“Future of capitalism?”

Moderator: Gideon Rachman, Chief Foreign Affairs Columnist, Financial Times, United Kingdom
Adrian Blundell-Wignall, Deputy Director, Financial and Enterprise Affairs, OECD
Sharan Burrow, President, International Trade Union Confederation
Anatole Kaletsky, Economics Commentator, The Times, United Kingdom
Robert Skidelsky, Member, House of Lords, United Kingdom
Discussant(s): Renato Flores, Professor, Fundação Getulio Vargas/ EPGE, Brazil
Simon Tormey, Head, Social and Political Sciences, University of Sydney, Australia
Avivah Wittenberg-Cox, CEO, 20-first, France

Introducing the session, moderator Gideon Rachman spoke of the surprising lack of ideological discussion that has taken place since the international financial crisis erupted – “we seem to have been too busy fire fighting to have had time to think things through…there has been no movement to define and draw the appropriate lessons”. However, Mr Rachman also expressed his confidence that the distinguished list of session panellists could help fill this gap.

Adrian Blundell-Wignall recalled that the crisis originated in the financial system, which he defined as a “system of promises to pay”, and that the system went wrong with the introduction of instruments, such as credit default swaps, aimed at building complete markets. These new instruments allowed credit promises to be shifted around and participants getting around regulations: “we ended up with financial markets working without capital”. Given this narrow diagnosis of the crisis, Mr Blundell-Wignall remains frankly concerned about the future: “financial markets are brilliant at innovation… if we do not remove arbitrage opportunities and stem this shifting around of credit promises, we will have another crisis…what is needed is an institutional framework that regulates and taxes these promises in the same way” But Mr Blundell-Wignall sees little evidence that this is happening, and laments that we have not even separated capital market banking from commercial banking: “if we can’t even do this I’m pessimistic…How big a financial crisis is necessary to get reform of governance? Obviously this one was not big enough”.

Anatole Kaletsky, pointing to his new book and his article in OECD Observer, sees capitalism as an evolutionary system that has passed through three main phases, each “recognizably similar, but recognizably different”. In the first phase, economics and politics inhabited very distinct spheres; in the second, beginning in the 1930s, a conviction developed that markets get things wrong; the third phase, which began in the 1970s, was characterized by the mantra “markets are always right, governments are always wrong”; and the fourth phase, which Mr Kaletsky labels Capitalism 4.0, will be characterised by a perception that both government and markets get things wrong. However, Mr Kaletsky interprets this positively, arguing that it is “empowering to acknowledge this fallibility…it leaves room for pragmatism, experimentation and common sense”. Mr Kaletsky believes that this will improve the functioning of both politics and capitalism, and draws two geopolitical conclusions: first, “the recognition that there is no true religion means there can be no heresy
either”, and this enhances scope for comparison and learning from each others’ mistakes; and second, international coordination becomes more important, but more difficult, than ever.

Robert Skidelsky echoed many of Mr Kaletsky’s views on the different historical stages of capitalism, and how the first period of market-led capitalism “succumbed to the crisis of money” in the 1930s, state-led capitalism “succumbed to the crisis of power” in the 1970s, and that the current crisis is bringing to an end the resurgence of market capitalism and its “intellectual butlers”, the Chicago economists, since the 1980s. “Now the pendulum is swinging back again, although it never reaches equilibrium – it always swings too far”.

Whatever the next phase of capitalism, he predicts that “the dominance of finance will come to an end” Mr Skidelsky is nonetheless cautious about viewing history in terms of cycles, and prefers the metaphor of a “spiral staircase”, with opportunities to learn: “what we have learnt is that both states and market can fail… we need to find a middle way…we won’t succeed but we must try…This is the quest for our generation.” Mr Skidelsky also argued for a return to moral philosophy, citing evidence that suggest increasing wealth does not necessarily make people happier: “What is the purpose of wealth? How much is enough?…We have to reinsert moral philosophy and ethics into the subject of wealth creation” Moreover: “The more unequal a society, the more the focus of envy dominates us…we therefore need more equality”.

