Elevating Individual and Societal Success

Life Enabling Enterprise: An Economic System For the Good of Humankind

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To Anne

Always mighty, never a mouse.

All of us teach by the way we live,
Some for better, some for worse.

Some of us teach by intent,
But, without caring or skill, we fail.

You always taught by deed and intent,
Always with caring, never failing.

The basic findings of this book are the following:

1. Commerce is an exchange between people, each giving the other something. What is exchanged can be physical, emotional, or intellectual in form. It encompasses a comprehensive and pervasive set of behaviors that extends across every human life and all arenas of human activity. It is commerce between a man and a woman that creates human life. It is through the commerce between a child and its family that each child is protected, reared, and supported in its development and its family experiences the pride, joy, and excitement of witnessing a human life unfold. It is through our exchanges with others and our physical world that we expand our information and knowledge, develop our skills, hone our proficiencies, and progressively discover who we are as unique individuals. And, yes, it is through commerce that we obtain the material goods and services that we either cannot produce or choose not to produce for ourselves.
2. The traditional economic use of the term that views commerce as the buying and selling of goods is myopic at best. A true understanding of human commerce must incorporate facts descriptive of the full range of its occurrence, including what is exchanged and why.
3. All economic models attempt to describe, predict, explain, and enable the control of commercial activity, as each model defines it, in an effort to ensure its success. Deductive economic models derive their principles from their assumptions about human nature since it is human behavior they explain. Commerce, as a human activity, expresses people's motivations, goals, values, and social orientations. It is a model's assumptions about human nature that determine how it defines the purpose that commerce serves, the behaviors people will engage in to accomplish that purpose, and how they will define success.
4. Capitalism is founded on the assumption that all people everywhere have the same nature (Homo economicus). The core elements of this sameness are that people are materialistically focused, radically individualistic, and always self-serving. They act rationally to maximize their personal profit or received value, both of which are measured monetarily. Essentially, people are egoistic self-maximizers. Capitalism also assumes that, within commercial contexts, no asymmetries of information or power exist between people. Thus, despite their self-maximizing drive, no individual can just take from or otherwise exploit another because no one has power greater than the person whose resource they seek. Hence, all commerce is resolved through negotiated settlements that provide sufficient satisfaction to each party to

warrant agreement. All such transactions are therefore deemed "free and fair."

5. People who are materialistically focused egoistic self-maximizers are served well by Capitalism, not because it is a valid economic system but because, by design, it advantages the already wealthy and serves as a powerful social control mechanism that serves to mask the unrelenting exploitation of the many by the few. In fact, the evidence is indisputable that Capitalism fails as a practical economic system. It does not deliver its promised benefits and is flawed structurally as a model, consequentially as to its effects, and scientifically as to the mapping of its assumptions to the findings of empirical science.
6. Empirical research demonstrates that not all people match Capitalism's image of humankind. That research reveals that there is a sizable segment of people who are natively cooperative and other-regarding in their orientation toward others. They value being connected with others and behave in ways that take others into consideration, even at a cost to their material gain and welfare.
7. These cooperative, other-regarding people also strive to emerge as unique individuals. Their striving for individuation is both expressed and advanced through mutually benefiting commerce with others.
8. This portion of humanity has no commercial model to guide their pursuit of commerce in a way that reflects who they are. This book offers them such a model.

This chapter explains the purpose of this book and provides a roadmap for understanding its contents.

Chapter 1

Economic Systems

Economic systems have powerful effects on our lives—and not just in material ways. The power of an adopted economic system is exerted directly on our minds, as its understanding of humankind and the values the system endorses constitute a secular ethic that is promulgated directly through teaching in educational institutions and endorsements in public forums. For example, a system may reinforce competition over cooperation, material wealth as a sign of merit, and self-interest over regard for others as a reasonable attitude for living in the world.

An economic system's influence is amplified through the commercial organizations that apply its thinking. Each system defines the purpose a commercial entity pursues, how it organizes its activities and treats those who contribute to its efforts, and how it conducts itself with regard to the public as it acts to realize its purpose. Given our pervasive engagement with commercial enterprises as customers, workers, and members of the public, their conduct exerts unequaled influence in forming the real, not imagined, culture that emerges within a society. That influence on shaping a public's mindset is further enhanced by the portrayal of the conduct of commercial entities back to us by the news and entertainment media, almost always with endorsement. When reproach is expressed, it is usually done with the qualification that the unacceptable conduct was solely an expression of an irresponsible, rogue individual.

And, as if all the power exerted by an adopted economic system in shaping people's social experience were not sufficient to saturate a culture with the system's inherent ethic, each society's government takes actions based on its adopted system's logic, thereby further reinforcing its mindset and principles. In this way, the government itself becomes a promoter of the thinking that underpins the economic system it adopts as it shapes the material reality its citizens must cope with and justifies its actions using its adopted system's rationales.

The False Certainty of a System's Validity

All of the mental impact on us that is exerted by an adopted economic system is largely invisible and goes unchallenged. Most of us imagine that the economic system that envelops us is a given of nature and therefore indisputable. This is especially true of Capitalism, which is often promoted as the only valid economic system in existence. As documented by Häring and Douglas (2012) and Zaitchik (2022) and demonstrated in the Powell Memorandum (Powell, 1971), the proponents of Capitalism have worked diligently to foster this conviction lest voices emerge that threaten its dominance.

But an economic system is not a product of natural law. All economic systems are based on assumptions about humankind, not the laws of nature. Commerce between people is an inherent human activity that spans one's life and every arena in which one operates. How it is manifested expresses people's motives, values, and experience or non-experience of connectedness with others. People who conceive an economic system make assumptions about these features of humankind. It is their assumptions about humankind that determine what their model will define as the purpose of commerce, what it will consider "profit" or gain to be, what measures of progress it will define, and what methods a person will use and not use in pursuing success. And those assumptions model builders adopt may or may not properly reflect the true nature of humankind as judged by existing science.

The premises that underpin Capitalism, for example, are seriously undermined by the empirical findings of human sciences. Its theorems and guidance are based on an assumedly universally applicable definition of human nature. It asserts that all people are materially focused and radically individualistic by nature. They act solely to satisfy their own self-interest without regard for others. Indeed, any regard for others that may appear to be present is simply based on the expectation of achieving greater gains for oneself (Andreoni, 1990).

As you will read in *Chapter 6* of this book, empirical studies have shown that people display two different response dispositions toward others. A portion of humankind acts with self-regard only. Some of these people act egoistically without reserve, as Capitalism posits. That same research also reveals, however, that a second segment of humanity operates on a different basis. They are cooperative and other-regarding by nature. They seek mutually beneficial outcomes when they relate with others, and they regulate their behavior to produce those outcomes. Their mere existence falsifies one of the foundational premises of Capitalism and the derivative theorems and principles that flow from it. But, more pertinent here, it renders all the economic guidance that Capitalism offers irrelevant—if not destructive—for this other-regarding segment of humanity and the societies they constitute. The reason for this is that following Capitalism's guidance requires them to behave in ways that contravene their own native inclinations for cooperation with others in the pursuit of mutual benefit.[1]

The Need for a Different Understanding of and Approach to Commerce

While a number of proposals have been made to adjust Capitalism to

[1] The existence of these two types of people interacting within the same society, as revealed in *Chapter 6*, one resolute "takers" and the other "cooperators," also requires rethinking the underlying causes of society's current state. The reason is that, as *Chapter 6* also reports, repeated studies have demonstrated that, when egoists interact with cooperators, they always seek to exploit them. Consider this finding in the light of the fact, documented in *Chapter 2*, that economic and political power is heavily weighted in the former group.

incorporate concern for others (e.g., B-Corporations, Caux Round Table (CRT) Principles for Responsible Business (2017), Inclusive Capitalism), all fail to recognize that a concern for others is inconsistent with Capitalism's premise about the egoistic nature of humankind. Given that Capitalism is a deductive theory, that premise cannot be "adjusted" because all the dynamics that deliver the benefits Capitalism promises require that it be true. If you modify that premise, the entire model collapses.[2] Only a new approach to commerce based on a different set of premises can adequately provide commercial guidance for people who are natively inclined to cooperate with others and seek mutually benefiting ends in their exchanges with them.

Further, as psychologists and social scientists, we cannot form a correct understanding of the purpose of commerce, the range of human needs commerce must satisfy, and the true nature and role of economic systems *unless* our economic thinking accounts for the makeup and behavior of this second group of humankind. Without such a well-formed understanding of these matters, we will construct systems and shape society in a way that fails to provide all the necessities humankind requires to prosper and grow, and, thus, we will destroy our species.

Finally, we need to appreciate that the mindset embedded in a nation's adopted economic system is expressed both within the nation adopting it and internationally through that nation's relationships worldwide. Indeed, the assumptions about humankind that underpin a nation's choice of an economic system underpin its view of its neighbors and therefore its approach to international relations. If a nation assumes that people are radically individualistic and solely self-serving, acting only to maximize the realization of their self-interest, then that nation will expect international relationships to be contentious by necessity. Given such a view of humankind, it will be anticipated that every other nation will act without regard for the consequences their behavior produces on other nations. A nation with such a worldview must see as its duty the need to preemptively assert itself over other nations so that it does not end up being subject to them. Therefore, hegemony must be the ultimate end goal of such a nation's international relationships. Such a nation might temporarily adapt to a bipolar or multipolar world order whenever hegemony is not possible, but it will always strive to realize hegemony, as that is the solution that best ensures a world order that maximally satisfies its interests in a manner unencumbered by others.

Capitalism's assumptions about humanity are absolutely compatible with the worldview that underpins a hegemonic foreign policy and, more generally, a polar

[2] The deductive nature of Capitalism as a theoretical system and the consequences of that fact are discussed further in *Chapter 2. Why We Need a New Economic Model*. We address the subject in still greater detail in *Chapter 4. How a Model's Foundational Premises Shape Its Contents*.

view of international relationships. No secular economic system recognizing the cooperative and other-regarding qualities of humankind exists. Such a system's perspective on humanity would support a wholly different worldview and solution to international relationships, one that would suggest a harmonious, mutually cooperative approach to meeting each nation's needs. Until now, such thinking has been dismissed as utopian at best. However, science's new understanding of humankind suggests that, for at least a segment of humankind, a harmonious, mutually cooperative approach to nationhood and international relations is both realistic and necessary. Only a new economic system based on assumptions recognizing the existence of this subset of humankind can properly guide such a society and its governance. And only such an economic system can serve the development of a harmonious world since such a world requires a cooperative approach to growth that allows each nation to realize its full potential and humankind as a whole to flourish and prosper.

Overview of This Book

The purpose of this book is to present an empirically valid understanding of who we are as human beings and to provide an alternative approach to commerce consistent with this new learning.

This book is organized into three parts. The first develops our understanding of commercial models (economic systems) and why a new model is needed. The second part presents, in detail, an alternative approach to conducting commerce that is based on empirical findings about who we are as people and the commercial context we operate in. The third part summarizes the contents of this book and presents their implications.

We begin the first part of this book by exploring Capitalism itself—its basic tenets, promises, and problems as an economic system. We do this because the proponents of Capitalism present it as the only effective economic system in existence. If true, then there really is no need for the rest of this book. And, if it is not true, Capitalism dominates our society and all its commercial enterprises. Anyone seeking to implement a different approach to commerce must be knowledgeable of how it works or fails to work. They need to understand the ends Capitalist enterprises seek, how they pursue them, and how they will respond to the presence of an alternative approach to commerce like the Life Enabling approach. Otherwise, they will be unprepared to relate with Capitalist enterprises effectively, and this will ultimately undermine their intent to benefit the people who need their products or services.

We next focus on building people's understanding of commercial models (Section I). We define the meaning of commerce and introduce a framework for describing the contents of any economic system. We explain the premises that define each model's thinking and show how those premises determine every element of the model's contents. We then describe the foundational premises of the Life Enabling approach to commerce and test their validity against the findings of empirical science. In that process, we uncover facts about who we are as a species, the role commerce plays in the survival and development of humankind, and the range of human needs commerce must serve.

In the second part of this book (Sections II, III, and IV), we provide practical guidance for conducting commerce in a manner that ensures that all commercial endeavors protect, nurture, and enrich human life and the ecosystem that supports all life. In these sections, we elaborate the Strategic, Operations, and Executive Functions guidance that steer the implementation of a Life Enabling enterprise. In each case, we provide examples of how such an enterprise differs in its conduct from one implementing Capitalism.

With regard to its Strategic component, we present the principles that define a Life Enabling enterprise's long-term goal and the specific results it must produce, the marketplace activities it will use to generate those results, and the organizational strategy essential to its success. We explain how it defines profit and how it realizes it. This guidance covers every element within a company's strategic plan and explains the logic that underpins its shaping.

With regard to its Operations component, we provide the knowledge you need to steer the day-to-day activities of every business function within a Life Enabling enterprise. We explain the results Operations must produce, the activities that produce those results, and the resources needed to successfully implement those activities. In this guidance, we include how to understand and address the needs and values of customers and stakeholders, how to design outputs and their implementing processes that maximize the benefit delivered to them, and how to establish waste-free, optimized processes across all business functions.

Executive Functions keep an organization whole, capable, viable, and accomplishing its purpose. These functions define how organizational decisions are made, the role and power contributors to the enterprise maintain, how the material benefits produced by the enterprise are distributed, and, in general, decide by action the culture that prevails within it.

In the third part of this book (Section V), we summarize its contents and draw conclusions from them. These conclusions address the nature of commerce, the human needs commerce must serve, the function of economic systems, the implications of the dominance of Capitalism for the undermining of the survival of our species, and the potential for using the Life Enabling model as a guide to forming a nation state.

The Origins of the Life Enabling Model

All sciences assume a rational world in which cause-and-effect relationships are ultimately discernible. Social sciences specifically assume that people's behavior results from the interaction between a person's characteristics—their motives, values, capabilities, and intents—and the contexts within which they behave. The first step in building an economic model therefore is to profile one's assumptions about the nature of people and the context within which commerce occurs.

In building the Life Enabling model, we initially developed the model's thinking about the nature of people and the contexts within which they produce and exchange resources from our observations of human commerce. We deduced the model's assumptions about people and the commercial context from the insights these observations generated as augmented by other resources detailed in *Chapter 5*. We then tested our assumptions and the model's thinking against the findings of empirical research (*Chapter 6*) to ensure that they were valid.

Our observations of human commerce led us to three insights:

1. The traditional economic view of commerce as the buying and selling of goods or services for money with the purpose of satisfying people's material needs is myopic at best.
2. People's natural inclinations toward others are heterogeneous, at least as they are expressed in adults.
3. No economic system can serve both egoists and other-regarding people simultaneously.

A Myopic View of the Nature of Commerce

Our observations revealed that the production and exchange of resources with others is the cardinal element in every individual's experience and an essential factor in every person's survival, growth, health, and ultimate satisfaction in life. Commerce, as circumscribed within the confines of the buying and selling of goods and services, is but a small segment of its occurrence. And its purpose of providing for the material needs of people is a woefully inadequate representation of the essential needs that commerce between people provides.

Indeed, it is the production and exchange of resources between people that creates human life. It is through the exchange of resources with others that we grow, develop our knowledge and skills, and become capable of achieving outcomes that we value. Throughout our living, learning, and working activities, we connect, communicate, and affiliate with others. Our interactions with others and the exchanges they involve are the central means through which we nourish our emotional life, satisfy an essential requirement for physical well-being, and refine our understanding of ourselves as distinct from others, thereby individualizing our personalities. All these acts of commerce and the essential needs they satisfy fall outside the current economic definition of commerce.

