

Is American Capitalism Still Working for Us?

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Editor's Note: We are extremely delighted to publish this article, contributed by Professor Philip Kotler, who, needless to say, is the “father of modern marketing.” We are to stress that this is an unpublished article specifically written by Professor Kotler for Kindai Management Review. It is a great honor not only for KMR, but also for our readers. We thank Professor Kotler for his support. It includes much insights, suggestions and ideas on politics, economics and management of the United States. We are convinced that our readers will benefit a great deal from the article.

I want to discuss our changing ideas about our two fundamental systems, Capitalism and Democracy. Each system delivers many great benefits. But each system is also creaking now and displaying some serious weaknesses.

In 2016, I published *Confronting Capitalism* that examined 14 thorny problems of American Capitalism. In 2017, I published *Democracy in Decline*, examining 14 problems in American Democracy. For each problem, I examined and compared the major proposed solutions.

I am going to comment on a few problems and then propose a third course of action. Let's start with the insights of a very wise man, Winston Churchill. He offered the following comparison between Capitalism and Socialism:

- “The inherent vice of Capitalism is the unequal sharing of blessings.” “The inherent virtue of Socialism is the equal sharing of miseries.”

Is this our real Hobson's choice? Must we choose between Capitalism and Socialism? Does Socialism or Social Democracy only produce an equality of misery? Is there a Middle Way? Can we call it Social Capitalism or Social Democracy? What would it be

like? What would be the gains? What would be the risks and losses?

Churchill then offered another insight, this one about Democracy.

- “Democracy is the worst form of government, except for all the other forms that have been tried from time to time.”

Churchill went on to claim the superiority of Democracy on two counts. The first: “It is the only political system with *moral legitimacy*.” He says that Democracy is a better system because it puts a country's future in the hands of its people, not its rulers.

Churchill made a second point about Democracy: “Its major virtue is that it has the capacity to be ‘self-correcting.’ Inept leaders and policies can be replaced.”

We can make the same claim about Capitalism. We can say: “Capitalism is the worst form of economy, except for all the other forms.” But we have to address the same two questions that he addressed about Democracy. Does Capitalism have ‘moral legitimacy?’ Does our capitalism make everyone better off? And does our Capitalism have “the capacity to be self-correcting?” Can it stop making

the rich richer and start showering a better life on most Americans? These are legitimate and disturbing questions about our current Capitalism.

Most of us can list the good things about Capitalism.

- Capitalism allows persons with means to start a business or to raise money from others to start a business.
- Capitalism has produced impressive economic growth in the past. It has been able to supply a growing number of jobs to a growing population.
- Capitalism has helped foster much innovation that has made our lives better.
- Capitalism has enabled business people to choose where they want to invest and enabled buyers to choose what they want to buy.

What are the current “bads” of Capitalism?

- Capitalism has been marked by a growing concentration of income and wealth in the hands of a small number of people who have extra influence on our politics and economy. Capitalism produces a few winners and many losers. We live in “a winner-take-all” economic system. We must acknowledge the great cost in human misery and everyday hardship for millions of people just struggling to survive. Where is the moral legitimacy?
- Capitalism has not succeeded to eliminate poverty. Our poverty rate remains at 15%. Over 40 percent of our working class are in deep debt because they don’t earn a living wage. Many of our vital safety nets are frayed and fraying.
- Capitalism is moving into a stage where more jobs will be done by machines. We probably will need a system of either Earned Income Tax Credits, or a system of Universal Basic Income, to support persons unable to find a job requiring human labor.
- Capitalism encourages a high level of individualism and neglects building community and cooperation for the Common Good. Capitalists want to keep government small

and this results in neglecting our infrastructure, public goods, and the environment.

- Capitalism is subject to regular cycles of recession. We have had a recession every five to 10 years. Many times, our economic growth is riding on a bubble.
- Capitalism favors short term investment and payout rather than long term investment and innovation.
- Capitalism measures the value of the goods produced but does not measure whether human well-being and happiness are advancing.
- Capitalism is “eating” our democracy. Capitalism can lead to the decline of democracy. Political candidates are “bought” and work more for their donors, secondarily for the lobbyists, third for their party, and last for their citizens. Citizens are not running the country. It is not “one citizen, one vote.” And Congress is not really running the country. The country is run by two overlapping groups, the major corporations and the super-wealthy. The policies are largely determined by what lies in the interests of major corporations and the super-wealthy.

Peter Georgescu, who wrote *Capitalists Arise!*, and who ran the great Advertising Agency, Y&R, has been going around the country telling business people that they need to recognize that Capitalism is in trouble and the pitchforks might attack the Capitalists if they don’t make our American economic system work better for more people.

Here are some of the problems:

- Too much business decision making is short term and myopic. The mantra is “Grow profits every year for the shareholders.” The company focuses on enriching the shareholders on the grounds that they own the company. They own shares but not the company. (The company owns itself).
- The company professes that the major route to serving the shareholders is to serve the customers. But the other stakeholders – employees, distributors and suppliers – are treated as a cost to be minimized.

