

The Future of Capitalism : A Socio-economic Projection

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I grew up in Calcutta in the seventies and the eighties. Those were mostly communist years in this part of the world. Against this backdrop, at sixteen I discovered the writings of Ayn Rand which first drew my attention to the distinctions between capitalism and socialism, and socialism and communism.

In Rand I found a very important concept that resonated with me. It is the concept of excellence. A pursuit for excellence in whatever domain you choose to pursue, coupled with strong work ethic and a commitment to creating value—for me that epitomized capitalism. Built into this basic assumption is that you get compensated while creating value. The producers produce and the consumers consume by paying the producers for the value they create. It made perfect sense to me.

Corollary to the theorem of excellence, if you are not brilliant you are either mediocre in which case you live a middle class life, and if you are lazy, uneducated etc, you live a life of poverty. The exception to this rule is if you inherit an upper class lifestyle either by virtue of birth or marriage. But, by and large, your merit and work ethic determine the outcome. Maybe this is a somewhat simplistic representation. But at its core, the capitalistic system is designed to produce inequality by rewarding achievement.

You may ask: Is this a fair system? This question at a philosophical level needs to make a fundamental distinction in the definition of fairness, that is to say, ‘What do you believe in?’ You produce, therefore you deserve; or you exist, therefore you deserve. If you believe the former, then capitalism is a fair system. If you believe the latter, capitalism is then a blatantly unfair system that can be set right only by wealth redistribution so that everybody can have a good life.

In my early youth I held an unambiguous view that fairness equates. This view implies that you produce, therefore you deserve. I am a technologist, an entrepreneur living in America, the temple of capitalism. I have to earn my keep and I like the accountability of that path. In fact, I live and work in the Silicon Valley.

For a very long time, America worshipped free market capitalism as the only path to follow. After World War II, the country experienced tremendous growth and a large middle class thrived comfortably for over fifty years. And then two tectonic shifts happened. The internet took over the world, and globalization became a large-scale phenomenon. Manufacturing jobs moved to China, while IT and BPO moved to India. The American middle class, as a consequence, got hollowed out. China and India grew at a fast pace and tremendous poverty reduction took place. Free market

capitalism allowed the entire world to join in the capitalism bonanza. America and Western Europe lost, but Asia won.

Today, governments are questioning whether free market capitalism is still the panacea. If you had watched the American election campaign, you must have noticed that Donald Trump had been running on an anti-immigration, anti-globalization platform. The Republican Party in America, which has always been a champion of free market capitalism, seemed horrified at this protectionist turn of events.

Speculative capitalism

In recent years, we have seen the rise of speculative capitalism as a much more powerful force than the brand of capitalism that I got seduced by. The 2008 financial crisis exposed the flaws in the global financial system and specially the levels of corruption driving the Wall Street fortunes. What the Wall Street does? What the speculative investors do? They speculate, they trade. Real estate investors do that too. They had been buying low and trying to sell high up until the 2008 financial crisis. Worthless, sub-prime real estate mortgages were being peddled by banks to their customers as credit default swabs—a sugar-coated name for garbage wrapped with a fancy paper and a ribbon. Something in the temple of capitalism started stinking.

At this point, I want to draw a distinction between two types of capitalism. Real capitalism where value gets created and producers get rewarded mostly deal in what we call in economics *real goods*. Then, there is the domain of financial goods. Some of it, specially in investments that help entrepreneurs create value through debt or equity financing, can be of great value. But a large portion of the finance industry moves money from here to there—they don't create

much value. They create a lot of wealth and a lot of it through a corrupt speculative system, a bit like gambling in a casino. That is not so good. Corruption took speculative investing to extremes and the market crashed in 2008 nearly destroying the global financial system. Governments bailed out the big fishes to fill the banks, privatized profits and socialized losses, which became a matter of great dissatisfaction among tax payers.

