



## Tomorrow's Capitalism

### Debate summary

The Institute for Public Policy Research (ippr), in conjunction with Friends Provident Foundation, last year launched Tomorrow's Capitalism, a major new programme of work that aims to explore the future of our financial and economic system.

As part of the Tomorrow's Capitalism programme, a series of debates is taking place to consider how the capitalist system might evolve as a result of the current crisis.

### **'What do we want from capitalism' 23 April 2009, ABI**

**With Professor Lord Richard Layard, Madeleine Bunting, Paul Ormerod and Kate Green; chaired by Jonathan Freedland**

#### **Presentations**

Professor Layard argued that happiness is what we want from capitalism. He said that economists had become too focused on GDP but now that psychologists have shown we can measure happiness, they were becoming more interested in it as a policy aim. He argued that studies showing no increase in happiness over time in developed economies challenged the view that increases in GDP were a good thing. Happiness is primarily determined by incomes relative to other people's, health and human relationships and is highest in the most equal societies. Inequality hurts people across the income spectrum; individualism is unhealthy if success is judged relatively; competition is good for innovation but should not be the main goal of individuals; the importance of security implies every individual does not need to be as productive as they can be. In conclusion, there are more margins of choice for society than we are led to believe in the UK and the Scandinavian model has a lot to recommend it.

Madeleine Bunting argued that capitalism cannot deliver happiness because human relationships are at the core of happiness. Capitalism had clearly failed because it was inherently unstable, produced unjustifiable inequalities and destroyed the environment. Capitalism had to be constrained by a set of moral values that replaced the language of choice, materialism and hyper-consumption. She thought that we should look to Scandinavia, the arts and religious traditions for the right values. She preferred the phrases 'well-being' and 'flourishing' to 'happiness' and thought that the best illustration of the de-humanised system that we had developed was the frequency with which teenagers referred to 'losers'. She welcomed the role of capitalism in encouraging innovation and lifting the poor in developing countries but argued that more growth did not lead to increased well-being in developed economies.

Paul Ormerod said that he was in favour of capitalism but critical of free markets. He felt that problems tended to occur when people believed the text book account of free markets and let them run unfettered. He detailed the successes of capitalism over the last century in lowering infant mortality and increasing life expectancy, material well-being, education and leisure time. He noted there were different versions of capitalism – Japan, Scandinavia, US – that all work and that capitalism is the only system compatible with social democracy. He suggested that Labour, despite being in power for 30 years since the Second World War, had not replicated the Scandinavian model because controlling societies and economies was, in practice, very difficult. He thought an underlying philosophy of meritocracy in recent years had

created a situation where bankers felt they deserved their bonuses and public sector workers felt they deserved their pensions. He concluded that capitalism was not perfect but the best system we have come up with.

Kate Green said what we should demand from capitalism on behalf of future generations was prosperity, fairness and protection for the vulnerable. The biggest failure of the current system was the 'get rich quick' mentality which had led to a low weight being placed on the well-being of the vulnerable. She proposed future strategies under the headings of economy, fairness and protection. Economic strategies should centre on the right long-term investments – in skills, training and job creation - to secure future prosperity. Fairness strategies would involve sharing out the proceeds of wealth/growth more fairly through progressive taxation and redistribution. And protection of children would be done to create a climate where we can be confident that every child can love their home, school and town. All this will not happen by default and we need to send a message to politicians that we are prepared to pay the economic price of implementing these strategies.

## **Discussion**

The discussion following the presentations, based on questions from the audience, was wide-ranging. Among the main points that made were:

- It was suggested that capitalism has reached its limits because we can no longer go on using up finite resources at the pace that we have been doing, though there was also a contrary view that capitalism was most likely to find the best solution to environmental problems.
- Scandinavia may be more equal and happier than the UK but it is less fun because it lacks the conflict that people like. On the other hand, it was suggested that Scandinavian people identify more with each other, whereas separation in the UK has increased.
- The type of capitalism we have had in the UK cultivates greed and is based on manipulation – a majority of the panel favoured banning advertising aimed at children.
- We have become too judgemental about people who are not succeeding. This is a result of meritocracy, which has led to people in the private sector thinking they deserve the excessive rewards of their success and encourages senior private and public sector workers to look down on those who are less successful and feel they know better. This comes from the dominance of the American business schools that encourage individual selfishness and excessive worship of the market.
- The desire for social justice may not be latent in the UK and it is important not to underestimate the support for the free-market capitalist model.

## **Conclusion**

Capitalism has produced major benefits for developed economies and remains the best system for facilitating innovation and helping to increase material well-being in developing economies. However, the version that had operated in the UK in recent years, in particular its meritocratic underpinnings, was seen to have brought some unwelcome outcomes, including greater inequality and a belief that high rewards were earned. There was some disagreement about how much further growth in developed economies would increase happiness or allow the population to flourish more. A majority of the panel stated a preference for Tomorrow's Capitalism to be closer to the Scandinavian model but noted that politicians have yet to accept that message and that opposition to a move in that direction should not be underestimated.