The Inevitable Future of Capitalism

by Michael Sauvante, NovaQuest Ventures © 2008

Subject: A retrospective on the evolution of Capitalism

Timeline: Sometime in the future – date unknown

This article captures and extrapolates the trends that the author sees occurring in the world today and where he believes those trends will inevitably take us, as viewed from an unknown point in the future. These trends concern the world of capitalism and all the interplays between that institution and society and the planet. This article will explore what forces will come into play that will bring about fundamental shifts in the brand of capitalism that was born and bred in the 18th, 19th and 20th centuries.

Few would argue that capitalism, and its principal expression—corporations—has become the dominant economic power of the 20th and 21st centuries. Save for the monarchs and other nobility and certain religious organizations of the past, no institution has produced such an enormous aggregation of economic power as we see in the modern corporation. And like the monarchs and churches of the past, the benefits of that economic power and the control of same, currently rests in the hands of an elite few.

A View From the Future

What we see looking back at the late 20th century and the early 21st century is a slowly awakening humanity that began to come to grips with itself and its actions. It began to realize that it had brought itself to the doorway of numerous self-generated major calamities, ranging from massive climate change and all the resultant ecological disasters that created, to massive societal dislocations and institutional breakdowns, and to catastrophic meltdowns in the whole financial eco system, all the result of faulty economic models and their primary means and motives for economic development, both personal and collective.

Over time it became clear that the near religious belief in free market capitalism and massive consumerism had put humanity on a collision course with global and local limits that forced a fundamental reassessment of humanity's needs and priorities. While appearing to temporarily create wealth and prosperity for society at large, it eventually became clear that the modern corporation, in pursuit of its then legal mandate of solely focusing on profit for its shareholders, actually created lasting benefits only for the few and significant problems for the many. Ultimately society came to realize that such corporate behavior was not in its collective best interests. From that realization a series of fundamental shifts occurred.

Beginning in the late 20th century and rapidly growing in the early 21st century, more and more people started waking up to the damage that was being caused to society and the planet by corporations, and various grass roots efforts started to come forward to pursue a different path. Such efforts were often limited to an entrepreneur here and a small group there that rejected the “profit only prime directive” as the sole and exclusive “purpose” for a corporation. Bit by bit, various experiments were attempted around different models and different motives.

The vast majority of such efforts went on in “private” corporations and out of sight from the general public. Public corporations usually found it nearly impossible to march to any other drummer than the “profit” dominated one.

But then an initial “tipping point” occurred with the release of an unlikely documentary (May 2006), that put in motion a global “sea change” in societal consciousness. That documentary was Al Gore’s “An Inconvenient Truth” which was about the enormous climate change being brought on as a consequence of humanity’s own actions. (That tipping point became dramatically reinforced by a subsequent implosion in the financial markets, as described below.)

While that film was primarily about climate change, its impact traveled well beyond the boundaries represented by the arena of climate change. At that time, most people didn’t realize the pervasive awakening experienced by society as a result of the apparent focus on the climate. What we were able to see later was that once society began to accept responsibility for its actions in one area, there was a natural spill over into many other departments of life.

We first started to see this in the general concept of everything “green”. The most immediate and obvious extrapolation of Gore’s climate impact was in a general and pervasive focus on what we as a society were doing that was directly causing the climate change. Public corporations began to jump on the bandwagon, even if for most it was more PR than substance. Nonetheless it reflected a growing awareness in the halls of power that the public had embraced a green consciousness and that it was not going away.

In less than a two year period following the release of Gore’s film, we saw the business community, which used to scoff at anything environmentally related (branded as tree hugging, liberal philosophy), begin to broadly embrace the green concept as a business opportunity with such phrases as “green is $green”. Jeffrey Immelt, the then new CEO of General Electric--one of the largest corporations on the planet at that time--elected to “bet the farm” on environmental issues and redirected his entire company in a green direction.

In February 2008, the then Secretary General of the United Nations, Ban Ki-moon declared that the “Age of ‘green economics’ is upon us” (Reuters 2/7/2008). Ban said global investment in green energy was projected to hit $1.9 trillion by 2020, an indication of an economic shift that would rival the industrial revolution and the technology revolution of the then past two centuries. Fortunately for the world, he was actually far short in his estimate of the changes that would occur and the magnitude of their economic impact.

What we can now see is that when society began to look at the direct factors that impacted the climate, it quickly bumped up against other issues that were directly tied to the climate change factors. In turn, those issues had other issues that directly tied into them. In short order society began to see the systemic connections of nearly all that it did and how it all tied together, both individually and as society as a whole.