The exchange of resources between people therefore represents a comprehensive, pervasive, and essential pattern of behavior that extends across every human life from conception to death and all arenas of human activity. To narrow this wide array of human behavior to a minuscule segment of its occurrence *and* study it in isolation from the whole of its occurrence undermines its understanding. A true science of human commerce must incorporate facts descriptive of the full range of its occurrence and the functions it satisfies.

People Are Not All Self-Serving

Our second insight is that people's natural inclinations toward others differ. One segment of humanity acts in the service of self-interest alone. This conduct is observable across all their interactions with others and well documented in *Chapter 6*. A second segment of people act in other-regarding ways. They prefer to cooperate with others and engage in mutually benefiting exchanges. If they perceive a greater need in someone else, they will sacrifice their own resources to remedy that need, even to the point of putting themselves in harm's way. This conduct is also observable across their interactions with others and well documented in *Chapter 6*. It is this latter group of humans that evolutionary theorists credit with enhancing our species' ability to survive and evolve.

Our investigation of empirical studies refined our understanding of these two categories of people (egoists and other-regarding). The behavior of egoists is nuanced. Some exploit others without reserve to maximize their personal gains (perhaps 10%–20%). They are resolute in their efforts to amass greater and greater gains at the expense of others. Other egoists are less forward leaning. While they remain egoists, they restrain the extent to which they take from others. Their pursuit of personal gain appears to conform to creating an advantaged lifestyle. Their egoistic roots become clear when they feel their advantaged lifestyle is threatened.

Similarly, the behavior of other-regarding people is nuanced. Some are unconditionally altruistic (perhaps 10%–20%). Others are reciprocators. Reciprocators are other-regarding people who end their cooperation when they experience others exploiting them. They will sacrifice for others but only for those they deem worthy of such a commitment. Unconditional altruists do not apply constraints to their expression of cooperation and caring.

No One System Can Serve Both Egoists and Other-Regarding People

Our third insight is that no economic system designed to serve egoists can also serve other-regarding people. The reason is that the end each pursues in commerce and the means they employ are totally different. One excludes concern for others, and the other includes it. As to means, egoists use manipulation, and the latter group uses empowerment. Capitalism serves the former group; no economic model serves the latter. We built the Life Enabling model to serve this unassisted portion of humanity. We included in our thinking the reality that egoists exist. We also included in our thinking the fact that the contexts within which commerce occurs are rife with strong asymmetries in information and power.

Contributions From Other Professionals

With regard to the technical elements of conducting Life Enabling commerce as detailed in Sections II, III, and IV, our main sources of inspiration and thinking have been the teachings of W. Edwards Deming (1950, 1967, 1975, 1982, 1982a, 1988, 2000, 2013) and the implementers of Lean Manufacturing, also referred to as Lean Enterprise (Jones and Womack, 2009; Shimokawa and Fujimoto, 2009; Womack and Jones, 2003; Womack, Jones, and Roos, 1991; among many others).

Deming presented his thinking about commerce in the context of discussing its management. When he spoke about how one should manage a commercial organization, he was in fact addressing how commerce should be conducted. In this way, he discussed issues such as what the purpose of commerce should be, how it should be pursued, and how an enterprise should behave in relation to its customers, its employees, and others.

When fully appreciated, Deming's work provides the most complete thought base for conducting a commercial enterprise with the intent of maximizing the delivery of value to others in ways that benefit all stakeholders inclusively (Vitalo, 2017). It is Deming's thinking that dominates the operational elements of the Life Enabling model and provides the proper perspective for implementing a commercial enterprise. Especially relevant to our purposes, Deming specifically addressed the issue of people's psychology. He understood its significance as the necessary basis for all the guidance he provided about how one conceives, develops, and manages a commercial organization. His operational guidance for conducting commerce is absolutely consistent with his premises. It is Deming who defined the purpose of commerce in terms of enabling the success of every customer in ways that better the lives of everyone. It is he who set the requirement that commerce's purpose must also be achieved in a manner that benefits all stakeholders inclusively. It is he who blueprinted how to satisfy these requirements.

We see no problem with the content of Deming's thinking. The problem we do see is that Deming did not grasp that his understanding of people was inconsistent with the understanding that underpinned the economic model implemented by the very commercial enterprises he hoped his system would improve. Nor did he recognize that the purpose of commerce he defined (benefiting others) and the requirements for conducting that type of commerce were incompatible with Capitalism. Capitalism was seemingly invisible to him. Given its invisibility, he did not address issues that the recognition of its presence provokes. These are issues of ownership, control of decision making, and the sharing of the material surplus that commerce generates, among others. Thus, while his content is whole and valid with respect to its purpose, it is incomplete in its failure to acknowledge that no truly Capitalist enterprise could apply it. We have attempted to close this gap in his perspective.[3]

Lean Manufacturing is a business improvement methodology. James Womack and his colleagues derived the approach from the findings of their study of the Toyota Motor Company and other Japanese companies. They compared the more successful approaches that these companies employed to the approaches used by a wide array of automotive manufacturing companies around the world. The study was implemented in 1985 by the International Motor Vehicle Program located in the Center for Technology, Policy, and Industrial Development at the Massachusetts Institute of Technology. Its goal was to enable automobile manufacturers worldwide to advance the prosperity of their host countries and improve the work life of industry employees by transferring knowledge of the more competitive approaches implemented by Japanese companies such as Toyota. The study lasted five years, had 36 sponsoring governmental and industry organizations, produced 116 scholarly publications, and culminated in the publication of *The Machine That Changed the World* (Womack, Jones, and Roos, 1991). It introduced the term "lean production" to characterize Toyota's manufacturing strategy (i.e., the Toyota Production System or TPS) and contrasted it with "mass production," which was the norm. Absent from that work was the recognition of Deming's contribution to Toyota's success (Nemoto, 2009). Our research indicates that Deming's teaching was, in fact, the foundation of the Toyota Motor Corporation's success during the period of its emergence as an exemplary global automotive manufacturing

[3] Deming did understand that he was asking adopters of his thinking to radically change their personal perspectives. But he viewed their management thinking as vestiges of times past, not as conduct consistent with their goals and values and the economic model they chose to implement. He knew that they needed to undertake a personal transformation in how they understood people and managed a business. But he never grasped that their current perspectives were reflective of the commercial model they embraced. He never sensed that his call for personal transformation was in fact a call for them to embrace a new economic system.

company (circa 1960–1990). Indeed, Dr. Shoichiro Toyoda, the son of the founder of the Toyota Motor Corporation and its chairman from 1992 to 1999, acknowledged this fact. "Everyday I think about what he [Deming] meant to us," said Dr. Toyoda; "Deming is the core of our management" (Burns, 2008). Nonetheless, Deming's role with regard to Lean Enterprise is largely unrecognized, and its incorporation of his teaching is quite limited.

Over the decade and a half following the introduction of Lean Manufacturing, the Lean production model was refined and elaborated into "Lean thinking." Its guidance was applied to a wide variety of commercial enterprises, including both manufacturing and nonmanufacturing businesses. During this period, its authors expanded Lean thinking's guidance by incorporating their understanding of additional elements of Toyota's strategic perspective and operating methods.[4] Despite the model's expansion of perspective, in practice, the main focus of Lean Enterprise has always been on business operations. It is in Section III of this book (*The Operations Component of the Life Enabling Model*) that you will see its major contributions.

The Lean Enterprise thrust has introduced a wide array of enabling tools and methods that support achieving Deming's purpose *when they are used for achieving that end*. With this caveat, Lean thinking has significantly increased the value received by customers, reduced operating costs, and provided employees the opportunity to experience pride in the products they produce and the services they deliver. It has also yielded new learning, improved employee engagement, elevated teamwork, and raised businesses' performance on traditional measures of commercial success.

Lean Enterprise's problems, from our perspective, are twofold. First, there are significant inconsistencies among Lean community members concerning the ultimate aim the Lean approach serves (Vitalo and Bujak, 2022). Second, major gaps exist in Lean's foundational thinking. As to confusion about the aim of Lean Enterprise, that judgment is based on an analysis of the Lean literature and confirmed by a survey of Lean community members conducted by Womack (2010). He found, to his "surprise," that "[m]any of you [Lean community members] identified confusion about the meaning of lean as a barrier to progress in your organization." Based on Vitalo and Bujak's (2022) analysis, about a third of Lean practitioners assert that Lean is all about "efficiency and cost reduction," with the intent of maximizing profitability for the company. Another third defines Lean from a continuous improvement perspective. They see Lean as focusing on the

[4] In essence, when new issues arose related to questions about how to conduct Lean Enterprise, Lean authors used Toyota's practices, as known to them, as their "Rosetta stone." See Vitalo and Bujak (2021) for a discussion of the problems associated with this approach.

application of tools (e.g., 6S, Kaizen, TPM) to eliminate all non-productive work (waste) and elevate the utility of workplaces. In this view, its driving force is a striving for perfection. A final third of Lean practitioners see it as a cooperative commercial strategy integrating the contributions of all participants in commerce in an effort to maximize the delivery of value to customers, as judged from the customers' perspective. Vitalo and Bujak (2022) asked,

> Which of these notions or what higher order notion represents the controlling aim of the Lean approach to commerce? Minimization of cost? Maximization of profit? Delivering value to customers? Benefiting all stakeholders inclusively? Which of these ends should constrain the pursuit of the others when trade-offs are required? (Vitalo and Bujak, 2022)

They went on to point out that "[a] set of ideas cohere into a system only when they are organized around a central aim." In essence, if the aim is uncertain, the system can only be unstable.

As regards the second issue, Vitalo and Bujak (2022) described gaps in Lean's foundational knowledge. Foundational knowledge refers to "a set of principles expressed, defined, and applied consistently" that guides the implementation of a particular system. One of the gaps they explored relates to decisions such as how the benefits generated from waste removal should be shared or whether owners should simply retain them exclusively as added profit. Another gap relates to the absence of principles that allow one to understand to what ends Lean tools should be used. Should Lean tools, for example, be used to downsize a business? Womack (2016) clearly said no, but Ohno (1988, p. 53) seemed to say otherwise: "[W]e consider a manpower reduction policy as a means of cost reduction, the most critical condition for a business's success."

An even larger gap concerns Lean's understanding of the nature of people. Lean management literature speaks about how one should treat people and expects that such treatment will yield involvement and striving for perfection. But nowhere does it provide a detailed description of its view of human nature or a definitive statement of the "why" behind its dictates. Its explanations for some of the sacrosanct behaviors it prescribes—such as "Respect for People"—are inconsistent (Vitalo and Bujak, 2019). Some explanations seem predicated on expediency (e.g., it elicits better engagement by people in their work), while others suggest a moral basis for this behavior (e.g., "it's the right thing to do").

What the Life Enabling model has incorporated from Lean Enterprise are its tools. What it has added is a singular statement of what the purpose of commerce is and the foundational knowledge that guides the consistent pursuit of that purpose.

Capitalism is practiced worldwide. The United States espouses Capitalism with fervor. It touts Capitalism as the *only* effective economic system. The country's founding fathers, with few exceptions, were profit-seeking capitalists. They owned land and possessed wealth. They used their land to produce agricultural products and their wealth to speculate in real estate, trade in cotton and slaves, and provide financial services to their new nation for profit. So, given Capitalism's history and significance, one is compelled to ask whether there are reasons why people need a new economic model other than its limited focus on commerce as implemented by a subset of humankind. As you will read in this chapter, there are.

Chapter 2

Shedding Misconceptions About Capitalism

We begin by clarifying what Capitalism is and is not. Capitalism is a theory, a system of ideas that attempts to describe and explain why and how people produce and exchange resources within a society and the cumulative effects these exchanges generate with regard to material wealth. It is used to guide the conduct of individuals and commercial organizations and to formulate governmental actions. Its intellectual pillars are individualism and materialism.[1]

Capitalism has a long history. As a theory of commerce, it was first formalized in the 18th century, but the history of its pronounced emergence in Europe began in the 11th century (Pirenne, 1960). As with all economic systems, its ideas are deduced from a set of assumptions about the nature of humankind (Goodwin, 1991). Its contents are not induced from empirical research. Its theorems do not have the scientific foundations of a natural science such as physics or biology (Vickrey, 1964).

Every commercial model, including Capitalism, asserts that compliance with its dictates is the best way to ensure that the material resources people require to survive and thrive are available to them. In the United States, the public, including the authors, are further conditioned to associate Capitalism with patriotism, democracy, personal freedom, opportunity, and free markets, and perhaps even have it entangled in our religious beliefs. We are conditioned to imagine its alternatives as those "evil" other systems—like Communism or Socialism. But, in fact, Capitalism simply describes one of a number of possible approaches to commerce, including others that share its requirements for private property and freedom of choice.

None of the emotional content we associate with Capitalism resides within the fabric of its theoretical system. It is not, for example, committed to American values or the nation itself. This should be clear given the reality of multinational companies and the global economy. Indeed, the commitment of a Capitalist enterprise to any nation is solely dependent on how well that nation (or locale) enables it to maximize its profits.[2]

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[1] The definition of individualism has many variations (Individualism, 2017). Our use of the term refers to an understanding of humankind that places the interests of the individual above the interests of the social group. This meaning reflects the primary dictionary definition (Individualism, 2017a). The term "materialism," as used here, refers to a dominant desire in humans for wealth and material possessions.

[2] That Capitalist enterprises associate preferentially with nations based on how well they enable their maximization of profit is reflected in the fact that nations competing to attract such enterprises universally do so by offering lower taxes and other monetary incentives (Devereux, Lockwood, and Redoano, 2004; Wenner and Zollman, 2017).

Neither is Capitalism committed to freedom per se, except with regard to the rights of commercial property owners to control, as they see fit, the use of their property and the wealth it creates. For example, Capitalism operated effectively in the United States using the regimen of slavery, and indeed trading in slaves was a profitable and acceptable Capitalist enterprise (Beckert, 2014).

Capitalism is also not committed to democracy, as companies implementing this model operate in accordance with oppressive and dictatorial regimes as well as with governments that are more or less democratic.[3] Capitalist enterprises are not even committed to free markets—at least not in their real-world practices, as they use competitive methods that include restricting free market competition (Washington, 2016).[4] And Capitalism certainly is not aligned with Christianity as a religion, as it envisions the maximization of personal profit without regard for others as the sole motive for commerce between people. Its premise is that people always act egoistically and that Capitalist enterprises have no social responsibility. Their only responsibility is to maximize profits for their owners (Friedman, 1970). Such behavior is a far cry from the Christian construct of agape.[5]

Caution: The above statements are *not* an indictment of Capitalism. They are made to clarify that all the emotional overlays stirred by the term are a function of

[3] As just one example, Google, LLC (previously Google, Inc.), is developing a tailored version of its search engine for China that will deny its users access to information that the government does not want them to see. As Gallagher (2018) reports, the tailored search engine "will blacklist websites and search terms about human rights, democracy, religion, and peaceful protest."

[4] Adam Smith (1776) warned the public that it is always the interest of capitalists ("dealers") to narrow the competition (pp. 213—14). A recent practical example of restricting competition (free market operations) is provided by AT&T. It owns DirecTV, a satellite-based television delivery service, and DirecTV Now, an internet delivery system. AT&T recently merged with Time Warner Corporation. Among the Time Warner properties it acquired is HBO, a media channel that has "long been the crown jewel of American television" (Wu, 2018). Despite AT&T promising in a Federal Court hearing prior to the merger that it would "never use Time Warner's media properties as leverage against its rivals" (Wu, 2018), it ceased allowing its major competitors permission to carry the HBO channel. At the time of this writing, Dish TV (satellite) and Sling (internet) (both owned by Dish Network) have been disallowed from broadcasting the channel. They claim that AT&T pulled their right to transmit the HBO channel as a way to force Dish Network "to pay for a guaranteed number of subscribers, regardless of how many of its customers actually do subscribe to HBO" (Blumenthal, 2018). This would mean that Dish Network would need to reimburse AT&T for customers *who did not want to receive the HBO service*. As an interesting side note, Microsoft Incorporated used a similar tactic in the 1980s to squash competition to its MS DOS operating system. It required all computer manufacturers to pay for an MS DOS license *for every machine they made* whether or not it had MS DOS installed. Otherwise, the vendor could not install MS DOS *on any of its machines* (U.S. Department of Justice, 1994).

