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Capitalism Challenged by Socialism:

How Should We Respond?

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〈Summary〉

- A topic that has recently attracted attention from time to time in economic debate is whether capitalism itself needs to be reassessed. In mid-term elections in the United States, candidates advocating democratic socialism have been gaining ground, while interest in socialism has been rising, particularly among Generation Z. Since the collapse of the Soviet Union, the dominant view has been that democracy and liberalism prevailed over socialism. Recently, however, developments have emerged that appear to call this view into question.

- One reason for the growing interest in socialism is the widening of inequality worldwide. Competition under neoliberalism, as advocated by the political right people, has generated inequality, while the left, although focused on protecting minority rights, has paid insufficient attention to correcting inequality among the broader population. In addition, the AI boom and concerns over employment have further heightened interest in socialism, especially among younger generations.

- Japan is unquestionably a capitalist country. At the same time, it can be viewed as a "semi-capitalist" country that incorporates certain socialist elements, including mutual assistance through neighborhood associations and insurance, public assistance provided by government, and redistribution through progressive taxation and the tax and social security systems. Historical experience also suggests that socialism does not necessarily lead to an ideal society, and attention should be paid to the risk that planned economies may give rise to dictatorship or totalitarianism.

- In light of the above, while it is undeniable that capitalism has problems, a direct shift toward socialism would not be appropriate. For capitalism to be maintained and further developed, it is essential to modify capitalism appropriately and strike a proper balance between capitalist and socialist elements—in other words, between efficiency and fairness.

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Governments need to give policy consideration to enabling the middle class to live with a sense of security and margin. Corporations, while continuing to strengthen profitability, are also expected to pay attention to social value. Specifically, they need to advance initiatives with a high degree of public benefit, such as the SDGs, or Sustainable Development Goals.

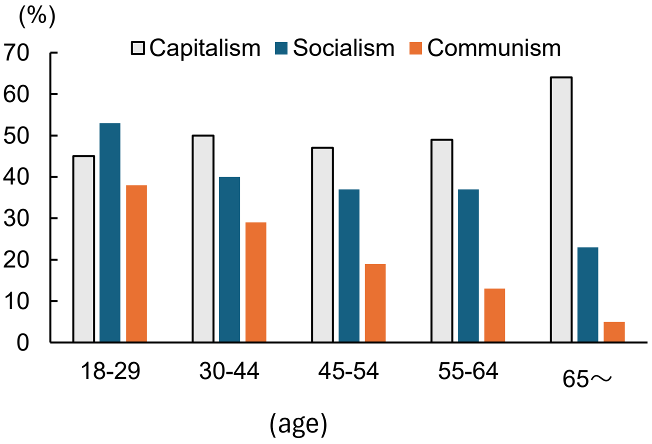
- **This is an English version of "社会主義から挑戦される資本主義**
    - **～政府や企業はどう対応すべきか～" in JRI Viewpoint.**

1. Capitalism or Socialism? A Debate Revived

A topic that has recently attracted attention from time to time in economic debate is whether capitalism itself should be reassessed. In Japan, for example, the Kishida administration advocated a “new form of capitalism,” while the Ishiba administration placed emphasis on happiness and well-being, reflecting efforts within the Japanese government to revise neoliberal capitalism. Some commentators have gone further, arguing that society should abandon capitalism altogether, and such views have gained a certain degree of support.

Turning to the United States, New York City mayor Mamdani identifies himself as a democratic socialist, while in Washington, D.C. a candidate advocating democratic socialism is increasingly likely to become mayor. In the midterm elections for Congress, democratic socialist candidates have won overwhelming victories in some primary races in New York State. Democratic socialist candidates have also made gains in Democratic primaries in Colorado and other states. Among them are some with extreme views, including the abolition of private property. A survey of Generation Z in the United States shows that 53% have a favorable impression of socialism, while 38% support communism, which involves a still greater degree of equality. The share with a favorable view of capitalism is 45%, indicating strong interest in socialism among younger generations. Among those aged 30–44 and 45–54, around half are favorable toward capitalism, but about 40% in both age groups are also favorable toward socialism. At this pace, the possibility that the American public may choose socialism at some point cannot be entirely ruled out (Figure 1).

Figure1. Share with favorable view of the economic systems



Source: JRI, based on CATO INSTITUTE"2026 4th OF JULY NATIONAL SURVEY"

In the United Kingdom, Prime Minister Burnham has also called for greater public involvement in water and energy utilities that had previously been privatized. Reform UK, a rising right-wing party, has repeatedly revised its pledges, but initially advocated the nationalization of infrastructure companies and other entities. Around the world, industrial policies involving active government intervention are making a comeback. While this cannot necessarily be described as socialism, it represents a reassessment of liberalism and a shift in a more statist direction.

