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| **Capitalism 3.0 (Can we survive without it?)** |
| A discussion on Long-term Capitalism |
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# ABSTRACT

Capitalism covers so many fields and disciplines that it hard to fathom the entirety of the issue. This paper takes a broad view of long-term capitalism and shows that capitalism itself is not a single independent construct. It is an interdependent part of the world and as such needs to be responsible to play its part in the future of the human race.

### KEY WORDS

Long-term capitalism, resource depletion, power-shift, environment expansion, structural change, leadership and culture

# INTRODUCTION

Capitalism is a divisive topic. Only a cursory understanding of politics and social issues is required to realise there is a basic split in opinion; the absolute Free Market proponents versus the social justice *anti*-*globalisationists* at the extremes. However, this over-simplified view tends to ignore some of the basic challenges being faced on a global scale. The primary issue that should be concerning everyone is: how can we continue to grow our population if our resources are diminishing? What does this have to do with long-term capitalism? Everything.

### Where it started, what is has become

The “institutional form of capitalism” has altered since its inception ([Kotz 2009](#_ENREF_21)). If we look at capitalism in sequence, it started in the 1600s with the birth of the company. The joint-stock limited liability entity was created in order to protect shipping merchants from the huge losses incurred by trading the high-seas ([Ferguson 2008](#_ENREF_11)). Thence to Adam Smith’s time, who is often misquoted as a purely self-interested man ([Sen 2010](#_ENREF_32)).

There was then a change immediately after WWII (Capitalism 2.0?) and again with the birth of neoliberal capitalism ([Kotz 2009](#_ENREF_21)) in the late 1970s/early 1980s. Recent additions include variants such as Entrepreneurial Capitalism ([Wooldridge 2011](#_ENREF_38)) and State Capitalism where Governments the world over *rescued* companies after the GFC that were ‘too big to fail’, primarily because nobody else could.([Bremmer 2010](#_ENREF_3)).

### Moving on

The challenge for Capitalism 3.0, or more formally ‘Long-term Capitalism’, is multi-layered. Three discussion points that seem to apply are that the future of capitalism must be principled, patient and have a social conscience. How can this possibly be achieved when the perception of the neoliberal form has its roots in consumption growing faster than both GDP and disposable income ([Kotz 2009](#_ENREF_21))? When the very measure of national wellbeing is based on GDP, a unit of measure for which it was never intended ([Costanza, Hart et al. 2009](#_ENREF_8)). Lastly, how can capitalism face a future that holds a “dangerous convergence of unsustainable trends in the economy, energy and the environment” ([Martenson 2011](#_ENREF_24))? Indeed energy security is arguably a basic need of human security ([Sovacool and Brown 2010](#_ENREF_34)) and so we will experience an amplification of “geopolitical rivalries... rising tensions...and resource competition” ([Barton 2011](#_ENREF_1)). Can we really have *growth* as the only measure for world prosperity, and is continuousgrowth *really* possible anyway ([Jackson 2009](#_ENREF_17))?

### A Dysfunctional Organisation

For an analogy, viewed as a whole, the Earth is one large dysfunctional organisation. It is not a structured organisation as it does not have a dedicated leadership, CEO or a Board of directors. There is not a set of shared values or a binding vision for the future. The shareholders and stakeholders are one and the same, and there are constant inter-department squabbles and conflict. Internal communication is fraught with inconsistencies resulting from the different values and perspectives from each department (country/region). Even the teams (political parties, social groups, business organisations) within each department cannot agree on many issues and lack any true accountability for their actions.

To start resolving this dysfunction, could a guiding ‘vision’ be created to align everybody’s interests? Could a “relational approach to diversity management” be used to cut through all of the social levels so that communication can occur across all ages, ethnicities and social codes ([Syed and Özbilgin 2009](#_ENREF_37))? Is *corporate social responsibility* an effective strategy for business which is “increasingly seen to be interwoven and interdependent” within the societies in which they operate?

