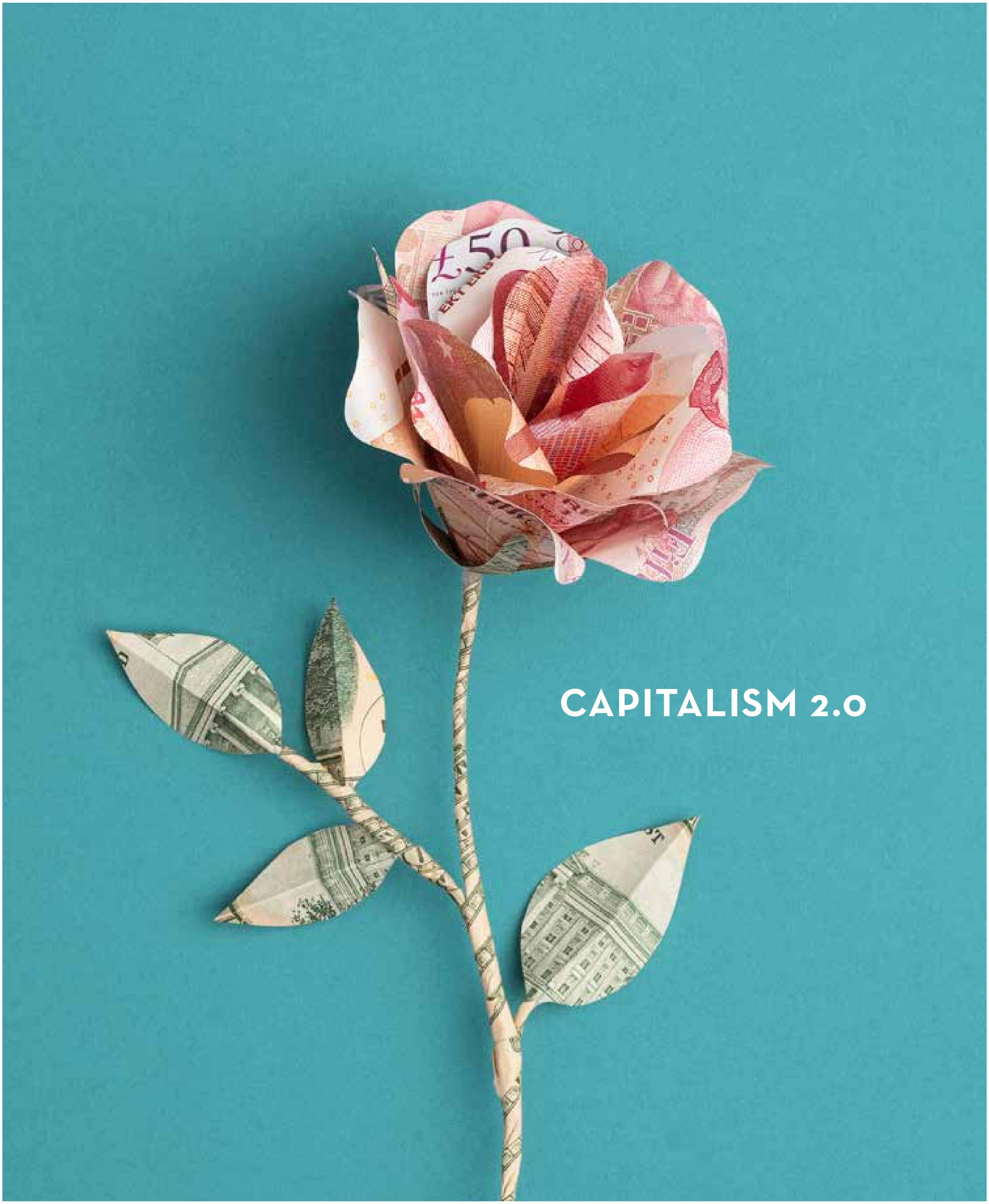
ANTENNA 03



BREWIN DOLPHIN

CAPITALISM 2.0

WELCOME

In this third issue of *Antenna*, we are taking a look at capitalism itself.

Capitalism has enabled the development of civilisation as we know it, inspiring innovation and raising living standards around the world. Driven by the actions of individuals, the system has found ways to adapt to their needs. It relies upon the concept of an 'invisible hand', representing our own self-interest, as the organising force.

Much of how you define capitalism is about how you define self-interest. Capitalism 1.0 (our current system) assumes self-interest means maximising short-term profits, but this can lead to exploitation, pollution, tax avoidance and inequality. Capitalism 2.0 means seeing these issues as part of our self-interest and addressing them. It is driven by individuals, in their roles as consumers, workers, savers and voters.

From an investment perspective, the challenge is to identify the companies that are alert and responsive to the changes taking place in popular attitudes, because those are the businesses that have a better chance of succeeding in the long term.

They are also the sorts of businesses we seek to invest in. We take a long-term view and, once invested, we actively engage with them to influence where we can. Capitalism responds to the views and actions of individuals, and it is they who are driving the move towards capitalism 2.0.

Guy Foster,
Head of Research, Brewin Dolphin

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LETTERS TO THE EDITOR

Contact us at antenna@brewin.co.uk

To whom it may concern,

I would like to comment on the article in *Antenna 02* that covered energy storage.

May I suggest that you expand your examination of sources of energy storage?

A British company, Zap&Go, has developed the latest, and most exciting, innovation available today. I would recommend you follow up your research by examining the development of the 'supercapacitor', which is available on their website.

Regards,
Allen Whittaker

Dear Mr Whittaker,

Many thanks for your comment and your suggestion.

Supercapacitors are another front in the onward march of energy storage technologies. Capacitors are made of a dielectric layer between two electrodes, and are used for filtering and storing energy. Electric double-layer capacitors, also known as supercapacitors or ultracapacitors, can store much more energy than capacitors and can accept and discharge charge much faster than batteries.

The leading producer in this market is a US firm called Cellergy, and perhaps the best known is Japan's Panasonic. Then there is the US-based Paper Battery Company, which makes ultra-thin capacitors that it hopes will become popular in wearable technology.

The field is burgeoning with new entrants, including Zap&Go, whose software is licensed from Oxford University. Other new entrants are Estonia's Skeleton Technologies and Yunasko, which is registered in London but operates from Ukraine.

The developing energy storage world is a bit of a rabbit hole down which you find endless alternative routes. Unfortunately, it doesn't give you great odds of success when investing, but, as with a lot of emerging technologies, there will be a more general gain to consumers.

Kind regards,
Guy

Dear Guy Foster,

I read *Antenna 02* with great interest. It's a fine publication.

However, on page 5 you wrote rather dismissively of the prospects for nuclear power. I personally see an excellent future for nuclear, primarily for small modular reactors (SMRs).

In particular, I would like to draw your attention to Rolls-Royce's activity in this field. Not only does the company have vast experience in the manufacture of small pressurised water reactors for nuclear submarines (e.g. Trident), but it has the capability to complete small power station projects (typically about 400MW) using an almost exclusively British supply chain. Furthermore, Rolls-Royce supply control and instrumentation technology to the nuclear industry. This represents a huge business opportunity for the company and its suppliers. The reason why large (~1 GW) reactors are less in favour, as you no doubt know, is because of the necessity for big government involvement.

I was never employed in the industry but as a physicist I've followed its fortunes.

Yours,
Joe Lambert

Dear Dr Lambert,

Many thanks for your email. You make an excellent point about SMR technology and I'm happy to give our perspective on it.

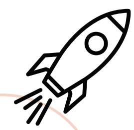
First, please excuse the broad-brush approach sometimes taken in Antenna. *Even though each edition has just one over-arching topic, the sub-topics covered are complex, which means we have to leave a lot out. Indeed, covering the pros and cons of every potential solution to the future of energy would risk leaving readers more confused than informed!*

The SMR technology at Rolls-Royce is quite interesting, particularly in the context of the current much-reduced investment in nuclear facilities, which is a major shortcoming of the industry. The factors which led to this topic not being more prominent in Antenna *are the same as those faced by Rolls-Royce: the competitiveness of other sources of energy, most obviously renewables, but also natural gas.*

It is also the case that the most compelling economics doesn't always win the argument in politically scrutinised areas such as energy strategy. While renewables flourish beneath something of a political halo, nuclear endures a stigma. It has to be decisively better value in order to be confident of playing a major part in a future energy strategy under what could be a variety of different governments. It may well do so, but that will depend a lot upon the themes we discussed in the last edition: the generation, distribution and storage potential of renewables.

Kind regards,
Guy

CAPITALISM 2.0



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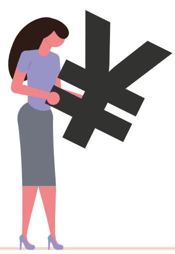
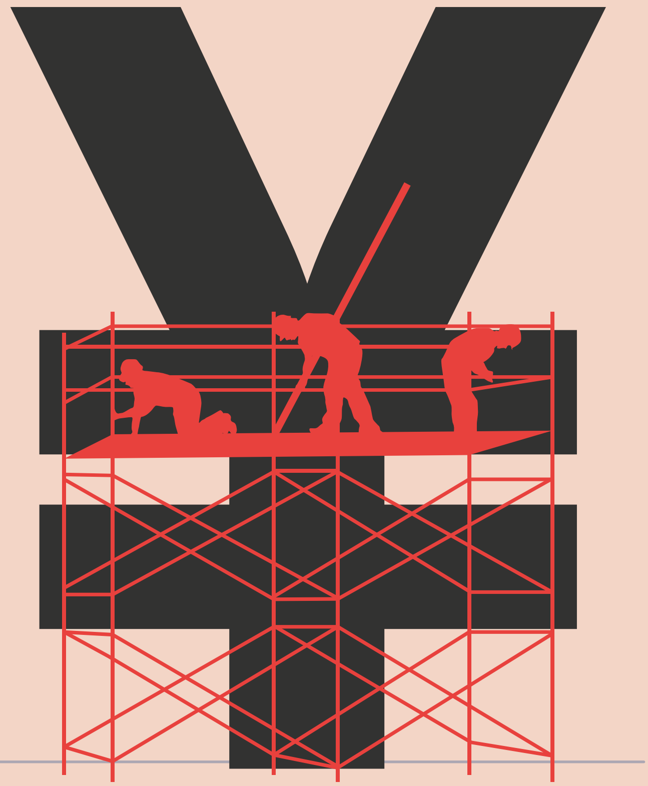




UPGRADING CAPITALISM

Capitalism's capacity for good cannot be ignored, but increasingly it is evident that the system needs a reboot

Few of even capitalism's fiercest opponents would dispute its dynamism. It has proved an unrivalled engine of economic growth that has raised living standards around the world, pulling millions out of poverty within a few short decades. A system that economist Adam Smith famously noted relies ultimately on individuals' self-interest has done uncannily well in meeting the broader needs of society as a whole.