[5] The authors are aware of Adam Smith's book, *The Theory of Moral Sentiments*, and his discussion of humankind's other-regarding faculty for sympathy, which, in today's terms, might better be labeled empathy. This second of the "*Two faces of Adam Smith*" (Smith, V.L., 1998), however, has no play in his economic model. Capitalism's posited positive dynamic results from the cumulative effects of mutually agreed transactions arrived at freely by equally knowledgeable and powerful parties *who each operate solely with regard to their selfish ends* (Rabin, 1998; Goodwin, Harris, Nelson, Roach, et al., 2017; Hirschman, 1977; Hosseini, 2010; Jensen and Mackling, 1994; Yamagishi, Li, Takagishi, Matsumoto, et al., 2014; Smith, A., 1776).

our indoctrination. Capitalism, as a commercial model, is simply a set of ideas that are deduced from its assumptions about the nature of people and the context within which they exchange resources (Vickrey, 1964). These ideas purport to explain the dynamics of exchange transactions between people and advise how a society can provide for the generation and distribution of the goods and services it needs to sustain itself and maximize its material wealth.

Whether the purpose Capitalism or any other commercial model defines for commerce or its implementing ideas are good, bad, or indifferent is a judgment that must be made from two perspectives. One is scientific; the other relates to the survival of humankind. From a scientific perspective, a deductive theory like Capitalism must be internally consistent, and, *to have practical utility*, it must be derived from empirically valid premises. Internal consistency means that a theory's contents (theorems, principles) logically flow from its assumptions. If they do not, then the theory makes no sense and, from a scientific perspective, deserves no further consideration. As to valid premises, the foundational beliefs upon which a deductive theory rests must be realistic; they must correspond to the empirical findings of science. If they do not, the theory has no practical use. This means that its contents are useless for explaining or guiding real-world economic activity.[6] For example, recall that all economic theories make assumptions about the nature of people, since these theories, by definition, describe and explain human conduct and its consequences. If such a theory assumes that all people act egoistically in the service of their personal self-interests without regard for others and empirical research uncovers that only a minority of people act on that basis, then the contents of the theory that *require* this *universal* premise be true are *necessarily invalid*. All the principles and theorems deduced from that assumption and dependent on its validity have no legitimacy and no explanatory power.

The survival of humankind provides a second and larger perspective for judging an economic theory. If a system of conduct directs people to behave in ways that endanger the survival of the species, then its use is contrary to the interests of humankind at both the individual and the societal level. Thus, if the evolutionary success of a species were benefited by other-regarding cooperativeness and a system of behavior promoted self-regarding, egoistic conduct, then embracing that system would undermine humankind's survival.

The Basic Tenets of Capitalism

The basic unit of commerce in any society is the exchange of resources between two parties (microeconomic level). In Capitalism's view, each party seeks a resource the other possesses. Each is intent on maximizing the value measured monetarily that he or she realizes from every exchange with another. It follows

[6] We address Milton Friedman's (1953) objection to this contention in *Chapter 4*, pages 92–93.

logically, therefore, that each party's ideal outcome is to get *all* the value *without giving anything*. Given other assumptions of Capitalism, however, this cannot happen. The reason is that Capitalism also assumes that commerce takes place between people with equal power; hence, "taking" is not available. Also, each party is equally able to make fully informed rational judgments about what he or she needs and what others are offering. Consequently, neither party can exploit the other. Given this assumed world of zero asymmetries in knowledge, information, decision-making ability, and power, the parties *must* negotiate. Through these negotiations, they arrive at an exchange of resources that is satisfactory to each. Hence, every marketplace transaction ends "fairly" and "justly" by definition.

At the market level,[7] the dynamic of supply, demand, price, and profit reduction operates. Supply is presumed to evoke demand (Say's Law of Markets, 2018). As more producers enter a market seeking profit by providing the commodity buyers require, they compete for that demand. Since the model also assumes that all producers provide *equivalent* offerings, sellers compete on price alone, thereby driving the price down toward actual cost, as each producer seeks to win more sales. Given that buyers choose freely and effectively, they buy the offering with the lowest price. This is so because the functional utility of each alternative offering is equivalent. As price falls, more and more people have their needs satisfied until all demand is met.[8] Also, as profit margins shrink, producers—acting freely and effectively in the pursuit of maximizing their profits—look elsewhere to invest their productive capabilities in order to realize greater material gains. This search results in the opening of new markets that meet previously unserved buyer needs, and the cycle that begins with high profits and ends with price approaching cost repeats itself.

At the societal level (macroeconomic level), this entire supply–demand–price–profit reduction-new market creation dynamic is presumed to ensure that the productive resources of a social unit are always applied where they will generate the greatest gains measured monetarily. Capitalists invest in markets with unmet needs. As profits lessen, they uncover new unmet needs that they apply their resources to fill so that they gain more profit. This means that the productive capacity of a society is always used efficiently. It is always used where it will produce increasing wealth and meet unmet human needs. Thus, Capitalism assures that the exact products society needs to survive will be available to it in the quantities it requires.

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[7] We define a market as a physical or virtual setting that allows buyers and sellers of a specific good or service to interact in order to facilitate an exchange.

[8] Capitalism implicitly assumes that people who need a commodity will have the resources required to purchase that commodity. If this assumption were to fail, then society's need for an offering would not be met and the economic model would fall short of its central purpose.

This efficiency in the use of resources and the assured satisfaction of society's needs evolve spontaneously from the choices made by fully informed people who act freely and rationally to maximize their material wealth in marketplaces where no one has an advantage over anyone else. People always choose just what they need and make the correct choices as to value received for value exchanged. Markets self-correct so that the balance between supply and demand equalizes. When demand slackens, producers cut back production. When demand increases, they increase production. New markets emerge as producers seek higher profit-making opportunities by meeting unaddressed needs.

One of Capitalism's major attractions as a theory is its simplicity and automaticity. It is presumed to be rooted in human nature and the found conditions within which people exist. It requires no planning or intervention. Its effects naturally flow from the native inclinations it posits all people to possess and the characteristics it assumes all markets possess. Indeed, intervention in its operations is deemed destructive because such action would disrupt the naturally effective choices and native behaviors of people and the qualities it presumes that markets have. The unfettered exercise of these qualities is necessary for the dynamics of Capitalism to work. In essence, intervention undermines economic success.

What's Wrong With Capitalism?

As far as we can discern, the theory of Capitalism is logically sound in the sense that its conclusions flow from its premises and the constraints it defines with regard to economic factors (e.g., the independence of economic actors and markets). Indeed, computer simulations of economic activity using the model's specifications do produce behaviors that more or less conform to the model's predictions.

Rather, the criticisms made by economists, psychologists, environmentalists, and other professionals address what these authors deem as the model's structural problems and the consequential problems produced by its use. Oddly, we have not uncovered anyone who has identified the most fundamental failing of the theory —the actual root cause of its structural and consequential problems. That failing is the *invalidity of its premises*. As a deductive theory, that invalidity renders the model's knowledge useless from a practical perspective. We will discuss this issue separately at the end of this chapter.

In this section, we highlight Capitalism's structural and consequential problems. Since our purpose is solely to demonstrate a reasonable basis for society needing an alternative economic model, we will only present a small sample of the issues critics have raised.

Capitalism's Structural Problems

A model has a structural problem when a factor that objectively affects the state of the phenomenon the model represents is missing or when a factor it includes does not behave as the model prescribes. One example of a missing structural element in Capitalism is the role of the banks in money creation. That presence increases aggregate demand and undermines economic equilibrium (Keene, 2012, 2017; Tobin, 1963). The theorem of economic equilibrium is an example of a structural element included in Capitalism that does not behave as the theory dictates.

The presence of either missing or invalid structural elements renders a commercial model dysfunctional for use in guiding economic decision making. This is because economic events will be determined by factors the model does not address or wrongly construes. We have selected the misbehaving theorem of economic equilibrium as our exemplary structural problem, since it is fundamental to the model's dynamic operation and its well touted notion that the "market knows best."

The Theorem of Economic Equilibrium

In Capitalism, economic equilibrium is the state where the economic forces of supply and demand are balanced and stable. Equilibrium in an economy as a whole is termed "general equilibrium." When the construct is applied to a single market, it is termed "partial" or "market equilibrium." The term "market" identifies a context where buyers and sellers meet to exchange resources for a particular good or service. Partial (or market) equilibrium occurs when the supply of a market's good or service is equal to its demand. When the market is in equilibrium, there is no tendency for prices to change. That stable price point is referred to as the "market clearing price." At that price, all demand is met, and no supply remains unsold.

How Does It Work?

As stated before, Capitalism assumes that supply evokes demand (Say's Law of Markets, 2018). The balance of supply and demand determines price. When demand exceeds supply, price rises, since sellers seek to maximize their monetary gains and scarcity forces buyers to compete with one another to acquire what they seek. Also, producers increase their production so that they can reap greater profits by satisfying more demand. Conversely, when supply exceeds demand, producers compete for sales by lowering prices. They also reduce production to better match demand.

This cycle of automatic accommodation between supply and demand continues producing ever-narrowing discrepancies until supply and demand are balanced. This adaptive process is envisioned to occur much as a freely swinging pendulum that oscillates in smaller and smaller arcs until it comes to rest.

As this process occurs across all markets, the economy as a whole stabilizes. This process is seen as a natural consequence of human conduct given Capitalism's assumptions about human nature and the characteristics of the marketplace.

Why Is the Theorem of Equilibrium Important?

The theorem of equilibrium explains why government action to regulate markets is unnecessary. It asserts the existence of a self-regulating mechanism that moderates economic cycles and prevents excesses in either supply or demand. Excesses cause inefficiency in the allocation of productive resources. When supply exceeds demand, productive resources are being used to provide unneeded goods and services. When it falls short, people go without their needs being met. Thus, equilibrium is Capitalism's inherent regulator that moderates business cycles, ensuring that periodic recessions[9] either do not occur or cause little harm to all economic agents and to an economy's productive capabilities. Without this regulator, unmoderated cycles could erupt into "economic bubbles" followed by economic depressions. In short, equilibrium is the source of the "wisdom of the market" that regulates economic activity.

What Is the Evidence Against the Theorem?

Critics have raised a number of issues with the theorem of market equilibrium. We will discuss two of them. One addresses whether equilibrium occurs in all markets, as is claimed. The second addresses whether Capitalism—through the mechanism of economic equilibrium—leads to stable, long-term economic performance, and if not, why not.

Studies Invalidate Equilibrium's Expectations in Financial Markets

The theorem of equilibrium does not operate in financial markets. According to the theorem, changes in pricing should occur as information about the expected value of offerings changes. This is so because economic agents are assumed to be rational and effective decision makers who assess the proper value of an offering based on full information. In asset markets,[10] for example, investors are expected to seek with greater demand those offerings that promise better returns and with lessened demand those that do not. Thus, when good news

[9] A decline in general economic activity for two or more consecutive quarters.

[10] Asset markets trade in equities, bonds, currencies, derivatives, and other financial assets. Alternative offerings are valued based on the likely profit they will generate.

about a company's improved profit-generating potential emerges, the equilibrium theorem predicts that we should see increased demand for its stock, and the stock's price should rise. The reverse prediction is expected when bad news about a company's earnings performance appears. Accordingly, dramatic changes in demand and price should only follow some correspondingly dramatic change related to an asset's inherent value.

Reinforcing the strength of this prediction is the realization that, across an entire market, price changes result from the pooled decisions of millions of rational investors. The sum of their collective "wisdom" should absolutely ensure that the market price is an even better match to the true value of the stock than any individual might arrive at on his or her own.[11] Any pricing errors (i.e., swings in the pendulum) should also quickly get dampened as this mass of well-informed, rational, and effective decision makers make their investment decisions. In this way, market forces using available information about an asset's proper value should tend to iron out any problems long before they become large. As Buchanan (2008) states, "An unexpected rise or plunge in values just cannot happen unless there has been some correspondingly good or bad news." This is the scenario that flows from the theorem of market equilibrium. As Farma expresses it: "In an efficient market ... competition will cause the full effects of new information on intrinsic values to be reflected instantaneously in actual prices" (quoted in Singh, 2010).

Given the wealth and continuous flow of information in financial markets, these markets represent the ideal settings for the demonstration of market equilibrium. Contrary to the expectations of the equilibrium theorem, however, a large-scale empirical study of the relationship between stock prices and information relevant to the inherent value of each stock found no evidence to support the theorem's expectation. In fact, the study's findings led its authors to conclude that "Jumps [in prices] seem to occur *for no identifiable reasons* [italics added], and as a consequence spook the market; this perturbation is slow to decay" (Joulin, Lefevre, Grunberg, and Bouchaud, 2008, p. 7).

In their two-year study, Joulin, Lefevre, Grunberg, and Bouchaud (2008) analyzed more than 90,000 news items posted to investors from Reuters and Dow Jones and the movement in the prices of stocks based on the earnings-relevant

[11] This notion of greater accuracy through numbers fits a statistical perspective wherein human behavior is always observed as evidencing variation (or error) and averaging across very many subjects works to minimize its effects on obscuring the truth. Of course, Capitalism is a deductive model. Its premises about human decision making are unconditional. Its conclusions, therefore, are logical necessities. Given that it presumes every individual makes effective decisions using full information, greater numbers of individuals will not add any greater accuracy. Nonetheless, this argument about expecting even greater accuracy when viewing the collective decisions of all market participants exists unchallenged.

positive or negative nature of the news item. They found no relationship between the two data sets. They concluded that "neither idiosyncratic news nor market wide news can explain the frequency and amplitude of price jumps" (2008, p. 1).

Their findings echoed those of an earlier study by Cutler, Poterba, and Summers (1988) about what moves stock prices. Those authors concluded that "large market moves often occur on days without any identifiable major news releases, cast[ing] doubt on the view that stock price movements are fully explicable by news about future cash flows and discount rates." They also noted that the problem of accounting for price changes based on changes in a financial asset's fundamental value is not confined to trading in stocks. Referring to a study by Malkiel (1977) and "several more recent studies," they reported that the problem also occurs in the closed-end mutual funds market.

Equilibrium Does Not Deliver Its Promised Stability

Two historical facts also make it clear that the general equilibrium theorem is flawed with regard to delivering economic stability. The first relates to recessions. The second relates to economic bubbles and busts.

1. Recessions

There have been 47 recessions in the United States from 1790 through 2018. That is an average of one every 4.8 years (List of recessions in the United States, 2018). Of those 47, *only three might be assigned to an action of the U.S. Government*. For example, the recession beginning August 1918 was consequent to the end of World War 1 and the war-level "production, along with an influx of labor from returning troops. This, in turn, caused high unemployment" (ibid.). Another example is the 1807 depression. It was consequent to a government-imposed embargo on trade with the United Kingdom.

The remaining 44 recessions across Capitalism's history in the United States suggest that Capitalism has not produced stable economic development. Indeed, as a result of his extensive research, Piketty (2014) dismissed its contribution to the economic development of the United States. He stated that the massive development of the United States economy over its 200-year-plus life span can be accounted for solely by its dramatic population growth, territorial expansion through expropriation (except for the Louisiana purchase), and the advantages it realized as a result of the harm to the productive infrastructure of other industrial nations consequent to two world wars.

