that people respond to incentives.<sup>70</sup> If there was no economic incentive for doing something, there would be little reason for technological innovation that leads to higher quality of life and the advancement of humanity. Humans are hardwired to act in their own self interest, and a capitalist system allows people to positively harness this self interest to better themselves and society. This has allowed for “the most remarkable decline in global poverty ever witnessed in human history. In the past 200 years, extreme poverty has collapsed from a whopping 94% of the entire world population to less than 10% today.”<sup>71</sup> Inequality, then, can be described as a feature of capitalism.

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<sup>69</sup> Aristotle advocates for this in his *Nicomachean Ethics*, stating distributive justice implies that the state should divide or distribute goods and wealth among citizens according to the merit, proportionally to the amount they put in.

<sup>70</sup> Mankiw, Gregory. *Principles of Economics*. 4th ed., Cengage Learning, 2007.

<sup>71</sup> Reich, Robert. “To Reverse Inequality, We Need to Expose the Myth of the ‘Free Market.’” *The Guardian*, 9 Dec. 2020, [www.theguardian.com/commentisfree/2020/dec/09/inequality-free-market-myth-billionaires](http://www.theguardian.com/commentisfree/2020/dec/09/inequality-free-market-myth-billionaires).

However, there may be a moral justification for some level of inequality to in fact be desirable. To aid this argument, for the remainder of this chapter we will look at economic philosophers we have spoken on before, like Milton Friedman, and new thinkers like John Rawls, that provide a new outlook on this issue.

Influential proponents of capitalism like Friedman argue compelling cases on why wealth inequality is acceptable, largely tying back to the protection of individual freedom. Since we have determined wealth inequality is an unavoidable truth of capitalism, the only way to redistribute it, barring pure charity, is through some government intervention. A forced distribution of wealth does in fact infringe on the rights of those who earned their wealth, articulated by Friedman, who writes: “The citizen of the United States who is compelled by law to devote something like 10 percent of his income to the purchase of a particular kind of retirement contract, administered by the government, is being deprived of a corresponding part of his personal freedom.”<sup>72</sup> Freedom for all individuals is a noble goal, and rarity in human history. Thinkers like Angus Deaton of Princeton University recognize this and articulate such observations well, and write: “Milton Friedman, whose starry-eyed view of capitalism has much to answer for, was not entirely wrong when he extolled the freedom that free markets can bring. Though history has not been kind to his view that equality would be guaranteed by using markets to pursue freedom.”<sup>73</sup> Complete freedom of the markets has time and time again shown to lead to a cycle of economic booms and busts, as well as the exploitation of wage workers and staggering inequality. This promise that free markets will give equitable distribution of capital, appears to have the opposite effect in the long term. Capitalism cannot be trusted to protect those on the

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<sup>72</sup> Friedman, Milton. *Capitalism and Freedom* (40th Anniversary Edition). 40th ed., University of Chicago Press, 2003.

<sup>73</sup> Deaton, Angus. “Inequality and the Future of Capitalism.” *Inequality: The IFS Deaton Review*, 14 May 2019, [www.ifs.org.uk/inequality/inequality-and-the-future-of-capitalism](http://www.ifs.org.uk/inequality/inequality-and-the-future-of-capitalism).

bottom's economic freedom, and rights to basic human necessities of life without government intervention of some sort.

To find evidence of this, we need not look further than the global beacon of capitalism that is America. Riddled with inequalities and a seemingly rigged system stacked against the lower class, it is clear a level of inequality in which one cannot afford to live is morally impermissible. Followers of Friedman make another large miscalculation when describing the relationship between capitalism and politics. Speaking on capitalism, Friedman states:

Viewed as a means to the end of political freedom, economic arrangements are important because of their effect on the concentration or dispersion of power. The kind of economic organization that provides economic freedom directly, namely, competitive capitalism, also promotes political freedom because it separates economic power from political power and in this way enables one to offset the other.<sup>74</sup>

In theory this should be true, however in an advanced capitalist country like America we have seen the very wealth inequality discussed previously give those individuals and corporations on top immense power over politics through lobbying and loopholes. Discussed in Chapter Two, we discovered capitalism does not inherently separate economics and politics even in its freest forms if left to its own devices. Yet, we have also proven that economic inequality is not inherently bad as well, giving capitalism some area to function as a moral and efficient system under some conditions.

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<sup>74</sup> Friedman, Milton. Capitalism and Freedom (40th Anniversary Edition). 40th ed., University of Chicago Press, 2003.



## *II. Under what Conditions is Inequality Permissible?*

We have now determined that some level of inequality is perhaps acceptable or even desirable in a society, but under what conditions is it *permissible*? American moral and political philosopher John Rawls believes the best society is one that enables inequality, but that uses it to benefit all. Rawls's theory of "justice as fairness" recommends equal basic rights, equality of opportunity and promoting the interests of the least advantaged members of society. Thus, he believes that it is permissible to redistribute wealth in order to rectify some of the inequality in society that leaves some people disadvantaged. His strategy in justifying these views utilizes a thought experiment called the "original position" in which asks us to imagine which principles of justice all rational people would choose. To begin the experiment Rawls would have us imagine that we are in the "original position" where we are tasked with collectively deciding the principles of justice in the society we will be born into. Second, Rawls tells us to imagine that in the original position, we are behind a "veil of ignorance" in which we have no idea what our place in the society is. This is to say we could be born poor, rich, stupid, lazy, Catholic, Buddhist, gay, a rock star, or a migrant worker. The purpose of this experiment is to demonstrate why it is rational for us to accept a social contract that protects those at the bottom, as if we have no idea where we will end up it is only rational to pick the one where everyone is taken care of. In summary, he concludes we will know our society is just when one could rationally consent to choose to be born into that society at a random position within it. From this outcome to the thought experiment, he argues two principles would be rationally set in place by those who will populate it for a moral and just society:

I shall now state in a provisional form the two principles of justice that I believe would be chosen in the original position... The first statement of the two principles reads as follows.

**First:** each person is to have an equal right to the most extensive basic liberty compatible with a similar liberty for others.

**Second:** social and economic inequalities are to be arranged so that they are both (a) reasonably expected to be to everyone's advantage, and (b) attached to positions and offices open to all.

By way of general comment, these principles primarily apply, as I have said, to the basic structure of society. They are to govern the assignment of rights and duties and to regulate the distribution of social and economic advantages.<sup>75</sup>

Rawls goes on to speak of the example of a surgeon. He reasons that it is rational to offer surgeons higher salaries as they contribute significantly to the benefit of us all. Shouldn't we wish to attract the brightest and most qualified individuals to a profession that has the power to save lives? Because humans respond to economic incentives, inequalities can be beneficial to society as a whole and therefore must be morally permissible. Of course, this is an ideological view on income inequality, and as demonstrated in practice surely great wealth does not only go to those who benefit society the most. To complement Rawls' view, economist Harry Frankfurt provides a second component to rationalize why inequalities may not be a problem at all.

Frankfurt provides a compelling counter argument to defend inequality in any form in his work, *On Inequality*. His argument is that it is not inequality in itself that is morally wrong, but vast wealth compared to extreme poverty. As a result, economic egalitarianism should not be the goal we strive for, but the elimination of poverty. He takes this sentiment a step further, writing that our concern with the pursuit of equality is a distraction from the alleviation of poverty and

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<sup>75</sup> Rawls, John. *A Theory of Justice*. 2nd ed., Belknap Press: An Imprint of Harvard University Press, 1999.

“equality as such has no inherent or underived moral value at all.”<sup>76</sup> To help conceptualize this, he would ask us to consider actress Meryl Streep's 160 million dollar net worth compared to Jeff Bezos 200 billion dollar net worth. While there is an extreme and undeniable economic inequality between these two individuals, he reasons rationally no individual will feel this is morally wrong. What they will find wrong, however, is this large amount of wealth held by these individuals compared to those struggling in poverty. Frankfurt concludes then that wealth inequality is a red herring to the real issue at hand: poverty. From this, Frankfurt is able to direct Americans away from the problems of inequality to that of “the doctrine of sufficiency.” This solution holds “...that everyone should have enough and that a person has enough when she is content with the level of contentment in her life. It is important to emphasize that this level is not simply basic necessities, but a life in which those are happy and content with what they have. This level of contentment is indicated by “the absence of an active interest in securing more.”<sup>77</sup> In other words, if everybody has enough, there is nothing inherently wrong with inequality.<sup>78</sup> Thus, poverty is the true enemy, not inequality, which is merely a distraction from what really is immoral. If we were to create a society in which those at the very bottom have their basic financial needs met and a substantial amount more, free from worry, even such extreme inequality as Jeff Bezos’s 200 billion dollar net worth will still be moral.