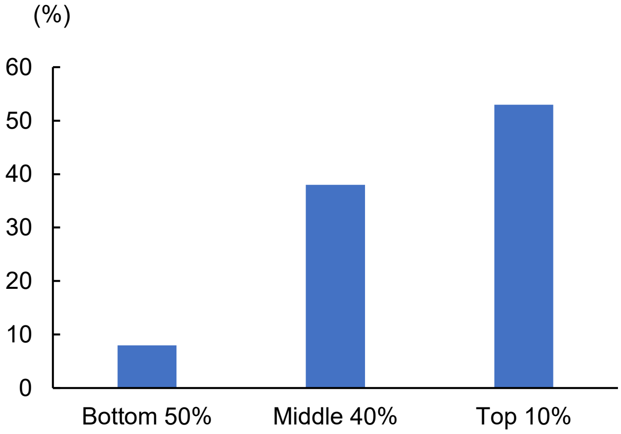
For the past three decades after the collapse of the Soviet Union, the dominant view has been that democracy and liberalism triumphed over socialism, as suggested by works such as Francis Fukuyama’s *The End of History*. Recently, however, developments have become visible in various places that appear to require a reconsideration of that view.

One background factor is the widening of economic inequality around the world. Surveys conducted in various countries show that interest in socialism has increased, particularly among younger people. I believe that it is desirable for a wide range of debates on the economy to take place. At the same time, there appear to be misunderstandings concerning both capitalism and socialism. The following sections present the author’s view on how this debate should be understood.

2. Why Socialism Is Being Reconsidered: Widening Global Inequality

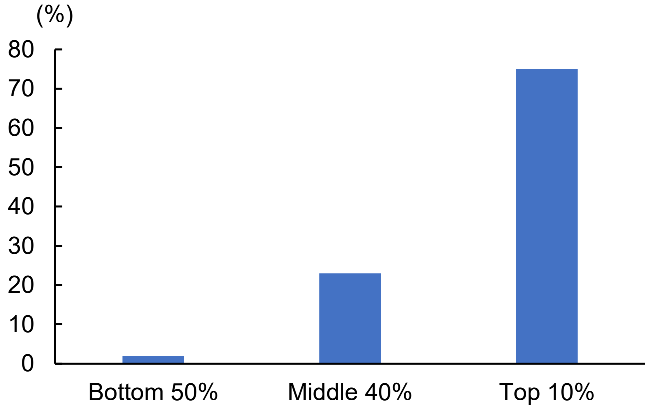
One reason for the growing interest in socialism is the widening of inequality worldwide. According to the World Inequality Report, the top 10% of adults, about 560 million people, receive 53% of global income, while the bottom 50%, about 2.8 billion adults, receive only 8%(Figure2). In terms of wealth, the top 10% own 72% of the total, while the bottom 50% hold only 2%(Figure3). In other words, the reality is that roughly half of the world's population owns almost no wealth.

Figure2.Global Income inequality



Source: JRI, based on "「World Inequality Report 2026"

Figure3.Global wealth inequality



Source: JRI, based on "「World Inequality Report 2026"

3. Why Has Inequality Widened? Responsibility on Both the Right and the Left

Why has inequality widened? One reason is that politically, competition and the principle of survival of the fittest under laissez-faire policies pursued by the traditional right wing people generated inequality, while the left, from a liberal standpoint, focused on promoting fairness and equality and protecting minority rights, yet paid insufficient attention to correcting inequality among the broader population. This section considers the United States, where these developments have been most pronounced.

The first issue concerns competition in free markets. Free competition based on neoliberalism has created economic winners and losers. As stock prices have risen sharply amid the AI boom, income inequality has been on an expanding trend. AI is also beginning to displace younger workers jobs. In the United States, it has become more difficult for people with three years or less of work experience to find employment, as tasks once performed by younger employees are increasingly being replaced by AI. As a result, employment anxiety has been rising, particularly among young people, which has contributed to the increase in support for socialism.

Turning to Alexis de Tocqueville's classic *Democracy in America*, often cited by commentators in connection with the 250th anniversary of American independence, the first page of its preface suggests that Tocqueville was struck by the "equality of conditions" he observed in the United States. Viewed against today's inequality, the United States has become a considerably different country from the one it was at the time of its founding, when it was regarded as a nation of "equality of conditions."

Another factor is the spread of backlash against liberal values and policy management. In the United States, various measures have been implemented to ensure diversity and equal opportunity, and it is true that these efforts have played a certain role in correcting inequality. In the United States, people concerned with racial issues and similar matters are sometimes referred to as “woke,” and it is primarily such people who have actively promoted liberal causes. Recently, however, criticism has intensified that woke people are excessively progressive. In particular, opposition to liberal policies has grown stronger among white men facing economic hardship. For low-income white men, the most urgent issue is the correction of income inequality. From their perspective, however, politicians in Washington, D.C. appear insufficiently committed to addressing economic disparities and instead seem preoccupied with protecting minority rights. Moreover, they tend to believe that affirmative action, under which ethnic minorities are given preference in promotion and other opportunities, unfairly deprives white men of opportunities they should have enjoyed.