Also, while the average length of U.S. recessions thus far has been 1.6 years, a recession's economic consequences have longer lives than the recession itself. This suggests that the period free of the negative consequences of recessions has been relatively brief. One negative consequence of a recession is unemployment. It tends to peak *after a recession formally ends* and not recover to pre-recession levels for two to fours years. Thus, the effects of a recession may last into the next occurrence of a recession. To this point, Irons (2009) noted that "a substantial body of economic literature shows, the consequences of high unemployment, falling incomes, and reduced economic activity can have lasting consequences" and that these consequences of an economic recession "can lead to 'scarring'—that is, long-lasting damage to individuals' economic situations and the economy more broadly." This scarring is greater for the less wealthy than for the wealthy, as the latter have greater residual resources and reduced reliance on income from wage labor versus from rents.[12]

Interestingly, while the mantra of Capitalism is no government intervention, it appears that the laws and regulations put into effect during the 1930s (e.g., the Glass-Steagall Act of 1932) *actually dampened* the incidence and depth of recessions. As Whaples (1995) noted, "The current [economic] consensus is that the volatility of GNP and unemployment were greater before the Great Depression than they have been since the end of World War II" (1995, p. 51), at least until the recision of the Glass-Steagall Act and other Depression-era volatility-dampening legislation.

2. Bubbles and Busts

Recessions are not the only economic turbulence that speaks against general equilibrium's moderating expectations. Bubbles and busts represent even more dramatic periods of disequilibrium that theoretically should not occur. Investopedia defines an economic bubble as "the rapid escalation of asset prices ... created by a surge in prices unwarranted by the fundamentals of the asset and driven by exuberant market behavior" (Bubble, 2018). Tulip mania in Holland is the first recorded economic bubble in history. It involved escalating contract prices for the then recently introduced and fashionable tulip that reached extraordinarily high levels before prices dramatically collapsed in February 1637 (Tulip mania, 2018).

Bubbles are propelled by continual buying of an asset irrespective of any positive change in the asset's inherent value. Clearly, this behavior is not consistent with the equilibrium theorem or the premises of Capitalism. When no more investors are willing or able to buy at the elevated price, a sell-off occurs, causing the bubble to deflate. Early buyers sell to escape with whatever profits they can realize. Later buyers sell to reduce their losses. As selling

[12] Rents refer to money collected for the use of existing assets—e.g., payments from a tenant, dividends from stocks, and interest on loans extended to borrowers. The income rents generate does not derive from the production of new value.

escalates, prices fall ever more rapidly until the market collapses. Losses become almost universal.

In the United States, we have most recently experienced the "dotcom" bubble in the late 1990s that burst in 2000 and the housing bubble that burst in 2008. Objectively assessed, we are currently in our third bubble—the stock market bubble—as stock prices far exceed their proper values (Bukhari, 2017). Alan Greenspan, a former Federal Reserve chairman, asserted that we actually are in two bubbles—a stock market bubble *and* a bond market bubble (Egan, 2018).

Given the theorem of economic equilibrium, the history of economic bubbles simply should not exist. Why then do they occur? The answer to this question reveals other structural deficiencies in the model of Capitalism.

Based on historical analysis and research findings, the factors that propel bubbles and busts are

(a) moral hazard,

(b) flawed human decision making, and

(c) leveraged investment.

The theory of Capitalism does not recognize any of these factors. Consequently, it cannot predict the emergence of bubbles and busts, nor does it contain any mechanism to prevent them.

a. Moral Hazard

Moral hazard is greed pursued without risk. It occurs when someone can invest money to reap gains while offloading the risk of losses to others (Pritchard, 2018). It is enabled by one party having information that his or her counterparty in a transaction lacks. It is the ideal scenario for people who conform to Capitalism's assumption that human beings are money maximizing, egoistic pursuers of self-interest. It maximizes one's gains while eliminating one's risks. On the other hand, since Capitalism assumes away any market-relevant asymmetries, moral hazard simply cannot exist.

The housing market bubble (2001 to 2007) is a recent example where greed pursued without risk triggered a bubble. Both mortgage brokers and banks exploited this moral hazard opportunity to reap huge gains that they never were required to surrender to any significant degree (Taibbi, 2011, 2014). As Bouchard noted,

> In the case of the sub-prime mortgage market, for instance, brokers were collecting commissions on mortgages that required no deposit and no proof of income. [They collected their fees up front when the loan was

> made.] Since the brokers were not lending their own money, it was for them a risk-free business. Meanwhile, investment banks took on these risky loans and lumped them together into 'collateralised debt obligations' (CDOs). Once the risks were safely blurred [in these bundled loans], the banks were able to sell the CDOs on at a healthy profit [to unsuspecting or misled investors]. (Bouchard, 2008)

As the rewards from these behaviors became realized, the perpetrators accelerated their efforts. Brokers extended loans to people who had less and less capability to pay their debt costs. They created products that deferred interest payments for extended periods of time in order to make the payment doable for the borrower—at least initially. They encouraged "subprime" borrowers to lie on loan applications (so called "liar loans") or left blank the income/asset portion of the loan application, or they altered documents to make it appear as if borrowers were able to afford loans that they really could not (Andrews, 2007; Pritchard, 2018). Banks accepted these ever-riskier products, bundled them with assurances, and passed them on.

These lending practices increased housing demand, as they made it possible for more and more people to buy homes. Housing prices rose as a consequence. Accordingly, the size of mortgages that people required to buy homes increased. This, in turn, raised the fees collected by brokers, since the fees are calculated as a percentage of the mortgage extended. It also raised the revenues earned by the CDO-generating banks. Thus, the bubble grew as this vicious cycle of riskless profit making spiraled upward.

The ingredients required for the housing bubble to be generated by moral hazard include people who selfishly pursue their own money-maximizing ends and asymmetry of information. The party exploiting the moral hazard opportunity must have information that the party being exploited does not. In the above example, brokers and banks knew that the loans were worthless, but investors did not. As well, borrowers were often assured that they were capable of repaying the loans being made to them, but lenders knew they were not.

Capitalism as a model incorporates the first of the moral hazard requirements. It assumes that people are egoistically driven, money-maximizing actors. It does not, however, recognize asymmetry of information. Everyone in a market is presumed to have full access to all relevant information.

b. Flawed Human Decision Making

Empirical studies demonstrate that people's decision making is flawed. They fail to use only value-relevant information in their investment decision making. And they do not correctly assess which among a set of options will maximize their monetary gain (Rabin, 1998). We have already seen that, contrary to the expectations of Capitalism, pricing in asset markets does not fluctuate in accordance with market information about an asset's proper value. In *Chapter 6*, we will discuss a number of the human decision-making flaws psychologists have empirically demonstrated. Most relevant to the issue of booms and busts are two of these flaws. One is people's tendency to overemphasize recent history in predicting the immediate future, and the other is herding or flocking behavior.

Overemphasizing the Recent Past

As Singh (2010) reported, research in psychology has "demonstrated that people tend to make decisions based on whatever information is available at hand, leading to the human tendency to overweight the recent past [which is more readily at hand]. In making judgments about stock prices, the most likely anchor is the recently remembered price." This empirical finding was anticipated by Keynes (1937). He wrote that people "assume that the present is a much more serviceable guide to the future than a candid examination of past experience would show it to have been" (1937, p. 214).

Minsky (1992), expanding on Keynes's observation, noted that a period of steady growth in asset prices leads people to rising expectations about future growth. "Consequently, capitalists develop 'euphoric expectations' about future prospects as the memory of a previous slump recedes" (quoted in Keen, 2012, p. 16). Minsky's conclusion was that "The tendency to transform doing well into a speculative investment boom is the basic instability in a capitalist economy" (quoted in Keen, 2012, p. 16). This is a far cry from Capitalism's moderating and reassuring theorem of economic equilibrium.

Herding and Flocking

Research indicates yet another flawed decision-making factor not incorporated within Capitalism's theory. In its most general form, it is the tendency for investors to align their decisions with those of other investors. The longer this alignment continues and the more uniform the decisions of these actors become, the more reactive and volatile the overall market is to any event that might trigger buying (boom) or selling (bust) behavior. The reason is that anything that triggers a change in decision making by one or more members of these clusters is amplified by its reverberating effects on the actions of the remaining members of the cluster. This coherence of decision makers has been termed "herding" or "flocking behavior." Its emergence generates market fragility and makes markets susceptible to booms and crashes.

This phenomenon may be due to the "information cascade" process described by Bikhchandani, Hirshleifer, and Welch (1992) or to a feedback phenomenon that progressively increases the weight assigned by decision makers to the behavior of other investors (Harras and Sornette, 2008). It might also be due to humankind's use of social learning via imitation and modeling as a success-enhancing strategy. By imitating someone who succeeds at a task, we increase our likelihood of success.

However it occurs, the increasingly uniform behavior it produces enables "small shocks" to "easily shift the behavior of many individuals" (Bikhchandani, Hirshleifer, and Welch, 1992, p. 999). Buchanan reported that the physicist Sornette "reckons that markets reach a state like an avalanche waiting to happen." He quoted Sornette as stating that "Anything can trigger the avalanche once the system is ripe" (Buchanan, 2008). As should be obvious, herding or flocking behavior is inconsistent with the fundamental assumptions of Capitalism.

c. Debt-Fueled Investment

In addition to moral hazard and flawed decision making, *leverage* is a third factor that triggers the emergence of bubbles. Leverage uses borrowed money to invest in assets.[13] Capitalism views debt-financed investment (leverage) as neutral with respect to increasing aggregate demand and therefore having no effect on achieving equilibrium. Borrowers simply put into play money others (savers) have taken out of play. The total amount of money within an economy remains unchanged. It therefore has no additive affect on aggregate demand and no consequence for equilibrium (Krugman, 2012).

Contradicting Capitalism's theory, Thurner, Farmer, and Geanakoplos (2012) found that leveraged investment has a destabilizing, not a neutral effect, on asset markets *even when investors pursue a value-based investment strategy*.[14] The *mere use of leverage* to buy assets magnifies bubbles and busts. The reason is that leverage causes "fat tails" and clustered volatility. "Fat tails" is a statistical term meaning that extreme events become more

[13] Leverage involves investing with money borrowed from a bank or broker (lender). The lender requires the investor to maintain an account that contains assets that the lender can claim should the investor default on his or her loan. The amount in the account is a percentage of the total value of the asset being purchased by the investor using the lender's money. This percentage is termed the "margin," and it is set by the lender. Thus, Broker A, for example, might require an investor to keep 10% of the value of the assets he or she is buying using the investor's money in a margin account. Should the price of the purchased asset drop, a lender may make a "margin call." Here, a lender demands that an investor deposit additional money or securities into his or her margin account so that the margin account plus the sale of the now less valuable purchased asset still allows the lender to recover what was loaned should the investor default.

[14] Value-based investment buys assets that have a higher intrinsic value than their current price.

likely to occur than one would normally expect. Volatility refers to periods of extreme price changes, wherein prices suddenly rise or fall. It is the opposite of equilibrium. Clustered volatility means that once volatility erupts, it tends to sustain (Moffatt, 2017).

Thurner, Farmer, and Geanakoplos (2012) built a computer-based simulation of an asset investment market in which virtual hedge funds purchased assets using leverage with margin calls. Their model *did not* include the dynamic of flocking or herding behavior. It simply focused on the pure effects of leverage (borrowing) in a market where multiple investors—here, hedge funds—independently applied the financial strategy of value-based investing—i.e., systematically buying underpriced assets with the expectation of making a profit when the assets realized their true value.

When investors *do not* borrow, the price fluctuation of a purchased asset is approximately normally distributed and uncorrelated across time. Volatility is moderate and unclustered. Prices move randomly up and down. This pattern changes when the hedge funds invest using leverage. When prices of a leveraged asset fall, brokers raise margin requirements to protect their loans. Consequently, investors must come up with more cash to deposit in their margin accounts. This causes more selling of assets, and that makes volatility worse. A vicious cycle is triggered that multiplies losses. Downward paths accelerate, and volatility increases and lasts longer (becomes clustered). Extreme events become more likely (the fat tail scenario) due to accelerating volatility and its clustering.[15]

What Can We Conclude About the Equilibrium Theorem?

Essentially, the evidence reveals that the theorem of market equilibrium does not operate as expected. All markets are not automatically self-correcting, and

[15] Another approach to investing that uses leverage creates even greater market turbulence. It is called *Ponzi investment.* It is a money-making strategy based on the expectation that an asset's market price will rise over time simply due to other investors increasingly buying the asset. Contrary to the value-based investment strategy, buying is not based on the expectation that the purchased asset will generate profit for the investor due to its underrated intrinsic value. Rather, investors do not expect increases in the asset's intrinsic value to pay their borrowing costs. Rather, these investors use *additional borrowing* to cover the debt costs of leveraging as they hold on to their purchased asset. This investment strategy works as long as the asset's price continues to rise—essentially, as long as new buyers come along who will pay more for the asset than its intrinsic value and more than the current holder paid. Under this condition, the asset's market price rises, and new borrowing against the asset's increased market value is enabled to cover debt costs without provoking any margin calls. If the asset's price does not increase sufficiently to finance debt costs, then margins will be increased and assets must be sold to cover them. Ponzi investment magnifies the effects of leveraged buying by adding greater debt loads. Any event—real or imagined—that causes a drop in the demand for the asset triggers margin calls. Ponzi investors are forced to rapidly liquidate their assets to meet these demands. As prices fall due to excess supply, less value is realized, margins cannot be covered, and investors default on their debts, causing creditors to lose their money.

they possess internal dynamics unrecognized by the theorem that are economically destabilizing. The promise of economic stability is not delivered. The dictum of allowing the marketplace to be the arbiter and guide for social, political, and economic decision making therefore is inappropriate.[16]

Further, the investigations into why the theorem fails reveal other errors and omissions in Capitalism. For example, the role of debt and its ability to destabilize financial markets *even when used to pursue value-oriented investment* is contrary to the expectations of Capitalism. The presence of asymmetries in information is incompatible with the assumptions of Capitalism. These asymmetries enable those people who *do* conform to Capitalism's concept of human nature to exercise the money-maximizing advantages of moral hazard. Their actions produce destructive economic consequences that are fully unexpected by Capitalism.

Empirical investigations also reveal Capitalism's incorrect understanding of how people make decisions. They do not, as assumed, always make choices based on rationally assessing the true value of an offering. The quality of their decision making is flawed when judged by Capitalism's standard of rationality (i.e., always selecting the option that maximizes one's monetary gain). And people's economic decision making is clearly affected by social dynamics (e.g., herding or flocking). In each case, the model's assumptions are invalid.

Accordingly, Keen (2017) concluded that Capitalism's structural problems render it incapable of enabling societies to predict, and therefore prevent, the emergence of dramatic economic downturns and their consequent human and societal costs. As Buchanan (2008) noted, the attractive simplicity of the equilibrium theorem stands in stark contrast to the complexities observed in real-world markets:

> Take the recent worldwide credit crisis [2008]. Its main cause, the most sophisticated computer models now suggest, may be a fundamental tendency for markets to evolve, like an uncooled nuclear reactor, towards a dangerously unstable state. Everything from observations of irrationality in traders to the statistics of market fluctuations is telling us something is wrong with received wisdom, and a growing band of researchers has formed the view that we desperately need to develop a new theory of economics. (Buchanan, 2008)

Capitalism's Consequential Problems

Consequentialism evaluates a system of performance based on its effects. The evaluation might compare what a system promises versus what it delivers or what it delivers versus some standard of what is desirable—e.g., its effects on individual and societal well-being.

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[16] See economist Frank Ackerman's (1999) formal critique of the equilibrium theorem that also concludes its invalidity.

There are many potential effects one might investigate with regard to the practice of Capitalism. Consistent with its premises, the implementers of Capitalism continuously strive to accumulate wealth and egoistically satisfy their self-interests. Growing wealth through large-scale production-based Capitalism requires a supply chain of raw materials and people willing to do the work of production (a labor pool). One set of Capitalism's consequences flows from these needs—specifically, the consequences caused by how Capitalist economies have historically acquired their supply of raw resources and the labor pool needed to enable large-scale manufacturing.