Rawls and Frankfurt both provide compelling scenarios and rationale for why inequality is not inherently immoral, and even beneficial to a society if regulated in some way to best benefit society as a whole, as well as take care of those unfortunate to be at the bottom. If we

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<sup>76</sup> Frankfurt, Harry. “Equality as a Moral Ideal.” *Ethics*, vol. 98, no. 1, 1987, pp. 21–43. Crossref, doi:10.1086/292913.

<sup>77</sup> Frankfurt, Harry. *On Inequality*. First Edition, Princeton University Press, 2015.

<sup>78</sup> A common objection to this theory is that if humans are self interested and motivated by a profit incentive as established in capitalism is a fact, then how can one stop actively seeking more? We will address this concern in the following section titled *A More Modern Utilitarian View on Wealth Inequality*.

combine both views, a moral society would then have two characteristics: (1) Allow equal opportunities for economic growth and utilize inequality to benefit society as a whole and (2) Only infringe on one's economic liberty to allow an adequate redistribution of wealth where those at the bottom live within Frankfurt's doctrine of sufficiency. This is good news for capitalism — as if a capitalist society adopts these two rules, the resulting inequalities are morally permissible. While the American government intervenes today in an attempt to redistribute wealth in pursuit of similar goals, it is clear that these goals have been hijacked by large corporations and the top 1% in favor of themselves. This has resulted in a society that does not award superior wealth to those who will contribute the most to society, nor provide enough for those at the bottom to live lives of sufficiency. In the following section, we will look further into determining whether this is immoral. We will do this by looking towards American philosopher Robert Nozick's view on distributive justice, and a potentially effective way to decide how wealth should best be distributed in an unequal moral society.

### *III. The Case for Distributive Justice*

Before describing Nozick's views on how property is to be distributed, we must briefly look at the different types of property to understand what can rightfully be owned by a person to begin with, as well discuss the definition of distributive justice. Property has been defined as a right that entitles a person to certain liberties and freedoms, most often concerning the use of things. Those who have a right to this property are usually decided by a system of laws based traditionally on determiners such as God's will, or as prominent political philosopher John Locke believed, the application of one's labor. These beliefs have led to different categories of property to form, all varying in how many people have a right to it. Private property is owned by an

individual, in which that individual has the right to do whatever they wish with it. Take for example, a personal vehicle or your own toothbrush. Common property is where property is controlled so that it is accessible to all members in a society, such as a public park or a library. Lastly comes collective property, which is where a decision making body chooses how resources are to be allocated, which may or may not benefit different groups of people, such as military spending. In a capitalistic society, private property makes up the vast majority of property rights. As seen in America, however, there is a balance between public and private property that exists. There is an abundance of public parks and libraries, and the government chooses how to allocate taxpayer money every year in the country's budget. Now, distributive justice refers to how these goods and property should be divided amongst a community. Three possible ways that this can occur are according to the (1) utilitarian way of thinking, so as to maximize overall utility or happiness, (2) the egalitarian, so as to maximize fair equality of opportunity, or (3) the aristotelian, so as to proportionally award according to virtue or some other objective measure of merit. Additionally, whether this redistribution of wealth in America is morally right or acceptable to begin with is a point of contention between Rawls and Nozick.

Similarly to Friedman, Nozick famously argues against Rawls that any redistribution of wealth is not morally permissible. He believes the role of the state is only to protect human liberty, not to create a more equitable society by redistributing wealth. Societies must strike a balance between two often conflicting values, liberty and equality, and often have to limit one to make room for the other. Nozick analyzes justice concerning holdings using his entitlement theory of justice which is made up of three principles. The first principle is of justice in acquisition, concerning whether an individual has originally acquired something that previously was not anyone's property justly or unjustly, or whether they acquired it without manipulation,

coercion, or any other unethical means. The second is the principle of justice in transfer, dealing with whether property has been transferred justly or unjustly, again without fraud or implicit threats. The third is the principle of rectification of injustice in holdings, which details the rectification of past injustice in either the first or second principle. An individual, according to Nozick, can justly hold something and have it as their property if they acquire it in accordance with these principles of justice in acquisition or if they acquire it in a just transfer from someone else who held it justly. Nozick's view is that we violate people's liberty when we insist on some "end result" or "pattern" of distributive justice like in the egalitarian economic framework.

He provides a thought experiment to contradict Rawls, in support of his own "entitlement theory" of justice known as the "Wilt Chamberlain" argument. In this society, Wilt Chamberlain is an excellent basketball player, and many teams compete with each other to engage his services. Members of this society are equal in wealth, including Chamberlain (D1). Chamberlain eventually agrees to play for a certain team on the condition that everyone who attends a game in which he plays puts 25 cents in a special box at the gate, the contents of which will go to him. During the season, one million fans attend the team's games, and so Chamberlain receives \$250,000. Now, however, the supposedly just distribution of holdings is upset, because Chamberlain has \$250,000 more than anyone else (D2). Is the new distribution unjust? Nozick writes:

If D1 was a just distribution, and people voluntarily moved from it to D2, transferring parts of their shares they were given under D1 (what was it for if not to do something with?), isn't D2 also just? If the people were entitled to dispose of the resources to which they were entitled (under D1), didn't this include their being entitled to give it to, or exchange it with, Wilt Chamberlain? Can anyone else complain on grounds of justice? Each other person already has his legitimate

share under D1. Under D1, there is nothing that anyone has that anyone else has a claim of justice against.<sup>79</sup>

Under an egalitarian framework, however, the supposedly just equal distribution of holdings is upset, because Chamberlain has \$250,000 more than anyone else. Nozick's entitlement theory states that because Chamberlain acquired his holdings by legitimate means, it is not unjust, as all parties consented to allow this inequality to occur. If a government then attempts to take Chamberlain's wealth after the fact, and redistribute it back to others, Nozick argues this intrudes grossly on the liberty of its citizens in order to enforce the distribution it considers just. Nozick takes this to an extreme, stating essentially any and all forced redistribution of wealth is immoral equating to that of forced labor and taxation as a form of slavery. Thus, according to Nozick's view inequality resulting from the voluntary transitions in capitalism are morally permissible, as well as the inequalities that result from them.

There is some value in seeing that free transactions in capitalism do not appear to be morally unjust when they occur, so how can the resulting inequalities then be? The flaw in his logic is that Americans' financial decisions are not as black and white as suggested in Nozick's Wilt Chamberlain example. Free markets are largely an illusion, and Americans are not financially free in all transactions. Individuals are in many ways forced into transactions by large corporations who dictate prices, as well as government restrictions on what transactions can occur. For example, an American citizen is forced to have insurance to drive a car, in which rates are determined by a private company. Another more striking example is that of life saving medicines and devices like the EpiPen. "In 2020, the average United States retail price for a two-pack of EpiPen is \$669.82, which is the amount a person might pay without Medicare or

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<sup>79</sup> Nozick, Robert. *Anarchy, State, and Utopia*. Reprint, Basic Books, 2013.

other prescription drug coverage.”<sup>80</sup> This extreme price is not because its owner, the company Mylan, requires such a high price to stay in business, but because they own the rights to the product and can name any price they want. As a result, people will have to pay it, for themselves or for their children, or likely face death. This can hardly be described as a free transaction, and one felt far harder by those on the bottom of an economy. Furthermore, Nozick assumes a world in which all transactions affect people equally. People can be born into wealthy advantaged families, with a sizable trust fund, or they could be born to a poor family and must work to eat from a young age as opposed to focusing on school. He also assumes workers and employers meet on an even playing field when it comes to liberty, however the average employee does not have this bargaining power over the employer someone like Wilt Chamberlain has. Circling back to Rawls’ original position experiment, those born into extreme poverty ought to have some assistance, or at the very least, a fair opportunity to improve their economic conditions. As illustrated in prior chapters, this is not the case and using Rawls’ original position experiment, we can see that objectively a moral society is one where these people are given equal opportunity. Some reduction of wealth must be taken to ensure those in need at the bare minimum are provided necessities to survive. Thus, Nozick’s theory does add value in justifying free translations, however they do not excuse the abandonment of those on the bottom who often do not choose to be there, but lost a sort of natural lottery.

