

# Capitalism's toxic assumptions

## Redefining next generation economics

Eve Poole

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Eve Poole is a force to be reckoned with, as any who have sparred with her will attest. Unsurprisingly, this book is bursting with energy and ideas, taking the argument to the bastions of capitalism in the corporate, financial and public spheres and proposing some radical shifts of thinking and emphasis.

The twin targets of her onslaught are liberal economics and market capitalism. While the seven toxic

assumptions are attributed to market capitalism, Eve takes the economics profession to task for an anachronistic attachment to the ideas of Adam Smith and a failure to engage in an analogous journey of empirical discovery to that of science. "In science, temporary hypotheses – or potentially toxic assumptions – have always been seen as the necessary roads to progress." "Not so, however, in the 'science' of economic theory, where old assumptions seem to have assumed the role of precious artefacts, to be protected and even venerated in perpetuity" (p.9).

Truth be told, liberal economics, with its focus on atomistic competition and a unique equilibrium, has had a good kicking for the past 20 years. Paul Ormerod

wrote *The Death of Economics* in 1994; Steve Keen wrote *De-bunking Economics* in 2001; Richard Werner wrote *New paradigm in macroeconomics*, set in the particular context of Japan's stagnation, in 2005. A final example, written by physicist Mark Buchanan, is *Forecast*, published in 2013. Buchanan berates economists for their laziness in failing to learn lessons from physics, meteorology and the natural sciences about the behaviour of simple feedback mechanisms, let alone complex dynamic systems.

Eve throws down seven challenges to market capitalism, some relating directly to the critique of liberal economics and others to institutional arrangements and management

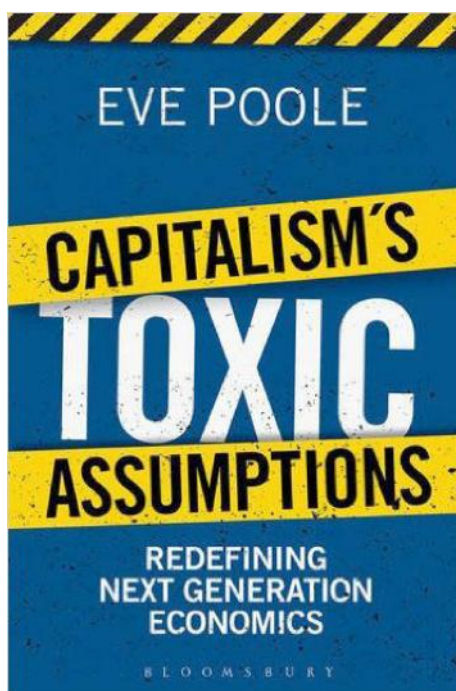
practice. First, she disputes that competition produces superior holistic outcomes to cooperation, citing evidence from psychology. Second, she contends that Adam Smith's 'invisible hand' which coordinates a plethora of independent individual actions into outcomes that benefit society in general, is unreliable in this endeavour, frequently favouring the few rather than the many.

Third, she objects to the notion that individuals acting in self-interest will nevertheless generate an ethically sound collective outcome. Fourth, Eve takes exception to the depiction of the relationships between owner and manager and manager and employee as necessarily adversarial. So-called agency theory insists that great effort must be made to align these otherwise conflicting interests. Fifth, she takes issue with the moral superiority of the market price, determined by the interaction of the forces of demand and supply.

Sixth, it is the alleged supremacy of the shareholder over other stakeholders that draws her fire. Seventh, Eve questions the near-universal adoption of limited liability as the preferred corporate

model, whether for corporations or partnerships.

The critique of each 'toxic assumption' occupies its own chapter, where Eve brings many strands of multidisciplinary argument to bear on the matter at hand. Some blows land heavier than others. It is now widely acknowledged that 'solutions' to the agency problem, seeking to align the interests of owners and managers, have become seriously distorted. The use of debt-funded share buybacks to manipulate share prices in order to trigger performance payments and to vest executive share options is increasingly denounced. It has contributed to a cynical culture of 'slash and burn' to the detriment of the sustainability and reputation of the host business.