Even so, many thoroughgoing capitalists today are uneasy. The more market economics has triumphed around the world, the more the flaws in the way the system currently operates have been brought to the fore. It seems that the time has arrived for a reboot. We need to usher in capitalism 2.0, an updated system that throws off the short-termism behind so many of today's business practices and addresses head-on issues such as rising inequality and the irreparable harm being inflicted on the environment.

The cornerstone of the shift is changing values among consumers. Capitalism delivers progress but it is the collective will of the participants in an economy that determines the direction that progress will take. Since the 1970s, the notion that the only social responsibility of a business is to increase its returns to shareholders has held undue sway. Businesses today must recognise that they are not simply accountable to a narrow class of shareholders who often hold the firm's capital only briefly. Instead, they must become responsible to a broader array of stakeholders; alongside shareholders, they need to consider employees, the local community, the broader public and the environment.

That capitalism is less than perfect should come as no surprise – no economic system is without manifest drawbacks. By its nature, capitalism is unstable. Swings in investor sentiment make it prone to booms and busts, and over time it becomes a struggle to keep market forces operating with vigour. Some economists posit that the system is naturally beholden to speculative bubbles, while others refer to creative destruction, whereby capitalism incessantly changes. On the one hand, this produces innovation; on the other, this innovation comes at a price, as the old is destroyed to make way for the new.

TROUBLESHOOTING

Inequality, too, is inherent in capitalism, the dynamic of which creates winners and losers as new technologies and companies push aside established ones; the rise of big tech companies in Silicon Valley epitomises this phenomenon. Today, many people fear economic disparities are fast growing to unsupportable levels; there are now more than 2,000 billionaires around the world, with combined assets of US$9.1tn, yet many workers in the gig economy lack even basic employment rights.

And sometimes money seems to flow most readily not to the inventive risk-taker or entrepreneur operating in fair markets (the sort of person Adam Smith would have admired), but to those who control a monopoly or other business shielded from unwelcome competition. Meanwhile, the mantra that a business's only duty is to reward shareholders and the practice of quarterly trading reporting have encouraged a short-termism that can be damaging even to the company itself as it fails to make effective plans for its future.

Above all, the sheer success of the free-market system has begun to expose all too graphically the effect that unrestrained growth is having on the environment. With the world population nudging eight billion, halting degradation of the planet is more important than ever. Wildlife habitats are under threat and many species face extinction. Discarded plastic litters the deepest oceanic trenches and microplastics are embedded in the food chain. And with global temperatures rising markedly each year, scope for any lingering scepticism about human-made climate change is fast disappearing.

What is encouraging, though, is the dramatic new awareness about these issues and the need for urgent solutions. Young people in particular are unwilling to tolerate the erratic performance of capitalism 1.0: they want change and are beginning to make their voices heard both as voters and consumers.

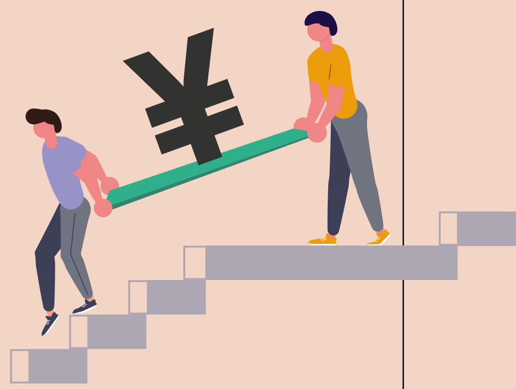
Furthermore, many thought-through ideas for effecting improvement already exist. Take the concept of the 'circular economy'. This wants to end the discredited 'take, make and dispose' model that society has relied on for producing everything from plastic bottles to washing machines. Instead, it would design out waste from supply chains, using waste materials as inputs and aiming for there to be no waste in a product's lifecycle. A related idea is to standardise packaging design worldwide to make recycling easier.

Ideas to combat wealth and income inequality are equally abundant. One of the most promising, a universal basic income, has been gaining traction in many countries. Under this policy, each citizen would receive an income from the state regardless of how economically productive they were. This would help to accommodate sudden changes in society, notably the possible disappearance of existing jobs owing to the increased use of robotics.

SOCIAL LICENCE TO OPERATE

With the arrival of capitalism 2.0, firms will need to satisfy the wider public and governments that they have a beneficial societal impact. In other words, they will need what is being called a social licence to operate. That would entail a socially conscious attitude to tax payments and employment practices, for example. It would also mean corporates adopting sustainable environmental policies.

Some big firms, such as Unilever, embraced this approach more than a decade ago. In America, B Corporations (Benefit Corporations) are gaining in popularity. These are for-profit organisations committed in US law to act in the interests of a wide group of stakeholders, not just shareholders. This change in legal status gives directors a mandate to pay employees a living wage or choose green-friendly manufacturing techniques, for example, even if costs are higher. B Corps are gaining traction worldwide.

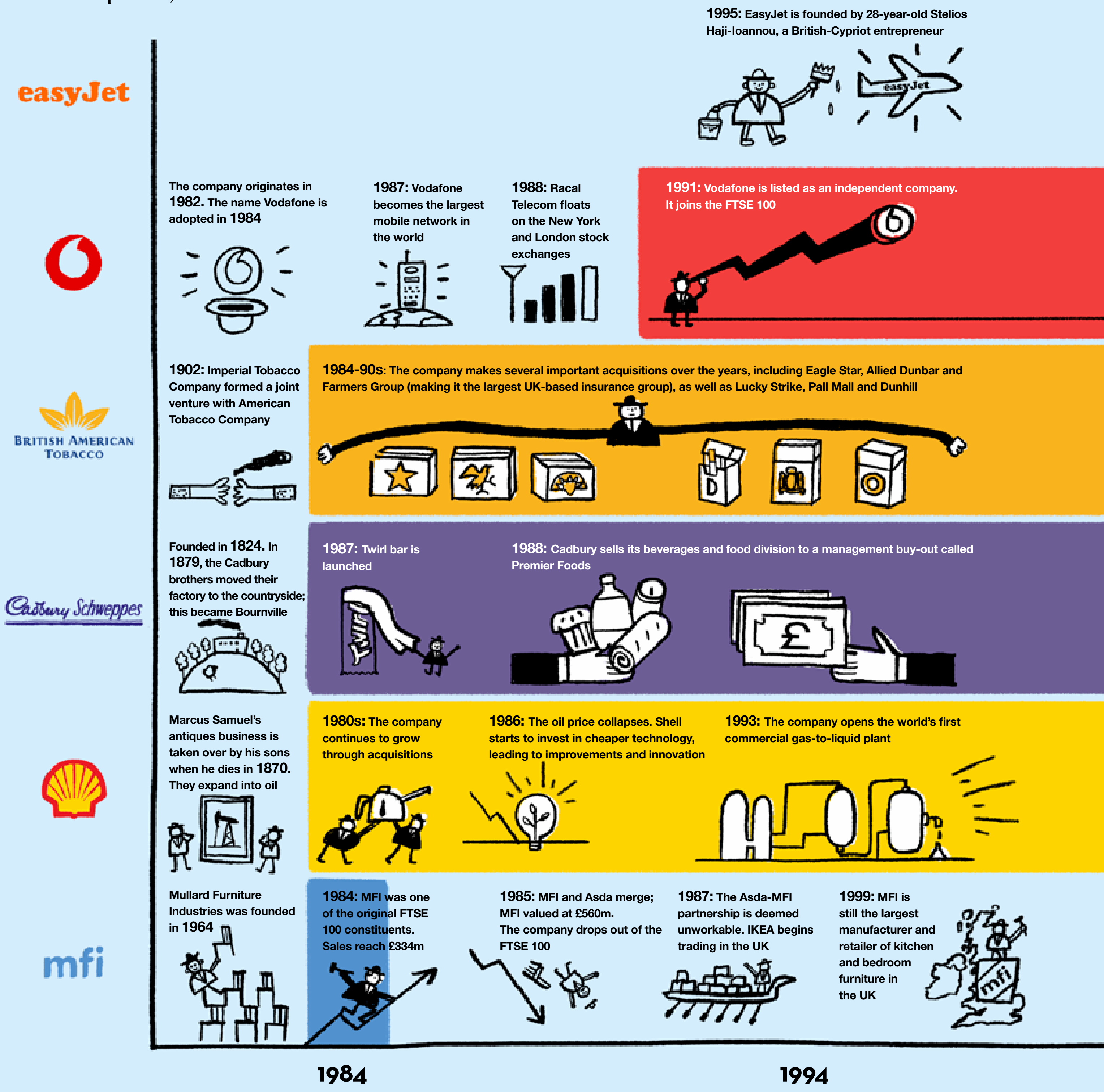


Change is coming fast. Financial institutions are creating an array of novel instruments such as green bonds to meet burgeoning investor appetite for sustainable products. Polluters can no longer shrug off the concerns of environmentalists. Big carbon dioxide emitters, for example, now face the prospect that in a few years levies may be introduced on the burning of carbon; this would jeopardise their business models, making it a concern for investors today.