There is no easy way to decide how self interested people should divide up earth’s finite resources. Philosophers like Rawls and Nozick attempt to, but it is extremely difficult to agree on what is morally right, fair, or reasonable in practice. Rawls’ belief that property should be redistributed due to natural and uncontrollable inequality is supported by existing systems like

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<sup>80</sup> Goodman, Elaine. “Does Medicare Cover EpiPen?” Medical News Today, 2 Nov. 2020, [www.medicalnewstoday.com/articles/does-medicare-cover-epipen](http://www.medicalnewstoday.com/articles/does-medicare-cover-epipen).



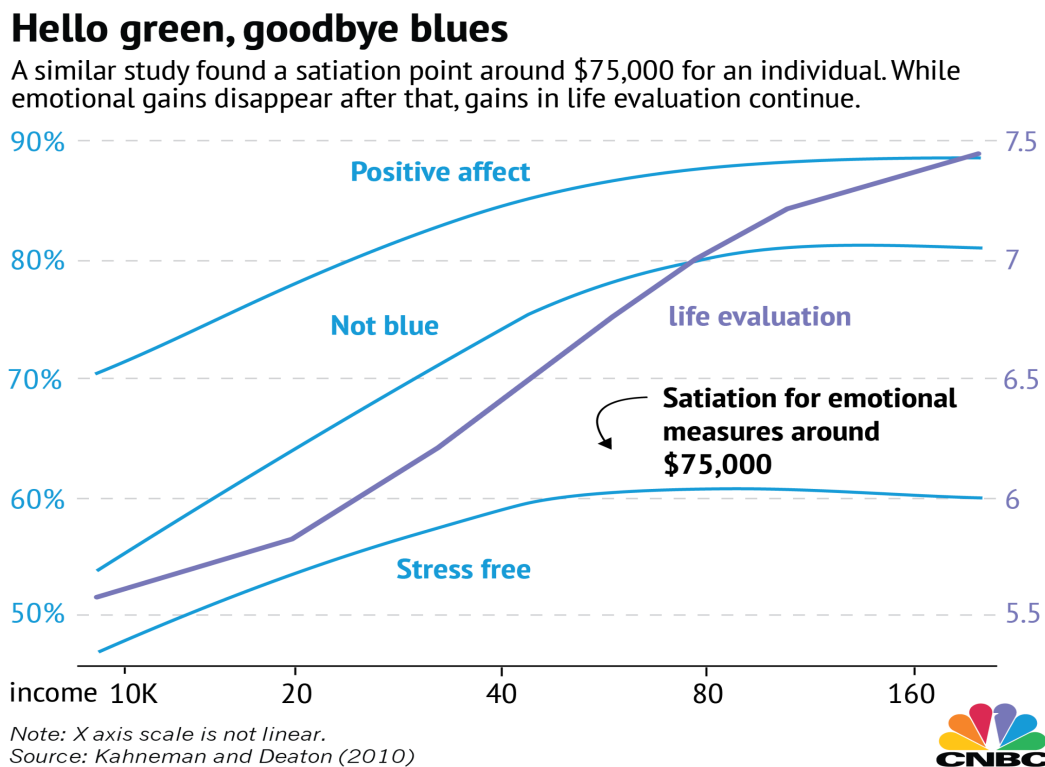
welfare that help millions of people escape from poverty that they did not choose. Nozick believes that these people should have to work to justly acquire these things themselves, which is very understandable to a degree, but fails to acknowledge how much more difficult it is to rise out of poverty when an individual is born into it and no opportunity is given to them. This is not to say that limits should not be put in place as to how much wealth should be redistributed, as this certainly would infringe significantly on the liberty of the populus. It is morally right, however, to give up some wealth to benefit the macroscopic picture. While Nozick's views may sound rational in theory, they do not address the very real issues of growing wealth inequality in America. Some level of redistribution of resources is necessary to preserve America's capitalistic society, but must do so in a fair way and only as much as necessary as to not verge too closely to an egalitarian distribution. Through a utilitarian lens, we can potentially determine the most practical distribution of wealth, most conducive to how people can lead happy, fulfilling lives in an unequal society.

#### *IV. A More Modern Utilitarian View on Wealth Inequalities*

Now, we have established inequality is not the issue within a capitalist society unless there is a lack of equal opportunity or a lack of sufficiency for those on the bottom. This section will be dedicated to seeing if such a society is practical through a utilitarian analysis of human nature in regard to wealth. We will determine if there is such a "level of sufficiency" as proposed by Frankfurt, and potentially discover what it is. Through this, we can analyze how resources can best be distributed in an unequal society to maximize the greatest good for the greatest number of people in this society. To begin, the basis of utilitarianism focuses on bringing the most happiness into the world, as happiness is regarded as the only intrinsically good thing to

utilitarians. As a result, actions are considered right insofar as they promote happiness or alleviate unhappiness, wrong insofar as they produce unhappiness,<sup>81</sup> and everyone's happiness is counted equally. Thus to a utilitarian, the best distribution of wealth in a society would be one maximizing happiness between all people within it.

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To Frankfurt's delight, it does appear that there is a level of relative sufficiency in which negative emotions caused by financial stress are all but eliminated, and there is less active interest in securing more. A 2010 study by Kahneman and Deaton shows that in recent economic climates

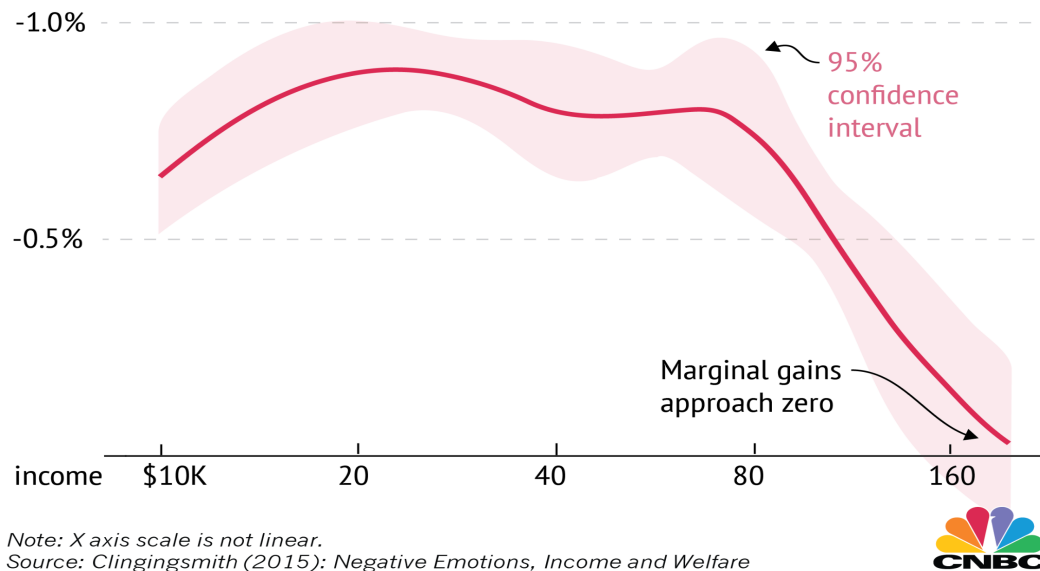
<sup>81</sup> It is important to note that the utilitarian prefers the alleviation of negative emotions to the creation of positive emotions.