People naturally started asking the question whether capitalism still works, or the system is now rigged beyond recognition, for excellence without integrity doesn't yield a fair system. There was a plenty of intellectual horsepower in Wall Street. They were people, who were great physicists and computer scientists. But they sold their souls and dedicated their brilliant minds to milking a corrupt system. This was the point in 2008 when I too started questioning capitalism. At that time I used to write a weekly column for *Forbes*. I wrote a piece called: 'Capitalism's Fundamental Flaw'—that remained on the homepage of *Forbes.com* as the most read article for a month. I analysed the current crisis of capitalism as a speculative versus value debate and not a rich versus poor debate. I argued that we need to go back to capitalism that focuses on value creation, entrepreneurship that creates value, solves problems, and addresses challenges.

Take the example of Bill Gates. No one begrudges his fortune because he has served humanity by protecting the personal computer in every home and it has immeasurably improved the lives of billions of people. Similarly, none begrudges the fortune of Steve Jobs. He has put a supercomputer in every hand through the 'smart phone' revolution which has immeasurably improved the lives of billions

of people. No one resents the value creators' fortune because they have *earned* their wealth. But people resent fortunes amassed through rigged systems, through corrupt processes and dishonest means. Today, one of the greatest challenges that capitalism is facing is that speculative capitalism has become a dominant force. This dominance needs to be controlled through regulation.

Entrepreneurial capitalism

I would like to focus next on entrepreneurial capitalism where at least, to some degree, the correlation between value-creation and wealth-creation is not quite broken. Finance in this corner of the universe actually does serve as a tool for creating value. Venture capital is the direct instrument that we use along with some other financial tools to build companies that address customer needs. Venture capital is a great tool though it has its limitations.

I spent many years in the entrepreneurship world driven by venture capital. As the founder and CEO of 'One Million by One Million', I have raised a lot of money for my companies. The venture capital model is very particular. It fits businesses that are going to grow at a hyper fast rate and that also address a very, very large market opportunities with total market size of multiple billions of dollars. The universe of companies that fits these requirements is minuscule. But they get all the attention. If you read the popular entrepreneurship media you find that everybody assumes that entrepreneurship equals financing. I ask myself: What the hell is going on here? Well, over ninety-nine per cent of the businesses that come to look for financing get rejected. They get rejected for a very good reason. What is that? The answer is, they don't fit this ultra-high growth, hyper large market size framework

that drives venture capital financing. But many of these companies are perfectly viable businesses. The message the entrepreneurs are getting is that unless they can raise financing, they cannot build businesses. That is a completely wrong message. Many of the businesses rejected by the venture capital are going to be perfectly fine in 5 million, 10 million, 15 million, 20 million businesses built over ten, fifteen or twenty years. And these businesses need to be built. The problems that these businesses counter need to be solved.

I started asking why have we created this myth that entrepreneurship equals financing when in reality entrepreneurship equals customers, revenues and profits. This is the philosophical underpinning of 'One Million by One Million'—the global virtual accelerator I have started.

To put things in context for you, there are on the one side of the entrepreneurial and universal ventures like Microsoft, Apple, Facebook that have become multibillion dollar enterprises and, on the other side of the spectrum, there is 'Adi Dhakeshwari Bastralaya', a sari store in Kolkata that has been around for generations; but it is not a billion-dollar enterprise. The venture capitalist won't go to fund such a sari store that has a limited annual turnover, say ten crores. But in the economic pyramid it is critical to have such businesses to flourish and, for this purpose, the notion of bootstrapping is supercritical. Bootstrapping is building businesses largely without external financing. My analysis is that such businesses are absolutely critical in the next phase of capitalism to mitigate the economic inequality that has been created in the world today.

Today's entrepreneurial capitalism is driven by venture capital which has an inherent tendency to create very large

fortunes. But how many Googles you have heard of? How many Facebooks? And thus fortunes are being accumulated in the hands of a very few people. In 2014, the top one per cent of America's wealthy persons owned forty per cent of the nation's wealth. Fortunes have been steadily accumulating at the tip of the economic pyramid!

In Silicon Valley we have learnt a lot about how to build successful businesses following the principles of capitalism. If this knowledge can be broadly disseminated and a much larger number of entrepreneurs start building successful businesses—doesn't have to be billion-dollar businesses—it can be a two-crore business—that would drive fortune into the middle of the economic pyramid and that is both possible and necessary today, given everything else that is going wrong in the global economic system.

