Capitalism as an economic system: What could be an alternative of it?

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Abstract

Capitalism is a very powerful regime nowadays. Capitalism regards capital as a main factor of production, not to say a unique factor. This capital supports capitalist to benefit from wealth accumulation without putting this capital at risk. The mechanism to do so is called interest. This results in the following consequence. Weak competitors who are not able to provide a capital compared to the capital of a big capitalist are excluded from the competition and put aside. So, the capital is of nature to influence the basic economic decisions like what and whom to produce. At the state level, governments depend on the capital of capitalists to expend on development. The capital also influences policy making and influences elections campaigns. In other words, the political and social life depends on the market which is in the hands of capitalists. What could be an alternative of the interest? Is it possible to totally avoid it without putting the economic system in risk? Can we afford a system which skips the interest and promotes the share of risk, mobilizes people savings and enhances the total welfare? Moreover, how much possible is its implementation in order to increase the financial stability? This article makes a comparison between the capitalism, socialism, anarchism and Islamic Economy, as economic systems by highlighting the advantages and the disadvantages of each of them. It concludes with a reflection essay of how to combine the best features of them in order to improve the overall economic situation.

Keywords: Capitalism, Economic system, Finance, Incentives

Capitalism is thought to last no longer anymore. Given all the problems arose nowadays it has turned into a threat for the whole globe. A brief introduction would help understanding it and trying to identify the elements of a SWOT analysis for providing a better alternative to this "old fashion" system.

The term "market competition" refers to the invisible war between the owners of the production means to attract as many buyers as possible. Regardless of what the final product might be, its owners will always want to have all the purchasers for their own. The market is either the real or the virtual place where this trade is done. Due to the confrontation of such products in the common field, neither the lack of quality, nor the abuse in prizes is possible. In such a situation the winner is supposed to be the buyer. On the other hand, there is always a trade-off between the price and the quality which will give chance to most of the providers to participate in the transaction. Only them, who will not be able to deal with this trade-off, will be put out of the market.

All of this exchange in the market is expressed by prices. There is always a price for everything. What seems to be paradoxical with capitalism is that the prices are not set by the owners of the means of production. As owners they might had have the total right to lock their desired price. However, it is the mechanism of the "market competition" which doesn't allow them to abuse. In a system of prices, in capitalism, the price of equilibrium is set by the intersection of the demand and the supply. It is this equilibrium which dictates the power of the owner of the means of production. On one hand, the higher the number of demanders, the higher the push to the prices up. But on the other hand, the higher the number of providers, the higher the push to the prices down. That way the profit of one provider is limited to a certain degree.

For the owners of the production means to provide services and goods in the market, it is needed to obtain the full rights to these means. It means they should own the property and be eligible to use it as they wish. Unless they obtain the legal right to the means of production, they are not entitled to use it according to their objectives for providing additional wealth. The capitalism recognizes all of such rights derived

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from any kind of heritage or other source of ownership to individual owners.

The component of salary labor refers to any kind of labor provided by the owner of labor skills, in exchange for payment. This payment is referred to as wage or salary. Again, like all the other prices in the market competition, even the price of labor is determined by the equilibrium in the market. Analogically, the product provided is the labor skill and the price for this product is the salary. The providers of the product are the owners of the labor skills, and the demanders of the product are the employers. The price of the labor (wage, salary) can be distributed in several forms, starting by monetary compensation to promotions in the work environment.

In a global exchange, the owner of something of value may or may not be willing to exchange it for something else. The capitalism acknowledges the right of this owner to exchange his good willingly. Simply stated, it is his/her choice whether to engage in the exchange or not. Practically, everybody has got something of value to be exchanged for something else. But it is again the market which determines the value of these “things”. Then it is the free will of the owner, based on the equilibrium, to accept the exchange conditions or reject them. Additionally, he/she is free to search for alternative markets where he/she can better exchange his good. For sure, this might implement additional costs to him/her, and might probably compromise somehow the free will to exchange, but it will at least provide a fair evaluation of the value of his good. In this perspective, no legal authority can enforce him/her to exchange his good for something else, unwillingly.

What is Capitalism?

Capitalism, as an economic system, is characterized by the private ownership of the production means, and the use of them in generating profit. The basic components composing capitalism there are: accumulation of capital, market competition, a system of prices, rights to private property, salary labor and freewill exchange [1].

According to Fulcher, James (2004), Capitalism is the decision to invest your own money in return for a profit. In generating this required profit, the capitalist should undertake a considerable amount of risk [2]. Generally, the higher the desired/required return, the higher the risk you should undertake. In this presumable situation it is very simple to calculate the profit. It is the difference in prices between the country of production where there were used all the production means, and the country of exportation which is willing to pay for something of real value. If there was only one producer providing this good, the buyer would only rely on him, resulting in a very huge difference between these prices, so huge profits for the provider. It is the market which diminishes the power of this producer by accepting alternative producers. This way the market gets saturated and the profit for each of the producers is determined by the equilibrium. This results in a fairer price for the buyer. This example refers to the merchant capitalism.