Richard Rumelt, in effectively discussing strategy, believes that a *good* strategy has three necessary parts; “a diagnosis, a guiding policy and a set of coherent actions” ([2011](#_ENREF_30)).

# ANALYSIS: A Diagnosis

### What gets measured.... GDP or Game Over

Since the Bretton Woods Conference in the WWII era, GDP has become the only viable measure of a nation’s productivity or wellbeing ([Costanza, Hart et al. 2009](#_ENREF_8)). There are countless research articles and publications debating the question of GDP’s appropriateness for national measurement and the barriers for changing to another metric. Some are in favour of GDP and the unemployment rate as the “hard indicators”, while admitting the imperfection of these measures ([Kassenboehmer and Schmidt 2011](#_ENREF_20)). Others discuss China’s Green GDP ([Li and Lang 2010](#_ENREF_23)) which was introduced in 2006-07 only to be removed a few years later under pressure from regional and local governments “apparently allied to proponents of economic growth within the central government”. Also GDP does not show with transparency the ‘fiscal gap’ (national liabilities exceeding national assets), upon which most developed countries “appear to be running unsustainable fiscal policies”. To close this gap in the US alone would require an increase in federal taxes of 64%. Using simulations on this fiscal measure the US economy will reach ‘Game Over’ in roughly 100 years, ([Evans, Kotlikoff et al. 2011](#_ENREF_10)).

### Power shift, time & governance

Possibly the biggest reality-check for Western capitalism is the shift of power from West to East; ([Barton 2011](#_ENREF_1)) especially as the “emerging East” has an increase in ‘populist politics’ whose policies are generally “exclusionary” ([Bremmer 2010](#_ENREF_3)). As Dr Rod Oram discussed in 2011 the biggest ‘losers’ will be the developed countries, while the ‘winners’ are likely to be China, India et al ([Oram 2011](#_ENREF_26)). Compounding this issue is a fundamental organisational behaviour concept where Western culture values individualism versus Eastern culture valuing collectivism ([McShane, Olekalns et al. 2011](#_ENREF_25)).

Western investors, companies and politicians are all focused on a short time horizon. Investors and the “electronic herd” micro-trade ([Ferguson 2008](#_ENREF_11)) yet in the “Seventies stocks were held on average for seven years – now it is just seven months” ([Barton 2011](#_ENREF_1)). As Strine argues, unfortunately the massive increase in institutional investors and the growth of their power and influence is a major concern as the sector “controls nearly 70% of US publicly traded equities”. For long-term investors who usually invest to secure their retirement or children’s education, this short-term perspective is “fundamentally inconsistent with their objectives” ([Strine Jr 2010](#_ENREF_36)). CEOs think in terms of the next quarterly release of their earnings and politicians keep an eye on their next election in just a few years. This ‘quarterly capitalism’ needs major reform in order to build long-term profitability. In contrast Barton continues, the Asians “typically think in terms of at least 10-15years... this is *the* competitive advantage of many Asian economies”.

### Resource depletion

One of the biggest challenges with GDP is that its “measurement encourages the depletion of natural resources faster than they can renew themselves” ([Costanza, Hart et al. 2009](#_ENREF_8)). The natural resources and environment are disqualified from the ‘accounting algorithm’ with the depletion of the environment’s resources not included in the global measure of wellbeing ([Pillarisetti 2005](#_ENREF_27)). Consider this: the world’s production “exceeds the Earth’s capacity resulting in an ecological overshoot” ([Fischer 2009](#_ENREF_12)). The world actually needs 1.4 Earths just to meet today’s demand ([Oram 2011](#_ENREF_26)). With the population expected to grow to 9.2 billion by 2050 ([Bongaarts 2009](#_ENREF_2)), how is the population expected to survive, let alone grow and prosper? Without clear metrics on the performance of countries and their resources how are people expected to respond to a changing climate, especially with their growing “dependency on fossil fuels, population growth and economic development” ([Sovacool and Brown 2010](#_ENREF_34))?

