



ELEVATING INDIVIDUAL AND SOCIETAL SUCCESS

LIFE ENABLING ENTERPRISE:  
AN ALTERNATIVE  
APPROACH TO COMMERCE

VOLUME 1: THE MODEL AND OTHER  
CRITICAL KNOWLEDGE

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AND  
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Life Enabling Enterprise: An Alternative Approach to Commerce

Volume 1: The Model and Other Critical Knowledge

Raphael L. Vitalo, Ph.D. and Christopher J. Bujak, B.S.M.E.

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To Anne

Always mighty, never a mouse.

All of us teach by the way we live,  
Some for better, some for worse.

Some of us teach by intent,  
But, without caring or skill, we fail.

You always taught by deed and intent,  
Always with caring, never failing.



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The basic tenets of this book are the following:

1. Commerce is an exchange between people—something given and something received. It labels a comprehensive and pervasive set of behaviors that extend across every human life and all arenas of human activity. The traditional economic use of the term that views commerce as the buying and selling of goods is myopic at best. A true understanding of human commerce must incorporate facts descriptive of the full range of its occurrence, including what is exchanged and why.
2. All economic models attempt to describe, predict, explain, and enable the control of commercial activity, as currently defined, in an effort to ensure its success. Deductive economic models derive their principles from their assumptions about human nature, since it is human behavior they explain. Commerce, as a human activity, expresses people's motivations, goals, values, and social orientations. It is people's makeup that determines the purpose that commerce serves, the behaviors people will engage in to accomplish that purpose, and how they will define success.
3. Capitalism is founded on the assumption that all people everywhere have the same nature (*Homo economicus*). The core elements of this sameness are that people are materialistically focused, radically individualistic, and always self-serving. They act rationally to maximize their personal profit or received value both of which are measured monetarily. Essentially, they are egoistic self-maximizers. Capitalism also assumes that these people operate in a context devoid of asymmetries of information and power. Thus, no selfish individual can just take from or otherwise exploit another because no one has power greater than the person whose resource they seek. Hence, all commerce is resolved through negotiated settlements that provide sufficient satisfaction to each party to warrant agreement. All such transactions are therefore deemed "free and fair."
4. People who are materialistically focused egoistic self-maximizers are served well by Capitalism, not because it is a valid economic system but because it is a powerful social control mechanism.
5. Empirical research demonstrates that not all people match Capitalism's assumptions. That research reveals that there is a sizable segment of people who are other-regarding. They value being connected with others and behave in ways that take others into consideration, even at a cost to their material gain and welfare.

6. These other-regarding people also strive to emerge as unique individuals. Their striving for individuation is both expressed and advanced through mutually benefiting commerce with others.
7. This portion of humanity has no commercial model to guide their pursuit of commerce in a way that reflects who they are. This book offers them such a model.

This chapter explains the purpose of this two-volume series and provides a roadmap for understanding its contents.

## Chapter 1

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## Introduction

All economic systems are based on assumptions about human nature. After all, commerce is a human activity. It expresses people's motives, values, and experience or non-experience of connectedness with others. A model builder's assumptions about human nature therefore determine what purpose commerce will serve, what methods a person will use and not use in pursuing that purpose, and what that person will consider "profit" to be.

Capitalism is the dominant economic model today. Its theorems and guidance are based on an assumedly universally applicable definition of human nature. It is a materially focused, radically individualistic perspective, one element of which asserts that all people act solely to satisfy their own self-interest without regard for others. Indeed, any regard for others that may appear to be present is simply based on the expectation of achieving greater gains for oneself (Andreoni, 1990).

As you will read in *Chapter 6*, empirical studies have shown that people display two different response dispositions toward others. A portion of humankind acts with self-regard only. Some of these people act egoistically without reserve, as Capitalism posits. That same research also reveals, however, that a second segment of humanity operates from a different base. They are cooperative and other-regarding by nature. They seek mutually beneficial outcomes when they relate with others, and they regulate their behavior to produce those outcomes. Their mere existence falsifies one of the foundational premises of Capitalism and the derivative theorems and principles that flow from it. But, more pertinent here, it renders all the economic guidance that Capitalism offers irrelevant—if not destructive—for this other-regarding segment of humanity and the societies they constitute. The reason is that following Capitalism's guidance requires them to behave in ways that contravene their own native inclinations for cooperation with others in the pursuit of mutual benefit.<sup>1</sup>

While a number of efforts have been made to adjust Capitalism to incorporate concern for others (e.g., B-Corporations, Caux Round Table (CRT) Principles for Responsible Business (2017), "Inclusive Capitalism"), all fail to recognize that a concern for others is inconsistent with Capitalism's premise about the egoistic nature of humankind. Given that Capitalism is a deductive theory, that premise cannot be "adjusted" because all the dynamics that deliver the benefits Capitalism

