The necessity to humanize current capitalism paradigm

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Abstract: Since the beginning of capitalism it has been pointed out that excessive egotism harms the common interests. In the middle of 20th century the morale decayed considerably both in society and economy. On the threshold of this century a series of business scandals occurred in the USA and Europe as a consequence of fraud of the top managers in the renowned businesses. Capitalism based on market succeeded in a certain period but also showed its weaknesses and negatives. Speculation and inhumanity became its attributes. The basis of that civilization lies in morbid money orientation. It underlines the most extreme forms of individualism. Consequently the big social differences among people are aggravated and may result in social shocks. People have the right to live in decent conditions. This situation calls for a radically different market economy and capitalist model. The changes in its development require many authors.

Key Words: market economy, moral values, business scandals, top managers, American capitalism model, individualism, human one-way profile, social differences, new market economy and capitalism paradigm

1. Introduction

The USA and other advanced countries in the middle of the 20th century witnessed dramatic changes in social values, i.e. the moral decay and the culture underlying the most extreme forms of individualism. According to some conservative authors the decay in society is a long-term process [22, p.13]. As a consequence of unilateral economic view of life people changed and adopted consumer-like values. The unilateral man deprived of humanistic substance and with incidental vices was being created. Excessive preference of egotistic interests enslaved many businessmen, managers and other authorities, in other words it caused degeneration of ethical standards and consequently led to ongoing financial and economic world crisis. These negative manifestations are the sequel to the existing deformed and inhumane paradigm of the market economy and capitalism. Ethical values are the most significant of all corporate culture values. Having a sense of ethics is also an essential virtue of a manager. The issues of being right and just are going to be much more important in the future than it was before, especially for big businesses and their managers because their decisions may influence many people. The only alternative to overcome this moral decay is turning back to the real ethics respecting human values that means the come-back of the genesis of humane mission of economy and economics and the creation of a new market economy and capitalist model.

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2. The approach of A. Smith and B. Mandeville towards moral sense of the entrepreneurship

We usually take for granted that the complex system of modern market economy knowledge was developed in 1776 by Adam Smith in his Wealth of Nations. Some authors argue that this work should be interpreted in connection with his Theory of Moral Sentiments published in 1755 and not forgetting the fact that Adam Smith wrote a new chapter on the Character of Virtues at the end of his life (he died in 1790) because he considered as important to reinforce again the significance of strong moral habits for the society that wants to be entrepreneurial and decent at the same time [13]. In the article published in the German journal Spiegel and in Hospodárske noviny (Economic paper) we can read:

“In profit-loving people, their egotism and animal-like instinct to have more than their neighbours Smith saw the decisive engine of capitalism. But at the same time he realized that capitalism must be harnessed because too much egotism harms the general interests. He complained of a shared passion to steal and the monopoly spirit of manufacturers and pronounced the suspicion that they as conspirators haggle about how to keep the prices up and wages down. Therefore he made demands for ‘coalitions’ that is trade unions and laws which would prevent self-love from turning into selfishness” [10, p.16].

When interpreting the opinions of Adam Smith we face a certain controversy about which Dagmar Smreková writes: “The problem that the theorists analyzing Adam Smith’s work called ‘the Adam Smith’s problem’ lies in an evident variance between the key term in his Theory of Moral Sentiments, that is sympathy, and the central term in his Wealth of Nations, that is self-love” [3, p.271].

Further, she argues that A. Smith… “from the first pages of his Theory of Moral Sentiments presents himself as a theorist of the nature of sympathy while not neglecting the importance of a certain degree of self-love that is a rationally controlled interest in one’s own advantage. For Smith the respect to the wealth without worth and virtues is unacceptable and condemned… we can say that Smith refuses ‘dirty money’…, he criticizes the storing up of money which does not serve to meet the natural needs only to satisfy vanity and excessive luxury”. [3, p. 278].