To be explicit, Earth’s population is growing, resources are diminishing and “human pressures are expected to increase over at least the next century” ([Smith, Knapp et al. 2009](#_ENREF_33)). There are two obvious answers; population control (which conjures up a raft of nasty implications) orbetter management of our current environment coupled with *environment expansion*. As a species we are using a ‘niche resource’ in fossil fuel, if that niche vanishes then there is a real chance of species decline ([Price and Kirkpatrick 2009](#_ENREF_28)). This leads to the question of “does space exploration have important implications for humanity and for human development?” ([Chakrabarti 2008](#_ENREF_5))?

# SOLUTION: The Guiding Policy

The premise is that capitalism has merits but that work is needed to modernise and future-proof it. If it is accepted that the world is using more resources than it can sustain, and if it is accepted that the current operating policy is organisationally dysfunctional, then where are the answers?

### Space & survival

Henderson and Thompson, while discussing Robert Fitz in their book Values at Work ([2003](#_ENREF_16)), say that to resolve structural conflicts “pick one structural goal as being more important”. They are suggesting the use of the hierarchy of importance and the hierarchy of values. If humans can choose one goal as more important than all the rest, perhaps the resolution of conflict can begin. A survival goal would be the development of space exploration. The space industry has now grown into a multi-national “multidisciplinary activity of Olympic proportions” ([Chakrabarti 2008](#_ENREF_5)). Even now society depends on many “creature comforts” provided by the numerous satellites that were put there by many different companies from different countries. How many of Schumpeter’s innovative entrepreneurs ([Harvey, Kiessling et al. 2010](#_ENREF_15)) might be able to profit from this young industry?

### Structural social change and communication

As discussed earlier, Asia is increasing its authority and it has been argued this is a “historic opportunity to rebalance the public and private sectors” so that short-term macro stimulus from this region helps with enduring sustainability ([Sachs 2009](#_ENREF_31)).

Communication is “essential in solving important social problems” especially when linked to the perception that the community or culture is threatened ([Cooren, Kuhn et al. 2011](#_ENREF_7)). Establishing shared goals and ethics will always be a challenge, while “understanding and managing cultural differences” ([Gelfand, Erez et al. 2007](#_ENREF_14)). However, by implementing mutual goals and conflict management methods an organisational culture of affirmative action and multiculturalism can be established.

### Leadership & self-leadership

Leadership is required to balance the current needs of the world with the expansionist colonisation of space. For Steyn and Nieman citing Sutton (1993), they mention that twenty-first century organisations regardless of whether they are social, economic or political “are seen as legitimate only when their actions or outputs are consistent with the value-pattern of society” ([Steyn and Niemann 2010](#_ENREF_35)). Part of this leadership legitimacy is a global approach to measuring standards such as improving on the World Bank’s “empirically imperfect” effort with its ‘genuine savings’ indicators ([Pillarisetti 2005](#_ENREF_27)).

Lastly, individuals need to take ownership of the issues. It is all very well for organisations to use corporate social responsibility; however when joint-stock company managers use this merely as “corporate candy floss, window dressing or green-dressing” then incongruence of values has reached a limit. Wooldridge’s refreshing (if cynical) view of Management Theory goes on to exclaim that post-GFC, of the MBA students who had the opportunity to take the “voluntary oath to serve the greater good and act ethically”, only around 20% did so at the height of its fashion in 2009 ([2011](#_ENREF_38)). How does this bode for the morality of our future leaders? As discussed by Covey a few decades ago, if we really want change then first we must change ourselves ([1989](#_ENREF_9)).

# CHANGE MANAGEMENT: Coherent Actions

### Communication & Culture

But what does the requisite behavioural change mean for the world? Change is rarely wanted nor well received. One solution is training “not of skills, but of mindset, emotions, values and assumptions” understanding that change is an identity question ([Karp and Helg 2008](#_ENREF_19)). This is not an easy task, how do you change the “managerialism in public services” which has “chronic ineffectiveness and inefficiency” leading to cronyism and behaviour that “generate(s) social waste rather than social surplus” ([By, Diefenbach et al. 2008](#_ENREF_4))? The start for change is that politicians, funding members, regulators and academia must understand that empowered change needs both bottom-up and top-down policy ([By, Diefenbach et al. 2008](#_ENREF_4)).