<sup>82</sup> Fahey, Mark. "Money Can Buy Happiness, but Only to a Point." CNBC, 14 Dec. 2015, [www.cnbc.com/2015/12/14/money-can-buy-happiness-but-only-to-a-point.html](http://www.cnbc.com/2015/12/14/money-can-buy-happiness-but-only-to-a-point.html).

this amount is around \$75,000. At this level, financial stress and negative emotions saw rapid improvement and positive effects slowed to nothing around \$75,000.

### Diminishing returns

The richer a family gets, the smaller the reduction in negative emotions gained by the marginal dollar increase in household income. Gains disappear around \$200,000.



Additionally, on the other side we can see that at \$75,000 negative emotions greatly drop off and continue up to \$200,000. A way to think of this phenomenon is to imagine we were to give an equal distribution of \$10,000 to every person in America today, the happiness of a homeless man and Bill Gates will differ drastically. A bit of marginal taxation does not hurt people who are up high as much as it benefits those down low through redistribution or spending on programs. Happiness increases at the low end, so we would best increase happiness by giving enough money for people to live at a sufficient level. These effects are not specifically economic as well, as they further found that below an income of \$75,000, the pain of some of life's misfortunes like divorce, headaches, etc. are significantly magnified by poverty. Thus, it is possible for humans to

be mostly satisfied at a certain economic level, but is there even enough money in America for this to occur?

According to the latest federal data, “the top 1% of Americans have a combined net worth of \$34.2 trillion (or 30.4% of all household wealth in the U.S.), while the bottom 50% of the population holds just \$2.1 trillion combined (or 1.9% of all wealth). With \$4 trillion the total wealth of all U.S. billionaires today.”<sup>83</sup> If we divided the entirety of wealth in the US, 36.3 trillion dollars, and divided it by the total US population of 328.2 million people, we arrive at an egalitarian figure of \$104,204.75 each. Therefore, it is plausible that a society in which those at the bottom have \$75,000 a year, with \$9.585 trillion dollars left over to be awarded to those who contribute more to the economy and benefit society as a whole. An important and very real counterargument to this, is the potential lack of motivation to contribute to this economy by those at the bottom if they are supported at this level no matter what. This is the main criticism of socialism, and as previously mentioned, the profit motive to be able to make money to survive is the driver of capitalism. So what would drive those on the bottom to contribute if they were taken care of regardless? Perhaps it is true that \$75,000 may be a bit too high, and having some negative emotions regarding wealth as a motivator could be a useful tool to incentivize those at the bottom. The current distribution of wealth, however, is clearly far too unequal and frankly unlivable, showing that the bottom 50% of Americans<sup>84</sup> have only an average of \$12,727.27 per person. It could be argued that a better way to motivate those at the bottom to contribute under a more equal distribution would be to require them to work and contribute to receive their supplemented income, not simply hand it out. Regardless, this exercise and these calculations

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<sup>83</sup> Beer, Tommy. “Top 1% Of U.S. Households Hold 15 Times More Wealth Than Bottom 50% Combined.” *Forbes*, 15 Dec. 2020, [www.forbes.com/sites/tommybeer/2020/10/08/top-1-of-us-households-hold-15-times-more-wealth-than-bottom-50-combined/?sh=f91d76551795](http://www.forbes.com/sites/tommybeer/2020/10/08/top-1-of-us-households-hold-15-times-more-wealth-than-bottom-50-combined/?sh=f91d76551795).

<sup>84</sup> 165 million people.

show that such a society is possible today, although requiring a substantial redistribution of wealth.

It appears then, that a regulated capitalist system can be a moral system as long as it allocates resources based on merit in theory. Income inequality is not necessarily an immoral thing, as it serves the purpose of driving innovation through economic reward — if adequate redistribution occurs and opportunity is available. The alleviation of poverty, as well as extreme unproportional wealth inequalities that we are seeing today, are unjustly distributed resources. Therefore, a careful balance must be struck between the minimization of infractions of an individuals economic freedom, as well as ensuring those at the bottom have enough to live a life of sufficiency, largely free of basic economic worry. It follows then that capitalism is not inherently an immoral system on the basis of inequality, under these conditions. Due to this finding, in the following chapter we will look at how to both *fix* and *maintain* an American capitalist system that upholds these moral conditions.

## Chapter 4

### The Prognosis of a Sick Capitalist America



*“It's easier to imagine the end of the world than the end of capitalism.”*

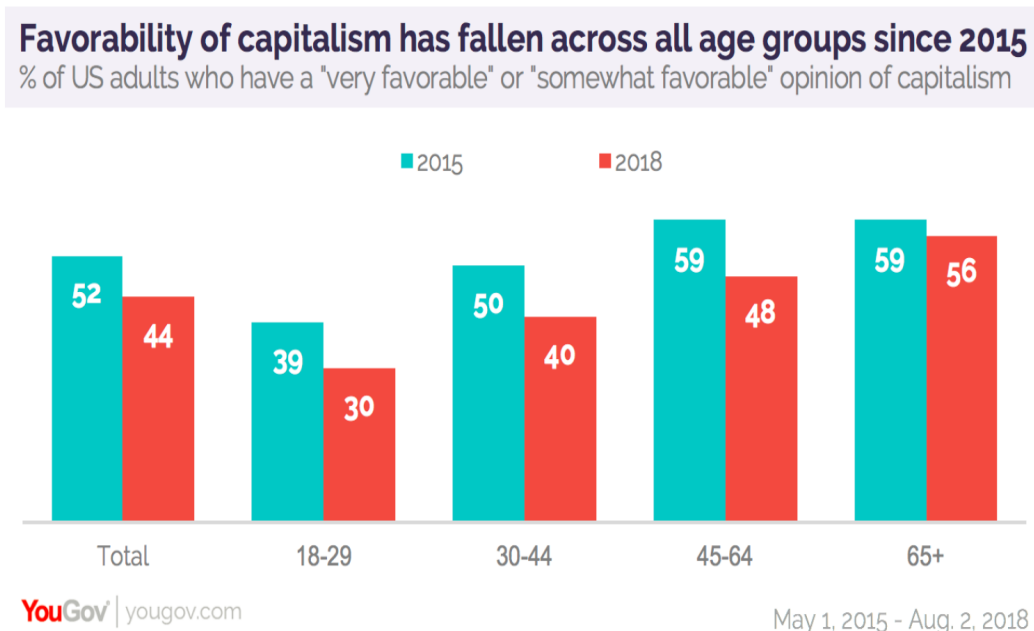
— Mark Fisher

#### *I. Why Capitalism is Worth Saving*

We have looked at American capitalism and inequality through a critical lens in prior chapters. We have also examined the numerous benefits this strange new system can provide. Additionally, we have found that some inequality is permissible, yet even with socialist elements injected into American capitalism we still see that this gross level of inequality is still growing. In Chapter Two, capitalism in America was diagnosed as sick, and in this chapter we will attempt to suggest large scale ways to remedy it. This final chapter will conclusively argue that yes, capitalism is still worth saving, as long as inequality is reduced and poverty eliminated. We will then look at remedies for these inequalities discussed in Chapter Two, and the consequences of if we continue to let capitalism run the course it is. This thesis will conclude with a look at the state of contemporary capitalism in the COVID-19 pandemic and what its inequalities tell us about the future of capitalism in America.

It may seem like a daunting task to undo these systematic and generational inequalities, making many wonder if capitalism is really worth all this effort. This is reflected in the current lack of support for contemporary American “capitalism.” According to a recent YouGov survey, it was found that 43 percent of respondents under the age of 30 had a favorable view of socialism

while only 32 percent had a favorable view of capitalism.<sup>85</sup> This shift, although most prominent among younger demographics, is not unique to them as support for all demographics has consistently fallen from 2015 to 2018.



This is likely due to the combination of rising wealth inequality due to the financialization of America and the hijacking of capitalism by large corporations. As previously discussed and passionately argued by NYU Stern professor Scott Galloway in Chapter Two, younger Americans are experiencing today is not capitalism. In its present day form within America, it is a machine that robs the average individual of opportunity, of economic sufficiency, and distrust of the capitalist system and its government controllers. It is no wonder, therefore, that support for capitalism is constantly waning decade by decade, as the problem has only worsened since the 80's and magnified during times of economic hardships like the 2008 financial crisis and the

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<sup>85</sup> YouGov. Survey on Favorability of Capitalism and Socialism. Nationally Selected, U.S. Adults, Aged 18 and Over. 25-27 Jan. 2016.