With consumers and savers expressing their preference for sustainable businesses while governments, at the behest of voters, wield the stick on those who are struggling to evolve, the forces of creative destruction are at work once more. Firms face a stark choice. They can hold out and risk having new regulations imposed on them as the need for urgent action becomes more evident. Or they can willingly embrace capitalism 2.0, thereby garnering the benefits of adopting a sustainable approach by winning the approval of consumers, employees and local communities as well as shareholders. ■

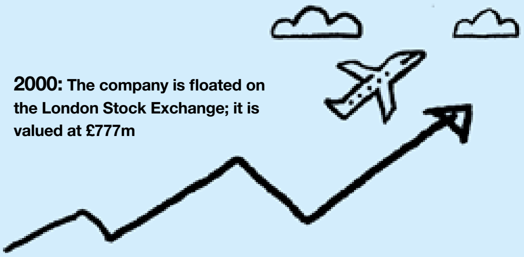
RISE AND FALL

The FTSE 100 was launched in 1984 at 1,000 points. The fortunes of the original 100 companies have been varied; of those first businesses, very few are still on the index today. Here we follow the fortunes of some of the original FTSE 100 companies, and some of the newer entrants...



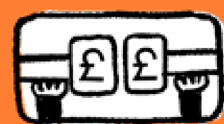
Important Note:
Past performance is not a guide to future performance. We or a connected person may have positions in or options on the securities mentioned herein or may buy, sell or offer to make a purchase or sale of such securities from time to time.
The value of investments can fall and you may get back less than you invested. This information is for illustrative purposes and is not intended as investment/financial advice.

2000: The company is floated on the London Stock Exchange; it is valued at £777m



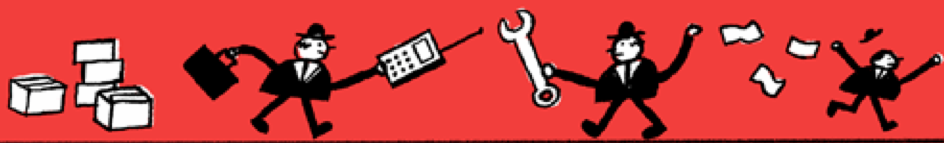
2013: Promoted to the FTSE 100

2016: Issues a profit warning



2017: EasyJet flew 81.6 million passengers – a figure that only continues to rise

2000: Vodafone has made a series of acquisitions over the years, one of the most notable being its hostile takeover (EUR190 million) of German firm Mannesmann in 2000



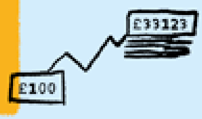
2000s: The company makes purchases in Turkey, Egypt, Vietnam and elsewhere

2007: Smoking ban comes into force across the UK

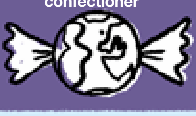
2012-13: BAT acquires CN Creative, which specialises in electronic cigarette technology. In 2013, BAT launches its first vapour product – the Vype e-cigarette

2017: Acquires Reynolds American Inc (in which it already had a 42% stake), making it one of the leading vapour companies

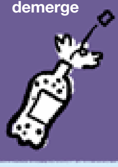
2019: A £100 investment in 1984 would have provided a return of £33,123



2003: Cadbury Schweppes buys rival Adams, becoming the world's leading confectioner



2008: Cadbury and Schweppes demerge



2009: Kraft Foods acquires Cadbury, valuing the company at £11.5bn. This controversial deal resulted in a change to UK takeover laws

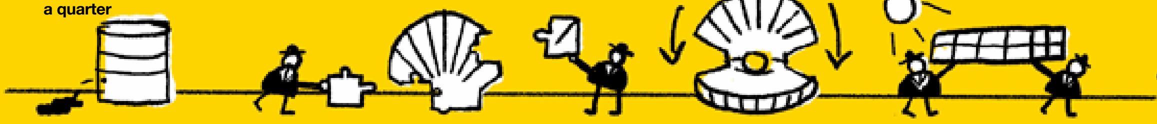
2010: Cadbury delisted from the stockmarket, becoming part of Kraft

2004: A fairly bad year: Shell is found to have overestimated its proven oil and gas by more than a quarter

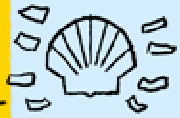
2005: The company undergoes a reorganisation. The partnership between Royal Dutch Shell and Shell Trading and Transport is dissolved; the corporate structure is united under a single holding company

2015: Royal Dutch Shell buys BG Group for £47bn

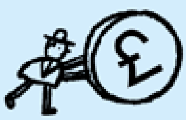
2016: The company creates its New Energies business to focus on renewables



2019: Shell has not missed a dividend payment since the second world war



2006: Hard times: the company is bought for £1



2008: Worse times: the company goes into administration

2004 **2014** **2019**

CROWD SOURCING

Capitalism has delivered enormous wealth, health and quality-of-life benefits. But with rising inequality, confidence in the system has been shaken. How might individuals be able to influence businesses to change the way they operate?

Capitalism's impact on the world is undeniable. Even adopting just some elements of capitalism, as China has, clearly brings huge benefits. Since it started to liberalise its economy in the early 1980s, the wealth of China's population has increased over 30 times (GDP per capita rose from US$309 in 1980 to US$9,600 in 2018), and average life expectancy increased from 66 in 1980 to 76 in 2016.

The benefits of capitalism go far beyond poverty alleviation and advances in health – as important as these factors are – as shown by the dramatic quality-of-life improvements of people living in capitalist economies in the post-second-world-war era. For example, in the UK today, around 47% of the population own a car, compared with only 5% in 1950. They also enjoy far safer vehicles, with road fatalities falling from 6,400 in 1979 to 1,800 in 2017, despite there being far more cars on the road. These quality-of-life improvements have been made possible through sustained economic progress and the innovation that is inherent in the capitalist system.

GROWING UNEASE

However, capitalism has hit a bump in the road. Rising inequality, both generational and class-based, coupled with businesses failing to address the negative consequences of their commercial successes – such as environmental damage or personal data abuse – have knocked confidence in the system.

In 1938, the richest 10% of households in the UK accounted for 34.6% of all wealth in the country; in 1979, 21%. In 1979-91, inequality widened sharply, but changes have been less dramatic since. Globalisation has not helped everyone equally. According to the Office for National Statistics, the richest 10% in Great Britain today account for 44% of all wealth, with the poorest 50% of households holding just 9%. Even though employment levels in the UK today are at record highs, employment itself is no guarantee of economic security, with almost four million workers in poverty, up by half a million compared with five years ago. Inequality has also emerged between generations. The Resolution Foundation, a thinktank, says that cohort-on-cohort progress has been reversed. It points out that millennials are half as likely to own their own home at age 30 compared with baby boomers, and that those born after 1955 are on average accumulating less wealth than their predecessors did at the same age.

If this wealth inequality is not dealt with, the concern is that we could see an even greater pushback against the system.

Many politicians, academics, and business leaders themselves, have been calling for reform. In April 2019, Ray Dalio, founder of the world's largest hedge fund, Bridgewater Associates, wrote: "I think that most capitalists don't know how to divide the economic pie well and most socialists don't know how to grow it well." Dalio's view is that either proponents of different ideologies work together to re-engineer the system, or they do not – in which case conflict will continue, to the detriment of all and an overall shrinkage of the 'pie'.

But the biggest influencers of change might not be these 'institutional' voices. It might rather be individuals, as both employees and consumers.

OWNERS AND WORKERS

Capitalism has always grappled with the relationship between owners and workers, but providing better working conditions has repeatedly brought better results. This is exemplified by the experiences of Henry Ford in the early 1900s.

Ford's development of the moving assembly line dramatically improved productivity (the time needed to produce a Model T car chassis was reduced from 12 hours to about an hour and a half), but his practices took a toll on his labour force. According to the Henry Ford Heritage Association: "Thousands of people toiled under harsh and demanding conditions: standing in their place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WITH CARE
QUALITY

along that assembly line; doing their repetitive task; over and over again." By 1913, Ford's labour force had grown to 13,000, but he needed an extra 1,000 workers to cover for absentees and labour turnover stood at 370%.

In 1914, Ford caused a stir by doubling the minimum wage to US$5/day, and reducing the work day from nine hours to eight. Absenteeism fell and staff turnover declined to 16% by 1915.

It was not an altruistic decision. Ford reportedly called it the smartest cost-cutting move he ever made. Headcount could be reduced because he had fewer absentees to cover for. Production line downtime, training costs and recruiting costs fell. Yet he had sown the seeds for a far more nuanced approach to relations between capital owners and employees, and other factories started to follow suit.

More recently, the introduction of national minimum wages further demonstrates how improving the lot of the employee leads to advantages for the employer. In the UK, the National Minimum Wage was introduced in 1999, and the National Living Wage (a higher wage for those aged over 25) in 2016. These higher wages have not negatively affected productivity, although there were fears that they would. Higher wages attract more experienced applicants and motivate the pre-existing workforce. Turnover can be lower, which can mean that companies invest more in training. Research has shown that productivity gains tend to be highest in labour-intensive industries such as retail and cleaning.

TWO-TIER WORKFORCE

While the highly skilled receive vast rewards and command power, the opposite is true for the lesser skilled. In addition, their future livelihoods are under threat owing to automation.

Joblessness in the UK is currently at its lowest level since 1975. Yet this should not be seen as an out-and-out success story. The number of unemployed may have decreased, but there has been a rise in those under-employed – individuals on 'zero hours' contracts who work in the burgeoning gig economy. These people have little job security and few rights. The job market has adapted to new norms more quickly than legislation has, leaving many workers at the mercy of loopholes such as the so-called Swedish derogation (whereby agencies employ workers directly, thereby avoiding some of the rules of the Agency Workers Regulations, enabling firms to pay lower wages).

In the week of Uber's IPO in May 2019, its drivers (who in the US are independent contractors, not employees, but who at the time of writing in the UK are classed as workers) protested in London and New York over low pay and poor working conditions. This at the same time as many higher-skilled staff became millionaires, and investors provided additional capital for initiatives such as autonomous vehicle development – which will eliminate many driver jobs.

If the gig economy does not find a better balance that works for both sides, such protests could become commonplace and employers could soon feel the negative effects. As we have seen, it is in companies' best interests to be considerate of their employees' interests.

CONSUMER POWER BUILDS

The system has undergone course corrections in the past, but one reason why a change feels likely is the growing power of individuals.

Consumers are increasingly discerning in their purchasing, reflecting their concerns about a range of issues.

Artwork by Pistache, photography by Michael Hedge

Poor business practice, such as exploitation of employees or resources, can be publicised more quickly and at a greater scale than previously thanks to social media. This gives the individual consumer more power and is a material risk to business. In 2018, the Consumer Goods Forum and Futerra, a sustainability consultancy, surveyed 130 experts from consumer goods companies and the Chartered Institute of Marketing. Over 90% said that today's consumers are interested in corporate transparency on social, health, environmental and safety issues; are more interested than five years ago; and that their interest will increase in the future.

Consumers' desire for transparency has created a whole new industry. Certifications such as Ecolabel Index are becoming more common and companies like London-based Provenance go even further, working with businesses to create verifiable proof of their sustainability credentials. Consumers can search for companies and products against five sustainability metrics: social impact, environmental impact, health and nutrition, animal welfare, and safety and quality. The days of avoiding disclosure of sustainability credentials and 'greenwashing' (over-egged environmental and sustainability claims) appear to be over.

Once again, it is the younger generations at the forefront of this trend. Nielsen found that millennials are "more likely than Baby Boomers (53% vs 34%) to say they'd be willing to forgo a brand in order to buy products that are environmentally friendly". But this is not exclusive to this generation, and will continue in the future. The Overton window – the range of ideas that are deemed acceptable in public discourse – is shifting; while the younger generations are leading the way, they are setting the pace for the rest of us.

Businesses would do well to take these demands seriously. Had they taken the initiative, anticipating consumer concerns, they could have been in a position to lead changes and present themselves as forward-thinking. In an age when social media is being used as a tool to promote activism, the rapid spread of campaigns such as #DeleteUber (in response to its failure to address inappropriate workplace practices) and #DeleteFacebook (in response to the Cambridge Analytica scandal) should serve as a warning. ■

THREE TAKEAWAYS

1. Inequality is a key issue that must be addressed by capitalism. The richest 10% of households in Great Britain today account for 44% of all wealth; the poorest 50% hold just 9%.
2. Joblessness in the UK is at its lowest level since 1975. Yet many individuals are under-employed in the growing gig economy.
3. Consumers are increasingly aware of poor business practices and other ethical and environmental concerns. Public discourse is shifting and businesses should attempt to lead the way.

OPPORTUNITIES:
A RISING TIDE

Economies and companies exist to serve people, not exploit them

Some time in the 1950s a discussion between Henry Ford II, serving CEO of the Ford Motor Company, and Walter Reuther, President of the United Automobile Workers union, is believed to have gone something like this: boasting about his new fleet of robots, Ford challenged, "Walter, how are you going to get those robots to pay your union dues?" To which Reuther replied, "Henry, how are you going to get them to buy your cars?"

What Reuther saw was what Ford's grandfather had recognised decades earlier. All customers are someone's employees, so trying to raise profits by restraining wages is, in aggregate at least, the falsest of economies.

How do we square the circle? Through various means. Minimum wages play a key role. Uniformly raising wages for the lowest earners means no company misses out by unilaterally raising standards. In competitive markets where the pressure on wages is the greatest, profits will be unaffected by a rising tide that lifts all ships.

More long-termism from investors allows them to reclaim the kind of wisdom Ford senior showed in 1914. Paying more can increase output, above compensating for higher costs. Economists measure this as productivity, but believe that productivity drives wages, not the other way around. Investors, represented by the UK's Investment Association, have a productivity action plan that recommends less reporting, more long-term alignment of interests, and more engagement between shareholders and management. This should help avoid short-term decision-making that inhibits long-term economic progress, supporting more wealth for employers and employees alike.

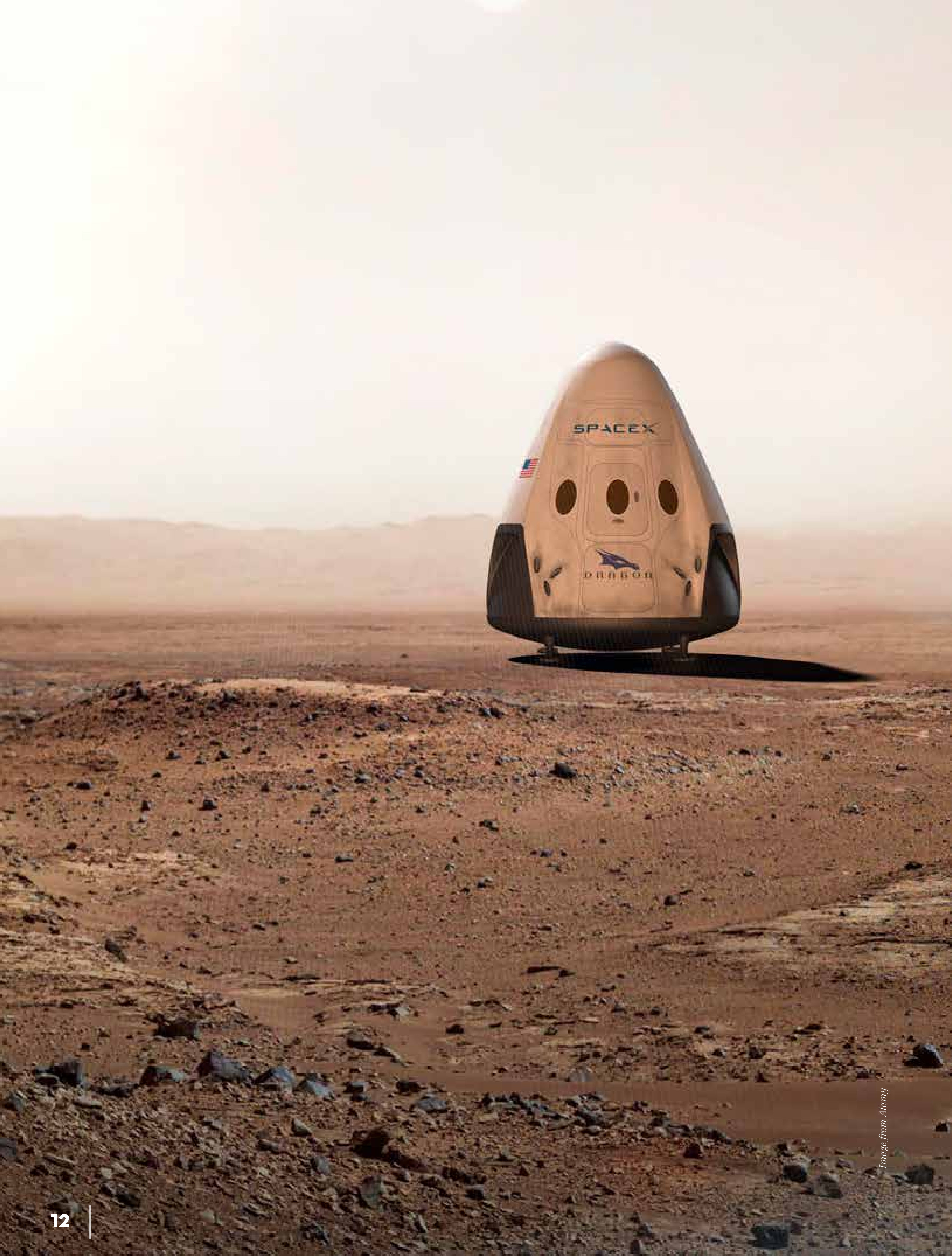


Image from Alamy

FORGING AHEAD

Where will the drive for exploration take us next?

On 2 May, South African billionaire Elon Musk's SpaceX successfully launched its first Crew Dragon capsule on a Falcon 9 rocket. The rocket headed to the International Space Station (ISS), where a few days later it delivered three tonnes of supplies. Musk hopes to send astronauts into space later this year.

The human desire for exploration has always been strong, from Marco Polo's travels along the Silk Road to Columbus's journey across the ocean, Hillary's climb up Everest, and the race to the North and South Poles. This natural desire to explore has been spurred on by capitalism. The push of competition and the desire for profit and fame have encouraged humankind to test the bounds of our abilities and knowledge.

Space is the next frontier.

There are several major players in the space race, but Musk receives the most attention and is – at present – leading the pack. He set up SpaceX in 2002 with the ultimate aim of taking human beings to Mars and founding a colony (target date: 2024).

The new space race is a tight one, with governments and private companies involved. The Cold War-era space race famously pitted the US and Soviet governments against one another in the race for supremacy in space. But private capitalism can venture forward in ways that governments cannot.

Some sources have put the cost of a future Moon landing at US$130bn and the timeframe at 13 years. This is a hard sell for politicians – the endeavour will take place long after they have left office, and their electorate will not see any material gains from such a venture. Despite this, the US's space plan is aiming to put astronauts on the Moon by 2024 with a combination of public and private money and willpower.

Even if Musk does not make it to the red planet, SpaceX has already advanced technology in several areas. This is often a welcome side-effect of capitalist ventures: by-products or unintentional discoveries that have life-altering effects elsewhere (for example, gunpowder, X-rays and strikable matches were all accidentally discovered while their inventors searched for answers to other questions).

So, will SpaceX take us to Mars? On balance, it seems likely – if maybe not within the timescales currently mooted by Musk. There are many areas where capitalism can improve, but providing the inspiration and possibility to take us to new worlds is not one of them.