When discussing the birth of market economy philosophy we come across the opinion that the formal father of the modern economic idea of invisible hand is not Adam Smith, but Bernard Mandeville (1670 – 1733), the British philosopher and writer. In his controversial work The Fable of Bees or Private Vice, Public Benefit he uses allegory to show that egotism and other amoral behavior is not only necessary but also useful and that more vices lead to greater wealth [20].

To this effect Milan Zigo argues that B. Mandeville “develops the idea that the morality harms the society … As an advocate of the utilitarianism based on the principle of egotism… he scrutinized the economy of early capitalism of the free market… and arrived at the conclusion that vices as luxury, vanity and revelry similarly as profit-loving, greed, ruthlessness, etc detested by the then moralists … may be of great advantage for society because they enhance trade and industries as well as the whole society” [3, p. 261].

For many entrepreneurs and managers, as well as other prominent persons these ideas became more attractive than proclaiming and keeping moral principles and humanistic principles, as it is evident from the recent development of economy in the USA and other advanced countries.

3. Moral degeneration of top managers

Running businesses, especially big ones, is a responsible job often very stressful. Many managers who entered the scene after the managerial revolution have formed a special interest group differentiated from the owners’ and at the same time pursuing different targets. They contributed, to a high degree, to the prosperity and growth of firms. There are, however, many who influence the advancement of firms in a negative way. The boom of the American economy ended in the second half of the 1990’s. Francis Fukuyama in his paper published in 2008 is writing: “…The US economy deviated from its trajectory and is falling deep into chaos.
There is a danger that it might drag down also the rest of the world. The American model pursuing the ‘less control’ dogma is responsible for this situation…” [7].

The American firms and even the market leaders noted for their high profits started to strive for survival. The era of corporate scandals came into existence. It was started by the American dream – Enron, once the biggest energy corporation and the seventh largest in the USA when in the last decade of 2001 it fell from Wall Street top position. Its collapse deprived the shareholders of more than 60 billion dollars. The further scandals followed revealing the fact that top management evidently robbed their own corporations no matter the interests of shareholders or employees. Adelphia, the sixth biggest cable network operator in the US, World Com one of the biggest US telecommunication companies, Lehman Brothers, the fourth biggest investment bank in the USA followed, just to mention a few.

The biggest crook was Bernard Madoff who was accused of the fraud of more than 60 billion dollars in the pyramid game Ponzi. And he has followers. Dirty practices afflicted Europe as well. In Italy it was a foodstuffs giant Parmalat which shook Europe in December 2003. The corruption wave flooded also German firms, Volkswagen, Siemens and some others. Cheating was revealed also in a huge French corporation Vivendi Universal referred to as the French Enron.

Found in the survey of consulting company Pricewaterhouse Coopers /PwC/ nearly half of all world companies in 2005 (3,634 from 34 countries) fell victim of fraud between 2003 and 2005. The number of companies that reported fraud rose by 22% in 2003 [27, p.15-16].

The perceived problem is dealt with also in the article published in Der Spiegel: The collapse of syndicates “…not caused by economic processes or unpredictable market fluctuations. Only sharp practice and speculations taking place in the boards of directors are to be blamed. 73 years ago and today as well, all control mechanisms and laws failed to protect investors from fraud and lies” [10, p.6].

Bankrupt enterprises that used to be the pillars of economy were run by the managing directors, who once were the stars in their lines of business. New rules in the game of supra-capitalism brought new conditions based on maximizing short-term profits. Their main interest was not a long-term growth of business, but a theatrical performance and a sort of financial exhibitionism and a costly standard of living. The new ‘elite’ scented the government rules as uncomfortable chains.

Joseph Stiglitz, who was awarded the Nobel Prize for economy wrote about those ‘remarkable’ entrepreneurs: “In recent years the financial markets have become one gigantic casino for the rich where the affluent players could afford to lay bets worth billions …Those hazardous millionaires did not bet only their own money, but money of other people were at stake. They jeopardized not only the financial sector, but also the whole economy. And we all are victims” [27, p.28].