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<sup>1</sup> The existence of these two types of people interacting within the same society, as revealed in *Chapter 6*, one resolute "takers" and the other "cooperators," also requires rethinking the underlying causes of society's current state. The reason is that, as *Chapter 6* also reports, repeated studies have demonstrated that, when egoists interact with cooperators, they always seek to exploit them. Consider this finding in the light of the fact, documented in *Chapter 2*, that economic and political power is heavily weighted in the former group.

promises require that it be true. If you modify that premise, the entire model collapses.<sup>2</sup>

Only a new approach to commerce based on a different set of premises can adequately provide commercial guidance for people who are natively inclined to cooperate with others and seek mutually benefiting ends in their exchanges with others. Moreover, unless economic thinking accounts for the make-up and behavior of this second group of humankind, we cannot form a correct understanding of the purpose of commerce, the range of human needs commerce must satisfy, the true nature and role of economic systems—especially Capitalism, and the alternative approaches to commerce that societies may choose. Without such a well-formed understanding of these matters, we will destroy our species.

The purpose of this two-volume series is to correct these limitations in our current understanding and provide an alternative approach to commerce consistent with this new learning.

## **Overview of Volume 1: The Model and Other Critical Knowledge**

Volume 1 is composed of three parts. The first develops our understanding of commercial models and why a new model is needed. The second part presents, in detail, an alternative approach to commerce that is based on empirical findings about who we are as people and the commercial context we operate in. The third part summarizes the contents of this book and presents their implications.

We begin the first part of this volume by exploring Capitalism itself—its basic tenets, promises, and problems as an economic system. We do this because the proponents of Capitalism present it as the only effective economic system in existence. If true, then there really is no need for the rest of this book. Even if it is not true, Capitalism dominates our society and all its commercial enterprises. Anyone seeking to implement a different approach to commerce must be knowledgeable of how it works or fails to work. They need to understand the ends Capitalist enterprises seek, how they pursue them, and how they will respond to the presence of an alternative approach to commerce like the Life Enabling approach. Otherwise, they will be unprepared to relate with Capitalist enterprises effectively and this will ultimately undermine their intent to benefit the people who need their products or services.

We next focus on building our understanding of commercial models (Section I). We define the meaning of commerce and introduce a framework for describing

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<sup>2</sup> The deductive nature of Capitalism as a theoretical system and the consequences of that fact are discussed further in *Chapter 2. Why We Need a New Economic Model*. We address the subject in still greater detail in *Chapter 4. How a Model's Foundational Premises Shape Its Contents*.

the contents of any commercial model. We introduce explain premises that define each model's thinking and show how those premises determine every element of the model's contents. We then describe the foundational premises of the Life Enabling approach to commerce and test their validity against the findings of empirical science. In that process, we uncover facts about who we are as a species, the role commerce plays in the survival and development of humankind, and the range of human needs commerce must serve.

In the second part of this volume (Sections II, III, and IV), we provide practical guidance for conducting commerce in a manner that ensures that all commercial endeavors protect, nurture, and enrich human life and the ecosystem that supports all life. These sections assume that you, the reader, are somewhat familiar with the structure and operations of a commercial enterprise. In these sections, we elaborate on the strategic, operations, and executive guidance that the Life Enabling model provides. We also provide examples of how an enterprise using the Life Enabling model differs from one implementing Capitalism, the dominant producer-focused, profit-maximizing model.

In the third part of this book (Section V), we summarize its contents and draw conclusions from them. These conclusions address the nature of commerce, the human needs commerce must serve, the function of economic systems, the implications of the dominance of Capitalism for the undermining of the survival of our species, and the potential for using the Life Enabling model as a guide to forming a nation state.

## **Overview of Volume 2: Guides and Tools for Implementing a Life Enabling Enterprise**

Volume 2 provides guides and tools that support you in implementing a Life Enabling enterprise. These resources enable you to accomplish specific tasks. Consequently, we organized Volume 2 by the tasks each set of guides and tools enables a person to accomplish. Exhibit 1, next page, lists these tasks.

We derived the list of tasks from six fundamental facts. First, the definition of purpose is the starting point for forming any enterprise (Barnard, 1968). Second, a Life Enabling enterprise's focus is on benefiting its customers and stakeholders inclusively. To benefit customers and stakeholders, you first must fully understand their needs and preferences. Third, the constructive participation of all individuals and groups who either can affect a commercial enterprise's emergence or will be affected by its activities is essential to its success. These individuals and groups are the enterprise's stakeholders. Fourth, a Life Enabling enterprise is a team endeavor in which all parties work together in mutually enabling ways to accomplish its purposes. Fifth, complex human endeavors are only approximately successful in