STAKEHOLDER PRIMACY

In order to thrive in capitalism 2.0, businesses will need to focus on the long term and consider the needs of a wider cast of stakeholders

From the late 20th century, and into the early part of the 21st, a singular economic motive of business has reigned supreme; economist Milton Friedman was one of its staunchest advocates. In 1970, he wrote in *The New York Times Magazine*: "There is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game." Prioritising profits was presented as being in the best long-term interests of business.

Some academics have argued that the pursuit of shareholder value is harmful to shareholders themselves. University of Cambridge economist Ha-Joon Chang points out that shareholders are the most mobile of all stakeholders. They can simply sell their shares to exit their investments, whereas employees, suppliers and communities are forced to have longer-term interests. Consequently, shareholders often prefer strategies that maximise short-term profits and dividends from these profits, usually at the cost of long-term re-investment, which ultimately weakens the company.

Stewardship and long-term investment could be part of the solution, while examples from other countries could provide lessons. German 'Mittelstand' companies – small and medium-sized businesses which account for 70% of all jobs in the country – are characterised by their long-term outlook, sense of social responsibility and workforce investment. In Asia, family-run conglomerates are common, where a sense of responsibility and legacy are built into the fabric of the corporation.

Today, Friedman's view appears both dated and narrow. While we still see the strong influence of his ideas in the concepts of 'shareholder primacy' and 'shareholder value', businesses are increasingly realising that the path to long-term survival and success depends upon ensuring that all stakeholders are being taken into consideration. The pursuit of short-term profit is not enough.

CALLS FOR CHANGE

A fast-growing and increasingly credible chorus of voices is demanding that businesses place a greater emphasis on the interests of a wider stakeholder base.

"It's the perfect storm pushing businesses in this direction," says Chris Turner, Executive Director of B Lab, which certifies companies on their sustainability credentials. "Investors, governments, employees and consumers are all demanding change – but in my opinion, it's led by the consumer. There has been a change in the public consciousness regarding the huge challenges faced by society today, such as rising inequality and climate change, and also a sense that these problems need to be dealt with urgently."

Evidence of the pressure from the other stakeholders Turner refers to is easy to find. The growth of impact investing is making it relatively easier for more socially conscious and environmentally sustainable businesses to raise capital, compared with those which are less so. For example, Norway's Government Pension Fund Global, with around US$1tn of assets under management, is currently divesting from coal- and oil-related assets and increasing its allocation to renewables. Governments are pressing companies to adopt a less legally aggressive and more socially conscious attitude to tax payments. In the UK, Starbucks and Facebook have changed their tax practices, despite not having acted illegally.

"The businesses we talk to are asking themselves: 'How are we responding to these societal changes?'," says Turner.

The more forward-thinking businesses, he continues, are taking a bolder stakeholder-centric approach, more closely aligned to the public discourse, but ultimately all businesses will need to respond. "Capitalism 1.0 with its narrow focus on shareholders will simply become an unacceptable way of doing business. Capitalism 2.0 will mean those businesses that have replaced shareholder primacy with stakeholder capitalism will have a licence to operate from governments and from the social contract, and be better positioned for the long term."

EARLY ADOPTERS

Paul Polman, CEO of Unilever in 2009-18, has shown that this change can be business-led. In 2009, shortly after his appointment, he told shareholders

"THE MORE FORWARD-THINKING BUSINESSES ARE TAKING A BOLDER STAKEHOLDER-CENTRIC APPROACH"

that quarterly reporting and earnings guidance would be scrapped and that, under his leadership, Unilever would be acting to achieve its long-term objectives without obsessing over its next set of financials.

The message did not go down well initially – Unilever's share price fell by 8%. However, over Polman's 10-year tenure, shareholders were richly rewarded. The share price increased by around 250% in this period, compared with the 150% rise of the FTSE 100. The returns were underpinned by Unilever's flagship Sustainable Living Plan, which successfully combined economic and sustainability goals. 'Sustainable living' brands (those with the strongest social or environmental purpose) grew almost 50% faster than other Unilever brands, and focusing on energy reduction in factories delivered environmental benefits and cost savings.

NEW BUSINESS MODELS EMERGE

Back in 2009, Polman's stance was highly unusual. But today, momentum is building and becoming more formalised. The Investment Association is now campaigning to abolish quarterly reporting because it thinks this will increase productivity – a sign that investors recognise they can be their own worst enemies.

The number of B Corporations (companies that are certified on their sustainability credentials and required to legally commit to act in the interests of all stakeholders, not just shareholders) is approaching 3,000 around the world, with high-profile names including Patagonia and Danone Fresh Dairies UK. There are just over 200 in the UK. B Corps undergo a formal impact assessment that measures governance, worker, community and environment metrics, the results of which are made public. But what really distinguishes a B Corp from being the next socially conscious fad is that companies are required to change their legal status. In the US, Benefit Corporation legislation has been passed in over 30 states; directors are legally required to consider the impact of their decisions on stakeholders other than shareholders. In the UK, B Corps are required to amend their articles of association.

Luke Fletcher, partner and co-leader of the impact economy practice at solicitors Bates Wells (itself a B Corp), says the implication of this requirement is that it provides a mandate that protects the company's directors, thereby encouraging long-term thinking. So in practice, directors could decide to pay a 'responsible' level of tax (despite tax avoidance opportunities being available), or pay workers a living wage even if jobs could be filled by paying only the legal minimum. The change in legal status would protect and justify – even encourage – these decisions.

Over the longer term, Fletcher suggests that businesses might expect regulation to be more helpful in rebooting capitalism. He says that because free-market capitalism has been designed around a shareholder primacy model,

Photography by Michael Hedge

businesses that do not fit the model are potentially at a disadvantage. So regulators and policymakers might look to level the playing field in order to encourage investors to channel their money to sustainable, responsible businesses.

MISSED OPPORTUNITIES

It is becoming clear that corporate leaders are going to have to embrace a new form of capitalism in order to thrive.

In some cases, businesses seem to have left self-reform too late. Big tech is seen as dragging its feet when it comes to addressing the negative impacts of its products on society – such as tech addiction, election manipulation and promotion of extreme content – and heavy-handed regulation looks all but inevitable. Most of the 2020 US presidential hopefuls are making tech regulation a key part of their campaign promises. Meanwhile, Europe is leading the way on regulating big tech, with European officials handing down anti-trust fines and drawing up digital rules.

In the UK, there is increasing criticism of a failure to self-regulate excessive executive pay, and businesses may have to deal with more draconian regulation as a result. In the 2019 report of the House of Commons Business, Energy and Industrial Strategy Committee, *Executive Rewards: paying for success*, few punches were pulled. The report concluded that at times when pay growth for ordinary workers is stagnant or minimal (such as our current time), business leaders have a responsibility to avoid giving their executives the kind of enormous pay bonuses that have been the cause of such embarrassment and resentment in the past. This is not easy though, as the international market for talent has implications for executive pay in the UK – it is difficult for companies to hold a line here if talent know they can just move elsewhere to be better remunerated.

EMBRACING STEWARDSHIP

Nonetheless, getting ahead of a new regulatory wave should be top of business leaders' agenda. It is nearly always preferable for businesses to conduct themselves in a manner that means governments do not feel the need to act. If more had followed Polman's lead – when he took over in 2009, he froze his own pay – would businesses be facing new pay regulation today? ■

THREE TAKEAWAYS

1. Shareholders are the most mobile of stakeholders, so they often think short term, which can be to the ultimate detriment of a company.
2. A new kind of business model, the B Corp, is gaining traction. B Corps are certified on sustainability measures and make a legal commitment to act in the interests of all stakeholders.
3. A 2019 House of Commons report concluded that at times of financial hardship, business leaders should act responsibly and not give their executives excessive financial rewards.

OPPORTUNITIES:
FOR YOUR BENEFIT

Many companies have long had strong values; this is likely to soon be the norm

The idea of an organisation that is not seeking profit as its primary objective is naturally worrying to those who have been schooled on Adam Smith's invisible hand of capitalism. However, the reality is that it has always been overly simplistic to believe that all companies exist solely to maximise profits. That may be the most popular common factor but, in many cases, it will be alongside, or even usurped by, other motivations to make a difference. Entrepreneurs want to introduce a new technology or product to meet a customer need, thereby creating jobs. Companies that benefit a broader range of beneficiaries have been around for a long time and have often flourished.

Famous examples include the Body Shop, Ben & Jerry's and Green & Blacks, all of which have strong values that have not inhibited their profitability. Those businesses were all ultimately sold, to L'Oréal, Unilever and Cadbury respectively. Cadbury was itself founded on Quaker traditions, alongside rivals Fry's and Rowntree's. The company had a tremendous focus on worker welfare, with the second generation of Cadburys founding Bournville village, which to this day is objectively measured as one of the nicest places to live in the UK.

The phase of companies that are managed solely for short-term profit maximisation seems destined to be just that, a phase, as employees, customers, shareholders and leaders acknowledge the need for companies to operate with a clear set of non-financial values.

CAPITAL GAINS

Professor Niall Ferguson, a Senior Fellow of the Hoover Institution, says that ensuring robust market competition is key to the success of capitalism

Asked about the state of capitalism today, Professor Niall Ferguson comments wryly that "it is as bad as usual". In other words, the economic system is beset by severe problems very much of the sort that it has successfully survived for the past two centuries.

As you might expect from an historian, Ferguson provides a long-term perspective that offers an important corrective to those who believe capitalism is failing irredeemably. Specifically, inflated ideas about what capitalism can realistically do obscure its achievements, thereby leading to a flirtation with socialism.

Ferguson explains: "Before one starts saying we need to reboot, reinvent or otherwise transform capitalism, it's time to recognise that it's not designed to be utopia. Capitalism doesn't say on the bottle 'drink this and reach Nirvana'. Frankly, I think the problem here is partly that there's a tendency to be surprised by things that are inherent in the system that we call capitalism."

In Ferguson's view, capitalism has two intrinsic characteristics. "First, capitalism is not a volatility-free system. It's precisely because the price mechanism is given pretty free rein – and investor sentiment is unleashed – that one gets booms and busts. And so one shouldn't, in the aftermath of a financial crisis, say the system is fundamentally flawed. The truth is that the system has crises built in as a feature. Secondly, nobody should be surprised to find capitalism tends to lead to unequal distribution of income. The capitalist process, dubbed 'creative destruction', inevitably creates winners and losers."

