

**What is capitalism**

# The liberal approach

- ‘**investing money** with the **aim to gain** more money’ (Fulcher)
- Set of economic and legal **institutions** that turn the production of things for **profit** into the **common basis** of economic organizations. It is a way of organizing economic activity (Oxford dictionary of world politics)

# The liberal approach

- Private **ownership** of the means of production (eg land, machinery...)
- Legal regulation that entitles the owners of these means to **appropriate profit** that they produce
- System of **contracts** that serves the realization of sale and purchase, especially the right to hire workers
- The right of the owner to **use the profit** at free will with clearly defined limitations

# The liberal approach

- Capitalism requires a market, money, competition, profit, contractual law
- Two ways of coordinating an economic organization: **centrally planed** economy (socialism), **market** economy (capitalism) (Fuchs-Tuleja: *The basics of economics*)

# The liberal approach

- Market economy is a system in which relations between subjects are mediated through a market, changes are based on subjects decisions, which are based on their free will. 'Market environment is a democratic and a liberal system' (p. 49)
- Market mechanism is the process of mutual influence of the creation of supply and demand and the price.

# The liberal approach (**Friedman**)

- Capitalism is freedom
- Economic freedom is an end in itself and a means toward political freedom (Friedman: *Capitalism and freedom*)
- Disruptions of economic (and therefore political) freedom: exchange control, compulsory retirement scheme, quota on goods, occupation license
- Capitalism separates political power from economic power

# The liberal approach

- Market as a direct component of freedom: division of labor → interdependence: Q: How to reconcile interdependence with individual freedom? How to coordinate? 1. Coercion, 2. Voluntary cooperation – free private enterprise exchange economy – competitive capitalism
- ‘Since the household always has the alternative of producing directly for itself, it need not enter into any exchange unless it benefits from it’ (p. 20)

# The liberal approach

- Market is simply exchange
- There is a plurality of sellers and buyers who protect one another from each other (assumption of no monopoly)
- Free economy gives people what they want instead of what a group of people thinks they ought to want (as in socialism: assumption of no influence by advertisement)



# The liberal approach

- Market as indirect component of freedom – market eliminates coercive power – permits diversity – numerous centers of economic strength ('many millionaires') who check the government and promote any ideas as patrons
- 'In a capitalist society, it is only necessary to convince a few wealthy people to get funds to launch any idea' (oligarchy?)
- 'The fundamental threat to freedom is [...] a momentary majority'

# The liberal approach

- **Hayek:** *Road to serfdom* – similar arguments: planning or regulation restrain civic freedom – are coercive – and eventually this kind of socialism leads to serfdom.
- Government intervention leads to a loss of freedom, the government should be minimal and let the market work – ***laissez fair***

# Marxist approach

- ‘Capitalism is a set of configurations, assemblages, or bundles of social relations and processes oriented around the systematic reproduction of capital relation, but not reducible – either historically or logically – to that relation alone’ (Anievas – Nisancioglu, p. 9)
- There is **no essence** existing independent of other features in capitalism – intersectionalism.

# Marxist approach

- Separation of laborers from all property (means of production) – proletarianization – farmers who work on their own field (property-means of production) become proletarians (wage-earners)
- Means of production are concentrated in a few hands
- Proletarians are forced to work for someone else by the market – ‘economic means’, in feudalism, the force is ‘extra-economic’ - military, juridical

# Marxist approach

- ‘Since the household always has the alternative of producing directly for itself, it need not enter into any exchange unless it benefits from it’ (p. 20 Friedman)
- There can be wage labor in a non-capitalist society, in capitalism it is connected to its laws of motion – systemic imperatives

# Marxist approach

- Capitalists must sell their production on the market in order to realize profit
- Capital-labor – exploitation – extraction of surplus value – labor vs. labor power
- Surplus value=profit
- Production is motivated by profit, without a profit expectation it will not be undertaken

# Marxist approach

- Competition between capitalists -> continual accumulation, profit maximization, ↑labor productivity – this is imposed on capitalists regardless of their preferences (for social responsibility) – it is not greed, but a systemic imperative