**Exhibit 1. Tasks Critical to Implementing a Life Enabling Enterprise**

Task	Explanation
<b>Task 1 – Focus and Prepare</b>	Guides you in defining your enterprise’s business intent and in establishing the initial conditions necessary to undertake commerce.
<b>Task 2 – Understand Customer Values</b>	Guides you in identifying your customer segments, your customers’ needs, and their spoken and unspoken values and using this knowledge to guide your business operations.
<b>Task 3 – Involve Stakeholders</b>	Guides you in identifying the stakeholders in your business, understanding their expectations and concerns, and eliciting their constructive involvement in ensuring its commercial success.
<b>Task 4 – Lead Teams</b>	Guides you in building a team charter, leading team meetings, evaluating the conduct of meetings, and following up on team activities to ensure the team’s progress and success.
<b>Task 5 – Participate in Teams</b>	Guides you in getting and giving information and ideas within team activities and in working with others to build better solutions across the enterprise.
<b>Task 6 – Solve Problems</b>	Guides you in identifying, selecting, and describing problems; understanding their root causes; developing solutions; and taking actions that remedy them.
<b>Task 7 – Make Decisions</b>	Guides you in making choices by defining the goal of each decision, expanding alternatives, identifying the key values that a “best alternative” solution must satisfy, and choosing the alternative that best accomplishes the decision’s goal.
<b>Task 8 – Coach People</b>	Guides you in stimulating people’s learning and removing barriers to performance that hinder their success.
<b>Task 9 – Measure Performance</b>	Guides you in understanding business measures; establishing a measurement system for your Life Enabling enterprise; and ensuring that all measures are sound, aligned with the model’s principles, documented, and used to support learning and decision making.
<b>Task 10 – Learn and Share</b>	Guides you in developing and leveraging learning from your efforts to improve yourself, others, and the business as a whole.

each iteration of their performance. Thus, when people seek to accomplish such an endeavor, they must be able to continuously improve their performance. Solving problems and extracting and applying learning from one's prior performance are therefore essential for realizing ultimate success. Sixth, measuring one's performance—both process and outcome—is necessary for learning. Only valid measurements allow you to gauge your current performance, compare it to your prior performance, and know whether you are better achieving your goals.

## The Origins of the Life Enabling Model

All sciences assume a rational world in which cause-and-effect relationships are ultimately discernible. Social sciences specifically assume that people's behavior results from the interaction between a person's characteristics—their motives, values, capabilities, and intents—and the contexts within which they behave. The first step in building an economic model, therefore, is to profile one's assumptions about the nature of people and the context within which commerce occurs.

In building the Life Enabling model, we initially developed the model's thinking about the nature of people and the contexts within which they produce and exchange resources from our observations of human commerce. We deduced the model's assumptions about people and the commercial context from the insights these observations generated as augmented by other resources detailed in *Chapter 5*. We then tested our assumptions and the model's thinking against the findings of empirical research (*Chapter 6*).

Our observations of human commerce led us to three insights:

1. The traditional economic view of commerce as the buying and selling of goods or services for money with the purpose of satisfying people's material needs is myopic at best.
2. People's natural inclinations toward others are heterogeneous, at least as they are expressed in adults.
3. No economic system can serve both egoists and other-regarding people simultaneously.

Our first insight is that the traditional economic view of commerce as the buying and selling of goods or services for money with the purpose of satisfying people's material needs is myopic at best. Our observations reveal that the production and exchange of resources with others is the cardinal element in every individual's experience and an essential factor in every person's survival, growth, health, and ultimate satisfaction in life. Indeed, it is the production and exchange of resources between people that creates human life. It is through the exchange of resources



with others that we grow, develop our knowledge and skills, and become capable of achieving outcomes that we value. Throughout our living, learning, and working activities, we connect, communicate, and affiliate with others. Our interactions with others and the exchanges they involve are the central means through which we nourish our emotional life, satisfy an essential requirement for physical well-being, and refine our understanding of ourselves as distinct from others, thereby individualizing our personalities. All these acts of commerce and the essential needs they satisfy fall outside the current economic definition of commerce.

The exchange of resources between people therefore represents a comprehensive, pervasive, and essential pattern of behavior that extends across every human life from conception to death and all arenas of human activity. To narrow this wide array of human behavior to a minuscule segment of its occurrence *and* study it in isolation from the whole of its occurrence undermines its understanding. A true science of human commerce must incorporate facts descriptive of the full range of its occurrence and the functions it satisfies.

Our second insight is that people's natural inclinations toward others differ. One segment of humanity acts in the service of self-interest alone. This conduct is observable across all their interactions with others. A second segment of people act in other-regarding ways. They prefer to cooperate with others and engage in mutually benefiting exchanges. If they perceive a greater need in someone else, they will sacrifice their own resources to remedy that need, even to the point of putting themselves in harm's way. This conduct is also observable across their interactions with others. And it is this latter group of humans that evolutionary theorists credit with enhancing our species' ability to survive and evolve.

Our investigation of empirical studies refined our understanding of these two categories of people (egoists and other-regarding). The behavior of egoists is nuanced. Some exploit others without reserve to maximize their personal gains (perhaps 10%–20%). They are resolute in their efforts to amass greater and greater gains at the expense of others. Other egoists are less forward leaning. While they remain egoists, they restrain the extent to which they take from others. Their pursuit of personal gain appears to conform to creating an advantaged life style. Their egoistic roots become clear when they feel their advantaged life style is threatened.