The scandals at the managerial highest levels evoke many questions, especially one: why they behave like that.

The diagnosis of the German psychologist Peter Fridrichs published in the daily Die Welt was: “Those people have the narcissist – egocentric personality … Top managers suffer from an extreme overemphasis of their selves. But their sensitive perception is very poor and they rate themselves only through their fortunes”. In other words their recognition does not ensue from what they do but from what they get. Their power and feeling of dauntlessness in terms of the slogan nobody can harm me and I can afford anything only add to their security [27, p.16].

The consulting company Pricewaterhouse Coopers in its survey lists the following reasons of fraud (% of the number of detected cases):

1. Stimuli: costly standard of living 39%, discontent with the firm 14%, disappointment with the course of career 14%.
2. Opportunities: insufficient control 41%, cooperation with the outside 36%, lack of interest on the side of management 25%.
3. Other reasons: unawareness of making mistakes 52%, failure in resisting temptation 50% [27, p.15].

Top management lost the credibility in the public. The Economist, the British weekly stated that many people consider the top managers as greedy and earning much money, far from being hard-working, able and honest kind [26].
Approximately 87% Americans are convinced that the majority of top managers get salaries much higher than deserved. The salaries of the top representatives of the firms have been rising disproportionately in recent years, particularly in America. While in the 80s of the last century the average income of top managers in leading American companies was 40 times higher than the average wage, in 2003 this difference mounted to as much as 400-fold. Despite the fact that profits and value of shares were falling, the average annual increase in salaries of top American managers was 6% [26].

The high salaries of the top management distress not only the shareholders and employees but in the long run they jeopardize the prosperity of society.

Another cause of indignation is a ‘golden handshake’ or high compensation packages for laid-off managers so most of them do not suffer any financial loss, on the contrary they gain on it.

Despite the fact that the USA is the richest country in the world, the distribution of income is least balanced when compared to other countries (Australia, Canada, Israel and six European countries). The concentration of wealth is much bigger than in any other advanced country.

The high deficit of moral virtues in management exerts a big influence upon particular economies, their functioning and outputs.

“I dare to predicate that the gap between economics and ethics gradually pauperizes modern economics. Economic science could reach better results if it paid bigger and more explicit attention to ethical considerations which form the human behavior and decision-making” wrote Amartya Sen [23, p.18-19].

The series of business scandals in the USA gravely damaged its reputation as the big power. It also resulted in “serious doubts about the economic system whose emblem was American capitalism and everybody wanted to imitate it. There is no doubt that the American model lost its status of the ideal model economy. The vision of a beautiful new world has turned into caricature. A wild capitalism with the rule of law of the stronger emerged… It was proved again that the biggest enemy of capitalism is capitalism itself.” [10, p.16-17].

The recent developments in the most advanced countries must serve as memento for post-socialist countries not excluding Slovakia that charmed by liberalism within the transformation process along with dirty practice seriously impaired and trod down the fundamental ethical principles in business and society and all spheres of our lives.

In Der Spiegel we can read: “After the fall of the Soviet dictatorship the radical market theorists, such as Jeffrey Sachs, American economist, exported their ideas into Russia and thus laid the foundation stone for new gangster economy. Capitalism deprived of the rule of law cannot exist…” [10, p. 17]. The same holds true about the former Czecho-Slovakia.

We can agree with the ideas of Daisaku Ikeda, a renowned Japanese personality, pronounced in his essay to honour John Kenneth Galbraith, the world famous American economist and ex-professor at Harvard University, and their encounter when writing:

“The real mission of economics is to support people... If we forget people, economics looses its raison d’être”. He recalls Galbraith saying: “Economics is a tool, a weapon to materialize the happiness of human beings”. And D. Ikeda added: “I am of the same opinion. Economics cannot be used to create disparities between the rich and the poor”. [11, p. 19]. This trend is very dangerous because it may lead to a huge catastrophe of the civilization.