COVID-19 pandemic. With the current state of American capitalism, and the distrust that comes along with it, it is easy to claim that some other system should replace it. However, we must not forget how capitalism has reshaped the world as we know it — from horses to cars, or candles to electricity, capitalism has spurred innovation and decreased human poverty unlike any prior system before it. This is not to say it is a system without its flaws, but it is of the utmost importance not to discredit the system *entirely* due to its current condition.

Canadian psychologist Steven Pinker provides a more factual argument in support of the beneficial effects of a capitalist society despite its drawbacks. He states that “...GDP per capita correlates with longevity, health, and nutrition. Less obviously, it correlates with higher ethical values like peace, freedom, human rights and tolerance.”<sup>86</sup> This is in part due to the fact that capitalism is a system that relies on the combined labor and cooperation of people around the world. It incentivizes the production of not only technological advancements, but life saving medicines, an abundance of foods, and other increased standards of living that have increased the average human lifespan. He continues to speak on how it is easy for us to overlook the numerous benefits capitalism has brought mankind, as opposed to focusing on just the bad things. For example, although capitalism can divide, it is foremost a system that brings people across the world together. Even Milton Friedman writes: “The great virtue of a free market system is that it does not care what color people are; it does not care what their religion is; it only cares whether they can produce something you want to buy. It is the most effective system we have discovered to enable people who hate one another to deal with one another and help one another.”<sup>87</sup> Another benefit to this inevitably intermingling of people and global trade spurred by capitalism is that richer countries fight fewer wars with each other, are more likely to become and stay democratic,

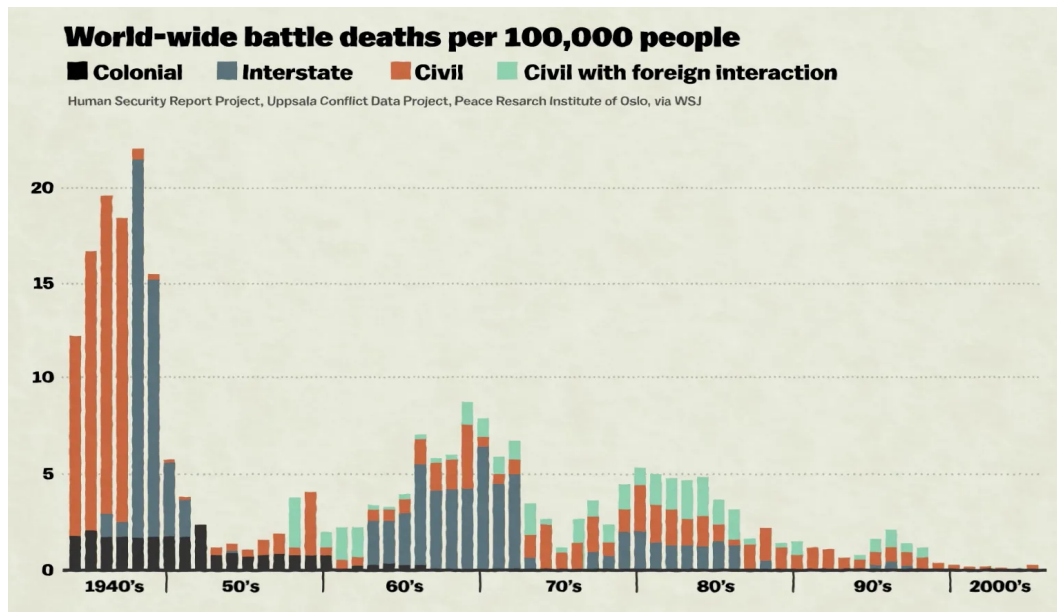
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<sup>86</sup> Pinker, Steven. *Enlightenment Now: The Case for Reason, Science, Humanism, and Progress*. Reprint, Penguin Books, 2019.

<sup>87</sup> Friedman, Milton. *Why Government Is the Problem*, 1993.



and have greater respect for human rights. The chart below<sup>88</sup> shows that since World War II, all types of conflicts have largely and consistently declined in part due to capitalism, as countries that trade with each other are less likely to fight with each other to keep peaceful economic trade.



The economic freedom that comes with capitalism further helps to sustain political freedom and democracy “...because it separates economic power from political power and in this way enables the one to offset the other.”<sup>89</sup> This is not to say it safeguards against it entirely, as we have seen in America how corporations have gained influence over political decisions through lobbying, as well as how the rich find ways to avoid government redistribution. This level of corruption pales in comparison to a system in which governments own the means of production and set prices entirely. This invariably leads to a powerful state and creates a large bureaucracy which may extend into other areas of life. Opponents of capitalism cite socialism as the next

<sup>88</sup> Beauchamp, Zack. “Steven Pinker Explains How Capitalism Is Killing War.” *Vox*, 4 June 2015, [www.vox.com/2015/6/4/8725775/pinker-capitalism](http://www.vox.com/2015/6/4/8725775/pinker-capitalism).

<sup>89</sup> Friedman, Milton. *Capitalism and Freedom (40th Anniversary Edition)*, 1962.

ideal form of government, a system with a goal of economic egalitarianism. However, socialism does not protect against human greed any more than capitalism encourages it, nor does it guarantee fairness. In fact, a state-controlled economy has always been a recipe for more corruption, greed and human misery – not less. We have additionally established that a goal of forced equality is neither moral or desirable for mankind in Chapter Three. There are no examples of where pure state socialism has proven successful, despite some claims that Nordic countries represent some utopian ideal of socialism. As the Prime Minister of Denmark himself stated in response to these claims, his country is “far from a socialist planned economy,”<sup>90</sup> despite what proponents of socialism, such as Senator Bernie Sanders may think. These Nordic countries can more accurately be characterized as capitalist nations which tend to have generous social welfare systems. In order to finance these welfare systems they rely on capitalism to generate the tax revenue, with well known corporations like Ikea or Lego originating there. This is not to say that American capitalism cannot take lessons from these Nordic countries, as more generous social welfare programs could greatly reduce the wealth inequality in America, but one cannot claim a successful socialist government is in place there. To address the very real economic and political corruption in America, in the following section we will examine reasons why American corporations and politicians may act the way they do to promote such inequality at the expense of others.

## *II. The Dilemma of Corporations and the Political Arms Race*

It is clear that corporations and politicians in contemporary America are acting in their own best interests, one of the fundamental laws of capitalism. However, in recent decades these

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<sup>90</sup> Goldhill, Olivia. “Denmark Says It Isn’t the Socialist Utopia Bernie Sanders Thinks It Is.” *Quartz*, 1 Nov. 2015, [qz.com/538499/denmark-says-it-isnt-the-socialist-utopia-bernie-sanders-thinks-it-is](http://qz.com/538499/denmark-says-it-isnt-the-socialist-utopia-bernie-sanders-thinks-it-is).

same corporations have begun overstepping, “donating” to political campaigns in exchange for bailouts and tax breaks, and in reality undermining the democratic system in America. In addition to this, many corporations such as Walmart and McDonald’s pay their employees so little that they are encouraged to apply for government social safety net programs like SNAP or welfare to have enough to survive. These two corporations alone can have quite an impact, as it is estimated that one out of every eight workers in the United States has at some point been employed by McDonald’s and Walmart, two corporations that provide 16 million jobs for Americans.<sup>91</sup> Despite such massive size and profitability, both corporations pay their minimum wage employees an unlivable wage, despite consistently increasing profits. United States Senator Bernie Sanders calls them out on this, writing, “U.S. taxpayers should not be forced to subsidize some of the largest and most profitable corporations in America.”<sup>92</sup> Yet even with this they still push for more, lobbying against minimum wage hikes, and finding any possible way to cut corners to save money. When it comes down to it, corporations and politicians are still just people, and likely do not enjoy doing this to their workers, so the question is — *why* do they do it?