Prompted by the moderator, Mr Kaletsky took issue with Mr Skidelsky’s doubts about the morality of unlimited wealth creation. First, Mr Kaletsky argued that it is unrealistic, as it ignores the still-substantial number of poor people in the developed world; and second, Mr Kaletsky believes it is wrong, because a key characteristic of the capitalist system is ambition and competitiveness, which is “hard-wired into human nature”. This has proved not only impossible to suppress [in communist China and Russia], argues Mr Kaletsky, but it is wrong to suppress “because it leads to progress, and not just material progress”. Mr Kaletsky also commented on “one of the fascinating paradoxes of this crisis”, namely that those who defend the “new normal” consensus are often the same as those who defended free market reforms of the past 30 years.

The logical inference of this “new normal,” he argued, is that much of the wealth created over that period was in fact illusory and that the capitalist system is fundamentally flawed. Expressing strong disagreement with the “new normal,” Mr Kaletsky said that the current system is not as badly damaged as generally perceived and that, all its problems notwithstanding, controlled deregulation can allow for a more efficient economic system. “I believe free market reforms will continue…most wealth creation was not illusory…most leverage was healthy…the crisis was not caused by fundamental disequilibrium but by financial regulation errors”.

Sharan Burrow expressed deep concern that discredited policy orthodoxies appear to be returning, just two years after the crisis began “we have seen the benefits of fiscal stimulus, and that an unorthodox approach works…but we are already talking about an insane level of fiscal consolidation: the old orthodoxies won’t work!” Ms Burrow agrees with long-term fiscal consolidation, “but not for the bond markets”, arguing it must only be implemented as part of a sustainable income-led growth strategy: “there is no future without a growth strategy…otherwise we’ll be back into a negative spiral”. Ms Burrow laments that the financial sector is “back to it old game” and proposals for a financial transaction tax have been largely ignored -“I’m shocked that we are still waiting for new rules”. As for the future
of capitalism Ms Burrow remarks how robust it appears in China, and sums up: “We live in a
global economy and need global rules, global investment in jobs and a robust system of
capitalism that benefits not just profit takers, but workers, who are the real wealth creators”
Ms Burrow also expressed unease with philosophical arguments and putting limits on wealth
creation “it is usually working people who have to take a cut in living standards”

Renato Flores expressed scepticism that further international regulations and centralization
are a necessary or likely response to the crisis: would the concentration of power in the hands
of the state and state bureaucracy not lead to a more totalitarian system, especially in light of
modern communication systems that override regional differences? Quite the contrary, future
capitalism is likely to be more anarchic, with multiple power centres and regional styles of
capitalism: “I see more anarchy globally”. On another note, while growth is the only generally
accepted antidote to poverty, Mr Flores observed that growth can also increase the
concentration of power and poverty in different segments of society, leading to more
inequality and a permanent underclass. Unless this paradox is resolved, future capitalism will
feature increasing inequality between and within capitalist systems.

Avivah Wittenberg-Cox called for a more equal distribution of gender within the structures
that oversee our financial systems. Ms Cox questioned whether the assumed characteristics of
capitalism—individualism, competition, ambition—are specifically masculine traits. Perhaps,
she argued, a capitalism based on more feminine or universal values would have been less
vulnerable to crisis. “If Lehman Brothers was Lehman Sisters, would we still be in this
mess?” Ms Cox asked. She further observed that some of the so-called happiest, or
economically stable, countries are those with the most gender balance.

Simon Tormey argued that capitalism comes in the form of many systems, each underpinned
by different values, and what is interesting is the variety of systems: neoliberal capitalism,
social democratic capitalism, Chinese capitalism, Indian capitalism, micro-credit-based
capitalism. As a result, the financial crisis in Europe is not the same as that in the Asia-Pacific
region, and both are different from the crisis in Africa. Mr. Tormey also discouraged the
tendency to stereotype foreign capitalist systems, arguing that China, although not a liberal
democracy, is not the monolithic entity that many of its critics describe: “China is a lot more
subtle and nuanced…with lots of interesting hybrid organizations…we could do well to learn
from them”. Mr. Tormey approvingly cited Jean-François Lyotard’s remark that the modern
age is one of “skepticism towards meta-narratives.” This means that there are no big answers,
which in turn demands more political dialogue. Finally, Mr Tormey expressed his surprise at
the lack of an oppositional set of forces to capitalism: “there are no ready-made packages of
ideas—we have a vacuum …vacuums in crises can be incredibly productive.”

©OECD
BMcG/JH/CD

See also: