

RENEWING CAPITALISM: THE CRANFIELD PROJECT

The purpose and background to this project

This document sets out the purpose and scope of the Cranfield project on Renewing Capitalism and describes the contribution that the project aims to make to a very active debate on the future direction of capitalism. The document also provides a progress report on work done so far.

As we write in October 2014, the UK is emerging from the longest recession in living memory, although there are still doubts about whether the benefits of recovery are being widely shared among different socio-economic groups. The Great Recession, as it is often now called, has affected much of the developed world and followed the financial crisis of 2007/8.

This crisis, the public bail-out of the financial system, the ensuing recession and the austerity programmes introduced by governments to restore public finances, have shaken the foundations of the capitalist system. In January 2012 the Financial Times ran a series of articles under the heading of 'Capitalism in Crisis'¹ reflecting a sense that something very significant had happened and that we had reached a point of departure from the past. Many business leaders have expressed concern about the apparent loss of confidence and trust among the public in business and the financial system.

These events have spurred a vast amount of analysis and recommendations for business leaders, governments, inter-governmental organisations, investors and the public in general. Large numbers of books, articles, reports and opinion pieces have been written and countless words spoken in the media and at conferences during the last seven years. Many new initiatives and dialogues have commenced to address the perceived problems with the capitalist system. This material adds to a substantial volume of work dating from before the crisis on corporate responsibility and sustainability. Many initiatives addressing issues in the market economy and the financial system were started before the crisis and have received added impetus since. Previously heterodox literature that received little attention before the crisis has suddenly become more relevant.

How are business leaders and policy-makers / policy-influencers to make sense of all of this material and how do they use it to inform and guide their decision making and planning?

This project is focused on this question and particularly on the needs of business leaders and managers but we hope it will be useful also for public policy makers. The aim of the project is to produce resources that will:

- enable business leaders and policy-makers absorb and make sense of the growing volume of material,
- stimulate conversations about what the different actors in the economic system should be doing to renew capitalism, to restore trust and to ensure sustainability, encouraging some sort of consensus on at least some of the key elements of a way forward,
- provide a basis for conversation and collaboration among initiatives to renew capitalism, with a view to influencing opinion more widely on what are agreed as the essential elements of the way forward,
- and potentially, generate ideas which in time might lead to a new conceptual framework, a new paradigm, to replace the former neoliberal/Washington consensus which is now widely regarded by many as obsolete, or at least requiring some serious attention.

¹<http://aboutus.ft.com/2012/01/09/financial-times-launches-capitalism-in-crisis-series/#axzz2hawH04ON>

Our aim is to add value to the debate by analysing and synthesising the various initiatives and contributions. We do not wish to duplicate the work of others; our purpose is to facilitate the dissemination of that work. At this stage, we are not necessarily endorsing any particular initiatives or solutions - and indeed in most cases, the initiatives remain work in progress anyway. For now, our goal is to make sense of what work is going on; to highlight certain models and frameworks that we think look interesting and which could become useful "bridges" linking separate blocks of work; and to offer some suggestions that might help some of those working in individual initiatives to see how their work fits in to a wider social movement for a new model of renewed capitalism.

Terms, definitions and starting assumptions

A number of terms are in common use: writers and speakers on the subject say that capitalism needs to be 'sustainable' or 'responsible' or 'conscious' or 'moral' or 'inclusive' or 'long-term' or 'progressive'; there may be other terms. All describe a desirable state of affairs for the capitalism of the future. We have prepared a document *Defining Terms* which shows the origin of the various terms and their particular meaning.

For our project we use the term 'Renewing Capitalism' which connotes a process of change and encapsulates all the various proposals for the content of change. We aim to understand the various initiatives that seek to change the current model of capitalism and to identify the connections between them. Our goal is to synthesise rather than to add another term for a desired end state and to produce a map of the terrain on which the debate takes place.