It proved necessary therefore to design such a model of society and economy that would respect both rationality and humanity.

4. The challenge for the creation of a new market economy paradigm

We are approaching the end of one stage of human society development, that is the second wave of civilization and we are preparing for future life in the third wave. The period we live in is very complicated, when many phenomena intrinsic to our being are disappearing while the new ones have not emerged yet to
take their position. Under such circumstances, however, we witness the fermentation of creative thinking and search for alternatives. We should be aware of and take into consideration the ideas of Charles Handy, professor at London Business School, who is appreciated as the greatest British philosopher of entrepreneurship who claims that “we cannot look towards the future as the continuation of the past. The things that helped you to get where you are, are rarely identical with the things that can keep you there. We should observe the future as a series of discontinuities and learn how to consider this reality to be logical” [16, p. 38]. He further argues that “the only way how to interpret the future in companies, in society and in your own lives is to seize it and not only to react to it” [16, p.39]. When discussing the future we face the cardinal problem that is the concern of many professionals and politicians and that is the future paradigm of capitalism.

Rowan Gibson, the editor of the quoted book on the future raises the same question: “What is the matter with capitalism itself? What happened to that marvelous avenue to progress and prosperity as we used to think? Where does it lead us? And why are we so anxious to get there? What is the impact of this race on our lives, local communities and the environment? These are inappropriate questions because we are living in troubled times. Looking towards the future we are far from being sure where we are going and how we will get there” [16, p.20].

In his book Capitalism, Socialism and Democracy (New York, Harper, 1942) Joseph Alois Schumpeter, the famous economist, defines capitalism as an inherently efficient, stable and dynamic system. But he did not believe that it could survive. He claimed that the great success of capitalism would result in such social, political and cultural circumstances that would bring about its end. The prosperity would lead to the changes in the structure of society and these will make the society more vulnerable [4, p. 216, 218].

Sixty years after the publication of Schumpeter’s book Günter Grass, the writer who was awarded the Nobel Prize for literature in 1999, said in the interview: “… I am the man for whom nothing is sacred, nor neo-liberal capitalism which after the fall of communism behaves as if it had been freed from the chain and pretends to be infallible…It began to act on behalf of the globalization, … it is getting mad and imitates the exploitation of the 19th century. Communism boiled in its own gravy. The same will happen to capitalism that at present undergoes the process of self-destruction. It is shocking because we have no idea what comes after” [13, p. 2].

Free market is a component of the freedom of society but at the same time a very important tool to reach economic prosperity. But all its alternative solutions failed so far. Capitalism based on the market succeeded but also revealed serious shortcomings and negatives. Capitalism in its present form has failed. Michel Rocard, the former French Prime Minister and leader of the Socialist Party, brings evidence that the living standard in between the Roman Empire and the Great French Revolution hardly doubled. But today it is 150 times higher. The market system was extremely successful after the World War II when within the course of 30 years the economic growth in advanced countries was continuous and rapid, employment full and long-term and there was no financial or economic crisis. The standard of living increased nearly ten times.

The author at the same time claims that capitalism is cruel. He points out at its beginnings when people were forced to work for 17 hours a day, without days off and without the right to pension. After some gradual arrangements and provisions the inhumanity of the system was softened. As for the present crisis, he states that its origin is in the decrease of the purchasing power of the middle and lower classes as well as the crack of the speculative bubbles caused by the greed of the rich craving for more and more money. According to his opinion capitalism reliant only on the market is unstable. Therefore we need such a paradigm in which practically everybody will gain [18, p. 7].

Lester Thurow, famous professor at the Massachusetts Technological Institute, has also addressed the issue. He gives the following reasons for the necessity of the change: The capitalist system in the form as it was applied after World War II came to a logical end. At present it is rather difficult to envisage what will function. It will be capitalism but capitalism of a very different kind. One cannot exactly say what works in the world managed by intelligence unlike the world
that was governed by the steam engine. Nobody knows what is efficient in the world capable of an immediate global communication.