Similarly, the behavior of other-regarding people is nuanced. Some are unconditionally altruistic (perhaps 10%–20%). Others are reciprocators. Reciprocators are other-regarding people who end their cooperation when they experience others exploiting them. They will sacrifice for others but only for those they deem worthy of such a commitment. Unconditional altruists do not apply constraints to their expression of cooperation and caring.

Our third insight is that no economic system designed to serve egoists can also serve other-regarding people. The reason is that the end each pursues in commerce is totally different, as are the means they employ. One excludes concern for others, and the other includes it. As to means, egoists use manipulation, and the latter group uses empowerment. Capitalism serves the former group; no economic model serves the latter. We built the Life Enabling model to serve this unassisted portion of humanity. We included in our thinking the reality that egoists exist. We also included in our thinking the fact that the contexts within which commerce occurs are rife with strong asymmetries in information and power.

### **Contributions From Other Systems**

With regard to the technical elements of conducting Life Enabling commerce as detailed in Sections II, III, and IV, our main sources of inspiration and thinking have been the teachings of W. Edwards Deming (1950, 1967, 1975, 1982, 1982a, 1988, 2000, 2013) and the implementers of Lean Manufacturing, also referred to as Lean Enterprise (Jones and Womack, 2009; Shimokawa and Fujimoto, 2009; Womack and Jones, 2003; Womack, Jones, and Roos, 1991; among many others).

Deming presented his thinking about commerce in the context of discussing its management. When he spoke about how one should manage a commercial organization, he was in fact addressing how commerce should be conducted. In this way, he discussed issues such as what the purpose of commerce should be, how it should be pursued, and how an enterprise should behave in relation to its customers, its employees, and others.

When fully appreciated, Deming's work provides the most complete thought base for conducting a commercial enterprise with the intent of maximizing the delivery of value to others in ways that benefit all stakeholders inclusively (Vitalo, 2017). It is Deming's thinking that dominates the operational elements of the Life Enabling model and provides the proper perspective for implementing a commercial enterprise. Especially relevant to our purposes, Deming specifically addressed the issue of people's psychology. He understood its significance as the necessary basis for all the guidance he provided about how one conceives, develops, and manages a commercial organization. His operational guidance for conducting commerce is absolutely consistent with his premises. It is Deming who defined the purpose of commerce in terms of enabling the success of every customer in ways that better the lives of everyone. It is he who set the requirement that commerce's purpose must also be achieved in a manner that benefits all stakeholders inclusively. It is he who blueprinted how to satisfy these requirements.

We see no problem with the content of Deming's thinking. The problem we do see is that Deming did not grasp that his understanding of people was inconsistent with the understanding that underpinned the economic model implemented by the very companies he hoped his system would improve. Nor did he recognize that the purpose for commerce he defined (benefiting others) and the requirements for conducting that type of commerce were incompatible with Capitalism. Capitalism was seemingly invisible to him. Given its invisibility, he did not address issues that the recognition of its presence provokes. These are issues of ownership, control of decision making, and the sharing of the material surplus that commerce generates, among others. Thus, while his content is whole and valid with respect to its purpose, it is incomplete in its failure to acknowledge that no truly Capitalist enterprise could apply it. We have attempted to close this gap in his perspective.<sup>3</sup>

Lean Manufacturing is a business improvement methodology. James Womack and his colleagues derived the approach from the findings of their study of the Toyota Motor Company and other Japanese companies. They compared the more successful approaches that these companies employed to the approaches used by a wide array of automotive manufacturing companies around the world. The study was implemented in 1985 by the International Motor Vehicle Program located in the Center for Technology, Policy, and Industrial Development at the Massachusetts Institute of Technology. Its goal was to enable automobile manufacturers worldwide to advance the prosperity of their host countries and improve the work life of industry employees by transferring knowledge of the more competitive approaches implemented by Japanese companies such as Toyota. The study lasted five years, had 36 sponsoring governmental and industry organizations, produced 116 scholarly publications, and culminated in the publication of *The Machine That Changed the World* (Womack, Jones, and Roos, 1991). It introduced the term "lean production" to characterize Toyota's manufacturing strategy (i.e., the Toyota Production System or TPS) and contrasted it with "mass production," which was the norm. Absent from that work was the recognition of Deming's contribution to Toyota's success (Nemoto, 2009). Our research indicates that Deming's teaching was, in fact, the foundation of the Toyota Motor Corporation's success during the period of its emergence as an exemplary global automotive manufacturing

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<sup>3</sup> Deming did understand that he was asking adopters of his thinking to radically change their personal perspectives. But he viewed their management thinking as vestiges of times past, not as conduct consistent with their goals and values and the economic model they chose to implement. He knew that they needed to undertake a personal transformation in how they understood people and managed a business. But he never grasped that their current perspectives were reflective of the commercial model they embraced. He never sensed that his call for personal transformation was in fact a call for them to embrace a new economic system.

company (circa 1960–1990). Indeed, Dr. Shoichiro Toyoda, the son of the founder of the Toyota Motor Corporation and its chairman from 1992 to 1999, acknowledged this fact. “Everyday I think about what he [Deming] meant to us,” said Dr. Toyoda; “Deming is the core of our management” (Burns, 2008). Nonetheless, Deming’s role with regard to Lean Enterprise is largely unrecognized, and its incorporation of his teaching is quite limited.