What had previously been the purview of the Eastern mystics and/or the advanced theoretical physicists began to be self evident to the broader population that indeed, everything was/is connected to everything else. For the first time in humanity’s experience, large numbers of people began to think in global and whole system terms.

With that broader awareness more and more things came under examination by society, and with that came an examination of the role of corporations in society: how corporations contributed to the world's problem, but likewise how they represented one of the better potential tools for solutions.

Though few would have predicted it at the time, corporations actually have turned out to be one of the most important and positive institutions that humanity has ever created. But much had to change for that to become the dominant reality today and in ways that conventional thinking would not have anticipated, nor simple inertia would have even allowed. Essentially capitalism had to “heal” and it did so by itself becoming an instrument of healing for society and the planet.

This occurred on two parallel tracks, one which was focused on transforming the old form of capitalism and the other was the establishment of a new form of capitalism, that was built from the ground up. Over time the two paths converged as the old form of capitalism gradually disappeared by transforming itself into the new expression.

The first path took on many forms and experiments, most of which at first were difficult to implement due to the substantial inertia represented by entrenched interests and just plain and simple habit on the part of most participants in the capitalist system. Nonetheless, the cumulative impact of all those separate efforts bit by bit moved the center of gravity of capitalism from its old expressions to ones that society found more benign and desirable.

The second path referred to above represented literally a new "ism", in contrast to capitalism, socialism and communism. It entailed economic structures that made use of some of the elements of the three former systems. It incorporated a number of their desirable elements while discarding their undesirable ones. It is called "Holistic Capitalism" (see www.holisticcapitalism.org).

Holistic Capitalism is defined as "an economic system in which investment in and ownership of the means of production, distribution, and exchange of wealth is made and maintained chiefly by private individuals and business entities (*like the old form of capitalism*), wherein a business formed under this system is valued on the basis of its ***intrinsic value*** reflecting its interdependent relationship with, and successful service to, all its stakeholders: including its owners, employees and contractors; its customers and suppliers; the society in which it operates; and the physical environment in which it interacts (*as contrasted with conventional for-profit capitalism wherein a business was traditionally valued on the basis of its* ***speculative value*** *derived solely from its projected profit making potential for its owners*.)" [1]

Note that we said "intrinsic value" as the foundation of the new "ism" as contrasted to the "speculative value" foundation of the old model. The key here is that the participants under the holistic capitalism system agreed that companies should be valued based on their "real" and inclusive value to society and the planet and not on just their profit making potential.

The speculative value proposition under the old model of capitalism realized its penultimate expression (and ultimate folly) in the form of something called a "derivative" [2] with the corresponding derivatives market. Derivatives were various financial instruments whose value were derived from the value of something else, and in and of themselves represented no direct value in the form of real goods and services. Nonetheless, they represented means by which huge "profits" (and losses) could be realized and the use and trading of such instruments became a massive gambling casino wherein paper value chased paper value, and with the exception of the gamblers, there was essentially no other direct benefit to society and the planet.

Huge amounts of money flowed into these instruments, whose collective "market value" grew to <u>over 10 times the value</u> of the entire world's value in <u>real goods and services</u> (GDP). The Bank of International Settlements, the world's clearinghouse for central banks in Basel, Switzerland (which tracked such transactions) reported that by the end of 2007, the total derivatives market was estimated to be at least $516 trillion.[3] In contrast, the total GDP for all the nations in the world in 2007 was estimated to be about $50 trillion.

That entire "house of cards" began to crash beginning with the collapse of the U.S. real estate market in 2007. Progressively more and more segments of the U.S. financial markets began to tumble and, to mix the metaphor, collapsed in a falling domino effect. That collapse led initially to extraordinary efforts on the part of the U.S. Government, followed by other governments, who collectively tried to prop up the old system, but containing the damage proved elusive and unstoppable.

The world wide credit system began to implode. When that happened, corporations were squeezed on two fronts – 1) their access to credit in order to finance their operations dried up and 2) demand for their products and services diminshed because of consumer panic. Unfortunately, corporations responded in their traditional knee jerk manner by initiating massive layoffs (based on the flawed theory that layoffs were better for the corporation's bottom line), which further compounded the problem, as consumers became even more fearful and spending further plummeted. All of this resulted in the first true reversal of the consumption-premised economy.