The threat that capitalism is to cope with is not any other ‘ism’. It is some decay in peripheral regions of the countries that sooner or later will attack their nucleus. In this respect we can point at Catalonia, the Basque region and other countries and at the fact that there will be poor and some rich economies, which cannot function in the long run [16, p. 223, 229, 230].

The facts prove that there are deep social differences between inhabitants in different countries, even among the citizens within the rich economies. According to ex-President of the World Bank (2003), it is not fair when 80% of the population have access to 20% of the world production while with 20% of the rich it is 80% of gross world product. The UNO 2006 survey reveals that only 2% of people have more property than half of the mankind.

Some leading world representatives are convinced that if these disparities will continue and the wide participation of citizens in the economic growth is not ensured, we will have to face social shocks and even violence. Robert J Shiller, the professor of economy at Yale University quotes Albert Alesin and Robert Perotti who brought evidence that with some other factors being considered, the countries with big differences tend to have higher social instability, rated by the number of politically motivated assassinations or the number of people killed in mass violence [15].

Niall Ferguson, a historian lecturing at Harvard University, lists three factors that in the past century led to organized violence. These are: ethnic conflicts, falling empires and economic instability. All three are present also in today’s world. Economic instability is accompanied by the financial crisis with destructive impact. Consequently, he claims, that the era of the revolt in the world has begun [6].

Many authors from different walks of social life find connections between the present economic crisis and inhumanity of the existing market economy model, i.e. the present capitalism paradigm.

Daisaku Ikeda, the Japanese President of Soka Gakkai International submits some suggestive ideas: “The main cause of the crisis has its origin in a wild dominance of speculative financial activities, the scope of which is estimated in varied ways, even as a quadruple of the cumulative world GDP value. The financial market whose genuine function is to support and enable other economic activities, is in the centre of action. The dealers and entrepreneurs who pursue only incomes and profits, very often without considering the interests of others, have become celebrated stars of this era. Unrestrained parsimony of the current capitalism is a clear proof. The ongoing crisis is deeply rooted in the evil orientation at the abstract and inessential phenomenon of wealth, that is money. It is a pathological foundation of a given civilization” [12, p. 10].

According to D. Ikeda finance-oriented globalization created a great number of such people. To a less or more considerable extent we all have become homo economicus, unable to appreciate any values but money. Such a person is a product of a vector that is the inner value of capitalism. [12, p. 13, 14].

The author claims further that prevalence of monetary interests underlines the negative aspects of capitalism. Therefore it is obvious that free competition and market that were to solve all the problems lost the credibility.

In conclusion he says that people have the right to live in peace and humane conditions. The foundations of life cannot be destroyed as a result of ‘tsunami’ which is unpredictable and out of the sphere of control. He believes, however, that governments will reinforce coordination of fiscal and monetary policies using their common sense and will implement quick and appropriate measures to stop further worsening of the situation [12, p. 5, 10].

The attitude of nations to capitalism is reliant on culture as it is manifested on the example of Russia in the interesting but polemic article by Viktor Jerofejev, the writer living in Moscow, published under the title ‘Why don’t the Russians like capitalism?’ He reasons as follows:

Capitalism in Russia did not have good chances. The classic Russian literature kept it under heavy fire of anger and disdain from its very beginning. The first decrees on the restoration of private ownership in the 90’s were enthusiastically welcomed by the intelligentsia. But after the shock therapy and an expressive
criminalization of a newly-born paradigm of capitalism, the enthusiasm immediately evaporated. The majority of the Russian population shocked by liberal reforms shed tears after socialism, though stagnating. The reason why the Russians do not like capitalism stems, according to the author, from history and the Orthodox morality of the nation that considers life to be sinful and governed by the Devil’s power. Resignation and rejection of the philosophy of success and private initiative are the heart of the matter in the traditional Russian ideology.

