Peter Burgess LinkedIn Blogs

Capitalism for the 21st Century

The performance of 'capitalism' was challenged over a hundred years ago as the industrial revolution evolved because, while a huge amount of wealth was being created, there were terrible working conditions and a huge amount of poverty and awful living conditions remained. Charles Dickens wrote about these conditions in his works, and Karl Marx went further to suggest an alternative economic system … communism.

By the end of the 20th century, it was fairly clear that the laissez faire market based capitalist economic system of the West had performed better than the totalitarian communist economic system of the Soviet Union.

It does not follow, however, that this capitalist system is getting the best possible results. In fact, by many measures, the performance of modern capitalism is having similar outcomes to the outcomes of the capitalism of the Victorian era.

In my view, there are some serious dysfunctions in the modern socio-economic system … including a framework of metrics that is completely inadequate for the measurement of progress and performance of modern society and the economic system.

Analysts from many different professional backgrounds are making observations about the issues that are not getting to be addressed within the capitalist system that we have at the moment. These ideas are valid, but they do not get much attention and in the end have no traction and nothing changes. In a few cases, the ideas may get embedded in an initiative that is able to launch a pilot project of some sort … but these rarely last very long and end when the initial funding runs out.

During the course of my career there has been huge progress in science and technology, and the knowledge we now have should be sufficient to enable a far better quality of life and standard of living than anything we have known in the past. I tell the story of a computer installation I worked on in 1967 which had 4K of main memory … and now a smart cell phone has a memory of 4G or more. If technology is more than a million times more powerful, how come society and quality of life is not a million times better?!

The good news is, of course, that for some people there has been an improvement in standard of living, but the bad news is that there are billions of people around the world who are still faced with poverty, hunger and disease and are totally lacking in opportunity.

While there may be aggregate GDP growth in many of the rich countries around the world, there is a widespread problem of no growth in the wealth of middle and low income families in these countries.

The wonderful 'invisible hand' that Adam Smith talked about in his book 'The Wealth of Nations' in 1776 does not work in the modern economy and the reasons are in plain view. Much of modern economic activity flows through very large organizations which have oligopolistic power if not monopoly power. It should be noted, however, that these organizations also have the capacity to be very efficient in the use of economic resources and to do things that are quite amazing.

The challenge, therefore is to have a society and an economy globally where the outcome from economic activity is better for society, the economy and the environment than what we have at the present time.

My recent blog … 'Payroll Down … Profit Up … Society Down' was about the impact of a business payroll on both the company and the employees and society. Now I want to go beyond this to the dynamic of everything else that a company does.

Conventional accounting has a singular focus on money transactions and from these reports in summary form externally to investors and internally in a disaggregated way to every level of decision maker. This is powerful and has resulted in company performance that is very efficient in terms of making money profit and the use of money cost resources. These metrics enable good performance with respect to financial capital.

For the 21st century, we have to pay attention to the other capitals as well. If we don't do this we will end up with a world full of financial capital, but bankrupt in terms of social capital, human capital, physical capital, institutional capital and natural capital.

Take the case of physical capital. Inside the company the physical capital are the fixed assets. In the society at large, physical capital is the infrastructure and all the built environment. Physical capital has a big role in enabling the productivity of a place. Physical capital may be owned by a private person, a private company or by the public at large. There are rigorous rules about the accounting for physical assets in the company setting, but not so much elsewhere. Physical assets depreciate over time, they need maintenance, and in due course need replacement. In the United States, for example, the state of the physical capital is very poor even while financial capital is very strong.

Social capital and human capital are both related to people.

When a company talks about developing human capital it is about developing the skills of the employees so that they may be more productive in the context of the company. When an individual talks about improving himself or herself, human capital development looks different. Part may be to improve skills so that employment can be better paid, part may be to be better prepared for parenting or any number of other important things that have value in life.

Social capital relates to people and the various elements of the institutional framework that results in people being in a better place.

Institutional capital is the structure that makes it possible for an economy to function and for people to live their lives. It is the rule of law, it is the institutions of government, it is the value system, it is the organizations that help to build community and hold society together.

Natural capital is everything that the planet provides in terms of resources, in terms of bio-diversity, eco-services and indeed life itself.

The capitalism of the 19th Century had a singular focus on financial capital. Capitalism for the 21st century has to embrace all the capitals rather than just the one.

A big part of the creation of financial capital up to now has been by depleting natural capital. In addition some of the concentration of financial capital is a result of simply transferring financial capital away from those with modest capital without any creation of new capital.

It follows that optimizing performance of society and the economy so that all of the capitals are augmented is a very different calculation than the one that has been taught in business schools since they were first opened decades ago.

Optimizing performance for society and the economy is very different from optimizing performance for a company and for a company's investors.

Optimizing performance in the modern globally interconnected world is very different again from simply improving a company's money profit performance.

How to do these things is something that requires some new thinking. Some of this thinking is already going on. Over the past few years there has been an enormous amount of progress in getting companies to do better reporting about different aspects of the externalities … but there is still a long way to go.

I argue that the progress in 'reporting' has not yet been matched by the progress needed in the accounting that should be behind the reporting. Furthermore there is a need to have a framework of metrics that takes into account the different perspectives of all of the constituents of society and the economy.

I believe that in due course this will come … maybe sooner than later.

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