Clearly something radical had to happen, as this negatively reinforcing pattern led to the greatest world wide economic crisis since the great depression of the early 1930's. Public outcry grew louder and louder and governments scrambled to address the problem. That led to both governmental as well as public pressure on corporations to reverse their response to the crisis and curtail layoffs. Many called for government employment programs like those in the U.S. in the 1930's.

Interestingly enough, this widespread fear became the very foundation for a form of shareholder activism that had eluded many of the visionaries who had been pushing for greater shareholder influence on public corporations. It turns out that as the widespread financial crisis began to unfold, a little known fact surfaced that could be turned to the shareholders' advantage.

That little known fact was this: Approximately 2/3 of all the stock held in the U.S. stock markets was under the control of pension funds, foundations, endowment funds, mutual funds and other institutions whose fund managers acted in a "fiduciary" role for the beneficiaries whose money they managed. That is, they were legally obligated to serve the best interests of their beneficiaries and <u>only</u> their beneficiaries. That was their sole function.

Previously, those fiduciaries rarely heard from their beneficiaries. The aforementioned fear among shareholders was channeled by those who realized that these fiduciaries would be obligated to respond to the demands of their beneficiaries. These leaders were able to redirect that fear into a widespread movement by those beneficiaries to approach those "trustees" with demands that they put pressure on the corporations to abandon their mass layoff plans and instead find other solutions to stay afloat during the financial turmoil.

Those advocates were armed with plenty of evidence that, in the long term, mass layoffs <u>were not</u> in the best interest of a corporation (let alone employees, shareholders and all other stakeholders). That evidence had been accumulated in study after study on the long term effects on companies that did mass layoffs compared to those that did not. Armed with such information, the advocates were able to prove that (a) employees represent the most significant asset of a corporation and (b) mass layoffs were in fact harmful to the best interests of a corporation and therefore to all stakeholders in a corporation.

Those fiduciaries then became legally obligated to act on that knowledge and they in turn put pressure on the corporations to change their mass layoff behavior. That became the crack in the dam that ultimately unleashed a flood of changes in corporate behavior, likewise precipitated by trustees at the insistence of those beneficiary activists.

Those activists also launched a variety of other measures which they were able to do directly themselves to help "heal" capitalism. Again, the fear and concern about their own interests motivated large numbers of people to break out of their accustomed complacency and to get involved in helping to bring about change at many levels in the corporate world.

Simultaneously many individuals and groups began to explore the underlying causes and the role of capitalism in this collapse, and what might be done to correct the problems. That spawned an acceleration of efforts by various parties to challenge the assumptions held by many that corporations should follow the path advocated by individuals like Milton Friedman. They worked instead to (a) prove that the laws already in place called for a much more socially and environmentally responsible behavior on the part of corporations than conventional wisdom would normally assume, and (b) develop initiatives that would get corporations to accept that responsibility.

The healing began when various parties looked at capitalism and asked the key questions about what was wrong with that system and if humanity could start over, knowing what it knew then, what forms would capitalism take. As a result, one of the major results from that review was the adoption of a modified model of capitalism, a radical transformation that resulted in the creation of an entirely new economic "eco" system. That new eco system was initially established parallel to the old one and included:

1. New kinds of public and private corporations that were formed under new laws and a new kind of stock exchange to support those new corporations.

2. New kinds of financial institutions, including new kinds of banks, new kinds of mutual funds and new kinds of investment funds.

3. An explosion of new, highly successful companies being formed around solving humanity's most vexing problems.

4. New laws concerning the relationship of corporations with all its constituencies.

5. New forms of partnership between governments and corporations to address society's problems that tapped into the strengths of each in a complementary fashion.

All of these efforts evolved from the premise that the value of these new corporations and their supporting institutions would reflect the value of the contribution made by those corporations through their provisioning of meaningful goods and services that addressed real needs of society and the planet – i.e., the *intrinsic value* proposition described above.

We can see in retrospect now that one of the key reasons that the new eco system was able to develop and thrive was due to its unusual beginnings. As indicated above, it initially got established and developed parallel to the old system and did not directly challenge it. Its creators followed the advice of a 20th century American visionary, designer, architect, poet, author, and inventor, Buckminster Fuller. Buckminster Fuller was well-known to have said "You never change things by fighting the existing reality. To change something, build a NEW model that makes the existing model obsolete." That is precisely what happened.