An organisational behaviour perspective is to look at the different layers of ‘world’ organisation. Here Rousseau looks at how to cross the divide between micro and macro ([Rousseau 2011](#_ENREF_29)). “Organisations are reflections of our identities” ([Karp and Helg 2008](#_ENREF_19)). Using a *relational framework* which includes three levels of change at the macro, mesoorganisational and micro, Syed and Özbilgin argue people “make choices based on their own cultural background” which amalgamates all backgrounds into the process ([2009](#_ENREF_37)). All change produces both winners and losers; however people will only *want* change when “the forces are [so] strong that people themselves see no other solution than to change”. People can only influence “chaotic change” from a position of choice and individual responsibility not from a position of status or rank ([Karp and Helg 2008](#_ENREF_19)).

To help bring about effective change, the use of natural ‘influencers’ in different social groups may help. For instance a good tool for collaborative organisations is to employ Social Network Analysis and combine this with measures of organisational culture ([Johnson-Cramer, Parise et al. 2007](#_ENREF_18)). Some of the measures in this case could be GDP/social benchmarking initiatives. The role of corporate communication within enterprise strategy development is to help the organisation determine its values, manage its reputation and fulfil its social and environmental responsibilities ([Steyn and Niemann 2010](#_ENREF_35)). If the World is viewed as an organisation, could the same tools be employed here too?

There has already been a huge amount of press and scientific writing around the human impact on the environment, and again on the effects of capitalism however as Conger discusses in his article The Necessary Art of Persuasion “a persuader must match his or her emotional fervour to the audience’s ability to receive the message” ([Conger 1998](#_ENREF_6)).

### Motivation & reinforcement

There are documented methods for motivating and modifying behaviours. There is Positive and Negative reinforcement which increases the desired behaviour-outcome especially when used with a variable-ratio schedule. China’s ‘Green Experiment’ was quite possibly the largest endeavour in trying to address environmental accounting, however it was also an attempt to look at the ‘career assessments of officials’ ([Li and Lang 2010](#_ENREF_23)). Because the project was abandoned, what does this say to others in terms of reinforcing behaviour? Next time (if there is a next time) will it be even harder to push through reform?

There are four methods of motivation within organisations and as Dr Bernie Frey discussed in his lecture, these are most effective when all used together ([Frey 2012](#_ENREF_13)). Surely some of these can be employed on a broader scale to motivate humans to consider the long-term impact of their actions? By setting a clear goal of species survival, using long-term capitalism as the vehicle and adjusting wider perspectives around equity and justice, global organisational change can start to occur with more pragmatism.

# CONCLUDING THOUGHTS

After the recent effects of the market melt-down of the late 2000s, capitalism has been in the sights of many. Yet it can be easy to ignore the benefits which are being felt in developing countries as the ‘power shift’ continues to take hold. This truly is an era of change and as such the World ‘organisation’ must dedicate some thought-leadership to ensure positive outcomes for all people and for the long-term. Layton, Robinson et al ([2009](#_ENREF_22)) citing Charles Handy’s The Empty raincoat (1994 p.15) says of Adam Smith that “the market is a mechanism for sorting the efficient from the inefficient, it is not a substitute for responsibility”. It is time to act responsibly. Changing capitalism for the long-term is just part of the puzzle, however it plays a crucial role. Short-termism will probably destroy the planet within a century, and the only plausible way forward for human survival is to take a hard look at the current ‘progress’, look after the current environment as best as possible and to search the heavens for somewhere to allow the race to live and expand. Without this type of entrepreneurial expansion, which has a clear focus on survival and colonisation while appreciating the culture of long-term capitalism, the world is heading for an extremely tough time.

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