Throughout the history of Capitalism, for example, conquest and colonization have played an important role in securing the raw materials needed by Capitalist economies such as Portugal, Spain, Belgium, Holland, the United Kingdom, France, Germany, and the United States.[17] Indeed, even today, the United States' sponsorship of the overthrow of the elected Venezuelan President Nicolás Maduro has been linked by John Bolton, a National Security Advisor of the United States, to acquiring its enormous oil resources (Durden, 2019).

As to the labor pool needed for large-scale production capitalism, Perelman (1984) noted that, when industrialization was first being introduced, people preferred their self-sufficient lifestyles over working for others. They independently produced or acquired the commodities they needed to survive and thrive. In order to create the labor pool Capitalism required, capitalists[18] in England, for example, used their political power to force people out of their chosen lifestyles to create a labor pool. Instruments of this coercion included imposing taxes they could not pay based on their subsistence lifestyle and enclosing common areas, thereby limiting people's access to food from hunting and grazing land for raising livestock. Given no alternative, people migrated to urban areas and became dependent on wage labor to survive.

The accumulation of wealth through production also requires the continual creation of new markets. Each new market adds a new revenue and profit stream. Since Capitalism neither incorporates nor acknowledges the construct of social

[17] Economist Utsa Patnaik's analysis of British economic records estimated that the East India Company and the British Raj siphoned at least $44.6 trillion from India during the period of Britain's colonization (Sreevatsan, 2018).

[18] In this book, the lower-case term "capitalist" refers to a person who uses his or her means for the production of goods and services to egoistically pursue the maximization of personal wealth. Since every functional human being inherently possesses the means of production, the discriminating factor for being a capitalist is one's status as an egoistic self-maximizer. The "wealth" element that is typically associated with the concept of capitalist serves only to amplify the scale of one's capabilities to achieve one's ends. It is the end the person pursues in his or her exchanges with others that defines the person as a capitalist. When we capitalize the "c," we are referring to the economic theory.

responsibility (Friedman, 1970), there is no requirement that these new commodities actually deliver benefit to people. To realize profits, they only require that people want them and buy them. Thus, products that are addictive and harmful to health, such as cigarettes and "junk foods"; pharmaceuticals with initially hidden but known harmful health consequences, such as Celebrex, Vioxx, and OxyContin; chemicals and coatings with known toxic consequences, such as Teflon and asbestos-contaminated talcum powder; and very many other diverse commodities have been conceived, produced, and marketed for profit.

New commodities also require new or additional raw material inputs, all of which are finite and, therefore, exhaustible. The consequences of their exhaustion are not a concern for Capitalism and its implementers. Neither are the pollutants its enterprises generate. These pollutants affect the quality of air, water, and soil and endanger the lives of people and other living beings. Cumulatively, these pollutants can generate environmental changes of global significance like climate change. All of these outcomes are considered "negative externalities." Capitalism, as an economic system, does not recognize negative externalities as a producer's responsibility. When such externalities exist in a free market context, producers take no responsibility for the costs required to remedy their effects or the human harm they produce. Rather, these consequences are passed on to society.

Given the breadth of possible consequences one could investigate and our limited space and intent, we have chosen to focus this section on inequality in the distribution of wealth and income and its consequences. These consequences include the economic and social harm inequality causes and its generation of a self-perpetuating process that causes its harmful effects to spiral upward.

Inequality of Wealth and Income

Economic inequality is the unequal distribution of financial resources among different groups in a society.[19] Economic systems are expected to provide for a society's material well-being (Marshall, 1982), which economists measure monetarily. Achieving broadly based material well-being implies a relatively egalitarian distribution of wealth and income, if not initially, then over time. Indeed, the latter outcome was claimed for Capitalism by the economist Simon Kuznets (1955).

[19] We are using Piketty's (2014) definitions of wealth and income. Wealth is the total of one's assets. An asset is anything tangible or intangible that can be owned and controlled to produce monetary value through sale, rent, or productive use. Examples include non-financial assets such as land, dwellings, commercial inventory, machinery, patents, and financial assets such as bank accounts, mutual funds, stocks, insurance policies, and pension funds, among others. Income is monetary value acquired through either labor (i.e., the expenditure of one's personal time, effort, and expertise) or rents (i.e., money earned from one's existing base of wealth). The former includes wages, salaries, bonuses, and "other remuneration statutorily defined as labor related" (Piketty, 2014, p. 18). The latter includes dividends, interest, profits, capital gains, and other rents.

Three questions are paramount to our interest in inequality. First, does inequality in wealth and income exist? Second, if it does exist, what is Capitalism's role in creating or diminishing it? Third, is inequality a problem society needs to address?

Does It Exist?

Empirical evidence overwhelmingly confirms that inequality in wealth and income does exist. Indeed, it has been with us since the emergence of formalized Capitalism. Additionally, inequality under the regime of Capitalism is increasing. In the United States, for example, income and wealth inequality has persisted and increased since its founding (Lindert and Williamson, 2012).

Wealth

Focusing on wealth inequality, Piketty (2014) reported that, in 1810, the top 10% economic group owned approximately 58% of total wealth in the United States (2014, Figure 10.5, p. 348). In 2010, that ownership had increased to 70% of the total private wealth in the country (Piketty, 2014, Table 7.2, p. 248).

Collins and Hoxlie (2017) found that, in 2017, the "three wealthiest people in the United States ... own[ed] more wealth than the entire bottom half of the American population combined, a total of 160 million people or 63 million households" (2017, p. 2). They also reported that "The median American family ha[d] a net worth of $80,000, excluding the family car. The Forbes 400 [list of the wealthiest people in America] own[ed] more wealth than 33 million of these typical American families" (ibid.).

Wealth inequality is also accelerating. Smith, C. (2017) reported that, from 1986 through 2012, "the [total wealth] share of the top .1% took off, essentially tripling from 8% to over 22%, while the [wealth] share of the bottom [90%] fell precipitously from 36% to 23%." Zucman (2019) added that the accelerating state of inequality "is confirmed by Forbes rankings which show that the share of [U.S.] national wealth owned by the top 0.00025% (roughly 400 richest Americans) has been multiplied by four since the early 1980s ... . In sum, a body of independent data sources paint the same picture of sharply rising [wealth] concentration at the top end" (2019, p. 111).

Inequality in wealth ownership is also pronounced in our Capitalist-based global economy. Luhby (2019) reported that "The combined fortunes of the world's 26 richest individuals reached $1.4 trillion last year—the same amount as the total wealth of the 3.8 billion poorest people." He further stated that "The world's billionaires are growing $2.5 billion richer every day, while the poorest half of the global population is seeing its net worth dwindle." Coffey, Revollo, Harvey, Lawson, et al. (2020) reported that "In 2019, the world's billionaires, only 2,153 people, ha[d] more wealth than 4.6 billion people," and "The world's richest 1% ha[d] more than twice as much wealth as 6.9 billion people." The authors provided a graphic image to communicate this inequality. "If everyone were to sit on their wealth piled up in $100 bills, most of humanity would be sitting on the floor. A middle-class person in a rich country would be sitting at the height of a chair. The world's two richest men would be sitting in outer space" (2020, p. 9).

Income

Income inequality in the Untied States was present before its start as a nation. In 1774, people in the top 10% of income earners garnered approximately 32% of all income (Lindert and Williamson, 2012). By 2010, the top 10%'s share was 50% (Piketty, 2014, Table 7.3, p. 249). Using a more recent window of measurement, the economic elite continue to claim an increasingly greater portion of total national income. In the United States between 1980 and 2015, for example, the income of the top .01% increased 322% whereas the increase for the bottom 90% of people was .03% (Gilson and Rios, 2016).

Reinforcing this perspective of increasing income inequality, Chappell (2019) found that "The gap between the richest and the poorest U.S. households is now the largest it's been in the past 50 years." Most recently, the United States Census Bureau found that "U.S. income inequality was 'significantly higher' in 2018 than in 2017 ... . The last time a change in the metric was deemed statistically significant was when it grew from 2012–2013" (Chappell, 2019). Echoing Chappell's findings, Saez (2020) reported that, over the past five decades, the top 1% of American earners have nearly doubled their share of national income.

Not only are the economic elite capturing more of the national total income in absolute terms, but they are also capturing a greater portion of its growth. Saez (2020) reported that families in the top 1% of income earnings "captured 45% of total real income growth per family from 2009–2018" (Saez, 2020, p. 1).

As to the global Capitalist economy, Piketty observed that "Since the 1970s, income inequality has increased significantly in the rich countries" (2014, p. 15). Chappello (2020) reported data that confirms Piketty's observation. It involves gauging inequality using the Gini index. The Gini index measures the extent to which the distribution of income among individuals or households within an economy deviates from a perfectly equal distribution. Index values range from zero (absolute equality) to one (absolute inequality). In reporting on the findings of Bourguignon and Morrisson, Chappello (2020) stated that their "work show[ed] a sustained growth in inequality since 1820 when the global Gini coefficient was 0.500." The estimate for 2008 was .705 (Lakner and Milanovic, 2015).

The True Picture of Inequality Is Worse

The various representations of the current state of inequality significantly understate the facts. The reason is that the financial elite have vast stores of offshore, hidden wealth not accounted for by the data reported above (Henry, 2012; International Consortium of Investigative Journalists, 2013; Zucman, 2016). "The mega-rich use complex offshore structures to own mansions, yachts, art masterpieces and other assets, gaining tax advantages and anonymity not available to average people" (International Consortium of Investigative Journalists, 2013). A number of studies reported by Zucman (2019) place the amount of hidden wealth somewhere between $5.6 trillion and $32 trillion. Zucman's own research estimated the amount as $7.6 trillion (Zucman, 2019).

After critically reviewing the methodology of these earlier hidden wealth studies, Henry (2012) devised an expanded methodological approach to estimating offshored money. He concluded that "A significant fraction of global private financial wealth—by our estimates, at least $21 to $32 trillion as of 2010—has been invested virtually tax free through the world's still expanding black hole of more than 80 offshore secrecy jurisdictions" (Henry, 2012, p. 5). Using the average of estimates of the studies referred to above, excluding Henry's, approximately $8 trillion are hidden. This amount is the equivalent of almost half the total gross domestic product of the United States in 2014. Most notably, this wealth is held by less than 1% of the population and is generating income every day of every year, virtually tax free. Again, none of it is incorporated in the inequality data reported above.

What Is Capitalism's Role in Producing Inequality?

Proponents of Capitalism claim that its success will "raise all ships." This claim is embodied in the distributional principle asserted by Kuznets (1955). It holds that, under Capitalism, the balancing forces of growth, competition, and technological progress lead to reduced inequality and produce greater harmony among the classes. Accordingly, the level of inequality should display an *inverted* U shape (termed Kuznets' curve). The curve depicts an initial rise in inequality as Capitalism begins followed by a peak and subsequent decline in inequality as it matures.

Mainstream economists Thomas Piketty and his associates (Anthony Atkinson, Emmanuel Saez, Gabriel Zucman, and others) undertook an exhaustive research project to empirically evaluate Capitalism's effects on the distribution of wealth and income over its 200-plus years of adoption.[20] He and his colleagues collected

[20] Simon Kuznets (1955) did empirically investigate the issue for the period of 1913 through 1948. While his findings formed the basis for Capitalism's position on the fate of inequality, Kuznets was aware of the unusual nature of the time period he studied (two World Wars, the Great Depression) and the highly speculative nature of his interpretation. He stated that it was perhaps "5 percent em-

wealth and income data for a number of developed economies, including France, the United Kingdom, Belgium, and the United States. His findings are documented in his book, *Capital in the Twentieth Century* (Piketty, 2014). Piketty's (2014) analysis concluded that Capitalism *preferentially rewards the already wealthy*. Capitalism does not reduce inequality; it automatically increases it for the already wealthy. Piketty stated that the empirical evidence indicates that "there is no natural, spontaneous process [within Capitalism] to prevent destabilizing, inegalitarian forces from prevailing permanently" (2014, p. 21). Absent some exogenous force (government action, natural disaster, war, etc.), inequality will spiral upward under Capitalism and produce a progressively narrower group of financial elites.

Piketty identified two simple mechanisms within Capitalism that advantage the already wealthy and *accelerate* inequality. Neither of these mechanisms has anything to do with merit. The first is the compounded rate of return on existing wealth which, at the beginning of Capitalism, was unequally shared.[21] The second is inheritance.

Given compound interest on existing wealth, even "an annual rate of return of a few percent, compounded over several decades, automatically results in a very large increase of the initial capital" (Piketty, 2014, pp. 76–77). Existing wealth grows exponentially. People attempting to create a base of wealth from saved income cannot catch up. Piketty stated that inequality accelerates whenever the rate of return on invested capital (r) is greater than the rate of increase in labor income (g). Across Capitalism's history, the rate of return on capital has always been higher than the rate of growth in income. On average, Piketty reported that *r* has been 4–5%, versus an economic growth [income growth] rate (*g*) of just .2% to 1%. More recently, the rate of return on invested capital has been even higher. "[A]round the world, the largest fortunes ... have grown at very high rates in recent decades (on the order of 6–7 percent a year)" (Piketty, 2014, p. 431).

The second mechanism for increasing inequality is inheritance. Wealth passed forward advantages the progeny of the already wealthy. Inherited wealth is received in relatively few people, as documented by the 1998 Federal Reserve Board's survey of consumer finances. It found that 91.9% of all citizens receive *no inheritance*. Only 1.6% receive an inheritance greater than $100,000. In 2016, the wealthiest 1% of the population inherited, on average, just under $5 million in

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pirical information and 95 percent speculation, some of it possibly tainted by wishful thinking" (Kuznets, 1955, p. 28).

[21] Piketty reports that in 1810, 80% of the private wealth of France was owned by just 10% of its people (2014, p. 340). In both Britain and Sweden, 10% of the people owned between 80% and 90% of total private wealth, respectively (2014, pp. 344–345).

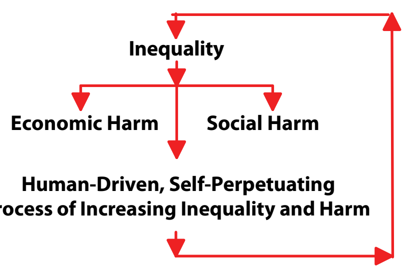
current dollars (Lewis and Bruenig, 2017). Remember, all this wealth takes advantage of the exponential growth provided by compounding. In addition, as Steverman (2020) pointed out, the estimated $764 billion to be inherited in 2020 will be subject to an average tax of 2.1%. “By contrast, the estimated tax on work and savings is 15.8%, more than seven times higher.”

These two mechanisms—compounding and inheritance—ensure that the already wealthy remain apart from all others and that the distance between them and the remainder of society continually grows larger.

Is Inequality Problematic?

Not everyone agrees that inequality is problematic. Some proponents of Capitalism maintain that it is essential to sustaining a vibrant and growing economy.[22] However, the vast majority of scholars find that the relationship between inequality and economic growth is negative. As well, extreme inequality erodes the conditions that support a society’s well-being. Finally, the conditions established by extreme inequality enable a human process that self-perpetuates and increases inequality and its harmful effects. It does this by creating broadened opportunities for exploiting moral hazard (Exhibit 1).

Exhibit 1. Interconnected Consequences of Inequality in Wealth and Income



Inequality and Economic Harm

Cingano (2014) found that inequality *hurts* economic growth. Economically developed countries with decreasing income inequality showed higher levels of economic growth than countries where it was rising. He concluded that “The impact of inequality on growth turns out to be sizable” (2014, p. 17) and added,

> Rising inequality is estimated to have knocked more than 10 percentage points off growth in Mexico and New Zealand. In the United States, the United Kingdom, Sweden, Finland and Norway, the growth rate would

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[22] See *Appendix A: Is Inequality Problematic: The Naysayers’ Perspective* for a more detailed discussion of this topic.

