The JustShare Lecture

St Mary-le-Bow Church, 29th January 2013

by Eve Poole

Capitalism's Seven Deadly Sins are competition, the 'invisible hand', the assumption of utility, the assumption that market pricing is just, the assumption of agency theory, the assumption of the supremacy of the shareholder, and the assumption of the legitimacy of the limited liability model. Eve Poole argues that these have got to be destroyed, before a healthier system can be created like a phoenix from their ashes. In their place she suggests alternatives to each of them, and concludes with a list of practical 'nudges' each of us can take.

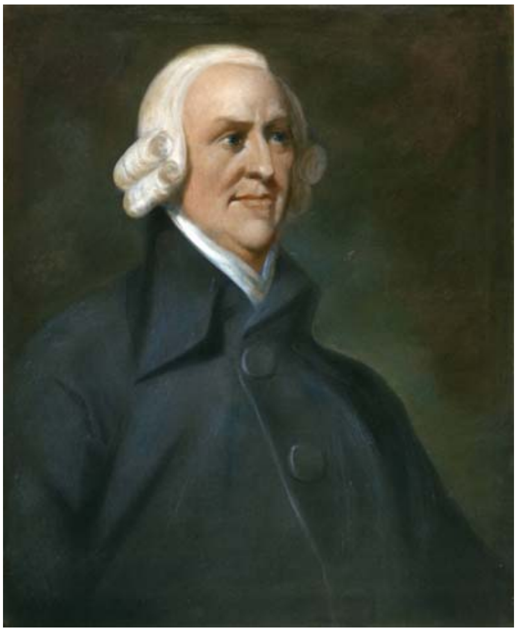
In general, market capitalism depends on seven big ideas. Economists like to look scientific, so they tend to present these ideas as laws of nature. But even scientific truth is not this fixed, and the flat-earthers have moved on. But not so the Economists. The seven big ideas that served the market so well in the past have now become sins not virtues, and are toxic to its future. And unless we correct the system at a fundamental level, reform is doomed to fail. But where to start? Tonight I'll start with a quick run down on Capitalism's seven Deadly Sins. Then I will talk about the theology that informs my critique and ask some tricky questions. After all, it's hardly fair to attack the market's beliefs without being candid about my own. Finally, I'll suggest ways in which Christians everywhere can get involved in the market's reform.

When I was little, there was a stall at the local fair called Whac-A-Mole. To win, you had to hammer as many moles as you could, as they popped up randomly through a series of holes. I gather that in the arcade on Southwold pier, you can still play this game, but with bankers instead of moles. Banker-bashing is a lot easier than addressing the mess we've got ourselves into. It might be fun, but it is distracting. It masks a deeper problem, that the market as a whole is run by rules that are well past their sell-by date.

In Science, no-one believes that the earth is flat any more. Economists, on the other hand, haven't budged from their original worldview. To make the system feel safe, the rules of the market are still described as fundamental laws of nature, which don't change over time. But even scientific truth is not this fixed. In science, temporary hypotheses have always been seen as the necessary roads to progress. A hypothesis generates a theory that is held until evidence emerges to disprove it. The modern scientist now scoffs at alchemy and phrenology, and the idea that the humours could be re-balanced by blood-letting, but it was these assumptions that paved the way for later insights. Newtonian physics was challenged by Einstein, who in turn is being challenged by data emerging from the Large Hadron Collider. Science ultimately welcomes each upheaval as a sign that mankind is moving closer towards the truth. In ignoring this process, Economics has become a victim of its attempt to look credible. It's so stuck in the past that it's now struggling to keep up with the facts as we see them today.

My sister was once stung by a bee. Luckily, we were staying at my grandparents, who were both medics. Grandpa fetched his stethoscope, and Granny got out her first aid kit, and in no time at all, my sister had an impressively bandaged foot. But she was still crying. Astonished by her ingratitude, they asked her what was wrong. 'It was the other foot', she said.

With the markets, moving the odd deckchair won't stop the whole system crashing into an iceberg. We have to go back to the beginning and start again, or we'll just solve the wrong problem.



Adam Smith 1723-1790

Your five-year old has just been given a crisp £20 note from his Gran. He wants to know who the guy with the funny nose is. "That's Adam Smith", you say with confidence, "the Father of Capitalism."

You realise your mistake when he says, "What's Capitalism?" "Well," you continue, slightly less confidently...

