

## *Original Papers*

# A Catastrophe for Capitalism

Jan-Erik Lane<sup>1\*</sup>

<sup>1</sup> University of Geneva, Geneva

\* Jan-Erik Lane, University of Geneva, Geneva

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### ***Abstract***

*Given the utterly painful short-run chock of COVID-19 as well as the looming long-run threat of climate change, radical scholars suggest that the prevailing global economic system is flawed. Capitalism must be replaced by something else, but what? Klein discusses “Corona capitalism” and Chomsky dreams about an anarchistic economy. Piketty, Krugman and Stieglitz all call for major changes to American capitalism in particular. The fall in income will be dramatic for Western economies, but income constitutes the wealth of nations.*

### **1. Introduction**

The Western economies have been brought by a state of near standstill by the short term onslaught of the COVID-19 virus. The costs for governments are without comparison extremely large. Before long the economies must be opened up, as there is a limit to how much borrowing and deficit each state can afford. The burden of paying for all this acquired debt will remain for a long time. It has been argued that this is the time for making structural changes to the capitalist system, especially outside of Europe. The mixed economies in Europe offer a healthy system of basic protection for wage earners, but the EU area also holds a large amount of greedy capitalism.

Contemporary capitalism is based on market economy, the institutions of which were introduced around 1700, providing European nations a major economic advantage. In fact, it is the only viable economic system. How to protect wage owners and reduce predatory capitalism within market economies?

### **2. Socialist Economy**

The theory of an alternative economic system was developed by Barone from Italy and Lange from Poland. They managed to show that an effective equilibrium between demand and supply could be calculated theoretically by what Barone referred to as “the Ministry of Production” or by the use of trial

and error processes in decentralised enterprise leaders. However, both the command economy presented by Barone and Lange's market socialism failed with regards to economic efficiency, in the Soviet Union and Eastern Europe. It was Friedrich Hayek that for 50 years argued that only the market economy can achieve overall economic efficiency. He also spoke out against the mixed economy with its large and important public sector. In this case he was wrong, as welfare programmes are not the argued "road to serfdom". We must keep the market economy regardless of the Corona virus ramifications.

### **3. Welfare Society or Welfare State?**

At present with regards to COVID-19, the European welfare state has performed much better than American capitalism. The welfare state comes in different shapes, e.g. the German-Austrian model and the Scandinavian version. They succeed where the American welfare society fails, namely when it comes to protecting wage earners against external shocks. That is why we these days see incredibly high rates of unemployment in the United States. Hayek's preference for neo-liberalism was only accepted in North America and the United Kingdom, although Great Britain retained certain protection measures such as the NHS. The systematic fault in the US economy is that it is tilted towards the entrepreneurs and financial institutions, rendering the wage earners in a too weak position. This is not market failure but a failure of public policy, resulting from the resurgence of the Republican Party after Franklin D. Roosevelt. Nor is COVID-19 a market failure (Chomsky), but global warming is a classical market failure.

The differences between the various European welfare systems have diminished, as the Nordic countries too have endorsed privatization and New Public Management. The once so famous universal Scandinavian welfare state still protects wage earners and those left behind, but this welfare regime no longer has any redistributive force. Before the arrival of COVID-19, the Nordic market economies were among the richest in the world in terms of GDP per capita. Arguably, it is now essential that there is a public health system as well as general support in terms of entitlements. The American welfare society fails on both these accounts, which the spread of the corona virus has demonstrated. In the view of the author, Chicago school economics never foresaw such a gigantic shock to the economy as we have seen over the latest months. They argued that deregulation and privatization would benefit the wage earners, yet this has not occurred, generally speaking. American capitalism as a balance between countervailing forces (Galbraith) has become a myth, replaced by Wall Street.

### **4. COVID-19 Consequences**

The numbers of infected and dead has a stunning amount of variance between countries. It is an urgent research task to explain these differences. Compare, e.g., Germany to France or the United States. The amount of misery is going to be higher in the United States than in European welfare states.

Nations that are easily sealed off like Iceland and New Zealand seem to be the most successful, while

also utilising massive testing and quarantine measures. However, no one knows what the future of the corona virus will be. If herd immunity can be achieved, it will go away, but can it return?

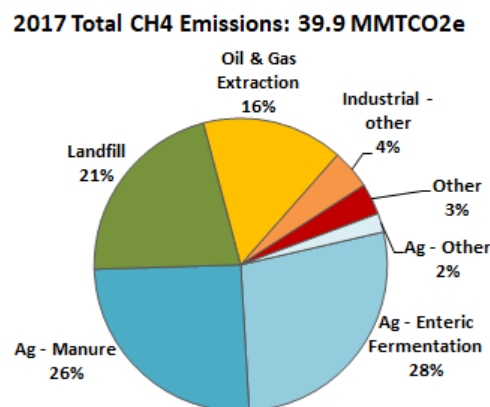
American capitalism satisfies the two meanings of capitalism: On the one hand greed as a human force of motivation, and on the other hand the institutions of private property: the contract, the joint stock company and the fungibility of private assets. America would handle economic shocks better if they engaged in public finance based on progressive taxation, but the remedy of socialism in the United States is a figment of imagination. Real socialist economies have too small output volumes for the World of today. Thus one cannot expect any new waves of socialism. China has become the factory of the world due to its acceptance of the market economy, the only viable system. Although market economies maximise output and income, it comes with two weaknesses; inequality from excessive CEO reimbursements and external costs from emissions.