# Marxist approach

- This imperative leads to technological improvements and to constant growth (ex: Nokia) – the quest for survival underpins the necessity of accumulation through expanded reproduction – ↑the scale of production → ↓costs and ↑profits
- Creation of wants
- Representation of economic growth in the media



# Marxist approach

- First contradiction of capitalism: ↑power of the capital → ↑profits, ↓wages → lower demand, overproduction → crisis

# Green Marxist approach

- Green criticism – Second contradiction of capitalism (the absolute general law of environmental degradation under capitalism)
- Production relies on free raw materials – nature is capitalized and the true costs are externalized to it (ie, one does not pay for the pollution of the air, nobody pays for climate change)
- Undervalued nature → resource exhaustion

# Green Marxist approach

- Capitalism collapses (or capital accumulation will be jeopardized) because: 1. The environment is destroyed (climate change), 2. ↑Production costs because of ↑of prices of depleted raw materials or the ↑need to develop substitutes, 3. State demands too much money to prevent the collapse.

# Marxist approach

- Counter-argument: Nature can be assigned its true cost (eg, CO2 emissions trading)
- Counter-counter-arguments: 1. The price of the emission is actually too low (but could be higher), 2. It cannot be higher – none of the top 20 dirtiest economic sectors would be profitable if all the environmental costs were included in the prices.

# Centrist approach

- Much closer to neoliberalism – capitalism needs to be regulated in order to function – needs to be saved from itself.
- Example: Corporate inversion

<http://www.cc.com/video-clips/ehvwjx/the-daily-show-with-jon-stewart-inversion-of-the-money-snatchers>

# Centrist approach

- ‘When does this end ... They just want, and want, and want, with no concern...’ How does this differ from a Marxist perspective?
- Obama regulation (2016): Against ‘serial inverters’ - disregards past 3 years of mergers to determine the size of the foreign company – if after merger shareholders of the former US company own at least 80 % of the combined firm, it is treated as US, if 60 % - restrictions apply. Pfizer cancelled its merger.

# Obama regulation

- Prevents 'Earnings stripping' (Mother abroad lends money to a US subsidiary, tax is avoided through interest payment (Obama: interest payments [deductible] become dividends [undeductible])
- Counterargument: This is paperwork for corporations worth 15 M \$ who have to prove that their loans are supposed to be just loans.

# Obama regulation

- April 2017: Trump: those regulations ‘increased tax burdens, impeded economic growth...’  
Trump ordered a review of the tax regulation (against his campaign to prevent companies from moving overseas)



# Obama regulation

- October 2017: Federal court in Texas ruled that Obama administration acted unlawfully (Chamber of Commerce and Texas Association of Business filed a lawsuit) – the legislation required a notice and comment period
- October 2017: Trump keeps the regulation. Treasury dep.: ‘these regulations are necessary to safeguard against earnings stripping’

# Trump's tax reform

- February 2018: Trump's tax reform (Base Erosion and Anti-Abuse Tax) should reduce advantages for corporate relocation by lowering US tax 35 % → 21 %
- Also: limits degree to which big companies can deduct interest expenses and royalties paid to foreign parents) for some companies tax ↑2-4%, for others neutral

# 2018

- October 2018: 'US corporations have largely abandoned the contentious deals...' BUT they still shift intellectual property abroad, where revenue from it is taxed (65 % of the value of the technology produced in Ireland in 2015 was from US owned-companies)

# 2019

- Return of Mylan, Allergan PLC
- Inversion are still slightly advantageous financially but not in terms of reputation
- Trump admin: Removal of a part of Obama regulation to document internal loans

# Biden campaign

- 10 % tax credit for businesses that invest in revitalizing facilities and bring production to the US
- 10 % surtax (ie 10 % of tax on top of tax) to sales to US customers from a US company foreign's affiliate
- $\uparrow 21\% \rightarrow 28\%$  corporate tax (taxable income)
- Strong rules against inversions
- GILTI (Global Intangible Low-Tax Income) from minimum 10,5%  $\rightarrow$  21% (foreign income)
- 15 % book income - adopted