Over the decade and a half following the introduction of Lean Manufacturing, the Lean production model was refined and elaborated into “Lean thinking.” Its guidance was applied to a wide variety of commercial enterprises, including both manufacturing and nonmanufacturing businesses. During this period, its authors expanded Lean thinking’s guidance by incorporating their understanding of additional elements of Toyota’s strategic perspective and operating methods.<sup>4</sup> Despite the model’s expansion of perspective, in practice, the main focus of Lean Enterprise has always been on business operations. It is in Section III of this book (*The Operations Component of the Life Enabling Model*) that you will see its major contributions.

The Lean Enterprise thrust has introduced a wide array of enabling tools and methods that support achieving Deming’s purpose *when they are used for achieving that end*. With this caveat, Lean thinking has significantly increased the value received by customers, reduced operating costs, and provided employees the opportunity to experience pride in the products they produce and the services they deliver. It has also yielded new learning, improved employee engagement, elevated teamwork, and raised businesses’ performance on traditional measures of commercial success.

Lean Enterprise’s problems, from our perspective, are twofold. First, there are significant inconsistencies among Lean community members concerning the ultimate aim the Lean approach serves (Vitalo and Bujak, 2022). Second, major gaps exist in Lean’s foundational thinking. As to confusion about the aim of Lean Enterprise, that judgment is based on an analysis of the Lean literature and confirmed by a survey of Lean community members conducted by Womack (2010). He found, to his “surprise,” that “[m]any of you [Lean community members] identified confusion about the meaning of lean as a barrier to progress in your organization.” Based on Vitalo and Bujak’s (2022) analysis, about a third of Lean practitioners assert that Lean is all about “efficiency and cost reduction,” with the intent of maximizing profitability for the company. Another third define Lean from a continuous improvement perspective. They see Lean as focusing on the

<sup>4</sup> In essence, when new issues arose related to questions about how to conduct Lean Enterprise, Lean authors used Toyota’s practices, as known to them, as their “Rosetta stone.” See Vitalo and Bujak (2021) for a discussion of the problems associated with this approach.

application of tools (e.g., 6S, Kaizen, TPM) to eliminate all non-productive work (waste) and elevate the utility of workplaces. In this view, its driving force is a striving for perfection. A final third of Lean practitioners see it as a cooperative commercial strategy integrating the contributions of all participants in commerce in an effort to maximize the delivery of value to customers, as judged from the customers' perspective. Vitalo and Bujak (2022) asked,

Which of these notions or what higher order notion represents the controlling aim of the Lean approach to commerce? Minimization of cost? Maximization of profit? Delivering value to customers? Benefiting all stakeholders inclusively? Which of these ends should constrain the pursuit of the others when trade-offs are required? (Vitalo and Bujak, 2022)

They went on to point out that “[a] set of ideas cohere into a system only when they are organized around a central aim.” In essence, if the aim is uncertain, the system can only be unstable.

On the second issue, Vitalo and Bujak (2022) described gaps in Lean's foundational knowledge. Foundational knowledge refers to “a set of principles expressed, defined, and applied consistently” that guides the implementation of a particular system. One of the gaps they explored relates to decisions such as how the benefits generated from waste removal should be shared or whether owners should simply retain them exclusively as added profit. Another gap relates to the absence of principles that allow one to understand to what ends Lean tools should be used. Should Lean tools, for example, be used to downsize a business? Womack (2016) clearly said no, but Ohno (1988, p. 53) seemed to say otherwise: “[W]e consider a manpower reduction policy as a means of cost reduction, the most critical condition for a business's success.”

An even larger gap concerns Lean's understanding of the nature of people. Lean management literature speaks about how one should treat people and expects that such treatment will yield involvement and striving for perfection. But nowhere does it provide a detailed description of its view of human nature or a definitive statement of the “why” behind its dictates. Its explanations for some of the sacrosanct behaviors it prescribes—such as “Respect for People”—are inconsistent (Vitalo and Bujak, 2019). Some explanations seem predicated on expediency (e.g., it elicits better engagement by people in their work), while others suggest a moral basis for this behavior (e.g., “it's the right thing to do”).

What the Life Enabling model has incorporated from Lean Enterprise are its tools. What it has added is a singular statement of what the purpose of commerce is and the foundational knowledge that guides the consistent pursuit of that purpose.



Capitalism is practiced worldwide. The United States espouses Capitalism with fervor. It touts Capitalism as the *only* effective economic system. The country's founding fathers, with few exceptions, were profit-seeking capitalists. They owned land and possessed wealth. They used their land to produce agricultural products and their wealth to speculate in real estate, trade in cotton and slaves, and provide financial services to their new nation for profit. So, given Capitalism's history and significance, one is compelled to ask whether there are reasons why people need a new economic model other than its limited focus on commerce as implemented by a subset of humankind. As you will read in this chapter, there are.

