Failure of Capitalism. Inequality, Slow Growth, Central Banks, Conflict.

Capitalism leads to inequality of wealth.

- Capitalism is based on competition. Capitalism incentivises competition and the maximization of inequality at the micro and macro levels.
- To maximize profits companies have to maximize revenues and minimize costs. Minimizing costs implies indirectly minimizing payments to resources, labour included.
- Labour's share of GDP has shrunk consistently for at least the last 60 years. The relentless accumulation of intellectual capital and innovation results in greater efficiency and productivity of resources and capital. To the detriment of labour.
- Individuals supply labour. Individuals can only store a small and finite amount of knowledge in their lifetimes.
- Business entities like corporates are able to accumulate intellectual capital. As the share of returns to innovation increase, enterprises' share of GDP will increase.
- Capital is scalable whereas labour is not. Intellectual property is an inexhaustible resource whereas labour is not. Individuals do not generally licence their intellectual property, they sell it as an integral part of their labour, rendering the intellectual property of the individual an exhaustible resource.
- Ownership of businesses allows the individual to accumulate more wealth than supplying labour.

· **Inequality of wealth leads to slowing economic growth and carries political risks.**

- The potential for inequality promotes greater effort, enterprise and innovation.
- Past a certain point, inequality impairs growth. The rich save a greater proportion of their income than the poor and thus greater inequality translates to more saving and a slower rate of circulation of money leading to slower growth.
- When the perceived probability of advancement from the lower strata to the higher strata becomes sufficiently small under the current economic and social system the lower strata will find it unacceptable.

· **Slow economic growth has wide ranging risks.**

- Humans have evolved social behaviour as an economic expedient. Sufficiently weak economic growth can threaten faith in the social compact.
- Slow growth can therefore encourage less cooperation, more competition, trade protectionism and other anti-trade practices, disintegration of economic and political unions, civil and martial conflict.

· **Slow economic growth coupled with high levels of inequality imply that the majority of households experience negative growth.**

· **Central bank policy has limits and limitations.**

- Central banks make policy while having imperfect information about and imperfect understanding of the economy. This leads to oscillations in later time periods. The probability that policy is suitable and adequate is extremely low.
- The more activity, the more potential imbalances are accumulated. The cost of policy is cumulative.
- The engagement of fiscal policy introduces the same theoretical instabilities as monetary policy but adds complexity and the political dimension.

- **Low interest rates have multiple effects.**
  - Low interest rates make it cheaper to borrow and therefore boost consumption and investment.
  - When lower interest rates stimulate growth they are inflationary.
  - Low interest rates can encourage over-investment and over-capacity which in an economy suffering from weak demand can be deflationary.
- **Firms versus Individuals:**
  - A highly knowledge based economy encourages labour specialization which can lead to loss of flexibility and diversification in the labour force.
  - Firms are able to accumulate a diversified portfolio of intellectual capital and even trade in intellectual property. Individuals find it more difficult to do so.
- **Globalization and open factor and goods markets increase competition in specific segments of the labour market.**
  - Segments facing the most immigration face unemployment and wage pressures.
  - Segments which face outsourcing also face unemployment and wage pressures.
  - For the other sectors, the increased efficiency and productivity is a positive development.
- **Technology and Human Ingenuity**
  - Technology can either augment or substitute human ability. So far the ability for technology to substitute human ability has been limited.
  - When labour is abundant the need for and the return on investment in human replacement is low. Efforts turn to augmentation instead of replacement. When labour is limited or inadequate, the reverse is true.
  - Low unemployment, rising wages, tight labour markets and

low participation rates indicate a mismatch between supply and demand for labour, namely, a labour shortage, an environment which might drive investment in human substitution.

- If human substitution increases in incidence social questions about the ownership of automatons may arise. Apart from technological and practical questions, the advent of human substitution technologies will generate many questions in the legal and ethical domain.

- **Time and technology blunt the memory of the cost of war.**