The European welfare state is superior to capitalism because it provides basic protection to all citizens. Its fundamental weakness is once more the reimbursement of CEOs. This does not constitute market failure, but is essential in a principal-agent problematic where opportunism and collusion undo the efficiency of wages.

## 5. The Next Chock

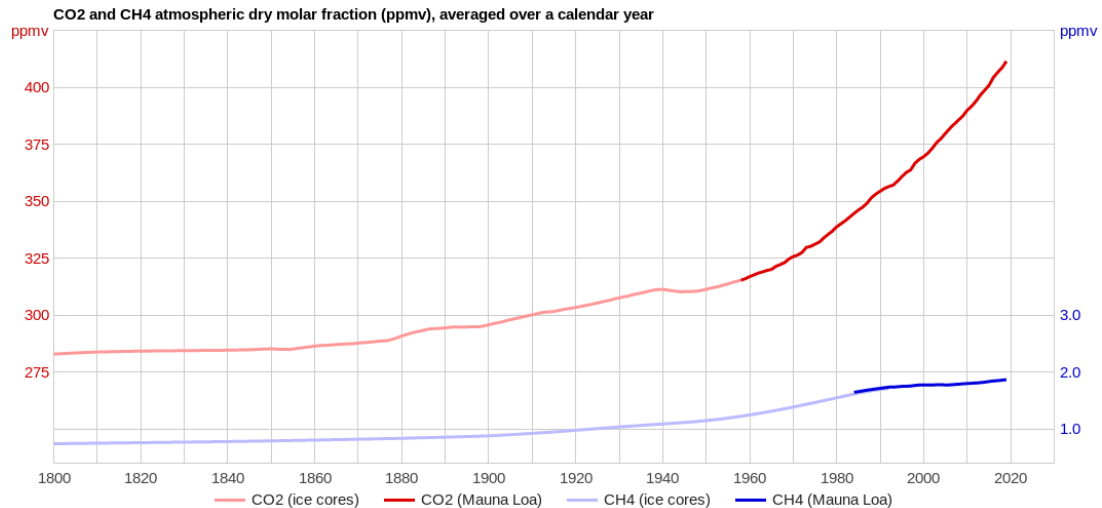
Contrary to popular belief, the measure of CO<sub>2</sub> concentration in the atmosphere has not declined during the COVID19 events. This reflects the fact that CO<sub>2</sub> remains in circulation for long time periods. Since the air quality of the megacities has improved and transportation fallen sharply, one wonders whether the growth in methane emissions have been a factor. Should this be the case, global warming will arrive earlier than what the UNFCCC has previously expected.

Methane emissions arise both from the oil & gas industries as well as agriculture, in the tundra and in fracking as gas spills. Figure 1 shows the origins of methane (CH<sub>4</sub>). They remain in the atmosphere only for 15 years, but they trap more sunlight than CO<sub>2</sub>.



**Figure 1. 2017 Total CH<sub>4</sub> Emissions: 39.9 MMTCO<sub>2</sub>e**

The more affluent humans become as participants of the global market economy become, they tend to consume more meat products. Gas evaporation also becomes a driver of the greenhouse effect, which is a strong argument for the prohibition of fracking.



**Figure 2. Co2 and CH4 Atmospheric Dry Molar Fraction (ppmv), Averaged over a Calendar Year**

If CO<sub>2</sub> and CH<sub>4</sub> continues to rise, Planet Earth will reach an increase of 2 degrees centigrade already in 2030.

## 6. The Mege-Polluters

Is capitalism responsible for the enormous emissions of CO<sub>2</sub>, CH<sub>4</sub> and other greenhouse gases? Table 1 and Table 2 shows where the vast majority of climate change driving emissions are coming from.

**Table 1. 2018 Leading Emitters of CO<sub>2</sub> (Rapier)**

Country	Emissions/Billions Tonnes	Share/ %
China	9.4	27.8
United States	5.2	15.2
India	2.5	7.3
Russia	1.5	4.6
Japan	1.1	3.4
Germany	0.7	2.1
South Korea	0.7	2.1