Though this reasoning ensuing from the given ethical basis is in principle justified, the arguments do not give a true picture of the origin of Russian aversion to capitalism. In our opinion the negative attitude does not imply this economic system as a whole but only its extreme liberal or fundamentalist market economy without the humane substance and which in Russia is connected with criminality. The author himself claims that Russia defended the future of capitalism, but with the difference that three powers, i.e. government, church and capitalism were tied together. [16, p.28]

An important contribution to a new view on capitalism with some rational nucleus was submitted by Charles Handy. The author claims that “the target of communism was the idealistic vision of equality and prosperity for all … but without the mechanism to reach this target. Capitalism, on the other hand, is the mechanism but it seems it lacks the target. Is it only to get rich or is there anything else essential for life? It seems that even after we gained fortune, we are rarely satisfied. The very heart of capitalism was attacked by malignant cancer. There is no aim to inspire the people”.

According to him in the first stage of creating a new image of capitalism it is urgent to make clear what it is all and whom it is to serve. The answer that it serves those who finance it, that is shareholders, is not adequate and sufficient both from the practical and moral aspects. We must keep in mind that it is intelligence, i.e. brains and abilities of people, which is a new source of wealth. Who in the era of intellectual capital is the owner of capital? Not shareholders. Key employees of the enterprise are the owners of intellect. We can never own other people. It means that the model based on the premise that an enterprise is the ownership of people who finance it and that people working there are only tools of the owners, does not fit the age we live in and will not fit the future either.

The law must be altered in such a way that financiers will be only financiers and not owners. They should possess the right to have a due and reasonable return on their investments. At the same time it is necessary to reassess new assets and to what extent they can influence the running of the enterprise and the form of ownership.

We need a more rightful and fair balance of power. We must give more rights to people working in an enterprise. In the economy of the future, where intelligence will be property, we will have to watch if everybody has the right to own that part of assets and fortune they contributed to [16, p.43, 44].

Very courageous of the new economic model conception, which is called economic democracy, has developed David Schweickart, professor at Loyola University, Chicago. The basic pillars or attributes of his project are three, the second of them is identical with contemporary capitalism. They are: employees’ self-government, market of the goods and services and investment control.

The core of this future economic model, it means of the economic democracy is employees’ self-government, which is expecting, that the enterprises will be controlled by the employees working in them. That concerns the control of the enterprise activities and its distribution. [19, p.18]

The proclamations of high political representatives of some advanced countries (the French President, the German Chancellor) underline the assessment of negative attributes of the hitherto paradigm of market economy and consequently the so-called pure capitalism too. After the encounter with the financial crisis they come up with the project of the ‘moderate capitalism’. Others argue in favour of the modernization of the capitalist system.

Jan Werner Müller, the professor of political science at Princeton University wrote: The projects are not an absurd idea. There is a long and respected tradition of catholic social philosophy. To take this message seriously would call for much deeper change of capitalism than the Christian democrats are ready to consider, together with the redistribution of ownership and mechanisms which would ensure the employee participation in management [15].
The German Trade Unions recently suggested that the employees of car industry (Opel, Daimler, Volkswagen) share the capital and become the co-owners and have more decision-making power. This is the proof that the call for ‘moderation’ of capitalism is not only the fabrication of dreamers, but an urgent requirement.

5. Conclusion

Two Nobel Prize winners for economics, George Akerlof and Joseph Stiglitz published inspiring ideas. They write: “World has been run by one philosophy for three decades and now we have to pay the price in the form of economic crisis… One part of economists designed models based on fully functioning markets… But there is a deeper variance among economists than people realize. Some other economists argue that markets are not regular, efficient or stable. Many interesting ideas are interdisciplinary and come from psychology, political science and sociology. Also economic history provides an instructive information and advice”. [1, p.27].

6. References