## Chapter 2

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## Shedding Misconceptions About Capitalism

We begin by clarifying what Capitalism is and is not. Capitalism is a theory, a system of ideas that attempts to describe and explain why and how people produce and exchange resources within a society and the cumulative effects these exchanges generate with regard to material wealth. It is used to guide the conduct of individuals and commercial organizations and to formulate governmental actions. Its intellectual pillars are individualism and materialism.<sup>1</sup>

Capitalism has a long history. As a theory of commerce, it was first formalized in the 18th century, but the history of its pronounced emergence in Europe began in the 11th century (Pirenne, 1960). As with all economic systems, its ideas are deduced from a set of assumptions about the nature of humankind (Goodwin, 1991). Its contents are not induced from empirical research. Its theorems do not have the scientific foundations of a natural science such as physics or biology (Vickrey, 1964).

Every commercial model, including Capitalism, asserts that compliance with its dictates is the best way to ensure that the material resources people require to survive and thrive are available to them. In the United States, the public, including the authors, are further conditioned to associate Capitalism with patriotism, democracy, personal freedom, opportunity, and free markets, and perhaps even have it entangled in our religious beliefs. We are conditioned to imagine its alternatives as those “evil” other systems—like Communism or Socialism. But, in fact, Capitalism simply describes one of a number of possible approaches to commerce, including others that share its requirements for private property and freedom of choice.

None of the emotional content we associate with Capitalism resides within the fabric of its theoretical system. It is not, for example, committed to American values or the nation itself. This should be clear given the reality of multinational companies and the global economy. Indeed, the commitment of a Capitalist enterprise to any nation is solely dependent on how well that nation (or locale) enables it to maximize its profits.<sup>2</sup>

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<sup>1</sup> The definition of individualism has many variations (Individualism, 2017). Our use of the term refers to an understanding of humankind that places the interests of the individual above the interests of the social group. This meaning reflects the primary dictionary definition (Individualism, 2017a). The term “materialism,” as used here, refers to a dominant desire in humans for wealth and material possessions.

<sup>2</sup> That Capitalist enterprises associate preferentially with nations based on how well they enable their maximization of profit is reflected in the fact that nations competing to attract such enterprises universally do so by offering lower taxes and other monetary incentives (Devereux, Lockwood, and Reoano, 2004; Wenner and Zollman, 2017).



Neither is Capitalism committed to freedom per se, except with regard to the rights of commercial property owners to control, as they see fit, the use of their property and the wealth it creates. For example, Capitalism operated effectively in the United States using the regimen of slavery, and indeed trading in slaves was a profitable and acceptable Capitalist enterprise (Beckert, 2014).

Capitalism is also not committed to democracy, as companies implementing this model operate in accordance with oppressive and dictatorial regimes as well as with governments that are more or less democratic.<sup>3</sup> Capitalist enterprises are not even committed to free markets—at least not in their real-world practices, as they use competitive methods that include restricting free market competition (Washington, 2016).<sup>4</sup> And Capitalism certainly is not aligned with Christianity as a religion, as it envisions the maximization of personal profit without regard for others as the sole motive for commerce between people. Its premise is that people always act egoistically and that Capitalist enterprises have no social responsibility. Their only responsibility is to maximize profits for their owners (Friedman, 1970). Such behavior is a far cry from the Christian construct of *agape*.<sup>5</sup>

Caution: The above statements are *not* an indictment of Capitalism. They are made to clarify that all the emotional overlays stirred by the term are a function of

<sup>3</sup> As just one example, Google, LLC (previously Google, Inc.), is developing a tailored version of its search engine for China that will deny its users access to information that the government does not want them to see. As Gallagher (2018) reports, the tailored search engine “will blacklist websites and search terms about human rights, democracy, religion, and peaceful protest.”

<sup>4</sup> Adam Smith (1776) warned the public that it is always the interest of capitalists (“dealers”) to narrow the competition (pp. 213–14). A recent practical example of restricting competition (free market operations) is provided by AT&T. It owns DirecTV, a satellite-based television delivery service, and DirecTV Now, an internet delivery system. AT&T recently merged with Time Warner Corporation. Among the Time Warner properties it acquired is HBO, a media channel that has “long been the crown jewel of American television” (Wu, 2018). Despite AT&T promising in a Federal Court hearing prior to the merger that it would “never use Time Warner’s media properties as leverage against its rivals” (Wu, 2018), it ceased allowing its major competitors permission to carry the HBO channel. At the time of this writing, Dish TV (satellite) and Sling (internet) (both owned by Dish Network) have been disallowed from broadcasting the channel. They claim that AT&T pulled their right to transmit the HBO channel as a way to force Dish Network “to pay for a guaranteed number of subscribers, regardless of how many of its customers actually do subscribe to HBO” (Blumenthal, 2018). This would mean that Dish Network would need to reimburse AT&T for customers *who did not want to receive the HBO service*. As an interesting side note, Microsoft Incorporated used a similar tactic in the 1980s to squash competition to its MS DOS operating system. It required all computer manufacturers to pay for an MS DOS license *for every machine they made* whether or not it had MS DOS installed. Otherwise, the vendor could not install MS DOS *on any of its machines* (U.S. Department of Justice, 1994).