Iran	0.7	1.9
Saudi Arabia	0.6	1.7
Canada	0.6	1.6
	23	67.7

**Table 2. 2012 Leading Emitters of CH<sub>4</sub> (World Bank)**

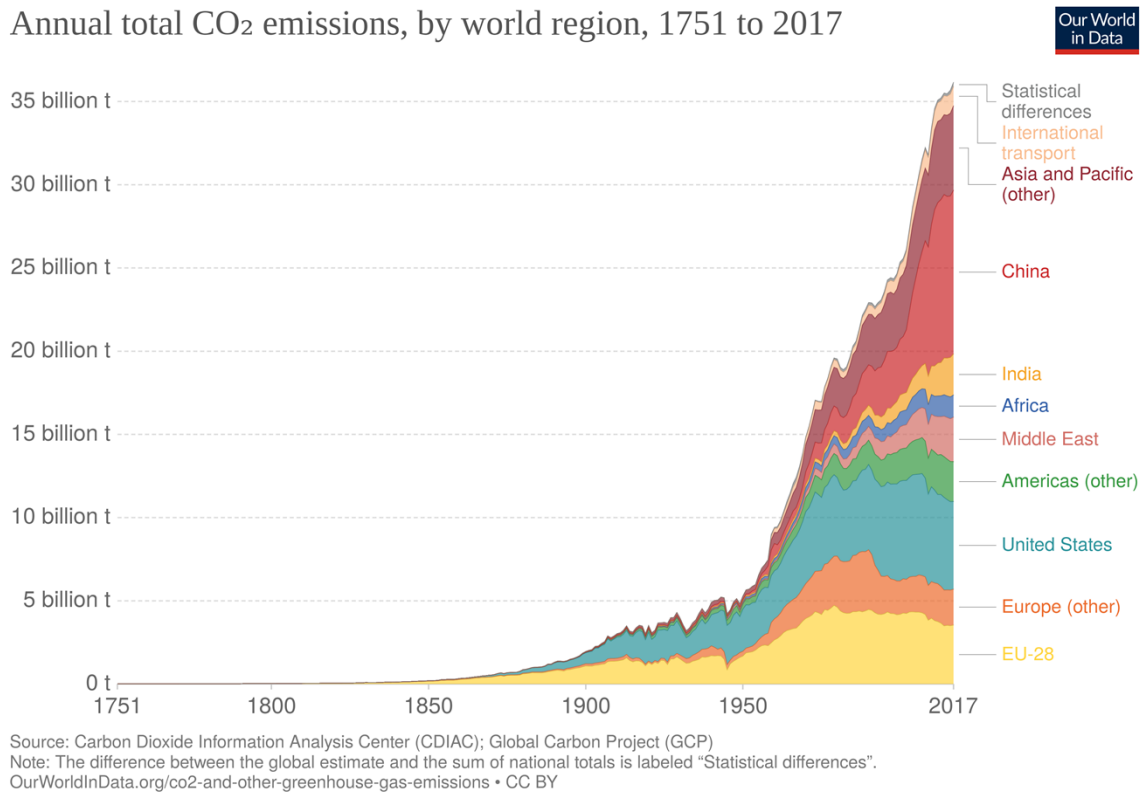
Country	Emissions/gt CO <sub>2</sub> Equi valent	Share/%
China	1.75	21.87
India	0.64	7.94
Russia	0.55	6.81
United States	0.5	6.24
Brazil	0.48	5.95
Indonesia	0.22	2.79
Pakistan	0.16	1.98
Australia	0.13	1.57
Iran	0.12	1.51
Mexico	0.12	1.46
	4.66	58.11

It may be even worse, as the methane emissions of the United States have risen sharply due to the practice of fracking, a practice detrimental to the environment in all aspects. Only the price of oil will stem the fracking disaster.

### 7. Handling of Emissions

As the emission of greenhouse gases does not fall, there has been much discussion about carbon capture. There are a few experimental plants for CO<sub>2</sub> sequestration, all very expensive while carrying the same mitigation capacity as 40000 trees. This is a low number as more forest is lost in the rainforests of the Amazon, Kongo and Borneo on a daily basis. In addition, people in the Third World cut wood for the production and selling of charcoal. Finally, the European Union imports pellets from the United States. Figure 3 shows the distribution of CO<sub>2</sub> emissions around the World.

### Annual total CO<sub>2</sub> emissions, by world region, 1751 to 2017



**Figure 3. World CO<sub>2</sub> Emissions by Region (Our World in Data)**

CO<sub>2</sub> molecules stay in the atmosphere for very long time periods, so they must be removed very soon. Dreaming about negative carbon emissions would require the construction of enormous numbers of carbon-capture plants, or the replacement of coal-fired electricity by solar energy. Table 3 provides an estimate of how many World-class solar plants each of the leading polluters would have to introduce to replace all of their coal-fired capacity.

**Table 3. Number of Bhadla Solar Park Plants Required to Replace Coal Power by Country (Global Energy Monitor)**

Country	Number of plants
China	475
India	100
Japan	28
South Korea	18
Turkey	9
United States	106
Colombia	1

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<b>Europe:</b>	
Germany	32
Russia	30
<b>Africa:</b>	
South Africa	14

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## 8. Conclusion

Global warming constitutes a market failure in market economies. It cannot be done away with by moving to a socialist economy, as the record of socialism on environmentalism is in fact very poor. Communist China and socialist India and Russia are besides capitalist America at the top of the list of mega-polluters, and they are using the prisoner's dilemma strategy in the current game of ocean externalities.

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