American mathematician Albert W. Tucker's “prisoner's dilemma” may offer a possible explanation for their actions. The prisoner’s dilemma is as follows: imagine that the police arrested two suspects of a crime. Both suspects are held in different cells and they cannot communicate with each other. The police officer offers both suspects the opportunity to either remain silent or blame another suspect. If both suspects remain silent, they both will serve only

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<sup>91</sup> Schlosser, Eric. “Fast Food Nation.” *NYTimes*, 2000, [archive.nytimes.com/www.nytimes.com/books/first/s/schlosser-fast.html](https://archive.nytimes.com/www.nytimes.com/books/first/s/schlosser-fast.html).

<sup>92</sup> “Walmart and McDonald’s Among Top Employers of Medicaid and Food Stamp Beneficiaries.” *CNBC*, 4 Sept. 2019, [www.cnn.com/2020/11/19/walmart-and-mcdonalds-among-top-employers-of-medicaid-and-food-samp-beneficiaries.html](https://www.cnn.com/2020/11/19/walmart-and-mcdonalds-among-top-employers-of-medicaid-and-food-samp-beneficiaries.html).

one year in prison. If they both blame each other, they both will serve three years in prison. If one of the suspects blames another and the other remains silent, the suspect who remained silent would serve five years in prison, while another suspect would be set free. The table below shows the possible payoffs:

		Suspect B	
		Remain silent	Blame
Suspect A	Remain silent	1, 1	0, 5
	Blame	5, 0	3, 3

In such a setting, both suspects do not know the decision chosen by another suspect. Therefore, the most rational decision from the perspective of self-interest is to blame the other suspect. For example, suspect A is afraid of remaining silent because in such a case, he can receive five years in prison if suspect B blames him. If suspect A chooses to blame suspect B, he can be set free if suspect B remains silent. However, that is not likely, because suspect B is using the same rationale and he is also going to blame suspect A. Although the decision of remaining silent by both suspects provides the more optimal payoff, it is not a rational option because both parties behave in their self-interest. On the other hand, the decision of blaming another suspect is a

rational decision from that perspective and it provides Nash equilibrium despite the worse payoff.<sup>93</sup>

If we were to apply this dilemma and the tendency of people to act in their own best interest to what's going on between corporations and politicians today, we find that their hands may simply be tied. This is not some sort of grand conspiracy of the rich against the poor or class warfare as Marx would suggest, it is simply the rational and natural unfolding of the market itself as it is set up today. There is intense competition between increasingly large, heavily leveraged corps with razor thin profit margins. This has led to an arms race for legislative advantage to protect monopolies, increase barriers to entry, use of public resources, and gain favorable tax and labor policies. Robert Reich, Former United States Secretary of Labor, articulates this well in his text *Supercapitalism: The Transformation of Business, Democracy, and Everyday Life*:

The explanation for what has happened is the structural shift in the economy, beginning in the 1970s, toward far more intense competition for consumers and investors. Supercapitalism has not stopped at the artificial boundary separating economics from politics, the goal of the modern corporation - goaded by consumers and investors – is to do whatever is necessary to gain competitive advantage that includes entering any battleground where such games can be made.<sup>94</sup>

It is reasonable to argue that a primary reason why corporations act as they do is not only because of the profit incentives, but because they are told to act this way by consumers as well. Generally, the number one thing the average American consumer takes into account when making a purchase is price. Therefore, while the McDonald's employee making \$12

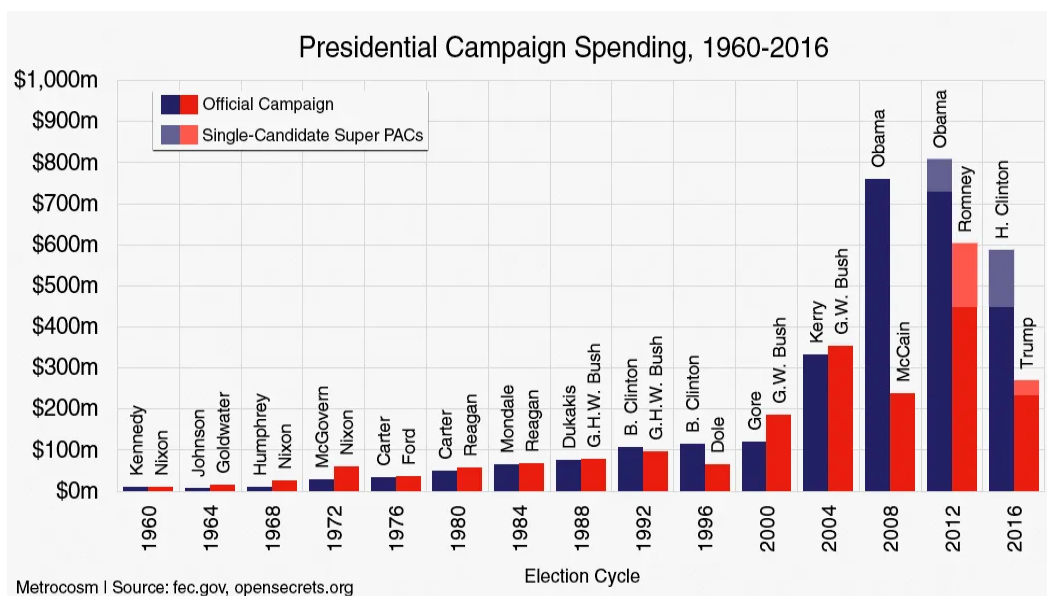
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<sup>93</sup> Kuhn, Steven, "Prisoner's Dilemma", *The Stanford Encyclopedia of Philosophy* (Winter 2019 Edition), Edward N. Zalta (ed.), URL = <<https://plato.stanford.edu/archives/win2019/entries/prisoner-dilemma/>>.

<sup>94</sup> Reich, Robert. *Supercapitalism: The Transformation of Business, Democracy, and Everyday Life*. Vintage, 2021.

an hour is hurt, the consumer paying only \$1 for a hamburger doesn't mind as it benefits them to pay less.

The same logic applies to American politicians, as “...the policy process is an extension of the market battlefield.”<sup>95</sup> Elections are becoming increasingly expensive, to the point that one would need to be a billionaire to finance their own campaign. This trend has only accelerated since the 80’s, and especially in 2008 when financialization and inequality reached all time peaks.



It stands to reason that many politicians do not wish to take corporate lobbyists’ money, however, they see no other possible way to run a viable campaign without it. If all politicians chose not to take corporate interest money, the playing field would be more equal, however as shown in the prisoners' dilemma out of natural human tendencies it is rational to take the money. Thus, an arms race for political donations ensues as well-funded lobbyists compete for attention

<sup>95</sup> Boaz, David. “Parasite Economy Latches onto New Host.” *CATO Institute*, 10 May 2006, [www.cato.org/commentary/parasite-economy-latches-new-host-0](http://www.cato.org/commentary/parasite-economy-latches-new-host-0).

and favor with legislators who need the support of well-funded constituencies to get or remain in office. Finally, retired politicians become increasingly well-paid lobbyists, ensuring this vicious circle continues. In summary, it is very possible that corporations and politicians that are made up of people do not wish to act in these ways. However, due to current pressures from consumers and corporate interests alike, as well as how the US legislative system allowance of lobbying and corporate donations, human psychology shows it is only rational for them to act this way.