<sup>5</sup> The authors are aware of Adam Smith’s book, *The Theory of Moral Sentiments*, and his discussion of humankind’s other-regarding faculty for sympathy, which, in today’s terms, might better be labeled empathy. This second of the “*Two faces of Adam Smith*” (Smith, V.L., 1998), however, has no play in his economic model. Capitalism’s posited positive dynamic results from the cumulative effects of mutually agreed transactions arrived at freely by equally knowledgeable and powerful parties *who each operate solely with regard to their selfish ends* (Rabin, 1998; Goodwin, Harris, Nelson, Roach, et al., 2017; Hirschman, 1977; Hosseini, 2010; Jensen and Mackling, 1994; Yamagishi, Li, Takagishi, Matsu-moto, et al., 2014; Smith, A., 1776).

our indoctrination. Capitalism, as a commercial model, is simply a set of ideas that are deduced from its assumptions about the nature of people and the context within which they exchange resources (Vickrey, 1964). These ideas purport to explain the dynamics of exchange transactions between people and advise how a society can provide for the generation and distribution of the goods and services it needs to sustain itself and maximize its material wealth.

Whether the purpose Capitalism or any other commercial model defines for commerce or its implementing ideas are good, bad, or indifferent is a judgment that must be made from two perspectives. One is scientific; the other relates to the survival of humankind. From a scientific perspective, a deductive theory like Capitalism must be internally consistent, and, *to have practical utility*, it must be derived from empirically valid premises. Internal consistency means that a theory's contents (theorems, principles) logically flow from its assumptions. If they do not, then the theory makes no sense and, from a scientific perspective, deserves no further consideration. As to valid premises, the foundational beliefs upon which a deductive theory rests must be realistic; they must correspond to the empirical findings of science. If they do not, the theory has no practical use. This means that its contents are useless for explaining or guiding real-world economic activity.<sup>6</sup> For example, recall that all economic theories make assumptions about the nature of people, since these theories, by definition, describe and explain human conduct and its consequences. If such a theory assumes that all people act egoistically in the service of their personal self-interests without regard for others and empirical research uncovers that only a minority of people act on that basis, then the contents of the theory that *require* this *universal* premise be true are *necessarily invalid*. All the principles and theorems deduced from that assumption and dependent on its validity have no legitimacy and no explanatory power.

The survival of humankind provides a second and larger perspective for judging an economic theory. If a system of conduct directs people to behave in ways that endanger the survival of the species, then its use is contrary to the interests of humankind at both the individual and the societal level. Thus, if the evolutionary success of a species were benefited by other-regarding cooperativeness and a system of behavior promoted self-regarding, egoistic conduct, then embracing that system would undermine humankind's survival.

### **The Basic Tenets of Capitalism**

The basic unit of commerce in any society is the exchange of resources between two parties (microeconomic level). In Capitalism's view, each party seeks a resource the other possesses. Each is intent on maximizing the value measured monetarily that he or she realizes from every exchange with another. It follows

<sup>6</sup> We address Milton Friedman's (1953) objection to this contention in *Chapter 4*, pages 92–93.

logically, therefore, that each party's ideal outcome is to get *all* the value *without giving anything*. Given other assumptions of Capitalism, however, this cannot happen. The reason is that Capitalism also assumes that commerce takes place between people with equal power; hence, "taking" is not available. Also, each party is equally able to make fully informed rational judgments about what he or she needs and what others are offering. Consequently, neither party can exploit the other. Given this assumed world of zero asymmetries in knowledge, information, decision-making ability, and power, the parties *must* negotiate. Through these negotiations, they arrive at an exchange of resources that is satisfactory to each. Hence, every marketplace transaction ends "fairly" and "justly" by definition.

At the market level,<sup>7</sup> the dynamic of supply, demand, price, and profit reduction operates. Supply is presumed to evoke demand (Say's Law of Markets, 2018). As more producers enter a market seeking profit by providing the commodity buyers require, they compete for that demand. Since the model also assumes that all producers provide *equivalent* offerings, sellers compete on price alone, thereby driving the price down toward actual cost, as each producer seeks to win more sales. Given that buyers choose freely and effectively, they buy the offering with the lowest price. This is so because the functional utility of each alternative offering is equivalent. As price falls, more and more people have their needs satisfied until all demand is met.<sup>8</sup> Also, as profit margins shrink, producers—acting freely and effectively in the pursuit of maximizing their profits—look elsewhere to invest their productive capabilities in order to realize greater material gains. This search results in the opening of new markets that meet previously unserved buyer needs, and the cycle that begins with high profits and ends with price approaching cost repeats itself.