My vision of capitalism in its next phase is a distributed democratic capitalism whereby millions and millions of entrepreneurs build small and medium businesses that are profitable as well as sustainable in the long run. In other words, we need to create fortune in the middle of the pyramid. How is this possible to accomplish? The answer to this question is finance. It is education. In fact, again in entrepreneurship, economic system is misreading the challenge and running after financing as a solution. I don't believe that. I believe that entrepreneur education is of paramount importance, and that is what will facilitate broad adoption of a capitalistic system of value creation as well as wealth creation, although more modest than the billionaire fortunes. No, we will not create a million billionaires and that kind of excess is not at all necessary.

I give you an example. The morning after the exit vote I spoke with a Greek

entrepreneur who runs a five-million-dollar company called Marine Traffic. He had created a successful business in Athens that speaks the efficacy of democratic, distributive capitalism that I believe in. The picture that emerges from Europe is a kind of horrible economic disaster. Some data will substantiate my point. As of July, 2016, youth unemployment rate in Greece stands at 50.3 per cent, in Spain at 43.9 per cent, in Italy at 39.2 per cent and in France, it is at 24.4 per cent. It's a dreadful tragic story of several lost generations. If Europe can mint a million entrepreneurs like the Greek entrepreneur I was talking to, the Continent could be saved.

I have another example from Kolkata. Pallav Nadhani runs a company called 'FusionCharts'. It's not a billion-dollar company, but it is a technology-based company that earns over ten million dollars in revenue every year. A few years ago this company operated one hundred per cent from Kolkata. But with a global clientele, now, they operate from Bangalore as well. What if we had hundreds of such entrepreneurs right here in Kolkata? What would that do to the economy here? This is my work today. In 2010, I found 'One Million by One Million' (1M/1M for short), the first global accelerator in the world. Our mission is to reach a million entrepreneurs, reach a million dollars annual and beyond in revenue, build trillion dollars in GDP and ten million jobs. We run this out of Silicon Valley but work with entrepreneurs scattered all over the world.

Online educational programme

Our programme is first and foremost an online educational programme where you get to learn the nuances of technology entrepreneurship from over seven hundred successful entrepreneurs. We also do act of

mentoring and make introductions to productions of customer channels partners, investors, media analysts etc. One of the companies from the programme 'Freshdesk' has raised over 100 million dollars in venture capital and has some 40,000 customers around the world. The company was born in Chennai but has moved its headquarters to San Francisco recently. I am very proud of Freshdesk. I am, however, equally proud of a different type of entrepreneur I encountered through our work. You see, we do this free on-line mentoring sessions every week. One day, a first-year college student from Siliguri came to the free mentoring round-table and pitched an idea he is working on. He wanted to use UBER style GPS-enabled technology to power a small business delivering at work in his regional market. I found it fascinating that this boy had come up with a decent concept, found 1M/1M, and was pitching this to me from half a world away. And this happens every week. We work with entrepreneurs from all quarters of the world, not just India, Africa, Asia, Latin America, but everywhere and, of course, the USA and Europe continue to be a big field for our work. So I do believe entrepreneurship and entrepreneur capitalism can be democratized and wealth can be created in the middle of the pyramid using capitalistic principles. In the next two to three decades the potential for distributive capitalism is very high and the outcome should be extremely positive around the world.

Warning

In the next segment of my presentation I also need to alert you to what is possibly going to happen beyond that time frame. In the next thirty to fifty years and beyond, technology and automation will create tremendous disruption. Sixty to eighty per

cent of all jobs are likely to get automated. Now, that is a scary situation. I am sure you are thinking 'Oh! I have heard of this before that machines are replacing jobs.' One may nevertheless argue that new jobs will always emerge. Yes, that is somewhat true. Because after the Industrial Revolution we witnessed tremendous growth of jobs. The present revolution in technology is, however, different. Earlier machines could not think, now they can. And because of the processing power available in tiny chips they can think incredibly fast. They can process unbelievable amount of data in a nanosecond. Artificial intelligence, machine-learning and robotics are moving forward at breakneck speed right now. The march of automation looks pretty much unstoppable.

Let me give you an example. China managed to reduce tremendous poverty over the last couple of decades by depending on manufacturing industries. But no longer can industries employ a huge masses of people and drag populations out of poverty. 'Foxconn', one of the largest manufacturing companies in China that makes iPhones for 'Apple' has eliminated 60,000 people out of their 150,000 workforce. These people were replaced by robots. We can safely assume that India's poverty reduction strategy can't be manufacturing because new factories would inevitably use robotics and not people. Agriculture is seeing similar levels of automation as well, by the way.

I will give you another example—this time, software, not hardware. In the advertising industry media buying and allocating budget to various types of advertising and the media outlet has been a crucial job. Today, advertising is shifting to online rapidly. Media buying in the context of online advertising is a one hundred per cent automated job that is performed by software and not human beings. It is all done

with mathematical precision, measured in real time, and human beings just cannot play in this rapid-fire software application game. The same thing happens in finance high-frequency trading where human beings simply play no role. Machines think, machines look at data, machines make decisions in split seconds.

Let us talk about the field of medicine. If you think about what a doctor needs to do to diagnose an illness, she or he needs to consider all the symptoms, take into account all the test results, consider all the treatment options, reflecting on possible side-effects of various medications and their interplay with other medications that the patient is already taking—this is essentially a multifarious optimization exercise that a doctor has to do. At the same time he/she needs to keep up with all the new researches and advances in medical science and make use of them as well. The field of medicine unfortunately is full of incorrect diagnosis and wrong treatment of illnesses.

Now, if you replace this whole process with software which IBM is trying to do with their Watson supercomputer, diagnosis becomes a truly scientific, deterministic process. I can tell you, if I have the option of being diagnosed by software versus a human doctor, I would always prefer software, for I believe it will be far more accurate. Besides, in the medical field there are tremendous advances in robotic surgery. So the medical field will also get dramatically disrupted in the next thirty years.

The legal profession will face similar disruption with lawyers getting replaced by software. There are of course both pros and cons in this projected disruption scenario. If the medical profession can be automated to that extent, billions of people can have access to quality medical care. Today this number is relatively low. That would be a

huge positive outcome of automation in the medical field.

In transport industry, there already is a huge disruption. Some of you are already using services like UBER and OLA. These are replacement for taxis. But the taxi industry is a major employer and this trend is going to destroy enormous number of jobs. Then, we have self-driving cars, autonomous vehicles including trucks that drive themselves. This technology is almost ready. If governments allow autonomous vehicles, this will eliminate the requirement of drivers. Again, if you have a combination of ride, sharing OLA, UBER and autonomous cars, Pricewaterhouse predicts that 99 per cent of the vehicles on road can be removed altogether. The total size of the fleet will fall from 245 million vehicles to just 2.4 million. This means car ownership will also drop. This will eliminate professions like truck drivers and taxi drivers, and the car manufacturing industry will shrink dramatically. Moreover, the car insurance industry and the car servicing industry will also face massive disruption. Ten million jobs will disappear. Of course, sitting in Kolkata you may think that it would be so much better if fewer cars are on the roads. Maybe, there will be huge improvement in quality of life. As pollution goes down, you can breathe fresh air. That is the positive outcome of this disruption.

One thing that should be considered in this context is the role of government policy. There are certain aspects of this disruption where government cannot play any role. For instance, whether the company goes for automation or not is its own business, not the government's. The government cannot stop a manufacturing plant from automating its operations. But the government can choose not to authorize self-driving cars and trucks. The government can thus choose to

slow down the march of technology, especially one that is likely to affect ten million jobs as the innovations of autonomous vehicles would do. At MIT Erik Brynjolfsson and Andrew McAfee have been modelling these changes and have published a huge body of work. If what I am talking about is something you want to investigate further, please look at their findings.

What will survive?

Now, let us see what is likely to escape this snare of automation. Scientific research would survive. Creation of art, music, and films that are parts of culture would survive. Playing and professional sports would survive. But the vast majority of people will have *nothing to do* professionally. And this has already started.