> have been more than one fifth higher had income disparities not widened. On the other hand, greater *equality* helped increase GDP per capita in Spain, France and Ireland prior to the [2008 financial] crisis. (2014, p. 18)

An International Monetary Fund (IMF) study conducted by Dabla-Norris, Kochhar, Ricka, Suphaphiphat, et al. (2015) echoed Cingano's findings. It concluded that inequality negatively affects economic growth and its sustainability:

> We find an inverse relationship between the income share accruing to the rich (top 20 percent) and economic growth. If the income share of the top 20 percent increases by 1 percentage point, GDP growth is actually 0.08 percentage point lower in the following five years, suggesting that the benefits do not trickle down. Instead, a similar increase in the income share of the bottom 20 percent (the poor) is associated with 0.38 percentage point higher growth. (Dabla-Norris, Kochhar, Ricka, Suphaphiphat, et al., 2015, p. 7)

Inequality also retards the upward economic mobility of people within an economy. The concept of upward mobility refers to people's prospects of realizing life earnings greater than their parents'. Corak (2013) reported a finding of a 2011 study done by the Organization for Economic Co-operation and Development (OECD): "'Intergenerational earnings mobility is low in countries with high inequality such as Italy, the United Kingdom, and the United States, and much higher in the Nordic countries, where income is distributed more evenly.'" This finding is dramatically represented in a chart that depicts the relationship between economic mobility and income inequality for 22 developed nations (Corak, 2013, Figure 1, p. 82). The relationship is essentially linear and negative. The higher the inequality, the lower the upward mobility. As reviewed by Krueger (2012), Corak's data revealed that inequality accounts for 76% of the decline in upward mobility in an economy.

The findings of Chetty, Grusky, Hell, Hendren, et al. (2017) further strengthen the negative relationship between inequality and upward mobility. They measured the proportion of U.S. children who earn more than their parents for cohorts of children born at 10-year intervals from 1940 through 1980. Across *all* income groupings, the likelihood of children earning more than their parents decreased significantly from a high of more than 90% for all persons born in 1940 to just 50% for persons born in 1980. Most significantly, for the 1980 cohort, the likelihood of upward mobility for children born into families making up the bottom 80% of income earners *dropped below 20%*. As to the reason for this decline, the authors found that most of the decline in absolute upward mobility was due to the increasingly greater portion of total national income going to the financial elites.

Implications for Capitalism as an Economic System

The economic consequences of the automatic upward spiraling of inequality of wealth and income that Capitalist economies produce undermine economic growth and progressively strangle upward mobility. Rather than "raising all ships," Capitalism preferentially raises the "ships" of the already wealthy and sinks the ships of all others.

Inequality and Social Harm

Upward spiraling inequality in wealth and income also impacts people's opportunities for well-being and personal achievement. This harm rends America's social compact. That rending is evidenced by people's growing disillusionment with the promise of the American Dream; the observation that status, not merit, is the propellant for success; and the consequent breakdown in trust, which is essential for a cohering society.

The "American Dream" is a broad concept with powerful meaning in the United States. For Americans, it means "Being free to say or do what you want," "Being free to accomplish almost anything you want with hard work," and "Being able to succeed regardless of the economic circumstances in which you were born" (Economic Mobility Project, 2009; see Questionnaire and Results, pp. 6 and 7). As Corak noted, "These meanings ... are also likely a reason why Americans have been willing to tolerate a good deal more inequality of outcomes than citizens of many other rich countries (Corak, 2013, p. 79). Bernstein (2013) echoed Corak's judgment. He observed that, in America, "while we do not aspire to equal economic outcomes, we believe strongly in equal opportunity. If inequality were to thwart the opportunities of the 'have-nots,' this would represent a significant violation of a basic American tenet" (Bernstein, 2013, p. 2).

The facts suggest that inequality does thwart the opportunities of the "have-nots." As Piketty (2014) concluded, unequal economic outcomes are *not* the result of people better utilizing the opportunities they experience but from people *differentially experiencing better opportunities*. Capitalism not only skews the accumulation of wealth and income toward the already wealthy, it also produces unequal opportunities for people to realize well-being and fulfill their personal goals.

These differential opportunities are reflected in the more secure and less polluted neighborhoods that the financial elite populate (Badger, 2014; Hoffower, 2018; Katz, 2012; Lucido, 2015), the enrichment opportunities they are able to provide their children (Corak, 2013), their preferential access to elite schools when competing against non-elites *with like abilities* (Giancola and Kalenberg, 2016; Golden, 2003; Gross, 2019; Jerrim, 2013), and their better access to healthcare services (Powell, A., 2016; Willingham, 2019; Woolf, Aron, Dubay, Simon, et al., 2015). They are also reflected in the justice system's preferential treatment of white-collar crime relative to blue-collar crime (Floyd, 2018; Rizzuto and Schoenberg, 2013; Taibbi, 2011, 2014; Washington, 2011) and the reduced tax burdens the financial elite carry due to their offshoring of money, minimal taxation of inheritance, and their preferential capital gains tax rate for income earned on investments as compared to the tax rate assessed on labor-generated income.

The most basic "opportunity advantage" is, of course, longevity. It appears that life expectancy differs by income level, with greater longevity favoring the economic elite. Fletcher (2013) reported that "Even as the nation's life expectancy has marched steadily upward, reaching 78.5 years in 2009, a growing body of research shows that those gains are going mostly to those at the upper end of the income ladder." It also appears that the divergence is growing. Chetty, Stepner, Abraham, Lin, et al. (2016) found that "The gap in life expectancy between the richest 1% and poorest 1% of individuals was 14.6 years ... for men and 10.1 years ... for women" and that the inequality had increased over time: "Between 2001 and 2014, life expectancy increased by 2.34 years for men and 2.91 years for women in the top 5% of the income distribution but by only 0.32 years for men and 0.04 years for women in the bottom 5%." Their study adjusted for differences in race and ethnicity. It included only people who had reached the age of 40 years at the study's beginning. A 2015 National Academy of Science study produced a similar finding. It compared people in the bottom 20% income bracket to those in the top 20% bracket. It found that "the life expectancy gap between the bottom and top income quintiles of women expanded from 3.9 years for the 1930 birth cohort to 13.6 years for the 1960 birth cohort" (Isaacs and Choudhury, 2017).

As to the promise that working hard, acquiring greater skills, and producing more will lead to just rewards—empirical evidence makes that promise ring hollow. Bakija, Cole, and Heim (2012) found that "executives, managers, supervisors, and financial professionals account for about 60 percent of the top 0.1 percent of income earners" (2012, p. 2). Are their exceptional income levels due to their superior performance? Apparently not. Company success accounts for only 1–7% of the exceptional compensation they receive (Cooper, Gulen, and Rau, 2016; Mullaney, 2015; Sigler, 2011). Some 93–99% of the reason CEOs are paid so much *is not due* to their positive effect on company performance. It is *not due* to *merit*. What is it due to? The best evidence supports the judgment that it is due to their control of their own compensation levels.[23]

[23] See *Appendix A* for a fuller explanation of how CEOs control their compensation.

In contrast, consider how, in the absence of personal control of one's compensation level, greater worker productivity has been rewarded. From 1948 to 1973, worker productivity growth tracked closely with wage growth. An Economic Policy Institute analysis using Bureau of Labor Statistics data found that, between those years, productivity grew 95.7% and worker hourly wages grew 90.9%. However, since 1973, despite a 77% improvement in worker productivity, the average hourly wage of workers has grown just 12.4% (Economic Policy Institute, 2018).

What about advancing oneself through higher education? As it turns out, the "earnings premium" higher education yields is not spread evenly across the population of people who invest their money and effort in achieving an education.[24] Bartik and Hershbein (2018) found "that the career *percentage* earnings premium from earning a bachelor's degree, relative to only a high school diploma, is much lower for individuals who grew up in low-income families" (2018, p. 4). In fact, college graduates from low-income families garner only 71% of the average earnings premium realized by bachelor-degreed people versus high school graduates as compared to the 136% realized by graduates from non-low-income families.

Add to this biased outcome the effects of preferential access to elite schools that children of the economically elite experience. While, ironically, attending an elite versus a non-elite school *delivers no added economic value for the already rich* (Dale and Krueger, 2011), it does affect upward mobility for students from the bottom 20% of the income distribution. Chetty, Friedman, Saez, Turner, et al. (2017) found that students from the bottom 20% income bracket who gain access to elite schools achieve higher rates of mobility to the top 1% income group. Thus, when students from the bottom 20% income bracket are denied access to elite schools due to the preferential treatment of financial elites, they suffer economically. In contrast, when a financial elite does not attend an elite school, he or she experiences no economic cost.

This differential benefit from access to elite schools might appear less a matter of concern if access to elite schools was merit based. Jerrim (2013), however, reported that a considerable gap in access to selective colleges and universities existed *even after accounting for differences in academic performance* as measured by grades or standardized tests. "When you take academic achievement into account you can explain some of the difference [in access], but not all of it," said Dr. Jerrim. "[I]n elite private American universities only 48 percent [of the access gap] could be accounted for by differences in academic achievement." One source for the remaining gap is admission based on one's family wealth. Golden (2003)

[24] The earnings premium refers to the extra amount of income earned over a lifetime by people with higher-level degrees as compared to those with lower-level degrees.

reported that Duke University admits to relaxing its admission standards “to admit 100 to 125 students annually as a result of family wealth or connections, up from about 20 a decade ago.” Duke is not alone in making exceptions for the admission of applicants from wealthy families. Gross (2019) reported on the emergence of “legacy preferences” in applicant selection by top colleges. These preferences go to “students with a family connection to the university,” who “are widely seen as a reliable source of alumni donations” (Gross, 2019). Giancola and Kahlenberg (2016) stated that the practice appears to be widespread, as “[o]ver 80 percent of our most selective institutions employ legacy preferences.” For example, Harvard’s acceptance rate for legacy-preferenced applicants is 33% versus its “overall acceptance rate of under 6%” for all applicants, and Princeton reports a legacy applicant acceptance rate “at roughly four times the rate of applicants overall” (Gross, 2019). The practice is doubly unfair. Firstly, it disregards academic merit and preferentially credits wealth. Second, when students from the bottom 20% income bracket are denied access to elite schools due to the preferential treatment of financial elites, they suffer economically. Meanwhile, when a financial elite does not attend an elite school, he or she experiences no economic cost.

Given the breakdown in the premise of a level playing field and the assumption that merit is what produces success, the American Dream is nullified. This nullification is rending American society and expressing itself in social turbulence. Evidence of turbulence can be found in the escalating lack of trust in American institutions and citizen participation in civil society. Pierson (2015) wrote that “In 1964, Americans agreed, by 64–29%, that government was run for the benefit of all the people. By 2012, the answer had flipped, with voters saying by 79–19% that government was ‘run by a few big interests looking after themselves’” (2015, p. 4).

Less dramatic but still consistent with this perspective, Jones (2016) reports that citizens’ trust in their political leaders has fallen from 68% in 1974 to just 42% in 2016. The legislative branch has shown the greatest loss in trust, from 65% in 2001 to 35% in 2016. The Judicial branch, the arm that ensures that our constitutional rights are protected, has fallen from 80% in 1999 to 61% in 2016 (Saad, 2016). Worse, only 40% of people believe that judges are not influenced by political parties (Pew Research Center, 2020). As to the nation’s fourth estate, Swift (2016) reported that the public’s trust in mass media has dropped from 55% in 1999 to just 32% in 2016.

As a summary judgment of people’s satisfaction with the direction of their country, just 16% of Americans responded positively to that question in a December 2020 Gallup poll. That satisfaction rate was down from 71% in a February 1999 poll (Gallup, 2020). Worse still, some 55% of Americans reported that they felt helpless to change the political situation in which they found themselves (Staff, 2016).

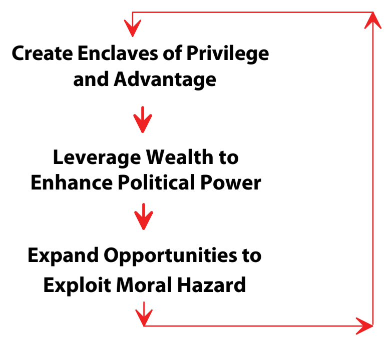
Implications for Capitalism as an Economic System

The economic theory of Capitalism claims to ensure the material well-being of society. The facts make clear that this claim is false. By its design, it ensures the material well-being of the already wealthy—not the public at large. To our knowledge, Capitalism contains no explicit claims about creating a just or cohering society. It is the people who seek to promote its use who make such claims. To the economic harm created by its biased advantaging of the already rich, however, one must add the just documented social and political harm generated by that use. A society that adopts an economic system that undermines its coherence and confidence in its governance destroys itself.

A Self-Perpetuating Process of Increasing Harm

The economic, social, and political harm caused by Capitalism's generation of upward-spiraling inequality in wealth and income is significant. Yet, in our opinion, it does not represent the worst threat caused by this economic system that concentrates monetary resources into fewer and fewer hands. What is most dangerous is that those resources enable a human-driven process that perpetuates and

Exhibit 2. Human-Driven, Self-Perpetuating Process of Increasing Inequality and Harm



augments the system's mechanical drivers of growing inequality and its harmful societal outcomes (Exhibit 2). Extreme monetary resources enable the financial elite to build enclaves of privilege and advantage. From these enclaves, they seek and acquire political power and—through the exercise of that power—expand their opportunities for the exercise of moral hazard.

Enclaves of Privilege and Advantage

To the extent their means and circumstances permit, all people locate themselves in settings that serve their values. People of wealth have few if any limitations in this regard. They create enclaves that have restricted entry and possess their own security forces. The problems most others experience in their living settings have no presence in these enclaves. There are no potholes, poor garbage collection, polluted water, unreliable transit systems, indifferent schools, and unresponsive vendors of products or services. They are not challenged by issues of pollution, the homeless, limited access to healthcare, people begging for money, or uncertainties about their personal income. They have an inside track for every job for which they compete. By virtue of their means, whatever they want is accessible.

Residents of these enclaves share memberships in private clubs, are chauffeured from place to place, and travel longer distances on their private planes. They have access to the finest healthcare, take rest and recreate as needed, and make use of spas, fitness centers, and personal trainers to support their physical well-being.

They also have networks of contacts that share information and opportunities that enable even greater wealth accumulation. These opportunities include access to investment opportunities with high returns like initial public offerings (IPOs). They also include lucrative positions on boards,[25] access to restricted conferences and forums (e.g., the Bilderberg Conference, Council for Foreign Relations, Trilateral Commission, or World Economic Forum), and other advantaging prospects.

In addition, these enclaves form mini-cultures that pass forward their learning and resources to the next generation. The children of the financial elites attend private schools, have personal tutors, attend summer camps costing $10,000 to $20,000, and have access to whatever resources are required to ensure their success at each stage of their development. When they are ready, they may leverage their parents' networks of contacts to enter well-paid positions of employment or access other wealth-accumulating opportunities. Later, when their parents die, their wealth will be bolstered by their inheritances.

To be clear, the issue with these enclaves *is not what their inhabitants enjoy*. In that regard, they simply represent what all people strive to do—that is, fill their lives with what they value. The issue is what effects these enclaves of privilege have on their inhabitants' experience of connectedness with the remainder of society.

These enclaves become the privileged fiefdoms of what Stewart (2018) labeled a "new American Aristocracy." They have created a society within a society, an

[25] Sherman (2018) reported, "The median director pay at the largest U.S. companies was above $250,000 in 2015. This means that half of the directors of major corporations earned more" than this amount. Sherman added that the average board member puts in just "a few hours a week on the job."

enclosed territory that is culturally distinct from the "foreign territory" that surrounds it.

