CAPITALISM EATING ITS CHILDREN

By

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London : Guildhall at the heart of the city can be a lulling sport of place after a long day. The statuary and vaulted timber ceiling of the medieval great Hall lead the eye to wander and the mind to muse on Britain's strangest quirk – its centuries of continuity. Grace is said, claret is served, glasses clink and dreaminess sets in. A keynote speech, from a central banker is all that is required to complete the soporific effect.

Or so one would think until Mark Carney, the Canadian governor of the Bank of England, lays into unfettered capitalism. "Just as any revolution eats its children", he says, "unchecked market fundamentalism can devour the social capital essential for the long-term dynamism of capitalism itself".

All ideologies, he continuities are prone to extremes. Better in the power of the market entered "the realm of faith", before the 2008 meltdown. Market economics became market societies. They were characterized by "light-touch regulation" and "the belief that bubbles cannot be identified".

Carney pulls no punches, Big banks were too big to fail, operating in a "heads-I-win-tails-you-lose bubble". Benchmarks were rigged for personal gain. Equity markets blatantly favored "the technologically empowered over the retail investor". Mistrust grew – and persists.

"Prosperity requires not just investment in economic capital, but investment in social capital. Carney argues having defined social capital as "the links, shared values and beliefs in a society which encourage individuals not only to take responsibility for themselves and their families but also to trust each other and work collaboratively to support each other".

A stirring through the hall, a focusing of gazes – Carney has the attention of the chief executives, bankers and investors gathered here for a conference on "Inclusive Capitalism". His bluntness reflects the fact that, six years after the crisis, the core problem has not gone away : The deep unease and anger in developed countries about the ways globalization and technology magnify returns for the super-rich, operating in a world of low taxation and lax regulation where short-term gain becomes a guiding principle, even as societies become more unequal, offering diminished opportunities to the young, less community and a growing sense of unfairness.

Anyone seeking the source of the anger behind populist movements in Europe and the United States (and the Piketty fever) need look no further than this anti-immigration anti-Europe movements won in European elections because people feel cheated, worried about their children. As Bill Clinton noted a couple of hours before Carney's speech, the first reaction of human beings who feel "insecure and under stress", is the urge to "hang with our own kind". And the world's greatest challenge is defining "the terms of our interdependence".

There is still a tendency to think politicians must do this work of definition. But in Nobody's World, driven by social media and global corporations, corporate leaders have more power to change things than elected officials. If short-termism prevails and the importance of social capital and community is dismissed, then anger will rise, companies are not well served by boards that are too often, in the words of one participant, "male, stale and pale".

Carney lays out the extent of the problem : "40 percent of recent graduates in U. S. are under – employed and youth unemployment is around 50 percent in the worst affected countries in the euro area".

His prescription : End through strict regulation and resilience tests the scandal of too-big-to-fall, where “bankers made enormous sums” and “taxpayers picked up the tab for their failures “. Recreate fair and effective markets with real transparency and make every effort – through codes of conduct and even regulatory obligations – to instill a new integrity among traders (even if social capital cannot be contractual). Curtail compensation offering large bonuses for short-term returns : end the overvaluing pf the present and the discounting of the future : ensure that “where problems of performance or risk management are pervasive”, bonuses are adjusted “for whole groups of employees”.

Above all, understand that, “The answers start from recognizing that financial capitalism is not an end in itself but a means to promote investment innovation, growth and prosperity. Banking is fundamentally about intermediation – connecting borrowers and savers in the real economy in the run-up to the crisis, banking became about banks not business : transactions not relations : counterparties not clients”.

In other words, human beings matter. An age that has seen emergence from poverty on a massive scale in the developing world has been accompanied by the spread of a new poverty (of life and of expectations) in much of the developed world. Global convergence has occurred alongside internal divergence. Interdependence is a reality, but the way it works is skewed. Clinton noted that ants. Bees, termites and humans have all survived through an unusual shared characteristic. They are cooperative forms of life. But it is precisely the loss at all levels of community, of social capital, that most threatens the world’s stability and further prosperity.