One of the earliest elements of the new system was a radically new stock exchange concept that was started by a consortium of individuals and groups from around the globe. In contrast with stock exchanges of the past, which were governed by laws established by governmental organizations like the Securities and Exchange Commission in the United States, the new exchange was designed from the ground up by non-governmental entities to reflect the goals and aspirations of those who were pushing for a whole new variant of corporations. They wanted a new kind of corporation whose very purpose (even though "for-profit" in makeup) was for the common good and not just for the good of a limited few.

The consortium crafted a set of rules for corporations wishing to "list" as a public corporation on the new exchange and those rules in many ways were more stringent and demanding than those found in the conventional exchanges at that time. The exchange itself was self governing, as no government then had any grasp on either how to craft such a radically new concept or how to administer it. In very simplistic terms, one could contrast the rules of the new exchange with those of the older exchanges as follows:

1. The Old Rules – Companies and their managers - prove that you are not crooks and not out to harm shareholders (the only stakeholder)

2. The New Rules – Companies and their managers – prove that you are doing everything you can to be socially, environmentally and economically responsible to all stakeholders, including employees, suppliers, customers, shareholders, society and the planet.

In essence, the new exchange required the listing companies to operate on a totally different set of parameters than those found on the other exchanges. The starting premise was that any company wishing to list on the new exchange be organized out the gate for the common good and not just for the shareholders. Such companies were tasked with providing meaningful goods and services to society, that nurtured society and the planet rather than harmed and abused them.

A comprehensive set of guidelines were developed upon which each company was evaluated on social, environmental as well as economic terms. Transparency and disclosure were far more extensive under those rules than the rules of the other exchanges. Even accounting systems and principles had to be modified to recognize and account for factors not anticipated in what was then the generally accepted accounting principles, including new economic factors as well as social and environmental ones.

The valuation of each company was based on how it measured up against all those factors. That system of valuation eliminated "speculation" from the equation. Valuations were based on the true, quantifiable, intrinsic value of the companies and not upon market whim and manipulation.

The precepts of the new stock exchange were in many ways diametrically opposite the dominant investment paradigm of the day. In recognition that entrenched powers would resist anything like that being established initially in countries like the United States, the parties that launched the new stock exchange elected to go to a more disenfranchised group of countries, who had less inertia built into their systems than found in most of the wealthier countries, and who recognized the far reaching benefits that the new exchange could bring to their individual countries. They all wanted companies that would focus on addressing real needs and constructively serve society.

The organizers of the new stock exchange selected a number of smaller, less developed countries, with the idea of a presenting them with a "consortium" effort wherein the countries would individually and as a group adopt the rules crafted by the international organizing group and agree to have the exchange be self-governing and self-policing.

If the existing laws of that country did not already accommodate their corporations going public on such an exchange without qualification from that central government, then each participating country simply modified its securities laws to say that if a corporation formed in that particular country wished to “go public” on the new exchange, then the company was free to do so without having to apply to that central government for approval. (In other words, no registration with an SEC-like entity in order to go public). The sponsoring government would look to the exchange itself to establish the criteria required of that company.

The participating countries recognized that they could not and should not allow the old form of capitalism to take hold and dominate their economies, as many of them had already experienced the detrimental effects of the old paradigm in their countries. In addition, the leadership in many of those countries had already come to grips with the concept of “sustainability,” in many cases much earlier than leadership in the developed countries, because they had been forced to confront at an earlier date the limits to their countries’ economic development, based on resource limits and population demands.

Many of those leaders knew they needed to do things differently, but had no viable systemic solutions based on the old models, whether governmental, corporate or non-governmental organizations (NGOs). That is, until this new model was presented to them.

Initially the lesser developed countries subscribed to the new stock exchange concept, but over time developed countries saw the benefit of subscribing to it as well. And given the fact that the exchange was “virtual” versus physical (i.e., it was located on the Internet and not physically located in any one place or country), any country anywhere around the globe could subscribe to it and participate. It was truly one of the first global institutions that served all of humanity.

The ripple effect from the creation of the new exchange was enormous. First of all, there was a very large, world-wide, investor population that flocked to the new exchange. The extent of the pent up demand for such a new system was amazing. Apparently, many investors, not having a real alternative before, metaphorically had held their noses and invested in the old system. Once the new exchange was available, a significant amount of money was pulled from the old system and placed in the new.

As the new stock exchange took hold, there was a rapid establishment of new financial institutions structured to work with the new exchange and its kind of companies. These included new mutual funds and venture capital groups.

With the large movement of money into the new exchange, we saw many existing companies electing to go public under the new exchange where they had previously decided to remain private, primarily because they had not wanted to operate in the old environment with its old motivations. The new exchange afforded them, their employees and their investors the opportunity to “walk their talk” in a very public manner and have the public investor community support them versus oppose them.