- When productivity rises, profits rise and end up as higher capital gains and dividends going to the shareholders, bonuses to management, rebuying corporate stock, but little in the way of rising wages. Management does not use the higher productivity to reward their workers. The earnings of the working class have been flat for 37 years.
- The working class survives only by borrowing money. Many working Americans on payday have to pay off their loan or borrow more money. Getting out of this debt is nearly impossible. So the dream of opportunity and upward mobility has disappeared.
- The dire result is that the American working class does not have enough earnings to buy what they need. This means companies can't grow larger and employ more workers.
- Businesses have been blind to this problem. American Capitalism, which is largely financial capitalism, benefits the few, not the many. The rich get richer and most Americans can barely make ends meet.
- Many business leaders agree that 1. there is a problem and 2. they need to act. But no leader really feels he or she can do much. It is risky not to make good profits in the short run. If the CEO fails, activist shareholders will call for the Board to fire the CEO.
- Fortunately there are some enlightened business leaders. They do long run planning to achieve certain large goals, even if they have to absorb extra costs in the short run. These leaders treat their employees and other stakeholders well and achieve greater profit in the long run. Unilever, Starbucks, Home Depot, Google, Publix, Wegman, Costco, and Johnson & Johnson.
- Johnson & Johnson pursues the right values. They think of the customer first. Second, they serve the employees well. Third, they serve the communities well. Fourth, they serve the shareholders well, in that order.
- We need to restate capitalism's job to be optimizing benefits for all the stakeholders, not only the shareholders.
- We need corporate boards, financial institutions, and pension groups, to celebrate companies that act in the long run. We need to honor and buy from companies that pursue the 4Ps: people, the planet, progress and profits. We need companies that invest in people, care about the planet, and invest in creativity and innovation.
- Company boards need to make management accountable for the long run. We prefer companies in which we can invest and stop watching them from day to day. These companies are committed to long-term growth. That is Warren Buffet's view.
- We need public/private partnerships in our cities to build infrastructure, encourage job creation and improve our education and health.
- I have a cynical concern that many business leaders recognize that our Capitalism is failing and simply want to get the most before the system falls apart. They put their money overseas, move their company to another country (inversion), and fight for still lower taxes on the rich. Anthony Scaramucci warned at a recent SALT Conference: "The rich people in this room, the wealthy people, you don't want to live in a barbed-wire-encased security perimeter in your McMansion like they do in Latin America. So we have to fix this problem."
- Too many businesses rage against tax increases that support entitlements, unwilling to recognize that the rich have entitlements: capital gains, carried interest, mortgage deductions, and tax loopholes. The government continues to subsidize agricultural giants, pharmaceutical companies, oil companies, sugar companies.
- The wealthy are gaining more wealth without risk or effort by becoming rentiers.
- If business refuses to reform, then government will step in, and we will end up with the European model.
- Our taxes are low by international standards and our social welfare programs are less than those in Europe. Just consider European vacations.
- We think that we have economic growth but most of the time we are riding bubbles.

- My Conclusion: Free market capitalism has been hijacked to serve a smaller and smaller population. Inequality is a cancer. Plutocracy must end. We need to produce wealth for the many, not the few. We need to commit to steady economic growth for those at the bottom of the pyramid.

May I be so bold as to propose a Manifesto where I hammer 3 points on the wall:

1. The current systems of Capitalism and Democracy might be sowing the seeds of their own destruction.

- People will get poorer and they will feel more oppressed. They will turn to elect leaders who will try to preserve the privileges of the wealthy while promising, but not delivering, better conditions to the working class. Fascism or Communism might be inevitable.

2. Capitalism needs to enact a number of palliative measures that will favor the working poor and the middle class. Many good measures have been proposed by Senators Bernie Sanders and Elizabeth Warren.

- A single payer health care system
- A higher minimum wage
- A lowering of the cost of college
- Controlling climate by passing a tax on carbon
- Enacting major criminal justice reforms
- Enacting immigration reform
- Breaking up too-big-to-fail banks

- Closing tax loopholes

3. Capitalism's reform will require a tax system that will restrain and redistribute wealth. Find a way to convince the wealthy to do more public good with their wealth as in the Giving Pledge. Raise taxes on high income and wealth.

We have to make a choice between Free Market Capitalism (Financial Capitalism) and Social Capitalism, the form of Capitalism found in Europe. Europe does not have high growth but it has less homelessness and fewer people going hungry. And vacations are longer.

I believe that Free Market Capitalism has lost its "moral legitimacy." It is a Capitalism run by the 1% and the Koch brothers. It is a Capitalism that would cut down the health of its people in order to cut taxes on the wealthy. I believe that Free Market Capitalism lacks the capacity for "self-correction." I think that the system will continue to make more people poorer. I know the choice between Free Market Capitalism and Social Capitalism is hard to make. Which economic system would give you more confidence in our future? One economic system is run with cooperation, compassion and co-sharing the benefits. The other economic system is run with individual economic gain being the measure. Which economic system is better for the people?

Our philosophers are of no help. When Woody Allen was asked, he answered with prophetic wisdom: "More than any time in history mankind faces a crossroads. One path leads to despair and utter hopelessness, the other to total extinction. Let us pray that we have the wisdom to choose correctly."

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