In 1990, the top three car-makers in Detroit had a market capitalization of thirty-six billion dollars employing 1.2 million people. In 2014, the top three firms in Silicon Valley with a market capitalization of over one trillion dollars had only 1,37,000 employees. What does society look like in an all-play and no-work world? Work is an essential block of human existence today. Work offers identity structure and meaning to life. If you take work out, human beings will have to figure out what their identity is all about. If they do not have to go to work for significant chunk of the day, they need to find alternative means of creating structure. These are not easy things to come up in a trice. In a post-work world there is the danger of people with nothing to do becoming empty-headed who watch television all day long or play computer games. An idle brain is a devil's workshop, as the saying goes. I find the idea of a society comprising mainly idle people

extremely jejune. This is also a scenario in which capitalism fails. As most people don't earn any money any more, they have to be put on some sort of welfare schemes. Inequality then goes to extreme levels because only a very small percentage of people will make huge fortunes. The rest will have no jobs, and hence no means of subsistence. Welfare work in that scenario needs to grow tremendously. People are already talking about universal basic income. That is an option. In this scheme, people are paid a small amount of income to cover all their basic expenses. However, it is very expensive to implement such programmes if seven to nine billion people have to be supported.

But, say, we can figure out a way to afford universal basic income. At that point, society looks very close to a communist dream. Everyone has a basic income—food, clothing, shelter needs are met. Nevertheless, there will be a tremendous inequality with the concentration of wealth at the tip of the pyramid, while the bulk of society will operate on the communist model with the lowest common level of lifestyle.

Needless to say, there are two schools of thought. First, an utopian one, in which society becomes so rich that people's basic needs are all met and people have infinite leisure to pursue art, music, scientific research, sports, hobbies, friendships, spiritual contemplation et al. A real life stance, on the other hand, is one that finds people becoming zombies as a result of eight to twelve hours of TV watching instead of going to work. It asserts that long unproductive days create identity crisis, social unrest and crime. By and large, people are quite poor. Their basic needs are met. Perhaps, but they have no money to buy anything of their choice. So people do not

have any incentive to produce anything of value either except that basics or some luxury products for the super rich, who go on vacation to Mars. But humanity, otherwise, lives an uninspiring existence. All this is not that far away! Thirty to fifty years, and capitalism will come under tremendous duress, when the tip of the pyramid society will be incredibly small. A few thousand people will control all the wealth in the world. Capital will drive wealth, not labour. There is no reason to work, and hence there is no incentive to work. People who own the machines will make the money. And that is one of the key issues causing concerns over the future of artificial intelligence.

French economist Thomas Piketty has written extensively on the subject of inequality and concentration of wealth in recent years. His book, *Capital in the Twenty-First Century* calls for massive wealth redistribution through taxation. I may not feel comfortable with his ideas and solutions, but he is certainly pointing to the right problem. He says that the present level of inequality without some wealth redistribution strategy for social re-

engineering will lead to revolution and anarchy.

Karl Marx of course had predicted that capitalism will eventually destroy itself giving way to socialism. But in the last hundred years the opposite has happened. Capitalism has emerged victorious, while communism has failed. The socialist countries are not looking bright and shiny. But in fifty years, if capitalism does indeed destroy itself, then perhaps Marx would be proved right. I don't know what will happen. I am neither a communist nor a socialist. I happen to be a capitalist. All this makes me rather crazy. Nonetheless, I cannot help but acknowledge that capitalism will in the not-too-distant future hit the wall and then what? I don't have answers. I urge you to think about what the post-capitalism society would look like, what a post-work society might look like. I don't know if this transition will happen in my lifetime. But it will definitely happen in the lifetimes of those who are twenty years younger. And it will happen within the next thirty to fifty years. By all indications, I think it is safe to say that in fifty years capitalism will be dead. ■

* Smt. Shramana Mitra, C. E. O. and Founder, 1M by 1M, Silicon Valley, California, delivered this Shyamal Ruia Memorial Lecture at the Institute on 17 October, 2016.

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(*tvagindriyarahita*). When *manas*, atomic in size, enters into this vein no contact takes place between the *manas* and the sense of touch. Hence no knowledge occurs in that state. The state is the dreamless sleep.

The Naiyāyika however believes in non-eternity of knowledge or cognition.

But he advances serious arguments to prove eternity of the self. So it is obvious that non-eternal consciousness can hardly be the essence of eternal self. According to the Nyayā-Vaisheshika school, consciousness is only a non-eternal special quality of the self inhering in the same under suitable occasions as explained above. ■

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