We would, however, like to pause and question whether 'capitalism' is the right word for the future. This does not imply that we propose abandoning capitalism, and particularly the idea of competition in a market economy. But the word 'capitalism' now has strong connotations with finance and inevitably with practices that led to the financial crisis and the subsequent recession. The word also has connotations of old conflicts between the owners of capital and the providers of labour, between managers and workers; and these old conflicts now come back into focus with unemployment, employment insecurity, zero hours contracts; and more generally with growing inequalities in income and wealth. In addition, the emphasis on finance leads to an undervaluation of other forms of capital, namely human, social and environmental capital.

The issue here is about the language we use in discourse. Particular words become associated with particular ideas and assumptions, which in turn constrain our thinking. If we are to generate new ideas and new thinking we have to change the language. We might for example instead refer to the 'market economy' rather than to 'capitalism'.

But continuing for the moment with the old term until we agree a new one, we need to recognise that there are many different varieties of capitalism which are neither monolithic nor immutable. Varieties of capitalism are constantly evolving, especially today with the interaction of globalisation, the development of Information & Communications Technologies (ICT), sustainable development and environmental pressures, with the increasing visibility of extreme inequalities within and between countries and with some very opposed world-views contrasting material and spiritual progress. Also different forms of capitalism have developed around the world aligned with different cultural norms. The fact of constant change ought not, therefore, to be regarded as contentious.

Also, some of the old issues about the control of capitalism, for example the old dichotomy between 'free-markets' or 'laissez-faire' on the one hand and government regulation on the other, are being superseded by more varied forms of self-regulation, collective self-regulation, and formal regulation co-created and implemented with hybrid forms. Corporate Responsibility coalitions like *The World Business Council for Sustainable Development* and

Business for Social Responsibility; multi-stakeholder initiatives such as *the Extractives Industry Transparency Initiative* and *Refrigerants Naturally*, collective certification schemes such as *Marine Stewardship Council* and the *Forest Stewardship Council*; new mechanisms such as *Responsibility Deals* and ‘*earned recognition*’ (lighter inspection for companies voluntarily committing to higher standards and having their own robust verification processes) are all examples of this. Practitioners and academic experts like Simon Zadek and Atle Midttun have termed this ‘partnered’ or ‘collaborative governance’. Again we may need to change the language. ‘Regulation’ automatically connotes government. ‘Governance’, ‘responsibility’ and ‘accountability’ are the new words. Inevitably we confront a debate with ideological and political dimensions but we avoid siding with either of the traditional left and right positions; we wish to move beyond what have become sterile old arguments. Indeed some feel that traditional politics may be now as much part of the problem as the solution.

Whilst the sheer range and complexity of the problems encompassed by this topic can engender a sense of powerlessness and hopelessness, and a question whether it is possible to make a difference, we take the view that it is better to light a candle rather than curse the darkness; and sometimes value can grow in the most unpromising terrain. It is this spirit that we propose this project. We conclude that we can best add value by mapping the territory and being an honest broker to facilitate collaboration and to socialise key ideas emerging, avoiding aligning ourselves with traditional ideological or political positions. We will, however, identify contentious issues and challenge current assumptions, as this is inevitably part of the dialogue that is now taking place.

The scope of the project

We will focus on the UK, and by extension the US and the EU but in the global context. There is a question about the extent to which the perceived problems with capitalism are primarily those of the developed world (or more specifically, the Anglo-American model of capitalism). The Chinese model is of course very different but global trade and currency imbalances are very much a Chinese issue. Also, we need to learn from alternative approaches.

The subject matter of the debate is vast, covering a wide range of economic, social, environmental, political and governance issues. We have prepared a Word Map to show at least some of what is involved. We do not aim to cover every topic in detail. We will focus on where we think we can add value, but keeping in mind the wider terrain on which the debate takes place.