The assumption that the principals of a business should be financially exposed only to the extent of their investment in that business deserves to come under greater scrutiny in the wake of the global financial crisis. The moral hazard dimension of banking and finance has given rise to many contexts in which 'profits were privatised and losses were socialised': reckless strategies were pursued on the understanding that the downside risk to business principals was confined to their initial investments. Arguably, there are types of economic and financial activity that by their nature are unsuited to and undeserving of the protection of limited liability.

In contrast, I found Eve's attack on "the assumption of competition" unconvincing. Virtually every business faces head-to-head competition and the competitive threat is the dynamic that disciplines and sharpens its actions. Sometimes the competition is unfair, for example if a rival enjoys a government subsidy, but the assumption that someone else is always out to steal your lunch is still a valid starting-point. Capitalism rewards inventiveness and the competitive edge gained by early adoption of new technology has been a powerful motivational force in the spread of mobile phones to some of the poorest nations, for example.

She does, however, raise a fundamental issue in relation to the Christian faith. Is competition biblical? Is the pursuit of success in business a godly objective? So far as I can tell, there are no proof texts in the Bible to affirm the nobility of competition. Yet there is the example of the apostle Paul, one of the most competitive bruisers of all time. This zealous, former persecutor of Christians, undertook three hazardous and immensely successful missionary journeys, is credited with authorship of 13 of the 27 books of the New Testament and contended for the gospel of Jesus Christ physically and intellectually like no other. Humbled by the cross of Christ and afflicted by physical impediment, it is in his letters that we find the exhortation to 'outdo one another in showing honour' (Rom 12:10, ESV), as well as in Hebrews to 'run the race with perseverance' (Heb 12:1).

If, as Christians engaged in business activities, our overriding objective is to bring in the kingdom of Jesus Christ and to honour him in our professional as in all other aspects of our lives, then there is a great deal of

contending to do. The larger our sphere of influence becomes, the greater the footprint of the kingdom in the realm of business. I maintain that the adoption of a competitive mindset in pursuit of business success need not conflict with the gospel message.

Likewise, the critique of the "invisible hand" is too severe. As Tim Montgomerie notes in his Times review of John Plender's book, *Capitalism: Money, Morals and Markets*, Adam Smith referenced 'invisible hand' just once in his *Wealth of Nations*. "His 'impartial spectator' – the conscience within people that encourages moral behaviour – is mentioned 66 times in his neglected earlier work *The Theory of Moral Sentiments* (1759). The "invisible hand" is best considered as expressing the notion of anonymity in markets: that when one person wishes to sell, a thousand hands may go up, each offering to buy. Provided the price is acceptable, the seller is indifferent to whom he sells. This is a world away from the fanciful notion that markets are divine instruments of justice.

### **'Is competition biblical? Is the pursuit of success in business a godly objective?'**

Defenders of capitalism argue that it is superior to all other forms of economic organisation and has consistently delivered prosperity for the nations that have embraced it. The paradox of capitalism is that it tends to concentrate income and wealth *within* nations yet erodes per capita income differentials *between* nations. Many of Eve's complaints concern the corruption of economic power – as in crony capitalism

and monopolistic capitalism – that accentuate the concentration of income and wealth, rather than the capitalistic model per se.

In the end, the toxicity of capitalism is in direct proportion to the toxicity of the individuals at the helm of large companies and financial institutions. There is an episode of the spoof sci-fi sitcom, *Red Dwarf*, in which a mechanoid named Kryten, lacking his guilt chip or moral imperatives, barbecues a dead member of the crew. If we give collective permission to corporate executives to act without a moral compass, arguably, any system of economic organisation becomes toxic.

To redeem capitalism from what it has become will require, above all, plenty of good examples and, in her conclusion, Eve summarises a host of initiatives that would nudge capitalism in a healthy direction. 📺



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