U.S. Vice President J.D. Vance once published *Hillbilly Elegy*, a book that describes the economic poverty of the white working class and the sense of alienation arising from the perception that liberal politicians would not rescue them from such circumstances. The two factors discussed above certainly brought positive aspects to the United States in the past. On the other hand, however, they also produced people who felt left behind. These people appear to have come to seek a break with the existing system—that is, not a liberal economy or a society focused on minorities, but the correction of inequality from which the majority suffers. Indeed, those who voted for the socialist candidates mentioned at the outset cited measures to address hardship caused by rising house rents and prices. It should therefore be noted that, even in areas where the left has performed well in elections, traditional liberal ideas have not necessarily been accepted as such.

4. Japan is a country of Combining Capitalist and Socialist Elements

Next, let us consider the situation in Japan. Japan is certainly a capitalist country. At the same time, it is not a country of pure capitalism. It has systems of mutual assistance, such as neighborhood associations and insurance, and of course public assistance provided by the national and local governments. Mutual assistance and public assistance are close to socialist ideas, yet they exist even in the United States, the leader of the liberal economy. In that sense, even countries commonly described as capitalist are built with a certain degree of socialist elements. In addition, there are areas known as “market failures,” such as inequality and environmental problems, where leaving matters entirely to the market gives rise to imbalances, negative externalities and other problems. In such areas, the role of the public sector becomes important. Furthermore, progressive taxation in the tax system is also an institutional response aimed at reducing actual inequality, and therefore it has a socialist aspect.

Taxes and social insurance contributions collected in Japan are returned to society and the public as a whole in the form of public works and welfare. The share of taxes and social security contributions in national income has continued to rise year by year and now stands at just under 50%. In this sense, Japan’s degree of socialism has increased, and even if it is not anti-capitalist, it may be described as a “semi-capitalist” state.

At the same time, the question of whether socialism is truly desirable is difficult to answer in the affirmative when viewed in historical perspective. Economically, the Soviet Union collapsed, and the experiment failed. Liberal South Korea has developed, while socialist North Korea has lagged behind economically. To be sure, as shown in the research of Nobel laureate Elinor Ostrom and others, it is possible to allocate resources efficiently without relying on market mechanisms, by sharing them among members of a community. However, as that research paper also indicates, such arrangements may work only when mutual monitoring and severe sanctions, akin to ostracism, are in place. In fact, former communist countries generally became totalitarian or surveillance societies, and societies under such oppressive systems can hardly be regarded as genuinely successful. In such countries, criticism of the regime is discouraged, and intellectuals seeking change toward a better society may be suppressed, as seen in China's Cultural Revolution and under the Pol Pot regime in Cambodia. As history shows, the destination of socialism is not necessarily a utopia.

Behind the recent movement in support of socialism, it may be inferred that more than 30 years have passed since the collapse of the Soviet Union, memories of socialism's failure have faded away, and as capitalism has continued for a long period, its negative aspects have become more conspicuous, leading more people to seek an escape from capitalism. In *Escape from Freedom*, Erich Fromm warned that capitalism liberated individuals and freed people from economic and political constraints, but as a result left them lonely and isolated, which in turn could drive them to actions that would cause them to lose their freedom once again. In a sense, the present situation may represent, at least in part, the realization of Fromm's warning. Many thinkers, including Nobel laureate Friedrich Hayek, have pointed out that planned economies can lead to dictatorship and totalitarianism. It is therefore necessary to keep in mind that the promotion of socialist policies or the pursuit of a socialist system carries the risk that people may lose their freedom.

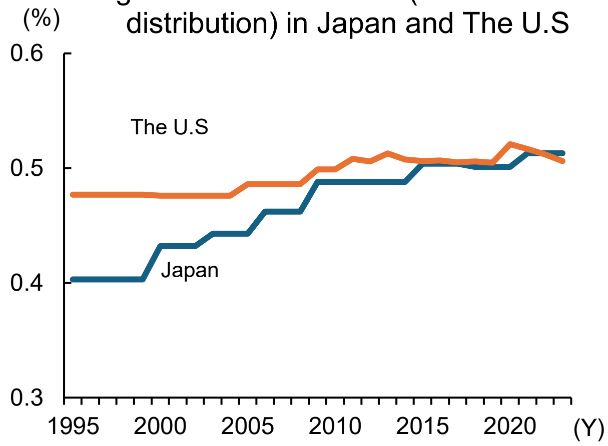
5. Toward the Development of Capitalism: The Japanese Government Should Balance Efficiency and Fairness

Seen in this light, even if capitalism has problems, it would not be wise to move hastily toward socialism. Rather, capitalism should be appropriately modified. The reason capitalism survived for a long period after World War II was that, while pursuing the fruits of capitalism, it created and successfully incorporated the concept of the welfare state. As communism gained influence after the war, capitalist countries recognized the possibility of systemic change if nothing were done and reflected on their own shortcomings. This led to the realization of the welfare state. The current emergence of calls for socialism can be understood as indicating that the time has come to reconsider the nature of capitalism once again.