These aspects of the system can be managed, he argues. Volatility is a feature that we can learn to live with and mitigate: Ferguson says we got off pretty lightly from the financial crash of a decade ago because lessons had been learned from earlier crises. Similarly, inequality can, and should, be dealt with at a societal level through redistributing income via the welfare state to those losing under the relentless capitalist dynamic.

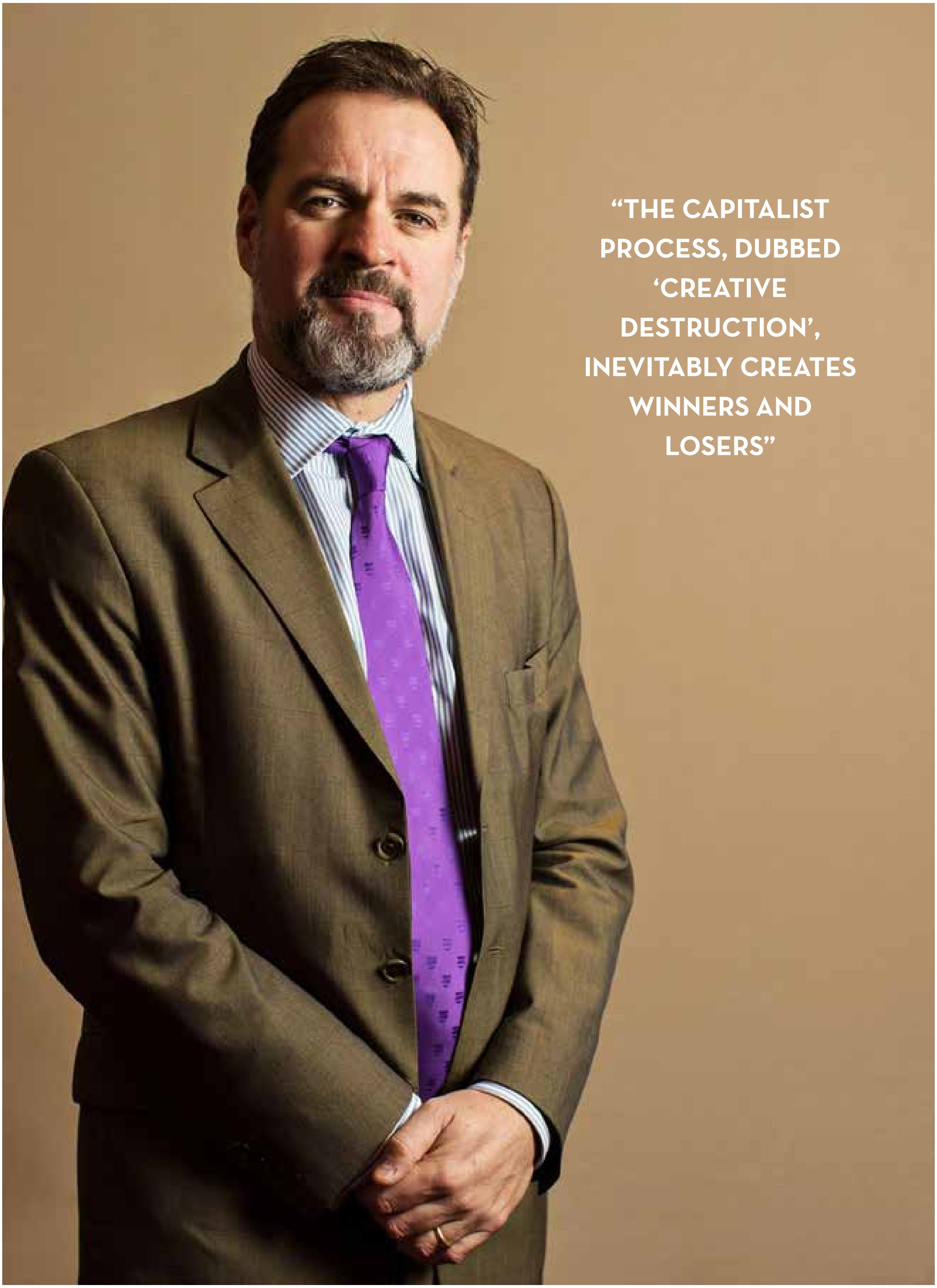
In Ferguson's opinion, there is no right or wrong answer about how far this redistribution should go. Rather, "we in our different societies get to choose how much redistribution there should be and how much of a cushion there should be against market shocks. I think that's a pretty good arrangement really. The Americans don't want to live like Finns and Finns don't want American levels of inequality. So you have to understand capitalism in the 21st century as essentially a market system with democratically agreed modifications to dampen the inequality."

Ferguson is far less sanguine about another aspect of the system: he argues that even the best designed institutions are subject to a slow process of degeneration both in terms of market economics and democratic politics. "The thing that's troublesome is that over time the system will tend to deteriorate. That's partly because capitalists love to make their lives easier. So people running large enterprises or the people who own large enterprises really don't like competing against rivals; they would prefer to earn monopoly rents.

"And then in politics there's a tendency towards corruption – and the more the government intervenes in the economy the more opportunities there are to steal. So over time, a system based on free markets and democracy will get worse."

Tackling corruption in the political sphere and the drive to make excessive profits in the business realm require us to constantly refresh our institutions, something that is not straightforward. "The United States today is suffering from monopolistic anti-competitive tendencies in many sectors of the economy. And I think in its politics it's increasingly corrupt. A good democratic process would address those problems. But one in which 'money votes', as it were, may not."

Populist movements, he believes, have felt this instinctively. He argues that the prime beneficiaries of globalisation from the 1980s onwards were the hundreds of millions living in poverty in Asia (China in particular), and the 1% of top capital owners in the developed world; others' incomes have at best stagnated or deteriorated. To Ferguson, "populism is essentially a message from voters to dial globalisation back. But this is what happened in the late 19th century too, when you had similar kinds of



“THE CAPITALIST PROCESS, DUBBED ‘CREATIVE DESTRUCTION’, INEVITABLY CREATES WINNERS AND LOSERS”

globalisation at work and the populists said, 'Hang on – it's time we started to limit trade and migration capital flows'. In other words, we have seen this movie before."

It's clear populist voters are not against capitalism – after all, they voted for Donald Trump in the US, Ferguson says. But, he adds, one of history's ironies is that whenever people vote for populist leaders they usually "end up with someone even more corrupt than the people they got rid of".

Implicit in what Ferguson says is that the continual effort to refresh our institutions is proving an immense struggle. Yet this is precisely *not* the time for a lurch towards socialism, in his view. "People are resuscitating socialism, apparently having learned nothing from the previous century. The entire 20th century was one long experiment in multiple countries to prove that socialism delivers worse outcomes than capitalism.

"Democracy is an important check on the tendency of free markets to produce unequal outcomes and economic volatility. All the attempts to go further [under socialism] than those welfare modifications that I have just mentioned have failed. I don't believe there's a better model out there. Individual rights are important. And when people say, oh, but look how wonderful China is, I say go and live there and see how you like it."

Ferguson complains that one of the worst aspects of the more radical left-leaning policy on both sides of the Atlantic is the big increase in the power of the state over the economy that is implied: the experience of the 20th century is that this tends ultimately to produce low growth rates and an increase in corruption.

Instead of looking for a reinvention of capitalism, the historian puts enormous emphasis on keeping markets competitive. American and European anti-trust laws offer at least some check on the tendency by firms to carve out monopolies. But in the US, there has been a failure to act against uncompetitive practices in Silicon Valley. And too often regulatory agencies come to be dominated by the very interests they are meant to oversee.

Meanwhile, Ferguson is a stout defender of what critics deride as 'financialisation', the rise in the influence of financial institutions and markets, supposedly at the expense of the so-called real economy. His book, *The Ascent of Money*, published in 2008, argued that many of the problems that beset the world's poor are down to the lack of access to financial services. He observes: "In the end the financial system is an enormously dynamic and innovative part of the economy. You need to have futures markets. You need derivatives, you need all kinds of insurance. So I'm still on balance a believer in finance. I think it gets a bum rap."

Calls for a more cautious and caring era of capitalism, a reboot of the system based on kinder, more humane values, leave him bemused. He says candidly: "Well I don't know what that really means. What I see in corporate America and Europe is a great deal of discussion about corporate social responsibility and a whole range of different commitments and ideals that have little, if anything, to do with shareholder value. Some of it is window dressing and some of it's sincerely meant. But you're not going to address the problems inherent in a market economy with virtue signalling. You can't solve these problems by being gentler, more touchy-feely or whatever you want to say. You need the kind of political and fiscal interventions I've been talking about."

And finally, what about climate change? "We haven't got great answers to environmental problems and I think we are going to fail to hold carbon dioxide levels down," he admits. "You couldn't leave this entirely to market forces. But in the end the solutions are much more likely to come from capitalism than from the state. China was slow to tackle its huge problems with pollution until its air was almost unbreathable. So it will be market forces and democratic countries that ultimately come up with solutions." ■

Niall Ferguson is a Senior Fellow of the Hoover Institution, Stanford University. His latest book is *The Square and the Tower: Networks and Power, from the Freemasons to Facebook*

Images from Getty Images

ONE QUESTION

WILL WE MOVE TO A FOUR-DAY WEEK?

ANDREW BARNES, Founder of Perpetual Guardian, a company that has implemented the four-day working week

“**Yes.** As leaders grasp the seriousness of the human health and planetary crises we are in, they will realise the five-day week is a 19th-century approach to work, and that a productivity-focused, reduced-hour model is fit for the 21st century and meets the innovative ambitions of the digitally driven Fourth Industrial Revolution.