For the residents of these enclaves who are capitalists, their one purpose is to sustain their elite economic status. As true exemplars of Capitalism, they will seek only the further accumulation of the wealth that underpins the lifestyles and privileges they enjoy. Contrary to empirical findings about the role of merit in the accumulation of their wealth, they will imagine that what they possess they earned and that their differentiation from others is simply a reflection of their exceptional giftedness and, perhaps, tenacity of purpose. They will pass their mindsets onto their children, along with their fight to retain and expand their wealth and privilege.

Sharing no common experiences with those who live outside their walls, they have no basis for identifying with them (Murray, 2016). In the course of their living, working, and socializing, they simply do not interact with the typical American—except, perhaps, as people in their employ, whose purpose is to serve their needs and satisfy their wants. As Andrew Yang observed about the members of this aristocracy, their "ties to the greater national fabric will be minimal" (Yang, 2018, p. 100). Consequently, they will have little inclination to address matters that affect the general public but for them are non-existent. Rather, these owners of concentrated wealth and influence distort the politics of the larger society in which they are embedded to preferentially serve their own purposes. And the combined forces of their wealth, exclusivity, and network of relationships with people in decision-making positions empower their success. As Dahl and Lindblom (2000) noted, these enclaves of privilege and advantage "constitute resources that can be used in order to gain influence over other people." The immense, disproportionate wealth they coalesce "foster[s] inequalities in influence, including influence over the government of the state" (Dahl and Lindblom, 2000, pp. xxxi–xxxii).

As to the magnitude of this personal wealth, consider that in 2015 "Just 62 ultra-rich individuals ... ha[d] as much wealth as the bottom half of humanity. Five years ago, it took 388 rich guys to achieve that status" (Peck, 2016). That number continues to fall. It became 43 in 2017 and just 26 in 2018 (Elliott, 2019).

With regard to the wealth of large Capitalist corporations, their revenues rival those of whole nations. Ten companies appeared on a list of "the largest 30 entities in the world. ... All ten of these companies had annual revenue higher than the governments of Switzerland, Norway, and Russia in 2015. Indeed, 69 of the largest 100 corporate and government entities [worldwide] ranked by revenues were corporations" (Zingales, 2017, p. 113).

Political Power

Two centers of exceptional private wealth—the financial elite who are capitalists and Capitalist corporations—are both "in the market for political power" (Hacker and Loewentheil, 2013). They represent overlapping groups, since "six in ten of the richest 0.1 percent of Americans are corporate or financial executives" (ibid.). Zingales (2017) states that the super rich fund political campaigns, seeking to control the government's agenda while, corporations seek to control the outcomes of specific issues relevant to their success.

Private wealth's pursuit of political power is not new. Zingales (2017) pointed out that, throughout Capitalism's history, both financial elites (e.g., the Medici family's rule of Florence and the Della Scalla family's rule of Veronna in Medieval Italy) and corporations (e.g., the British East India Company from the 17th to the 19th century and the *robber barons* in the U.S.'s first Gilded Age) have sought to translate their economic power into political power.[26] Thomas Jefferson observed it occurring during his time. It was one reason why he argued against establishing a separate legislative body of the "aristoi" (the few who are rich and well born) to protect the interests of the wealthy from the actions of the majority of the public. He wrote: "Nor do I believe [such a chamber] necessary to protect the wealthy; because enough of these will find their way into every branch of the legislation, to protect themselves" (Govan, 1950, p. 680). Phillips (2002) documented the influence of wealth on U.S. government decision making from the nation's beginnings to the turn of the 21st century.

Consistent with Jefferson's observation, the most direct way wealthy people and Capitalist businesses obtain political power is by overrepresentation in the roles of government decision makers. Members of both houses of Congress, the presidency, and the Supreme Court are disproportionately members of the financial elite. "Of 534 current members of Congress [in 2014], at least 268 had an average net worth of $1 million or more in 2012 ... . The median net worth for the 530 ... lawmakers who were in Congress as of the May [2012] filing deadline was $1,008,767" (Choma, 2014).[27] In 2013, the median net worth of U.S. households was just $63,800—just 6% of the median net worth of their

[26] Zingales (2017) reported a statement by the California railway baron Collis Huntington: "'If you have to pay money [to a politician] to have the right thing done, it is only just and fair to do it. ... If a [politician] has the power to do great evil and won't do right unless he is bribed to do it, I think ... it is a man's duty to go up and bribe'" (2017, p. 116). Zingales further described how corporate political influence was perceived at the end of the 19th century: "In a cartoon by Joseph Keppler that appeared in *Puck* in 1889, the Senate was labeled 'of the Monopolists by the Monopolists and for the Monopolists!'" (ibid.). Today, we hear a similar phrase: "coin operated congress" (Snider, 1994).

[27] The average net worth for the 433 House members for whom 2018 data was available equaled $6.9 million. As of 2018, the average net worth for the 85 senators for whom data was available equaled $11.4 million (OpenSecrets.org, 2020).

"representatives" (Financial Samurai, 2014). With regard to the presidency, Sauter and Suneson (2019) reported that 80% of U.S. Presidents have been millionaires, with 52% having a net worth of more than $10 million in 2019 constant dollars. As for the Supreme Court, all but one of the eight members of the court in 2016 had an estimated net worth greater than $1 million. The annual salary for associate justices was $244,400 at that time (Lamare, 2016).

For corporations and their industry groups, the direct method of influence involves industry or firm representatives rotating between high-level government positions and high-level business positions. This is the "revolving door" phenomenon. One example is Henry Paulson. Paulson worked as an assistant to John Erlichman in the Nixon administration from 1972 to 1973. He joined Goldman Sachs in 1974 and eventually became its chief executive officer. He reentered government as Secretary of the U.S. Treasury under George W. Bush in 2006. "Two years later, Paulson spearheaded advocacy for the federal bailout of the banking industry. Goldman Sachs received $12.9 billion in federal bailout funds; several of the bank's largest competitors received little or no aid and went under" (Clark, 2011). Another example is Robert E. Rubin. Rubin began his finance career at Goldman, Sachs & Company in 1966. He became its vice chairman and co-chief operating officer in 1987 and was named co-senior partner and co-chairman from 1990 to 1992. The Clinton administration appointed Rubin as assistant to the president for economic policy and as director of the newly created National Economic Council (NEC) in 1993 (Council on Foreign Relations, 2019). In January 1995, Rubin was appointed as the Secretary of the Treasury. During his tenure as Treasury Secretary, Citigroup accelerated its "effort to change the Glass–Steagall Act, which severed the economic ties between investment banking and commercial banking" (Zingales 2017, p. 122). In parallel, Citigroup purchased Travelers Insurance, an action that *violated the Glass-Steagall Act, still the law of the land*. In answering why he executed this unlawful merger, Co-Chair of Citigroup Sandy Weill explained that Citigroup had had enough discussions with the U.S. Treasury to believe that its action would not be a problem (Zingales, 2017). Zingales continued:

> The head of the U.S. Treasury then was Richard E. Rubin. Rubin worked very hard to convince his fellow Democrats to change the law [thereby legalizing Citgroup's crime]. His efforts, along with those of other pro-banking advocates (e.g., Alan Greenspan, Lawrence H. Summers, Arthur Levitt, Jr.) succeeded. Rubin left the Treasury in July 1999, the day after the House of Representatives passed its version of the bill ... . Three months later, on October 18, 1999, Rubin was hired at Citigroup at a salary of $15 million a year. (Zingales 2017, p. 122)

Another avenue for direct influence by corporations is through representation in presidential cabinets. In Trump's 2017 cabinet, for example, 11 of the heads of the 15 executive departments came from corporations or had been lobbyists for corporations. Former employers included Goldman Sachs, Boeing, and Bank of America, among others. As corporate executives or industry lobbyists, they had represented the interests of companies like Haliburton and Microsoft and industries like gas, oil, big pharma, and agribusiness.

Other methods of direct influence include contributions (Pierson, 2015; Pilkington and Siddiqui, 2019), lobbying (Brill, 2018; Thompson, 2010; Wilson, 2017), deferred offers of jobs to government officials after they leave public office (Zingales, 2017), and promises of other money-generating opportunities (e.g., lucrative speaking engagements, executive board positions, no-show or little-work consulting contracts). Less friendly, but nonetheless effective, are lawsuits against regulatory bodies to prevent the promulgation of regulations should direct efforts fail to prevent unfavorable legislation (Zingales, 2017).

There are also longer-term efforts that focus on inculcation of views in decision makers and the general public. These include the use of mass media to promote specific viewpoints and the wealthy's influence over university programs, hiring, and tenure offers. These efforts produce a false consensus—one manipulated into existence rather than emerging from personal judgment based on objective facts (Herman and Chomsky, 2002). Pierson (2015) wrote that "Powerful actors can gain advantage by inculcating views in others that are to their advantage. ... Those with influence over the media, schools, churches, think tanks, or other key cultural institutions may foster beliefs in others (about what is desirable or possible) that serve the interests of the powerful. Again, what looks like consensus on the surface may reflect underlying inequalities of influence" (Pierson, 2015, p. 7). The Powell Memorandum (Powell, L.F., 1971) provides a wide-ranging, long-term example of a comprehensive indoctrination program using all the methods Pierson identified to establish Capitalism as America's absolute economic system.[28]

Do these efforts translate into greater political power? Most political scientists claim that money "has negligible impact on elections" (Parramore, 2016). Nevertheless, both historical analyses (Ferguson, 1995; Phillips, 2002) and multivariate empirical studies find just the opposite (Jacobs and Page, 2005; Gilens and Page, 2014). When research designs simultaneously evaluate all major voices of influence on policy, "the prior findings [of citizen control] appear to be largely or wholly spurious" (Gilens and Page, 2014, p. 573). In fact, using

[28] *Appendix B: A Detailed Look at the Powell Memorandum* provides a full description of the contents of the Powell memorandum.

multivariate designs, both Jacobs and Paige (2005) and Gilens and Page (2014) showed that the average citizen has no effect on policy decision making when their voice on issues is evaluated in the context of the voices of so-called financial elites and business interest groups. Essentially, "ordinary citizens get what they want from government *only when they happen to agree with elites or interest groups that are really calling the shots* [italics added]" (Gilens and Page, 2014, p. 573). It is the wealthy elite and business interest groups who are the two most powerful influencers of government decision making.

Most relevant to our concerns, the results produced by the two wealth powerhouses can be categorized as preferential to them alone. Those results further enable their accelerated wealth accumulation, enhance their ability to exert political influence, and protect them from the effects of their conduct. They include the huge transfer of wealth from the public to banks by forcing unnecessary borrowing from the banks, reduced enforcement of laws, concentration of market power, giveaways of the people's assets for private wealth accumulation, preferential taxation, and opportunities to exercise moral hazard. *Appendix C* provides detailed examples of each of these achievements.

The cumulative effect of the political influence of the financial elites and Capitalist corporations is "crony capitalism." Wikipedia defines it as being "an economy in which businesses thrive ... as a return on money amassed through a nexus between a business class and the political class" (Crony capitalism, 2019). This knot of wealth and political power results in preferential treatment through "handing out permits, government grants, special tax breaks, or other forms of state intervention over resources where the state exercises ... control over public goods" (ibid.). Crony capitalism turns the collective wealth of a nation's citizens into the private profit of a few. Its effect is to accelerate upward-spiraling economic inequality, with all its destructive consequences.

With greater industry concentration as a result of relaxed anti-trust oversight, citizens pay higher prices and have fewer choices in meeting their needs (Philippon, 2019; Devanny, 2020).[29] Tax breaks for the financial elite and corporations and the Federal Reserve's enforced low interest rates for borrowing are regularly promoted as necessary to stimulate productive investment that will grow industry, create well-paying jobs for the working class, and raise the nation's economic growth. The empirical data says otherwise.

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[29] Philippon (2019) estimated that "monopolies cost the median American household about $300 a month." Devanny (2020) reported that just "Twelve corporations control over 400 retail brands. Ninety percent of the legacy media of all kinds, print, television, movies etc. is owned by ten firms. American political economy has never been so centralized and so consolidated."

As to tax breaks, Krueger (2012) documented that "income growth was stronger for lower and middle-income families in the 1990s than it was in the last 40 years overall" (2012, p. 6). At that time, the top level of personal income tax on the wealthy was increased to 39.6% from 35%, and the corporate tax rate was raised to 35% on net income over $10 million. Further, Krueger reported that "Across all businesses, job growth was much weaker" *after the tax reductions* implemented from 2001 through 2007 than in the 1990s. Linden (2011) did a broader analysis. Since the 1950s, the top margin tax rate has ranged from 92% to just 28%. He evaluated the economic growth rates at each of these taxation levels. He found the following:

> Altogether, in years when the top marginal rate was lower than 39.6 percent—the top rate during the 1990s—annual real growth averaged 2.1 percent. In years when the rate was 39.6 percent or higher, real growth averaged 3.8 percent. The pattern is the same regardless of threshold. Take 50 percent, for example. Growth in years when the tax rate was less than 50 percent averaged 2.7 percent. In years with tax rates at or more than 50 percent, growth was 3.7 percent. (Linden, 2011)

Unremarkably, the financial elites use the benefits they receive from lower taxes and the cheaper borrowing enforced by the Federal Reserve to enhance their wealth still further. As Alsin (2017) reported, "American companies have been spending wildly lately, but that cash isn't being used for R&D or innovation. Rather, it's being spent to buy up gobs of company stock." Stock buybacks were illegal until the Securities and Exchange Commission legalized them in 1982. They were considered a form of stock manipulation. By reducing the number of shares outstanding, the same level of income produces a *higher earnings per share* result. This results in higher bonus payouts for CEOs. It also elevates the company's share price by reducing the supply of stock. What it does not do is increase the inherent productive value of the company or provide new economic opportunities to the general public (Almeida, Fos, and Krunkund, 2016; Ayres and Olenick, 2017; Brettell, Gaffen, and Rohde, 2015, 2015a; Lazonick, 2014).

Opportunities for Moral Hazard

The final element in the self-perpetuating process of increasing harm is the elite's use of political power to create opportunities to exploit moral hazard. As explained earlier, moral hazard allows someone to pursue the accumulation of wealth without risk. It is enabled by political influence applied to (1) eliminating laws or regulations that guard against moral hazard, (2) establishing permissive oversight through regulatory capture, (3) creating new laws that limit redress for harm by buyers or third parties negatively affected by commercial acts,[30] and (4) bailing out creditors from losses resulting from poor investments.

Capitalist corporations and financial elites exploit opportunities for exercising moral hazard to accelerate their wealth accumulation. The enhanced wealth they derive increases their ability to influence political decision making to create still more opportunities for moral hazard. Thus, the cycle of exploitation of the non-elites advances with ever greater velocity.

Each cycle begins with a set of enabling parties who argue that laws or regulations restraining some economically hazardous activity are costly and hinder the operation of Capitalism. They argue that such laws are unneeded because markets self-correct. Each cycle ends with some people making huge profits at the expense of the general public and the economy. We will briefly discuss two examples: the savings and loan (S&L) industry debacle of the 1980s and the 2008 banking failure.

S&L Debacle

With the entry of the Reagan administration in 1981, most political, legislative, and regulatory decisions became imbued with the bedrock position of Capitalism. Consistent with this viewpoint, the government reduced the constraints on businesses so they could operate freely, as Capitalism dictates. The savings and loan (S&L) industry debacle of the 1980s began as an opportunity to apply deregulation to save failing banks that specialized in funding home mortgages with savings from depositors (Moysich, 1997). The S&L business problem was real; the promoted solution created the debacle.