### *III. Potential Remedies for Contemporary America*

American capitalism has successfully implemented policies that have reduced inequalities and exploitation of capitalism in America since its conception. Take, for example child labor laws which removed corporations ability to rationally harness the cheaper labor of children. In this scenario, legislation was the answer to resolve this issue and prohibit corporations from using child labor to cut costs. In a different kind of example, in recent years many companies such as Starbucks announced that they will phase out plastic straws in favor of more environmentally friendly paper straws. These straws can cost between 5-10 times much cheaper plastic straws, however many companies are still hastily making the switch.<sup>96</sup> There is no government legislation in place mandating this, so why would they do this? It is unfortunately not out of the goodness of their hearts, but because newer generations value environmental conscious corporations who seek to help the environment. This in turn forces or allows corporations to adopt eco-friendly policies in order to keep customers coming back and maintain a positive brand image leading to ultimately more profit. The common denominator with both of these policies is that they were driven by the people. Through legislation or through consumer

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<sup>96</sup> Ell, Kellie. "Paper Straws Cost 'May Be 10 Times' More than Plastic Straws, Says Paper Straw Distributor." *CNBC*, 10 July 2018, [www.cnn.com/2018/07/09/paper-straws-are-better-for-the-environment-but-they-will-cost-you.html](http://www.cnn.com/2018/07/09/paper-straws-are-better-for-the-environment-but-they-will-cost-you.html).

pressure change, it is still possible to drive change through the people in a democratic society. We have seen how corporate lobbying has compromised the democratic process, preventing legislation the people want to pass. In order to address this issue, corporate lobbying must be banned by the very people who profit from it. The quote, “democracy and the market have to work together, but they also need to be partly independent from each other”<sup>97</sup> by Yale professors Hacker and Pierson encapsulates this sentiment, and in order to achieve this the people must push politicians to act irrationally in terms of their own self benefit to achieve this goal — a very difficult task.

Even if this theory is incorrect and corporations are strictly motivated by greed and excess profit, not caught in a sort of prisoner's dilemma, the solution still remains the same. Corporations are nothing without those consumers who buy their products. If consumers banded together against a company abusing its workers, they would rationally choose to change their ways as opposed to losing profits from boycotts. This power is backed by research on consumer spending, which reveals that consumer spending makes up for two-thirds of America's GDP. American citizens still have the power to bend these corporations to their will, simply by refusing to shop at corporations who lobby, pollute, or enforce low minimum wages. People are already doing this, as at Unilever so-called “purpose-driven” brands are growing 69% faster than the rest of the portfolio as consumers increasingly vote with their wallets.”<sup>98</sup> Thus, there is still a way for the American people to promote corporate reform, but they must be willing to potentially pay a premium for a product that is ethically sourced, and pays its employees a higher wage. This is how inequality in America, as well as global poverty can be reformed from the

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<sup>97</sup> Hacker, Jacob S., and Paul Pierson. “Making America Great Again: The Case for the Mixed Economy.” *Foreign Affairs*, vol. 95, no. 3, 2016, pp. 69–90., [www.jstor.org/stable/43946859](http://www.jstor.org/stable/43946859).

<sup>98</sup> Henderson, Rebecca. “Reimagining Capitalism in the Shadow of the Pandemic.” *Harvard Business Review*, 2 Feb. 2021, [hbr.org/2020/07/reimagining-capitalism-in-the-shadow-of-the-pandemic](http://hbr.org/2020/07/reimagining-capitalism-in-the-shadow-of-the-pandemic).



ground up. What the world is mostly doing to address poverty, however, is seemingly throwing money at it and hoping that it goes away. Canadian Psychologist Steven Pinker acknowledges this and states, “... It’s unnecessary to keep depicting the developing world as a basket case to shake people out of their apathy — with the danger that they will think that additional support would just be throwing money down a rat hole.”<sup>99</sup> To truly fix capitalist society in America in a sustainable manner requires hard work and policy change, not simply capital injections.

Another potential remedy is placing restrictions on corporate campaign spending, coupled with lowering the costs of running an election. If election costs were to be capped, politicians would have less incentives to have to take money from these large corporations, limiting their influence and corruption of the US government. In response to this, the government will be theoretically free from corporate influence and will be effective in the implementation of legislation that works to benefit all Americans. For example, tighter restrictions on money stored in offshore accounts as well as limits on how levered a firm may be. A more progressive form of taxation will also allow for a reversal of this inequality and a strengthening of the middle class while raising those in poverty to a level of economic sufficiency, much to the satisfaction of Frankfurt. Additionally, a renewal of Keynesian policies designed to increase aggregate demand, such as infrastructure spending, would aid in creating manufacturing and labor jobs throughout America, as opposed to supply-side economic theories that work to promote inequality. Until these measures become effective in combating inequality, publicly funding early education programs will temporarily resolve the issue of education inequality as well. If the work is done, and these policies are implemented, it will result in a lessening of the gross inequalities we see in America today, alleviating potential social issues and tensions as well. These remedies should be implemented to form a sustainable form of capitalism that works in the benefit of many, not

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<sup>99</sup> Pinker, Steven. *Enlightenment Now the Case for Reason, Science, Humanism and Progress*. 2019.

simply the rich. This will require government intervention, as Pinker recognizes that market economies that have succeeded are not raw laissez-faire capitalist, but modified forms where governments invest in education, public health, infrastructure, and poverty reduction programs to combat gross inequality.

A final point to mention is the differentiation between traditional corporate “shareholder primacy” and American philosopher R. Edward Freeman’s “stakeholder view.” The traditional view measure of a corporation's success was based on its ability to generate economic payoffs for their shareholders, as reflected in their share price and paid dividends. By engaging in corporate social responsibility (CSR),<sup>100</sup> under the shareholder primacy view, a corporation is stealing money from shareholders as they did not consent to this reduction in profit. This way of thinking largely prevented corporations, even if they were willing, from supporting CSR goals as it was not viewed as the best interest of shareholders. In 1981 Freeman proposed a new theory, proposing that a corporation is not merely in a bilateral contract with just shareholders, but a complex multilateral contract with multiple stakeholders whose interests are interdependent. From a utilitarian perspective, stakeholder theory produces the most possible good for the most possible people, whereas the shareholder theory produces the most possible good for the investors only. Examples of these stakeholders include groups like customers, employees, suppliers, political action groups, environmental groups, local communities, as well as shareholders, that are all affected by the corporation's operations. He further argues that when these groups work together, the end result for each group is more favorable than any group working independently, writing:

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<sup>100</sup> Corporate social responsibility can be described as practices and policies undertaken by corporations that are intended to have a positive influence on the world. The key idea behind CSR is for corporations to pursue other pro-social objectives, in addition to maximizing profits.

Stakeholder theory says if you're just focused on financiers you miss what makes capitalism tick. What makes capitalism tick is that shareholders and financiers, customers, suppliers, employees, communities can together create something that no one of them can create alone.<sup>101</sup>

This is key to remedying the greed and corruption that can occur within capitalism if only focused on the profit motive. The profit motive is an essential component of capitalism, spurring innovation and investment, but it must not be the primary purpose of a corporation.

In short, knowing this is why politicians and corporations act in these ways not out of pure malice, but to meet consumer and voter needs. Thus it is up to the people to hold corporations and politicians accountable through actively choosing where to shop, as well as carefully electing officials who will accept corporate cash. We have seen what greedy politicians, and the wealthy have done together — therefore, how can they be trusted to redistribute wealth efficiently? They cannot, and therefore it must be the people that take on this responsibility.

We live in a consumer society in which price is the primary consideration taken when buying a good or service. Corporations exist to create products for consumers, and when consumers blindly shop for the lowest price they are partially forced to utilize any unethical competitive advantage they can — or else their competitor will.

#### *IV. A Brief look into Pandemic Capitalism*

In light of the time frame of this thesis, I would find it inappropriate to not acknowledge the mass reduction of wealth that has occurred over the course of the 2021 COVID-19 pandemic. Similar to the economic crisis of 2008, the world wide economy was brought to a standstill with people either unable or unwilling to spend money on anything more than the basic necessities. In

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<sup>101</sup> Freeman, R. E. 1984. Strategic Management: A Stakeholder Approach. Boston: Pitman.

fact, during the early days of the U.S effort to quarantine, there was a marked price increase in things such as hand sanitizer, face masks and even toilet paper. Much of this can be attributed to individual vendors engaging in price gouging, a generally illegal practice, and were subsequently either fined or banned from selling their overpriced products. However, the general increase in prices can also be blamed on demand outpacing supply. It is here that we see the negative aspects of unrestricted capitalism.<sup>102</sup> If one were to apply Milton Friedman's beliefs regarding the free market, wherein the free market should set price rates without government regulation, basic necessities would be increasingly unavailable to those of lower income. Shifting away from individual economic tendencies during this pandemic, we see the same detrimental practices in the relationship between small and large businesses.

