

What Capitalism isn't and what it could be

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This article is by LSE MSc student and Polis intern Pressiana Naydenova

Reforming the religion of Economics

Many of us do not question the current economic system because it requires effort to acquaint ourselves with the terminology behind which the biggest financial players hide their mistakes. Mistakes that often directly affect us. One of the more worrying elements of Eve Poole's talk was the idea that the media is at the core of the chronic failure to understand and develop a critical approach towards Capitalism. While this may be doing a disservice to the many excellent financial correspondents and commentators out there, it was a provocative way for Poole to begin her talk, challenging some of the key assumptions of Capitalism.

The seven toxic assumptions of Capitalism

Poole argues that since Christianity was the world view which created Capitalism, it makes sense to frame the debate within the same world view. The reference to religion is particularly apt given that Economists, very much like the Clerics, have been slow in challenging their own assumptions. The first flaw of Capitalism that Poole critiques, is the championing of 'Competition'. She asserts that it does not make sense to be secretive and competitive above all else when effective business is about the building and maintaining of positive relationships. Positing competition as the preferred strategy also fails to take into account gender differences. Poole claims that a competitive environment is more suited to instinctual responses of men ("fight or flight") than women who take a more collegiate approach when they "tend and befriend". While the idea that competition should be replaced with cooperation is a noble one, linking certain behaviours to gender is in my opinion, somewhat reductive and contributes little to the discussion of Capitalism.

The invisible hand

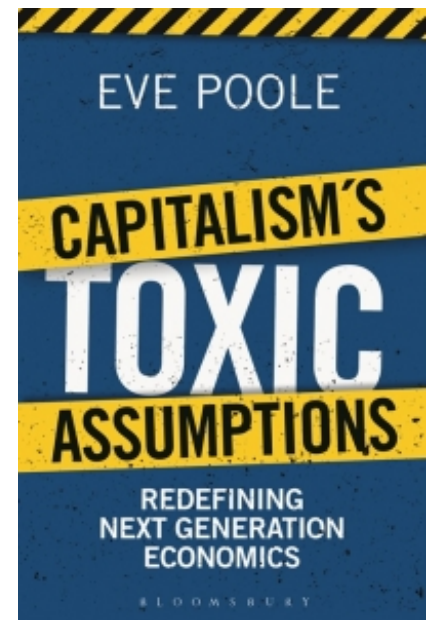
The second toxic assumption which Poole deconstructs is the "invisible hand", the notion that governments should stand back from business and provide minimal market regulation because there is an invisible hand governing the flow of the market. While this assumption of self-regulating markets "cheers people up", flocking behaviour of consumers does not always lead to a positive end. Following from this is the third toxic assumption, "utility". Poole urges us to ask "utility for what?" and believes that a focus on utility creates a very transactional view of reality, which is ethically impoverished. Fourth, is "agency theory" which suggests that since we are all motivated by our individual interests, managerial interests will diverge from those of the shareholders. Poole suggests this pessimistic view creates an atmosphere lacking in trust where employers constantly need to design ways in which to keep employees in line, an environment that is ultimately toxic and unproductive in the long run.

Diamonds are forever

The fifth toxic assumption is that of "pricing" or the idea that the market price of goods is always the fairest price. Poole explains how prices are in fact manipulated, for example when businesses design campaigns to utilise children's "pester power" to force parents into paying higher prices. Second-hand diamonds are worth next to nothing when compared with the price at which businesses sell new ones to customers, calling in to doubt the marketing claim that "diamonds are forever".

Believing in Santa Clause

The sixth toxic assumption is that of "shareholder value", which Poole suggested is laughable considering that the majority of shareholders in the modern age are in fact computers and the average time a share is held is 11



seconds. The invisible “shareholder”, Poole suggests, has become a little bit like “Santa Clause” as businesses use him to justify their decisions and Poole argues convincingly that there needs to be more transparency about how mechanised the process really is. The seventh assumption is connected to the sixth and is the concept of “limited liability” meaning that as an investor you can lose only the value of the share you hold, when a business goes bust. Poole quotes that currently, 98% of companies in the UK follow the limited liability model, which she declares is a “monopoly of this type of company structure” which is not healthy for the system as a whole, as it provides no room for alternatives.

What can we do?

Poole concluded with suggestions for what each of us can do to reform capitalism into a more ethical and just system, particularly calling on journalists to provide more coverage of alternative business models and inform themselves better about the economic agenda. She proposed that on an individual level we could ask ourselves four basic questions:

1. *Who do we bank with? Do we consider them an ethical bank or building society?*
2. *Where do we shop? Consumer boycotts do work.*
3. *Do we give to charity? If we sponsor local businesses it is better for our community overall.*
4. *Are we using cash? Paying with cash rather than a debit card can help struggling businesses.*

We were left with the assertion that creating a more ethical Capitalism ultimately depends on all of us and the financial choices we make.

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Polis hosts a series of Lunchtime Talks featuring media practitioners on Wednesdays 13.00-14.00 to discuss their roles and experiences of the sector. Open to staff, students and the public.

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