Deregulation was the essence of the Garn-St. Germain Depository Institutions Act of 1982 that President Reagan signed into law. The Act allowed banks to make commercial loans, not just homeowner mortgages. It removed restrictions that ensured that loans made had a good likelihood of being repaid; opened up direct investment by S&Ls in speculative real estate development; permitted banks to value the real estate they bought at its *original* price, not the asset's current market value; and allowed S&Ls to create alternative mortgage products (Federal Reserve History, 2019). These alternative products included the "infamous 2/28 adjustable-rate [30-year] mortgages to entice subprime borrowers to initiate loans at low rates [for 2 years], only to find

[30] As an example of blocking redress for harm, Milman (2019) reported on an effort underway to pass legislation that will extend to polluting corporations legal immunity for damages done to the environment by the pollutants they have emitted. The law "would squash [a] raft of climate lawsuits launched by cities and counties across the US seeking compensation for damages." The promoters of this plan are James Baker and George Shultz, both former Secretaries of State, backed by former Federal Reserve chairs Ben Bernanke and Janet Yellen. Their efforts are supported by BP, ExxonMobil, Chevron, ConocoPhillips, Shell Oil Company, and Microsoft Corporation.

that they could not afford the payments when the mortgage quickly reset at a much higher rate" (Federal Reserve History, 2019).

All of these relaxed constraints created opportunities for speculative investment using depositor funds. Worse still, they allowed the risk to be magnified in two ways. First, by allowing S&Ls to value their assets at their *purchased price* rather than their *current market value*, S&Ls appeared to have greater total assets than they could ever realize in the marketplace based on current prices. Second, S&Ls could invest using leverage, thereby magnifying the amount they could buy with their unrealistically valued assets.

States then passed legislation consistent with the new Federal direction. For example, "California, Texas, and Florida passed laws allowing their S&Ls to invest in speculative real estate. In Texas, 40 S&Ls tripled in size" (Amadeo, 2019a).

At the same time, President Reagan *cut* the budgets of the regulatory staff at the Federal Home Loan Bank Board (FHLBB or Bank Board), which had oversight responsibility for the S&L industry. This impaired the FHLBB's ability to monitor lending behavior and investigate bad loans. Thus, with the removal of constraints and the weakening of bank oversight, the opportunity for moral hazard was created.

The consequence was rampant speculation in risky investments, loans that could not be repaid, and what then F.B.I. Director William Sessions reported as "fraud 'pervasive' industrywide" (New York Times Editorial, 1990).

While some 600 persons were convicted of wrongdoing (Holland, 2013), a *New York Times* editorial noted that "most of the perpetrators will escape. For that, the responsible parties are members of Congress who legislated the thrifts' license to splurge and steal, Reagan Administration officials who ignored the storm warnings and hundreds of incompetent and corrupt S&L owners and managers who dallied with their depositors' trust" (New York Times Editorial, 1990).[31] In 1990, then Federal Reserve Chairman Alan Greenspan stated, "the eventual cost of the savings and loan bailout could exceed a half-trillion dollars." Then Treasury Secretary Nicholas Brady admitted

[31] Exposure of the debacle was impeded by the intervention of five U.S. senators who acted to squelch an investigation of one of its major protagonists—Charles H. Keating, Jr., Chairman of the Lincoln Savings and Loan Association. Labeled the *Keating Five* by the press, Senators Alan Cranston, Dennis DeConcini, John Glenn, John McCain, and Donald W. Riegle, Jr. intervened in response to $1.3 million [approximately $3.2 million in 2021 dollars] in contributions by Keating, who called on the senators to help him resist U.S. federal regulators. Senators Cranston, DeConcini, and Riegle were found by the Senate's Ethics investigation to have "substantially and improperly interfered with the FHLBB's investigation," and Senators Glenn and McCain were criticized for having exercised "poor judgment" (Keating five, 2019).

that "taxpayers will bear most of that burden" (New York Times Editorial, 1990).

2008 Banking Failure

The banking failure of 2008 makes the S&L debacle seem trivial. The same cycle described above repeated beginning in the late 1990s. As always, it began with the removal of legal barriers to the exercise of moral hazard and the thwarting of regulatory control. This time, a new economic instrument called *derivatives* was excluded from oversight. The key enabling events were the passage of the Gramm-Leach-Bliley Act in 1999 and the Commodities Futures Modernization Act of 2000.

The first law repealed part of the Glass–Steagall Act of 1933, removing barriers to integrating banks, brokerages, and insurance companies in one institution. This restriction had avoided the amplification of the effects of financial misdeeds on the economy and the creation of the "too big to fail" phenomenon. Glass–Steagall also had prevented banks from using depositor funds for their profit-seeking activities, thereby putting their depositors at risk for their bad investments. As well, under Glass-Steagall, banks were prevented from issuing securities (Rickards, 2012). Thus, for example, banks would not have been able to buy the bad home loans made by mortgage lenders and bundle them up into the mortgage-backed securities (MBSs) that they then sold to unsuspecting investors for a riskless profit.

The second law prevented the Commodities Futures Trade Commission (CFTC) from overseeing the emerging market in derivatives. That action was taken despite CFTC chair Brooksley Born's warning that "derivatives pose a grave danger to our economy."[32] Had derivatives been regulated, the magnification of the impact of risky investing would have been avoided. Through the derivative of credit default swaps (CDSs), for example, banks engaged in risky loans that they backstopped using CDSs as their insurance (hedge) against losses. A CDS used in this way released the asset value of what was lent to be re-leveraged into further investment, then was also backstopped using a different CDS. Worse still, CDS dealers "utilized 'daisy chains' in entering their credit default swap contracts, wherein they hedged [the] protection [they] sold with equivalent protection purchased from another dealer or insurance company, which may do the same" (Mirochnik, 2010, p. 5). If the ultimate seller of the CDS—the party immediately guaranteeing the underlying

[32] Born's position was forcefully reinforced by Warren Buffet, Chairman of Berkshire Hathaway Inc., and Charles T. Munger, Vice Chairman. In the company's 2002 annual report, Buffet stated: "We view [derivatives] as time bombs, both for the parties that deal in them and the economic system" (Berkshire Hathaway Inc., 2002, p. 13).

asset—held many CDSs, then the vulnerability of that party to any financial turbulence would impact the entire daisy chain of insurers.[33] And it did. This elaborate, invisible, and unregulated network of debt reached $67 trillion by 2007, when it collapsed.

The opportunity for moral hazard created by the Gramm-Leach-Bliley Act in 1999 and the Commodities Futures Modernization Act of 2000 ended with the Great Recession and the bailout of the banks whose conduct had precipitated it. As of 2015, the "Special Inspector General for TARP's [the Troubled Asset Relief Program's] summary of the bailout says that the total commitment of government is $16.8 trillion" (Collins, 2015). The bailout continues under the guise of various iterations of Quantitative Easing and other bank liquidity supporting Federal Reserve infusions of money into financial institutions.

As to the exploiters of moral hazard, just one low-level Wall Street executive went to jail (Cohan, 2015). Forty-nine "financial institutions have paid various government entities and private plaintiffs nearly $190 billion in fines and settlements" (ibid.), a paltry amount compared to the sums made by these enterprises. Worse still, it was the shareholders of these institutions who paid, not the bankers who exploited the opportunity for moral hazard and whose compensations soared as a result. Indeed, "just weeks after Jamie Dimon, the CEO of JPMorgan Chase, settled out of court with the Justice Department [for $13 billion], the bank's board of directors gave him a 74 percent raise, bringing his salary to $20 million" (ibid.). The Justice Department had determined that JP Morgan knowingly misrepresented the quality of its securitized mortgage offerings to potential buyers (Cohan, 2017).

Capitalism's Scientific Problem

The significant structural and consequential problems of Capitalism have their origin in the theory's omission of factors that modify economic activity (e.g., the banks' creation of money through lending, the effects of leveraged investment on market stability) and in its unreal foundational premises.

Capitalism's utility is as a theoretical model of an imaginary world. When promoted as a practical model applicable to the real world, it is invalid. All of its premises are false. *Chapter 6* of this book reviews in detail the basis for this judgment.[34] All of Capitalism's premises are stated as universals. Its assumptions

[33] The American International Group (AIG) was an example of such an institution.

[34] See *Chapter 6. What Science Tells Us About Human Nature.* The same research that applies to judging the question that chapter addresses also applies to evaluating Capitalism's premises about the nature of people.

about human nature are posited to apply to all people engaged in commerce, all the time. Its premises about the market context within which commerce occurs are assumed to apply to all markets everywhere. Its premises about human nature eliminate differences in people's purposes, motives, critical resources (self-insight, decision making, information resources), and power. It assumes that all people are rational and effective decision makers who wisely choose exactly what they need from available offerings and only make advantageous exchanges with others. Its assumptions relative to the commercial context deny asymmetries between buyers and sellers in every market. In the world as envisioned in Capitalism, all offerings of a specific product are functionally equivalent. Neither buyer nor seller has power over the other. Every market is functionally equivalent to every other market, and each operates independently. What is produced is needed, since supply drives demand. What is needed can be bought; otherwise, the dynamic that ultimately ensures that a society's materials needs are met would fail. When these premises are baked into a computer simulation of Capitalism, the theory appears to work. It is only in the real world, where its assumptions are not matched by reality, that the model fails.

Empirically, people do not make "rational" decisions as a rule. Their decision making is most often affected by factors unrelated to the value-relevant features of offerings. They do not always choose exactly what they need. In fact, people frequently choose options that they later deem incorrect. Also, asymmetries between buyers and sellers abound (Washington, 2014). These core assumptions of the theory that underpin Capitalism's "wisdom of the market" are fictions.

As to people's nature, some people do fit the materially focused, radically individualistic self-serving premises of Capitalism, but many others do not. There are self-maximizing egoists, and there are people one might label as other-regarding "cooperators." The latter seek mutually beneficial exchanges with others. In the real world, when egoists meet cooperators, they invariably exploit them. This is a logical outcome given the nature of egoists, the presence of asymmetries, and the existence of people who are inclined to be cooperative. Behavioral economists have experimentally demonstrated this phenomenon repeatedly. In these instances, fair and just exchanges do not happen.

The expectation of many offerors in every market and growing competition through entrepreneurship is contradicted empirically by the reduced emergence of new enterprises (LeVine, 2018). Rather, increased market concentration is observed as existing larger enterprises buy up smaller competitors and create barriers to entry (Abdela and Steinbaum, 2018; Devanny, 2020; Grullon, Larkin, and Michaely, 2018). This finding is totally consistent with Adam Smith's warning about the nature of capitalists. Their interest, he stated, is always "to narrow the competition" so as to maximize their profits through the exercise of market power (Smith, A., 1776, pp. 213–214).

The only oddity concerning Capitalism's structural and consequential problems is the failure of scholars and professionals to grasp that the theory with which the very field of economics identifies is invalid as a practical guide to economic decision making. Deductive systems only have practical utility when their contents are logically deduced from their premises *and* those premises are true. This is a simple epistemological fact (Vickrey, 1964). While Capitalism appears to meet the first criterion, it fails on the second. The premises of a deductive system are functionally the same as the supporting columns that hold a building up. Destroy them, and the building collapses. Given Capitalism's invalidity as a practical theory, professionals, at the very least, should expect it to have structural and consequential problems.

So the only puzzle is this: Given the empirical disproof of the premises from which the theorems of Capitalism are deduced, why is there continued promotion of the practical relevance of this theory by mainstream economists and government officials? A deductive system has no "elasticity" with regard to its assumptions. Once a model's assumptions are shown to be empirically invalid, all theorems derived from them lack explanatory utility in the real world. When many premises are disproved, the theory's entire structure of explanations and expectations collapses. One could construct a valid version of Capitalism that would guide the conduct of the people depicted in its premises (materially focused, egoistic self- maximizers). This would entail making its assumptions conform to empirical facts (see *Chapter 17*). Or, one certainly could build an empirically based system. For example, Keen (2017) proposed such an approach to building an effective macroeconomic theory. But, in either case, *you are actually building a new theory*. People who propose ad hoc "fixes" to Capitalism miss this very point. As a deductive model, it is of *whole cloth*. Any modification of premises renders the elements of the theory deduced from those premises null. Any dressing up of its assertion that commerce serves self-interest alone by introducing other-regarding notions of benefiting stakeholder welfare undoes a supporting structure of the model. You certainly can create a new theory based on different assumptions about humankind and the contexts within which commerce occurs. But that new theory is *not* Capitalism.

Given its structural and consequential problems, especially with regard to Capitalism's consistent preferential distribution of rewards to a small minority of society's members, its only conceivable utility is as a *social control mechanism* that serves the most wealthy and politically influential capitalists. Indeed, it is a reasonable observation to make that—for people who egoistically seek to maximize their wealth—the promotion of Capitalism as the "only valid system of commerce" provides an excellent vehicle for their personal success.[35] Understand that, while Capitalism as an economic theory with practical use is invalid, its *utility* for true wealth-maximizing egoists does remain. Real-world asymmetries provide people with wealth superior market and political power. Capitalism's promotion of laissez-faire argues against any action to redress these asymmetries. The biased policies of Capitalist governments toward empowering capitalists—justified as appropriate since they are the providers of benefit for "all" society—further enhances the ability of people with significant wealth to control the political and economic arenas to their singular advantage. Under the cover of Capitalism's mantra of non-interference in the marketplace, they are free to exploit their advantages of power and wealth and advance further their exploitation of the non-egoistic portion of humankind.

Where to From Here?

The remainder of this book explains the Life Enabling commercial model. It is a commercial model that serves people who are natively inclined to cooperate and who seek mutually benefiting ends in their exchanges with others. While the model addresses the existence of egoistic self-maximizers, it has no utility for them. They are by their makeup incapable of implementing it. As we describe the model, we will contrast its approach with that of Capitalism to clarify its distinctiveness.

In the next section of this book (Section I), we present a template that organizes the presentation of any commercial model. We use it in the remainder of the book to detail the contents of the Life Enabling model. The remainder of Section I describes the premises from which the Life Enabling model is deduced and tests their "realisticness" against the findings of science.

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[35] *Appendix B: A Detailed Look at the Powell Memorandum*, beginning on page 493, describes a long-term, comprehensive indoctrination program targeting the public and political decision makers for the purpose of establishing the value and necessity of upholding Capitalism as the United States' singular economic system. *Appendix C: The Economic Fruits of Political Power*, beginning on page 497, describes a sample of the economic benefits capitalists have reaped from their indoctrination efforts and their achievement of political power.

Our economic system is destroying our society and our species ...

We live in a society that accepts an economic system in which lies used to promote sales are legitimized by its courts as just an expression of the "puffery" capitalist enterprises use to generate buy behaviors and not chargeable as fraud; products are designed to sell profitably, not benefit their recipients; packaging is designed to hide increases in price, not inform buyers; producers who pollute and destroy our ecosystem declare it is not their concern, and we accept it; profits are generated from the sale of offerings that are harmful to humankind yet counted in our measures of economic growth and well-being; our right to redress for harm done to us is legally restricted so as not to discourage future commerce; and producers use the profits they extract from us to coop our political representatives and governance so they may continue their plunder undeterred.

In response to all of this and more, we are told there is no better alternative economic system. Moreover, we are told that we can always choose not to buy. Thus, we have nothing to complain about because every transaction we undertake is, by our acceptance, fair and freely made.

None of this is necessary or valid. All of it is predicated on the false assumptions of a sham economic system that serves the few. Its only legitimacy is as a method of control and exploitation of the many. Worse, the human environment it engenders denies the necessities of life that science has made clear are essential for human survival and humankind's continuance as a species.

This book reveals why and how this is happening and why it is not necessary, and it offers a valid alternative approach to commerce that elevates human sociality, fosters personal emergence, and nourishes the ecosystem that supports all life.