Unsurprisingly, a global shutdown of the economy affected all businesses, regardless of size. One only needs to look at what happened with airlines, most if not all of whom can be classified as big businesses. A lack of travel resulting from travel bans and nationwide quarantines saw the airline industry largely relegated to the sidelines as many were able to operate, and those that did still operate likely did so where costs outweighed the profits. U.S airlines alone were projected to lose about \$35 billion alone because of COVID-19.<sup>103</sup> Suffice it to say that the shutdown of such tourist dependent industries was felt on all organizational levels, with companies having to furlough or even lay off workers in order to keep their balance sheets economically viable. Expectedly, this further exacerbated the global economic shutdown, as those who found themselves unemployed were restricted to buying only the necessities, thereby

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<sup>102</sup> Palmer, Annie. "Amazon Sellers Fined for Price Gouging Hand Sanitizer amid Coronavirus Pandemic." *CNBC*, 17 Nov. 2020,

[www.cnbc.com/2020/11/17/amazon-sellers-fined-for-coronavirus-price-gouging-hand-sanitizer.html](http://www.cnbc.com/2020/11/17/amazon-sellers-fined-for-coronavirus-price-gouging-hand-sanitizer.html).

<sup>103</sup> Josephs, Leslie. "U.S. Airlines' 2020 Losses Expected to Top \$35 Billion as Pandemic Threatens Another Difficult Year." *CNBC*, 1 Jan. 2021, [www.cnbc.com/2021/01/01/us-airline-2-losses-expected-to-top-35-billion-in-dismal-2020-from-pandemic.html](http://www.cnbc.com/2021/01/01/us-airline-2-losses-expected-to-top-35-billion-in-dismal-2020-from-pandemic.html).

denying other non-essential industries much needed income. In a highly conspicuous consumptive society like the U.S, this meant that industries that can be considered “luxury”<sup>104</sup> suffered the worst. While it is true that brands such as Chanel, Gucci and even New Balance saw their margins thinned, the true victims of this monetary restriction were small businesses. Small businesses, as a result of their localization and dependence on local economies, are highly sensitive to changes in the macroeconomy, and thus disproportionately felt the economic burden of the shutdown.

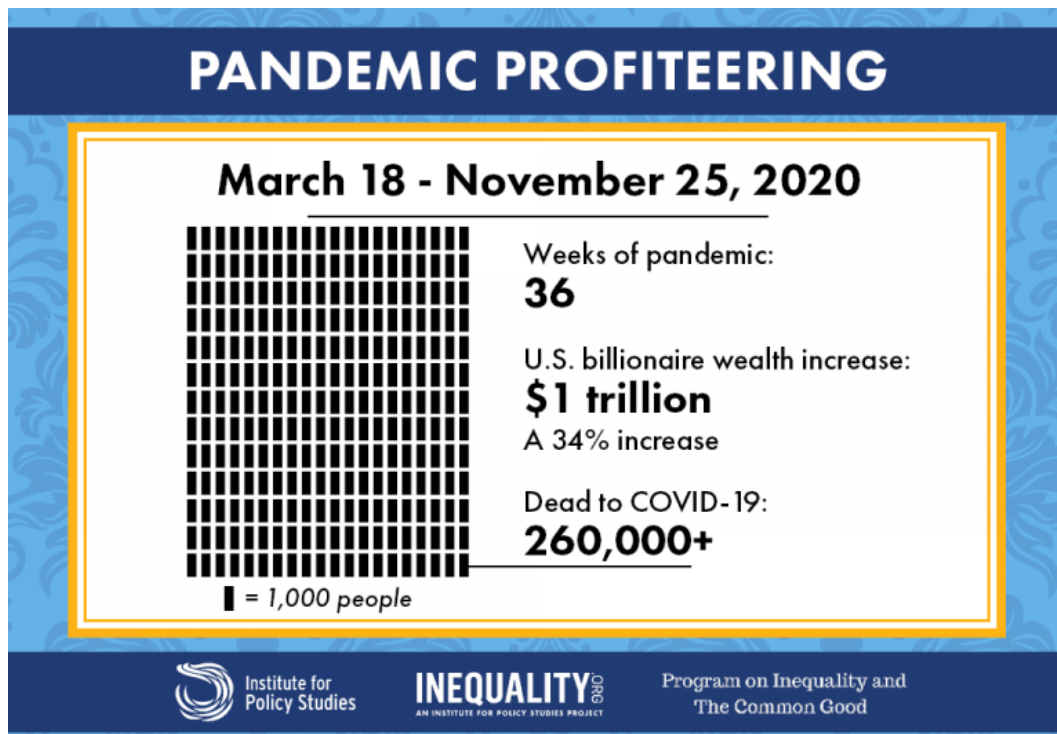
For a historical precedent on the recovery of small businesses after a global crisis, one can look to the world economy after the 2008 global recession. While big businesses took an average of 4 years to recover economically, small businesses took an average of 6 years.<sup>105</sup> Already, small companies operate on slimmer margins, and with a newfound focus on the health and safety of both employees and customers, the pandemic has exposed the stark differences in the ability of businesses to adapt. While big business has been able to implement many health and safety measures, such as safety glasses to separate employees from customers, smaller businesses may find this more difficult as the cost of erecting such features will impact their already diminished profits. Thus, here we see how modern capitalism favors big business, by providing them with greater robustness and resources to quickly adapt, while leaving smaller businesses in the dust. The economic fallout of this gap in implementation of safety measures will undoubtedly be seen in the coming months as small businesses struggle to once again attract customers after having endured a delayed start due to difficulties in implementing safety

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<sup>104</sup> Non-necessary for basic sustenance.

<sup>105</sup> Dua, André, et al. “US Small-Business Recovery after the COVID-19 Crisis.” *McKinsey & Company*, 4 Dec. 2020, [www.mckinsey.com/industries/public-and-social-sector/our-insights/us-small-business-recovery-after-the-covid-19-crisis#](http://www.mckinsey.com/industries/public-and-social-sector/our-insights/us-small-business-recovery-after-the-covid-19-crisis#).

structures. Even with governmental support, such as the Paycheck Protection Program, further federal aid is necessary, yet in this arena exists the quagmire of accruing political support to provide further aid to small businesses over big corporations. The same applies to the massive wealth shift between the rich and poor as shown in the following chart:



Despite the fact that the unemployment rate skyrocketed from 3.5% to 14.8%,<sup>106</sup> large corporations and U.S. billionaires gained over a trillion dollars in wealth off the suffering of the average American. Thus, the COVID-19 pandemic highlighted the priorities of both corporations and the US Government in the current American capitalist system.

Yet, for all the damage contemporary capitalism has inflicted on small businesses and individuals struggling to make ends meet, the success of such an economic system can explicitly

<sup>106</sup> "Civilian Unemployment Rate." BLS, 2021, [www.bls.gov/charts/employment-situation/civilian-unemployment-rate.htm](http://www.bls.gov/charts/employment-situation/civilian-unemployment-rate.htm).

be seen in the rapid development of the COVID-19 vaccine. Looking at biomedical companies that were engaged in the race to develop a vaccine, there is an inextricable link between funding and development speed. Such biomedical companies, like Novavax funded by the Bill and Melinda Gates Foundation and Johnson & Johnson, saw their stock prices soar in the early days of vaccine development. Continuous news of milestones reached during research and development meant that vaccine companies were able to enjoy a rapid influx of cash that supported enhanced vaccine development. In fact, the rise in company stock prices as a result of pandemic investment could also be the reason that many companies willingly donated vaccine doses to impoverished countries as the windfall of cash provided them with sufficient leeway for such non-profit decisions.

Thus, the story of vaccine development can be seen as a boon for supporters of a capitalist system, as with investment in their equity, companies were able to quickly develop and distribute the desperately needed vaccine. Furthermore, such distribution can be seen from a purely economical standpoint as with increasing rates of vaccination, the economy has been able to rebound to a point similar to a pre-coronavirus state of profitability. This, in turn, encourages a rehiring of laid-off or furloughed workers who are once again able to spend their money on non-essential items. Capitalism may require much reform to ensure all can share in its wealth, but even in this state its innovative power can still be credited to saving lives during the pandemic.

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