By identifying a metric of output for every role and department, they will see that the very action of moving to a four-day week will make their companies run better. They will recognise that the four-day week reduces unproductive behaviour and makes workers happier, healthier, more loyal and more focused. They will appreciate the part they are playing to reduce road congestion and give people more time with their families. If we are to save ourselves and our habitat, a radical and transformative global change is required, and the four-day week is part of that change.”

JONATHAN BOYS, Labour Market Economist at the Chartered Institute of Personnel and Development

“**The four-day working week appears to be the next stage of a historical progression towards working less.** However, for it to materialise, someone will have to pay for it. To achieve the goal of a four-day week, we must target productivity – the so-called productivity puzzle – which has barely improved since the financial crash. Businesses are struggling to shift the dial; evidence suggests this may be due to a deficit of good management practices.

For workers, a rise in productivity should form two options: more leisure time or more money. The persistence of the five-day working week suggests that most of us would rather take the money.”

KATE COOPER, Head of Research, Policy and Standards at the Institute of Leadership and Management

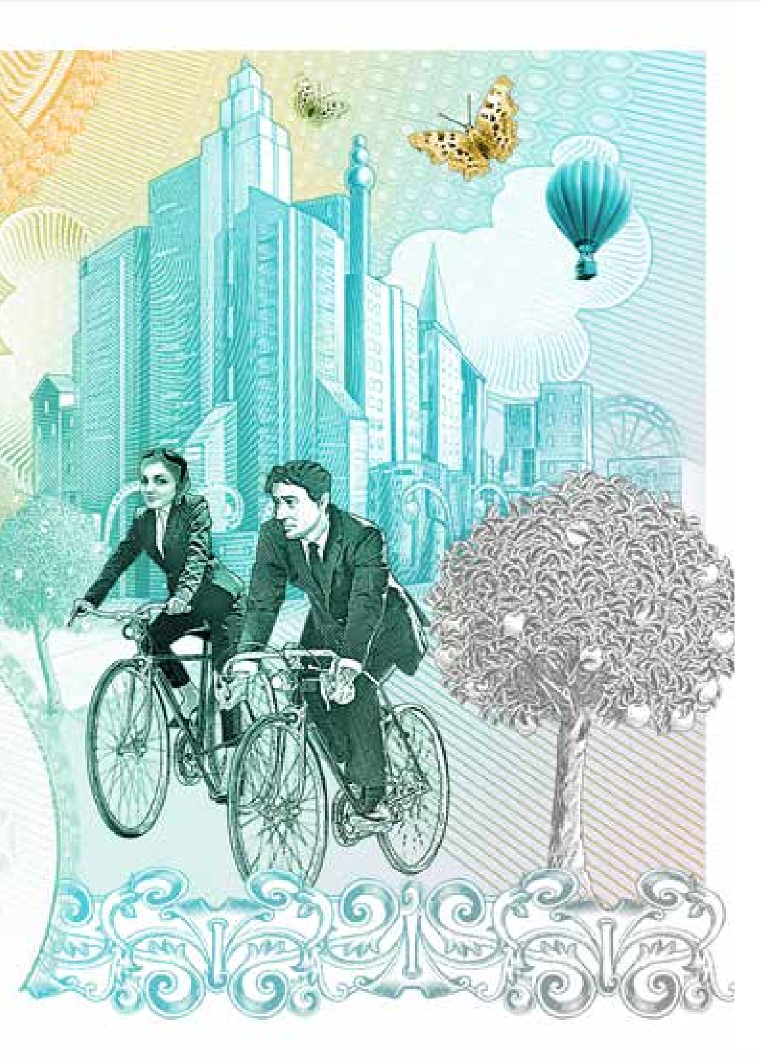
“**In 1800, the average working week was 66 hours; in 2019, 33; and by 2050, predictions are that it will be 27 hours – essentially four days.** However, the idea that it will be four days in the sense of a three-day weekend seems, for the majority of us, highly unlikely. The fewer working hours there are, the more leisure hours there will be, and as a consuming society we will undoubtedly consume in those additional non-work hours, requiring more people to staff the leisure industry.

Jobs that are dependent on being physically present to serve customers are often less well paid and provide few opportunities to deliver the productivity gains claimed by some organisations that have introduced a four-day week. How a shorter working week is implemented will vary from industry to industry, but experiments so far have tended to involve desk-based work that has a high degree of automation and little requirement for face-to-face delivery. We are undoubtedly moving towards shorter working weeks, but it’s unlikely to mean a three-day weekend for most of us.”

Illustrations by Paddy Mills

A SUSTAINABLE FUTURE?

In a time of change, with environmental concerns moving up the agenda and technology changing the face of work, do governments have the long-term vision to secure the capitalist system – and the planet?



> **"THERE SEEMS TO BE AN INHERENT DISCORD BETWEEN CAPITALISM, INFINITE GROWTH AND CLIMATE ISSUES"**

It is evident that capitalism is the most effective economic and political system we have for raising living standards. It is practised in almost every country across the globe (barring, of course, North Korea) and has brought millions of people out of poverty worldwide, as well as contributing to massive quality-of-life improvements.

However, the constant growth that the system has relied upon and prioritised may not be in the long-term interests of society. There seems to be an inherent discord between capitalism, infinite growth and the climate issues we face today. The question for capitalism 2.0 is: can the system change sufficiently to work in harmony with a sustainable model?

Ideally, businesses will take the initiative and address environmental and sustainability issues. But if they do not, governments will require innovative thinking to tackle the problem while keeping their citizens happy – at the same time as keeping an eye on the next election cycle.

DIFFERING MODELS

Contrasts in capitalism are apparent all over the world, and even between countries which, on the surface, pursue very similar models. Each will need to emerge with its own version of capitalism 2.0.

At one end of the spectrum is the US, which over the past 40 years has taken a neoliberal approach. There is a heavy emphasis on individual opportunity and responsibility, tax cuts for the wealthy, maximising deregulation and the role of the private sector, and small government (with some notable exceptions, such as military spending, which amounts to 3.2% of GDP, the highest of any major democracy). In comparison to most European democracies, social welfare in the US has been low on the political agenda.

Then there are the Nordic countries. While Sweden's economy, for instance, is very open to free trade, and the government tries to make doing business as easy as possible, it concurrently pursues a policy of big government, high taxes and comprehensive social welfare. Government spending as a percentage of GDP is almost 50% (compared with 38% in the US); its top marginal personal income tax rate is around 60%; and medical care, elderly care and education (even higher education) are mostly tax-funded.

The contrasts between Swedish and US versions of capitalism exemplify differing governmental goals and societal expectations, even between countries that ostensibly practise the same ideology.

Americans would almost certainly reject Swedish tax levels out of hand, while Swedes would surely baulk at the lowering of their social safety net to US levels.

And then there are the 'hybrid' capitalist models, such as that of China. Following the installation of Deng Xiaoping as Mao Zedong's successor in 1978, some private enterprise and foreign investment was allowed and trade became less restrictive. The following decades saw further economic liberalisation – the Shanghai Stock Exchange reopened in 1990 and China joined the World Trade Organization in 2001. But there is still a level of state control and ownership that would be unthinkable in most western democracies.

Illustration by Max Ellis

IT'S (NOT JUST) THE ECONOMY, STUPID

When it comes to the happiness of the population, large-state countries seem to enjoy an advantage. At the top of the happiness rankings in the *World Happiness Report*, produced by the UN Sustainable Development Solutions Network, are high-spending Finland, Denmark and Norway, with Sweden in seventh place. Lower down the list, in 15th and 19th place respectively, are the UK and the US, with their lower levels of government spending.

In the same way that some businesses are shifting from a narrow economically driven focus, so are some countries. For instance, earlier this year New Zealand announced its first 'Wellness Budget', resetting the parameters for how the country measures success. The budget is now formally constructed to balance the demands of the country's finances, natural resources, people (e.g. mental health) and communities (e.g. the progress of disadvantaged communities).

It looks like a logical move. According to the *World Happiness Report*, the data shows that happier people are both more likely to vote, and to vote for incumbents when they do so. But how do we keep people happy – and living to the standards they are accustomed to – in a sustainable manner in the future? That is the challenge.

KEEPING MONEY MOVING

Further adding to this challenge is the changing world of work. Tech, automation and artificial intelligence have already started to alter jobs and workplaces, and this process is set to further accelerate in the years to come. Capitalism 2.0 will need to find a way of accommodating the resulting changes – the disappearance of existing jobs, for example – while ensuring that money continues to circulate. We have, so far, been able to create new types of work when old roles become outdated, but it is in this context that the idea of a universal basic income (UBI) might also be considered. This could break the traditional link between work and reward (creating both material and psychological consequences), which could lead to significant social repercussions.

The idea of UBI has been gaining traction in many countries. In its most recent report on UBI, *A Basic Income for Scotland*, the Royal Society for the encouragement of Arts, Manufactures and Commerce (RSA) found that a basic income of £4,800 per year would end destitution in Fife and reduce relative household poverty by 28%.

But Nick Pearce, Director of the Institute for Policy Research and Professor of Public Policy at the University of Bath, says UBI is not a miracle solution. He points out that the practicalities of UBI – i.e. who will pay for it – are rarely explored. If we do ever see UBI, he says, it is likely to be on a smaller scale.

Finland's two-year trial of UBI, in which 2,000 unemployed Finns received a monthly payment, was found to improve the mood and wellbeing of participants – but not employment.

UBI may not be the answer, but governments will have to consider how to ensure individuals have enough money in their pockets to enable the economies of the world to keep moving.

CLIMATE CHANGE AND CAPITALISM

The threat posed by climate change is likely to accelerate these shifts in capitalist systems. If the private sector does not ramp up its own efforts, is a larger state role inevitable?

The concept of the 'circular economy' has gained momentum in recent years. This idea argues that the traditional value-creation model of extracting natural resources, making something from them and disposing them as waste at the end of their useful life – a 'take, make and dispose' model – cannot be sustained. An approach is needed to design waste out of supply chains, using waste materials as product inputs and working towards producing zero waste at the end of a product's life. Proponents say this not only reduces the environmental impact but also boosts economic growth, job creation and innovation.