Likewise, we saw many of the existing corporations that were public on the traditional stock exchanges elect to migrate over to this new exchange. In some cases that occurred because a group of investors elected to acquire a controlling interest in a corporation in order to force its conversion, whereas in other cases we saw that management felt positively disposed to this new paradigm and got shareholder approval to convert. In time, what was a trickle of such conversions became a flood, and the center of gravity for capitalism shifted thereby.

In addition, many new companies were created from the ground up to conform to the rules of the new exchange and with the intent of going public on it when they were in a position to do so. Those that elected to pursue such a path found a whole different investor community willing to support them as a result of their elected path and purpose.

The downstream consequences of the new exchange and all the companies that joined it were manifold to society and the planet. More and more of the vexing problems that had plagued humanity became targets of ever more creative companies who found amazing ways to solve those problems, through ever more creatively profitable and contributory means. And because these companies were valued based on their real contribution to society and its needs, many companies came into existence that would not have survived under the old “pure profit motive” paradigm, but which survived and thrived under this new model.

We even observe the reversal of a heretofore pervasive dissatisfaction on the part of employees working for companies driven by the old model. Given that employees and their proper nurturing and valuing were highly supported under the metrics of the new exchange, employee satisfaction in such companies skyrocketed, which in turn had dramatic impact on the success and contributions of those companies in the marketplace.

Over time we have also seen many creative government/industry collaborative efforts established, often initially proposed by the companies on the new exchange, and widely supported by the population at large. Thus things like universal access to health care, education, food and water, shelter and energy became realities and poverty became essentially non-existent.

Addendum

While the previous article paints a scenario that some might consider entirely too Utopian and impractical at this time, please keep in mind that it represents a picture from some unknown point in the future, and the further out one goes, the more mature humanity becomes and the more likely that such a scenario will become a reality. It is much more realistically achievable than most people would think today, and much sooner than you might guess. **And you can help make that happen if you want to!**

To that end, we have created two websites where these ideas are explored further and where you might get involved. These websites will contain a growing number of articles and lots of other resources that will detail out, step by step, how the above described story can, in fact, become a reality. They will present to you numerous ways for you to participate. Those websites are www.HealingCapitalism.com and www.HolisticCapitalism.org.

The site HealingCapitalism.com is where we will explore all the ways in which the current brand of capitalism might be "healed".

The site HolisticCapitalism.com is where that new version of capitalism will be described and explored, an effort that will go forward parallel to the one to repair the existing form of capitalism already in place.

Please note that those websites are only partially in place at this time. We are rapidly adding content on a wide variety of topics all related to things that are going to have a direct impact on your life –

- good news of success stories that will impact you, your community and the world;
- stories about great companies that are positively contributing to change for the better, who have products and services you might want to support or even go to work for;
- issues related to global warming and how they will directly impact your life and what can be done about them;
- new technologies that can make your life better and are better for the planet;
- how to reduce your energy consumption, live a healthier lifestyle and save money;
- things like eating healthier for you and the planet;
- successful legislative changes that are being implemented that will impact your life and identification of those that need to be done and what you and others can do to help;
- book reviews and other articles that touch on this topic from many angles and much more.
- And finally, many, many ways in which you can be both informed and even involved, if you want too, through linking with others who share your area of interest.

We invite you to go to either site to sign up for either notification of when the sites are fully launched and/or sign up for participation in a variety of ways, both before and after the official launch of those sites. It is our world and we have it in our power to make it into one we and our children and our children's children will all want to live in. Even though each individual contribution may be small, our cumulative effect is unstoppable. And collectively we can make it happen!

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[1] The name and definition of holistic capitalism resulted a combination of the following two definitions: a) Holistic – "*Emphasizing the importance of the whole and the interdependence of its parts*", taken from the American Heritage Dictionary, and b) Capitalism – "*An economic system in which investment in and ownership of the means of production, distribution, and exchange of wealth is made and maintained chiefly by private individuals or corporations, esp. as contrasted to cooperatively or state-owned means of wealth*", taken from Dictionary.com.

[2] See http://en.wikipedia.org/wiki/Derivative_%28finance%29 for more information on derivatives

[3] See http://www.marketwatch.com/news/story/derivatives-new-ticking-time-bomb/story.aspx?guid={B9E54A5D-4796-4D0D-AC9E-D9124B59D436}&dist=TNMostRead