Finding a way forward: the lessons of history

The events which began to unfold in 2007 have challenged some fundamental assumptions and theories about the way that the capitalist system worked. Public policy makers and central bankers struggled to manage the financial crisis as questions arose about the validity of economic models and theories on which previous decisions had been made. Business leaders and managers were suddenly faced with an array of new issues to address and with the task of making decisions in an increasingly uncertain environment. The conceptual framework in which we analysed and made decisions before 2007 no longer seems to be robust. We need to adapt the framework or possibly we need a new one.

We have been here before, twice in the 20th century.

1929-1945

This was a period of financial collapse, the Great Depression, holocaust and global war. The world emerged in three parts:

- the West, with a new consensus: Bretton Woods, Keynesianism;
- the East: communism;
- the third world, new nation states created from de-colonisation.

In the West at least this led to a period of rapid economic growth and renewal. In the period from 1945 to the early 1970s, there was a general agreement that governments needed to actively manage the capitalist system, particularly in maintaining demand in the economy. On the supply side, industries were subject to greater regulation in the US and to nationalisation in the UK.

The 1970s and 1980s

The post war consensus in the West broke down with the collapse of the Bretton Woods agreement, with Middle East conflict and oil crises and in the UK with labour market conflict. But a new order was ready: neoliberalism, born in the Mont Pelerin Society in 1947, led by Hayek, Friedman and others. This was an ideology waiting for its opportunity. It was implemented in the 1980s by Thatcher and Reagan with

- deregulation of businesses and industries to allow the 'free-market' to operate unimpeded,
- privatisation of nationalised industries and outsourcing of government functions (sometimes short-handed as "private sector good, public sector bad"),
- the decline of trade unionism, shifting the balance of power from labour to capital,
- the reform of the financial sector allowing the merger of different financial functions and leading to the proliferation of conflicts of interest (prevented by the previous system).

Business and profit making became respectable again. Business itself reformed around the concept of shareholder value.

The triumph of neoliberalism was the collapse of communism and the spread of the Washington consensus to the developing world and to former communist states.

2007-8 to date

The unexpected financial crisis and Great Recession have now discredited for many people the neoliberal/free-market view of capitalism along with associated neoclassical economic and financial theory. But the difference between today and the two past crises is that we have no new ideology to replace the old. No Keynes and no Mont Pelerin: a lot of ideas about what should be done but no overarching conceptual framework to hold the ideas together.

One objective of this project is to explore what a new conceptual framework might consist of.

Work done so far

We began by contacting a range of initiatives and organisations that were concerned with the future of capitalism. A number of meetings and workshops were held with interested parties in 2013 and 2014 to discuss the issues and the need for a mapping project. We are very grateful to those who have contributed to the scoping of this project so far.

These discussions led to an initial mapping of around 20 initiatives to identify for each:

- the contributors
- the purpose and scope of the initiative
- the problems being addressed or the questions the initiative is seeking to answer
- the existing or emerging recommendations each initiative is making for the various actors in the capitalist system.

A copy of this initial mapping exercise and the summary recommendations is provided on our website. This work led to a paper entitled “**Business after the Financial Crisis and the Great Recession: its purpose and role in society**”. This followed discussions with representatives of a number of initiatives which are addressing what they see as the need to rediscover the moral and ethical principles under which business should operate and to reconnect business with society. This paper identifies a number of common themes, common ground among a range of initiatives about the principles on which business activity should be based. The paper also identifies some institutional issues, concerning the structure of the corporation and the relationship between the corporation and its workers and investors, which may need to be addressed if the implementation of new principles for business is to be successful.

Following this initial mapping exercise we extended our search finding around 130 initiatives, organisations or projects that in some way address the future of the capitalist system. Some of these are inevitably concerned with Corporate Responsibility and/or Sustainability issues but we focused the search on those which address perceived problems with the capitalist system and the need for systemic change. Our list of 130 initiatives is not however exhaustive.

The primary purpose of the Cranfield project is to map the work that is being done by these various initiatives, to identify the connections and the common themes, and to build a framework to enable busy business managers and policy makers to find their way around the subject. As a first step we have attempted to develop a taxonomy which is displayed on our website, with an explanation of the reasoning behind it. This includes the list of 130 initiatives with links to their respective websites.