At the societal level (macroeconomic level), this entire supply–demand–price–profit reduction–new market creation dynamic is presumed to ensure that the productive resources of a social unit are always applied where they will generate the greatest gains measured monetarily. Capitalists invest in markets with unmet needs. As profits lessen, they uncover new unmet needs that they apply their resources to fill so that they gain more profit. This means that the productive capacity of a society is always used efficiently. It is always used where it will produce increasing wealth and meet unmet human needs. Thus, Capitalism assures that the exact products society needs to survive will be available to it in the quantities it requires.

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<sup>7</sup> We define a market as a physical or virtual setting that allows buyers and sellers of a specific good or service to interact in order to facilitate an exchange.

<sup>8</sup> Capitalism implicitly assumes that people who need a commodity will have the resources required to purchase that commodity. If this assumption were to fail, then society's need for an offering would not be met and the economic model would fall short of its central purpose.

This efficiency in the use of resources and the assured satisfaction of society's needs evolve spontaneously from the choices made by fully informed people who act freely and rationally to maximize their material wealth in marketplaces where no one has an advantage over anyone else. People always choose just what they need and make the correct choices as to value received for value exchanged. Markets self-correct so that the balance between supply and demand equalizes. When demand slackens, producers cut back production. When demand increases, they increase production. New markets emerge as producers seek higher profit-making opportunities by meeting unaddressed needs.

One of Capitalism's major attractions as a theory is its simplicity and automaticity. It is presumed to be rooted in human nature and the found conditions within which people exist. It requires no planning or intervention. Its effects naturally flow from the native inclinations it posits all people to possess and the characteristics it assumes all markets possess. Indeed, intervention in its operations is deemed destructive because such action would disrupt the naturally effective choices and native behaviors of people and the qualities it presumes that markets have. The unfettered exercise of these qualities is necessary for the dynamics of Capitalism to work. In essence, intervention undermines economic success.

### **What's Wrong With Capitalism?**

As far as we can discern, the theory of Capitalism is logically sound in the sense that its conclusions flow from its premises and the constraints it defines with regard to economic factors (e.g., the independence of economic actors and markets). Indeed, computer simulations of economic activity using the model's specifications do produce behaviors that more or less conform to the model's predictions.

Rather, the criticisms made by economists, psychologists, environmentalists, and other professionals address what these authors deem as the model's structural problems and the consequential problems produced by its use. Oddly, we have not uncovered anyone who has identified the most fundamental failing of the theory—the actual root cause of its structural and consequential problems. That failing is the *invalidity of its premises*. As a deductive theory, that invalidity renders the model's knowledge useless from a practical perspective. We will discuss this issue separately at the end of this chapter.

In this section, we highlight Capitalism's structural and consequential problems. Since our purpose is solely to demonstrate a reasonable basis for society needing an alternative economic model, we will only present a small sample of the issues critics have raised.

*End of excerpt ...*

# Why We Need an Alternative to Capitalism

The issue with Capitalism is more than economics. It is about the survival of humankind. This first-ever book to evaluate the effects of Capitalism from economic, social, and evolutionary perspectives also offers a detailed presentation of an alternative approach to commerce that is founded on the principles of individual freedom and property rights, yet it ensures that all commercial endeavors protect, nurture, and enrich human life and the ecosystem that supports all life.

Capitalism, as a theoretical model of an imaginary world, appears to be logically sound. Empirical evidence reviewed in this book, however, makes clear that Capitalism, as a practical economic system, is a sham (Chapter 2). Its dominance has undermined our understanding of ourselves as a species; commerce as our common means for enabling each other's survival, growth, and fulfillment; and our notion of what constitutes appropriate conduct within a society and across societies internationally. It falsely pits individual emergence against social well-being when in fact each requires the other for its realization.

This book documents the bases for Capitalism's destructiveness including its false understanding of human nature and incorrect assumptions about the commercial context. Capitalism assumes that all people act egoistically without regard for others, and they do not. It also assumes that no asymmetries of information or power exist between buyers and sellers, and they do. Indeed, every consumer's experience in every marketplace renders the assumption of zero asymmetries absurd. Its theorems, drawn from these errors, construct a real-world system that enables the few to exploit the many and distorts the meaning of commerce into an exercise wherein individuals seek to maximize their material gain from each other.

As to human nature, studies repeated hundreds of times have shown that humankind displays two different response dispositions toward others (Chapter 6). One portion of humanity always acts egoistically as Capitalism posits. Another portion is natively cooperative and other-regarding. For this latter segment, following Capitalism's guidance requires them to behave in ways that contravene their native inclinations. And, it is the native human dispositions of this second segment of humankind that evolutionary science credits with enhancing our species' ability to survive and evolve. Further, repeated studies have demonstrated that, when egoists interact with cooperators, they always seek to exploit them.

The research reviewed in this book also clarifies the true nature of commerce; the breadth of human necessities, beyond material needs, that commerce must serve; Capitalism's real utility as a "social control system"; and the consequences for evolved humankind of Capitalism's universal promulgation. It also provides detailed guidance for implementing the Life Enabling approach to commerce that supports the emergence of the individual, the well-being of society as a whole, and the vitality of the ecosystem that supports all life.