If we talk about the financial capitalism, it generally refers financial markets. Instead of the underlying assets there is used other instruments, called derivatives, to represent the transactions on these assets. Such kind of instruments might be, Future and Forward Contracts, Call and Put Options, Caps, Floors, Collars and SWAPS. These instruments are used for arbitrage or hedging purposes and they rely on the expectations of the customers/investors. The parties use these contracts in order to avoid the risk related to the underlying assets, based on their expectations regarding the possible movements on the prices and returns of these assets.Such transactions between different parties make up the financial market. The arbitrage technique uses the small differences that result in the prices due to some technical issues between different markets. A smart investor might take advantages by exploiting these opportunities. It is also the stock exchange market which might provide room for such differences to be profitable for the engaged investors who carefully study the market movements. All in all, behind this global structure, it is the consumer expectations which make able the chance to take advantage from the investment opportunities. Sometimes it might cause a non-representative of the real value, price, which is hidden behind the “Good will” or “Mark” terms, and traded for as an added value to the customer, who is the one which will bear this artificial fictional price.

Even Obrinsky, Mark (1983), refers to capitalism as related to the profit. He argues that in a capitalist society, the owners of the production means are too little, and all of this wealth is concentrated only on this small number of capitalists [3]. They hire the workers to conduct the job and give to them in return the wage predetermined by the contract. Both counterparties agree on the rate of wage that the employee will take and the employer will give. Then the production excess over the labor value is considered to be the additional income for the capitalist, which he refers to as the profit. As a citation to Joan Robinson, the article puts emphasis to the problem of profit as a non-practical puzzle of the capitalist economy. In an economy where the artisans conduct the manufacturing the earnings arising by capital, labor and enterprise are all in the same way sources of income and profit [4].

Anyway, he distinguishes between income from labor and income from the capital. He refers to the property income as surplus over production. This surplus, on the other hand is part of the net output which exceeds the total costs. In the total costs it is also included the cost of reproducing the labor force.

The other distinction is between incomes which are contractual and the ones which are not contractual. Salary

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revenue, interest revenue and rent revenue are considered as contractual income. The profit falls under the category of no contractual income. Anyway, in a competitive market it is never too easy to generate too excess profits. As previously stated, in order for the entrepreneurship to have these profits, it is required to use the capital for providing something of added value. Then this production should be exchanged for another thing of value from which will the profit be generated.The activities of production, distribution and exchange require time and undertake uncertainties. Moreover, it also takes time to be in tune with the activities of the customers and of the competition, in order to be present in the right place, on the right time and on the right way. This way only, the capitalist will be able to maximize the profits [5].

In the light of the recent crisis, we can see the capitalism as modern economic system which is still adapting to the ever-changing world. In the Oxford English Dictionary, capitalism is referred to as "accumulated wealth reproductively employed". The capitalist system stresses the importance of the private property, the economy based on the market, the importance of the contracts, the innovation driven by the entrepreneurship, the pay for the work provided, in financial terms and for sure the available free credit for investment purpose. That way the modern capitalism is far different in definition, but in functioning as well by the explanation on the dictionary.

Advantages of Capitalism as an Economic System

Tejvan Pettinger, in his article "Advantages of Capitalism" tells that the capitalism has five advantages [5].Firstly, he says, there is no better alternative than the Capitalism. According to his explanation capitalism, likewise the Democracy is the best alternative the economists and philosophers might have ever found. Regardless of all its possible disadvantages, there is no any other system that might perform better than capitalism so far. By this attitude towards Capitalism, it is clearly understood that everything else is just the explanation how a good system Capitalism is.

The second advantage according to Pettinger is that Capitalism promotes efficiency. This efficiency lies in both directions, either in the resource's allocation, or in the production efficiency. When we talk about the allocation of the resources, the Capitalism, by the introduction of the free markets and the concept of the invisible hand of the market conditions, makes it easy for any producer or provider of goods and services to freely allocate its resources for such a production anyway in the world. The efficiency here is fulfilled by the competition on these resources. On a free market, the manufacturer is free to choose the best sources and due to the competition, he can achieve that with a low cost.

The production sources, especially when we refer to a manufacturing business, might be classified as direct materials, direct labor and factory overhead. The primary source of production, the direct materials can be easily allocated all over the world and the capitalism makes it easy to provide them in the most efficient way possible. When it comes to direct labor, to which Capitalism allocates the payment in the form of wage, even this source can be easily located in the market with the highest quality for a low price. This makes the use of labor efficient. The last element of the production, the factory overhead might be the easiest sources to be allocated efficiently in the market. The competition for them is even higher and their distribution is wide.