These mapping exercises and the discussions we had with interested parties led us to identify some common themes. We have attempted a synthesis in a paper entitled “Renewing Capitalism: Reflections”, which is on our website.

Our work has also identified the scope for further working papers. These include the following subjects:

The role of government and its relationship with business

Recent reports, such as the UNGC-Accenture CEO Study on Sustainability², show that CEOs are increasingly of the view that governments need to be more active, in partnership with business, in addressing major issues of sustainability. This view is contrary to the prevailing rhetoric about government and its malign effects on business, and the need for ‘small government’ and ‘free-markets’. This rhetoric may have been necessary during the 1980s when the challenge was to free business from what had become excessive interference from government; but these are old battles long since won. We are in a new era and we need to redefine the role of government and its relationship with business.

² www.unglobalcompact.org/resources/451

Increasing inequality and reducing social mobility and social cohesion

Many contributions address a number of related issues: unemployment, insecurity in employment, low wages, growing income and wealth inequality, the 99% versus the 1%. Capitalism in the UK and US in particular has become less inclusive over the last 30 years. This is not just a social issue as writers on the subject relate increasing inequality to reducing economic growth. There may be a fundamental issue here about the structure of capitalism, which privileges the owners and managers of (financial) capital over the providers of labour. In business, return to capital is to be maximised; labour is a cost to be minimised. There is a need for a better distribution of the benefits of the market economy, a better balance between those who invest their money and those who invest their time; a better balance of power within the capitalist system.

The energy market: a case study

Nothing illustrates some of the key issues facing capitalism than the energy markets. In the UK, reports suggest an imminent capacity issue (a risk of the lights going out), lack of investment, high consumer prices, excessive profits and dividends. In the US, the solar industry is finding it difficult to establish itself in the face, apparently, of opposition from the fossil fuel industry. This may be a traditional battle between incumbents protecting their interests against market entry. The literature suggests that Germany has done better at establishing new sources of energy. A comparative study could be revealing. The context of course is climate change and the need for renewable energy sources.

The process of change

As Friedman (1982)³ pointed out: *There is enormous inertia—a tyranny of the status quo—in private and especially governmental arrangements. Only a crisis—actual or perceived—produces real change. When that crisis occurs, the actions that are taken depend on the ideas that are lying around. That, I believe, is our basic function: to develop alternatives to existing policies, to keep them alive and available until the politically impossible becomes politically inevitable.* Friedman and his associates followed this principle in developing their ideas during what for them were the dark days of the Keynesian era. When the post-war consensus collapsed in the 1970s they were ready with their ideas. As we entered another major crisis in 2007 we had no comparable set of new ideas. As we recover from that crisis there is a risk that the status quo will prevail. Advocates of change may succeed at the margins, but can they hope to achieve their ambitions? There are some major issue here about the process of change, about incremental and systemic change. We should study these issues in the context of our growing understanding of complex systems, and how different parts of complex systems co-evolve.

There are many other issues which merit study. The above are provided as an indicative list of topics to consider.

We encourage interested authors to draft working papers on any of these topics to summarise the contributions to the debate, to articulate the issues, and to provide material that can be adapted for different audiences using different media. This we hope will then lead to further conversations and engagement among interested parties and to action where appropriate

In addition to structuring the material by subject matter, it might also be helpful to prepare summaries for particular stakeholders, for example, on the recommendations various initiatives make for business leaders and managers.

As an academic institution, we ourselves will also be seeking to contribute to the academic literature.

³ Capitalism and Freedom, Chicago Press

Our plan is to post all material, after appropriate review and quality assurance, on the Doughtly Centre section of the Cranfield website.

Feedback

We now welcome comments on the potential scoping of the project as a whole or any part of it, and on the materials already generated. We aim to create something of value and to make a contribution to this ever growing subject, without duplicating the work of others. Feedback on what we are creating is therefore important to us.

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