It is true that, after the collapse of the Soviet Union, Free market economic ideas were incorporated into economic policy almost uncritically, and this can be regarded as problematic. In economics as well, although increasingly sophisticated objective theories and methods were developed, more fundamental debates about what the economy ought to be were left behind. As a result, many countries experienced the expansion and entrenchment of inequality, which is also something that should be reflected upon. Naturally, such a situation should be corrected. For capitalism to be maintained and developed, politicians must listen to people's dissatisfaction, and strike an appropriate balance between capitalist and socialist elements—in other words, between efficiency and fairness. The growing support for socialist movements in the United States is due in large part to the fact that the middle class is struggling to make ends meet. In Japan as well, policy should give consideration to enabling the middle class to live with a sense of equality and stability.

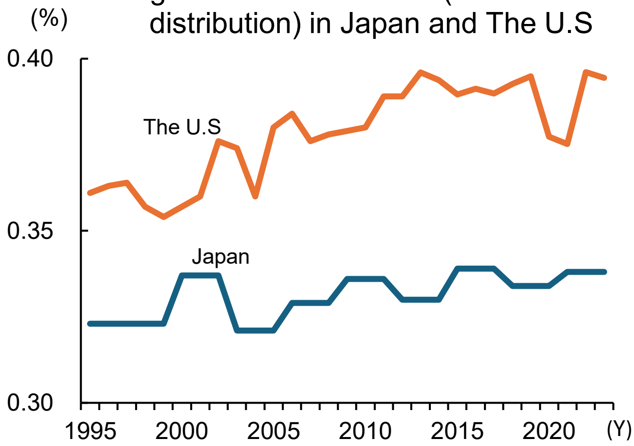
Let us now examine the actual state of inequality in Japan. The Gini coefficient, which indicates greater inequality as its value approaches 1, has been on an upward trend on the basis of initial income and has now reached a level comparable to that of the United States, where economic inequality is large (Figure 4). On the other hand, Japan's Gini coefficient based on redistributed income has generally remained flat, suggesting that redistribution through taxes and social security is functioning effectively (Figure 5). It is important to prevent the Gini coefficient after redistribution from rising, and, if possible, it is also desirable to curb the upward trend in the Gini coefficient before income redistribution.

Figure4. Gini coefficient (before income distribution) in Japan and The U.S



Source:JRI, based on OECD

Figure5. Gini coefficient (After income distribution) in Japan and The U.S



Source:JRI, based on OECD

Meanwhile, the Gini coefficient viewed from the perspective of assets is even higher than that of income. At present, data are available only up to 2019, when the Gini coefficient for outstanding financial assets stood at 0.664 and that for housing and residential land assets at 0.643. The recent surge in real estate prices in central urban areas and record highs in stock prices have brought significant benefits to wealthy households that are able to invest in such assets, while offering little benefit to those with limited asset holdings. As a result, asset-based inequality appears to have widened further recently.

6. What Should Corporations Do?

For corporations, which are entities that pursue profits, strengthening businesses aimed at wealthy customers in line with current trends is an important issue from the perspective of enhancing profitability. In Japan in particular, businesses targeting the wealthy remain underdeveloped and can be regarded as an area that should continue to be strengthened. At the same time, if companies focus only on wealthy customers and don't pay attentions to the mass market, they may face a backlash from many people. In fact, one theme park raised prices and expanded benefits for paid members, but was criticized by members of Generation Z on social media as an example of "capitalism that relies too heavily on money to solve everything", and some media outlets reported negatively on the issue. It is important not to ignore such criticism. In this sense, companies should not focus solely on the pursuit of profits, but should also devote effort to businesses and initiatives with high social value.

The SDGs, or Sustainable Development Goals, adopted by the United Nations have 2030 as their target year, and little time remains. Ideally, efforts should be accelerated toward achieving the SDGs while also beginning discussions on the next phase, namely "Beyond SDGs." However, following the inauguration of the second Trump administration, public attention has been drawn largely to geopolitical issues, and the United States has taken a stern stance toward international organizations. As a result, it cannot be said that interest in the SDGs is increasing. Corporations should therefore not only re-accelerate efforts toward the SDGs, but also start taking steps toward Beyond SDGs after 2030, with the aim of becoming companies with a high degree of public benefit.

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