Drawbacks of Capitalism as an Economic System

This capital concentration in the hands of the richest ones will let the rest of the population in a huge poverty. The rich people are becoming richer and the poor people are becoming poorer. This will create a huge gap between the rich and the poor as far as the middle class might even disappear. This picture will not last for too much to appear in the new economic and global system. It will merely come because of the concentration of wealth in the hands of some people that might think that they deserve everything. Nowadays more and more entrepreneurs are merging with or even acquiring others. The greed to become even bigger does never end. This will probably lead to a general monopolization of most of the sectors of the economy.

The concentration of the vast amount of money in the hands of very few people will lead to a political power loss as well as a loss of the democracy and economic power for the majority of the population. The economic system will be directed by some greedy corporations with an unlimited power as to influence the government and the syndicates as well. They will become a kind of government where the hierarchies and bureaucracies will kill the free entrepreneurship.Their only driver will be the profit maximization and nothing else will have higher value than this. In this sense they will be the promoters of the degradation of the social welfare. David Schweickart says: "Ordinary people [in capitalist societies] are deemed competent enough to select their political leaders-but not their bosses. Contemporary capitalism celebrates democracy, yet denies us our democratic rights at precisely the point where they might be utilized most immediately and concretely: at the place where we spend most of the active and alert hours of our adult lives".

Franklin D. Roosevelt says that "the liberty of a democracy is not safe if the people tolerate the growth of private power to a point where it becomes stronger than their democratic state itself. That, in its essence, is fascismownership of government by an individual, by a group, or by any other controlling private power."In this sense the democratic liberty is put on question as we always see the increasing power of the capitalists which might even not promote any real development even because some of them might have

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inherited it.

The monopolization is the worst thing that might happen to an economy. Firstly, monopoles will make the exploitation of their employees. Given that the number of the businesses will be very low; these employees will have low alternatives to choose. This is of nature give the existing ones the freedom to lower the wages of the employees to the minimum possible. Not only that but, in an attempt to decrease the costs as much as possible they might also justify the lack of good work conditions. The employees might be constrained to work in poor conditions and with low wages and none of the competitors will be willing to offer something more. This is the worst exploitation ever done to the workers by any form of political or economic system [6].

David Ricardo and Karl Marx worked on what they called "Labor theory of value". It generally implies that the real value of a product is the total value of the social work that is put on its production. In this sense, they evaluate the labor as a precious thing that the employee gives and puts in service for the entire population. He will be always motivated to work in the best way to add value to a product which at the end will be distributed to the society entire. Moreover, talking about the social work, it might also imply the help and the support given to any employee by all the parties, starting by the job culture, his/her family, friends and the entire community. That way the work quality as well as the product quality would be the highest, making it possible for the society to evolve [7-10].

Discussion

All in all, in a broader viewpoint it is needed a regulatory object in order to deal with the one direction tale of this superpower. The market itself cannot be able to self-regulate. It is the nature of the market to try to maximize the profits. As these profits increase, they will also concentrate and tailiate (word formation by the author to tell about something that extends in one direction by creating a tail). For that, a visible hand, unlike the invisible one of Adam Smith, should be incorporated to put some order. This hand, for sure, should represent the government. Even though it might be seen as an oligarchic body which serves his own interests, it is indeed the voice of the global population which seems to be unheard by the capitalism. If properly used, this mechanism would perform in the best way to set the missing equilibrium between what previously was represented by collectivism and what today is represented by individualism or capitalism. For sure, the unlimited power of the government is not a good thing to the world economic and social development, but with high possibility, neither it is the capitalism. What this paper generally suggests is the combination of these two for achieving a non-compromised and healthy economic and social continuous development.

Conclusion

Capitalism is a system, the function of which is put on question nowadays. Many scholars argue that it will destroy itself, it will no longer survive to the changes on global range, it will go against the ones who invented it or it will even destroy the global order.

Capitalism has had many advantages for which it become too important in the whole economic system. These advantages started with the freedom to offer and take everything on a fair exchange experience. This freedom was extended in all the spheres of the global interchange, starting from the acquirement of the raw to the distribution of the goods and services to the customers. Another advantage was the equality and the fairness. No discrimination could prevent the parties willing to participate in an exchange. All the involved actors of the global market could only compete with their comparable advantages. More over this system used to promote efficiency and effectiveness as far as it was used to achieve the required returns. It was for longer believed to not have a better alternative than capitalism.

Conflicts of Interest

The authors declare that there is no conflict of interest.

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