The New Plastics Economy, a report by the Ellen MacArthur Foundation, proposes ways to make the plastics lifecycle more 'circular' and less environmentally damaging. The foundation recommends standardising packaging design worldwide to make recycling easier, steering innovation investment towards environmentally friendly processes, and reducing the use of oil and gas in plastic manufacturing.

It looks like the circular economy idea could well gain traction. The European Commission has adopted a Circular Economy Action Plan, which aims to "pave the way towards a climate-neutral, circular economy and to boost jobs, economic growth, and investment". It has allocated €10bn towards this plan. A 2015 study, also from the Ellen MacArthur Foundation, *Growth Within: A Circular Economy Vision for a Competitive Europe*, estimated that a shift to a circular economy in just three areas – mobility, food and built environment – could generate a net economic gain of €1.8tn per year by 2030. But whether sustainable projects installed by supranational bodies is the most efficient way to proceed is to be questioned. At a time of increasing pushback against 'unelected elites' imposing regulations, it could be that change from the ground up will be most effective in mitigating climate disaster.

Given the complex set of problems the world faces today, it is clear that capitalism has to adapt to best meet these challenges. This will require governments to be unafraid to innovate and to lead the way by encouraging businesses to strike the right balance between growth and sustainability. ■

THREE TAKEAWAYS

1. New Zealand has introduced a 'Wellness Budget', demonstrating growing recognition that success is more than just economic.
2. Universal basic income (UBI) ideas are gaining traction, although a trial in Finland showed introducing UBI did not improve employment.
3. The traditional value-creation model of 'take, make and dispose' is not sustainable. 'Circular economy' models that aim for zero waste should be explored and implemented.

OPPORTUNITIES:

SELF-REGULATION

Capitalism adapts and progresses, but climate change presents a tougher challenge

The world's inability to address climate change is seen by many as the most telling failure of capitalism. One of the most significant setbacks has been the US Government's withdrawal from the Paris Climate Agreement. There are two problems in looking to government to set the terms of capitalism. The first is that the issues facing the world are inherently long term, whereas governments are short term. What cannot be solved in this election cycle becomes the next government's problem. The second is that it is hard to adapt rules and regulations to complexity and trade-offs.

Historically, businesses have always been good at long-term investment. They know they need to invest and evolve to remain relevant. They therefore adapt their strategies to meet the changing needs of consumers. They are also typically great communicators of the benefits of their goods and services.

Capitalism, therefore, drives progress. Whether it is in the right or wrong direction depends upon consumer tastes. As consumers increasingly decide that they want to address issues such as climate change, businesses will compete to find ways to deliver what they want. In some industries, it may be the case that raising standards unilaterally would put a company out of business. In those cases, either government needs to regulate or, preferably, businesses need to pre-empt government-led regulation by organising and raising standards together. Investors can also play a role in that process.

MONEY NEVER SLEEPS

As long as people have had excess money and free time, they have found ways to spend their wealth. Adam Smith noted that people buy more and more new items, then items to hold those items, in a self-perpetuating cycle that needed an ever-present flow of money. Smith said that people looked upon these superfluous items as "means of happiness".

When society was more rigidly class-based, many countries had sumptuary laws governing who could wear certain clothing. When you saw an individual wearing a particular material, you could not only immediately see their wealth, but also their noble status. During her reign, Queen Elizabeth I proclaimed several sumptuary laws (known as Statutes of Apparel). These covered who could and could not wear purple silk, cloth of gold, velvet caps, embroidered caps, satin, damask and taffeta, among many other items. If you were a knight's eldest son, you could parade around in your velvet doublet and hose – sadly, if you were a knight's second son, you were doomed to only dream of being such a fashion icon.

But as class hierarchies have become less rigid, and as spending power has increased, excess has only snowballed through the years.

There have been many famous spenders through the centuries. What they bought has of course changed, but the envy they inspired and the emulators they encouraged have not. Mansa Musa, a Sultan in the Mali Empire, spent and gave away so much gold when he and his entourage travelled through Egypt that he debased the value of gold in the region for several years. Louis XIV, the Sun King, was famously extravagant, with his lavish palace at Versailles the pinnacle of his excessive spending. In the late 19th century, Henry Cyril Paget, the 5th Marquess of Anglesey, received around £12m a year (in today's money) from his inheritance. He was notorious for his many jewel-encrusted outfits (which he would wear only once) and for his fleet of modified vehicles that sprayed out perfume. Around the same time, James Gordon Bennett Jr had so much money he ensured there was room on his yacht for his cow, so he could have fresh butter every morning while at sea (no word on how the cow coped with seasickness).

And in more recent times, Sir Elton John's life of excess is well renowned. In a 20-month period, the bespectacled crooner got through over £40m, of which £293,000 was spent on flowers (he had fresh flowers every day in his many homes, whether he was staying in them or not). "I like flowers," Sir Elton told the High Court.

So, how will people spend their money if we move to a more sustainable capitalism? The human desire to own the latest innovative product, and to compete to show off wealth, will not go away overnight.

Maybe a return to the examples of the past will focus minds. Sumptuary laws were not enacted solely to control rigid class hierarchies. They also helped to direct and regulate industry. When Elizabeth I enforced a statute proscribing that certain sections of society had to wear woollen caps on Sundays and holidays, she was thinking primarily of England's wool industry, rather than despotically enforcing a look she was particularly fond of. And when Louis XIV took the throne, the fashion capital of Europe was Madrid; at the end of his reign it was Paris, and has remained so ever since. Possibly modern sumptuary laws are in order.

Or maybe we will have to change the way we view consumption and status. Maybe instead of the race to the biggest house or the most exclusive product, we will see a race to becoming the most generous philanthropist or to lead the most conspicuously humble life (with make-under experts promising their services at extremely reasonable hourly rates; price on application only).

In the meantime, enjoy the fads while they last. ■

Image from Reuters

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FURTHER READING

THOMAS PIKETTY
CAPITAL IN THE TWENTY-FIRST CENTURY

French economist Thomas Piketty's 700-page book was a (controversial) hit after it was translated into English in 2014, propelling him to his current position as one of the foremost economists in the world today. Piketty argues that rising inequality is a fact of capitalism: if the return on capital is faster than the rate of growth, inherited wealth will always trump earned wealth. He proposes that this inequality can be tackled through the taxation of vast wealth. The book inarguably showcases an important new voice and point of view.

RAINER ZITELMANN
THE POWER OF CAPITALISM

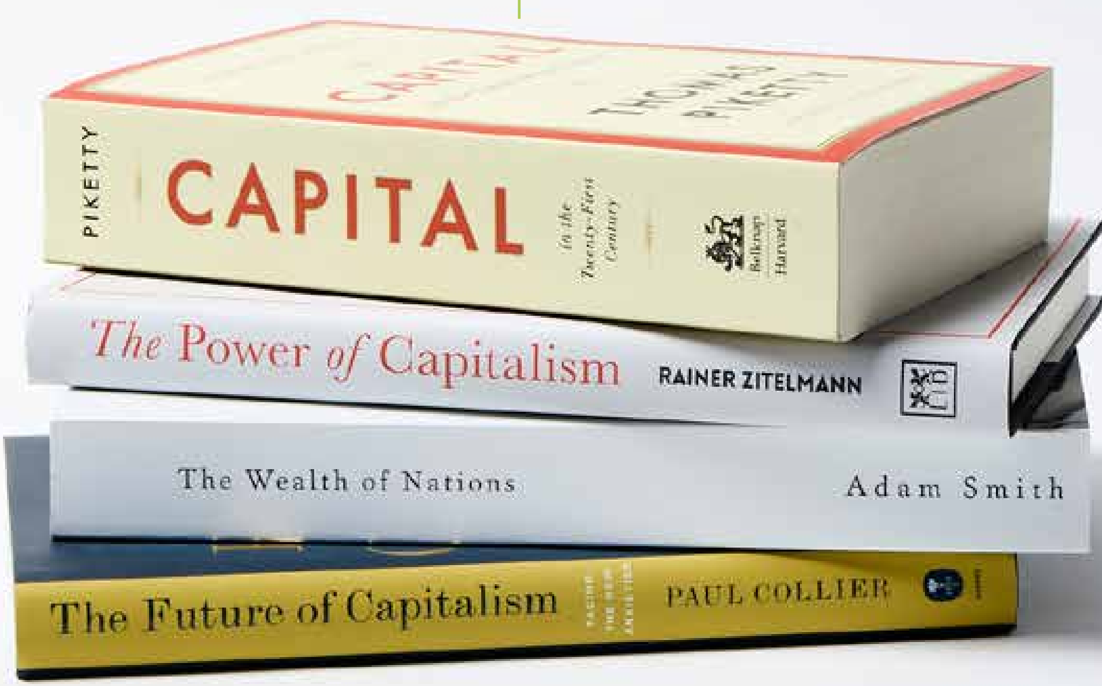
German historian, journalist and entrepreneur Zitelmann contends in this book that capitalism is the only workable system for the world. Taking an historical view, he extols the gains of capitalism across the globe. It has brought many out of poverty and has improved lives worldwide; furthermore, he says, socialism has never worked, and it is misguided that many intellectuals today are turning from capitalist to socialist ideas.

ADAM SMITH
THE WEALTH OF NATIONS

The book that can reasonably be claimed as the defining tome on capitalism. Smith's ground-breaking work has influenced generations of economists, whether in agreement or opposition. His key ideas on specialisation, the division of labour and the importance of competition have formed the lens through which capitalism is understood and developed.

PAUL COLLIER
THE FUTURE OF CAPITALISM

"Capitalism needs to be managed not defeated," writes Collier. His book looks at the failings of capitalism and how we can correct the system. He focuses on the divisions that are widening under capitalism today: between the well educated and the least educated, between cities and provinces, and between rich and poor countries. Collier's worry is that we are losing sight of our moral obligations to one another and turning further towards individualism.



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