Have you ever sold anything on eBay? eBay is a great way to explain the market because it is such a pure version of the system. I want to pay for a holiday, so I sell off an old heirloom. Strangers compete with each other to buy it, checking out the going price by looking at similar transactions. We don't know each other, but eBay's feedback mechanism acts as a guarantee, because no-one wants to deal with someone dodgy, so everyone tries hard to keep their ratings up. The system means that I get my holiday cash and the winner gets my heirloom. We're each acting selfishly in our own interests, but somehow everyone doing just that seems to work out over the longer term. If items don't appear on eBay very often, they attract a bidding war and high prices. If they are everyday items, they tend to follow a predictable pattern, with prices staying fairly stable over time. Looking at this more formally, there are seven big ideas that sit behind this kind of market, as described by the guy on the £20 note, all those years ago.

First, the whole system assumes competition, on the grounds that it makes people try harder. This improves the quality of the market over time, as organisations vie with each other for market share, and people compete for jobs. Apple stays in the game by designing better products than its rivals. Supermarkets advertise price drops. And ambitious executives get an MBA to give them an edge in the job market. This is competition at work, improving the marketplace.

This welter of competitive activity is co-ordinated at the top by the so-called 'Invisible Hand.' This works imperceptibly, bringing together billions of customers and producers worldwide, matching supply to demand, such that everything works out right over all. What should be a chaotic mess somehow resolves into happy customers and rising profits, to the benefit of society as a whole.

And Adam Smith's biggest idea of all is that all we need to do to keep this process working is to be selfish. "It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own self-interest." Maximising our own utility in any transaction we make, leaves the invisible hand free to do its work. While we look out for ourselves, it resolves everything for us in the system as a whole.

The way the invisible hand does this is through pricing. The price of something acts as a signal to help match up people who want to buy things with the people who want to sell them. Low prices attract more customers, while high prices restrict demand to a smaller circle. So everyday items like toothpaste are cheap and readily available, while products that are rare, like Old Masters or vintage champagne, carry a high price. Changes in price affect buying behaviour, by making items more or less attractive. Provided governments let them be, markets use the ebb and flow of pricing to regulate supply and demand.

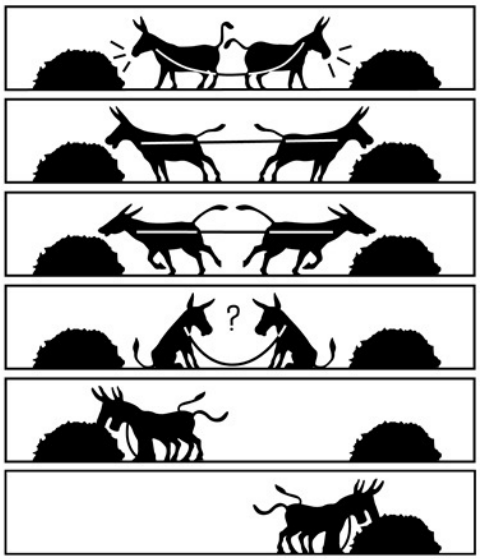
Within the system, people form organisations to generate wealth by producing goods and services. Most of them form companies, owned by shareholders, who provide the money to set them up in the first place. These owners employ people as their agents, to work for them. But, because the market works best when we all pursue our own ends, there is a danger that the interests of the owners and their employees will diverge, as each seeks to maximise their own utility. This conflict of interest is called Agency Theory, and basically means that a lot of HR policy is about incentivising employees to work in the interests of the owners.

Because the interests of the shareholders are so important, corporate strategy these days is all about how best to maximise shareholder value. This means keeping the shareprice high. Organisations use this barometer to set targets for staff. Many grant their senior staff shares to make sure that the company's shareprice is always close to their heart.

And most of these companies are set up using the legal concept of 'limited liability'. This means that all the owners stand to lose if the company folds, is the money they originally invested in it. This shields the owners from any downside, which encourages people to invest. This flow of new capital is the lifeblood of the market, and is vital to keep the wheels of the market perpetually turning.

So far, so good. But if you zoom in on any of these firm foundations, they start to blur and wobble.

First, competition, the linchpin of the entire system. But rather than out-and-out competition, the mathematicians would argue in favour of co-operation as a primary strategy, because it yields better outcomes. While in war, winning at all costs is necessary for survival, in business, companies want longer-term customer and supplier relationships. Those who treat transactions as battles to be won or lost sooner or later come a cropper, as their brand tarnishes and the market votes them out. On the other hand, co-operation and the sharing of information increases the size of the pie, instead of restricting the debate to arguments about how best to cut it up. And competition isn't just mathematically questionable, it's sexist, too. While male fight-or-flight physiology favours competition, particularly in challenging environments, it ignores the role that female physiology has to play.



Donkey rules
Illustration of the advantages of co-operation

Research conducted on female subjects suggests quite a different physiological response, one that has been dubbed 'tend and befriend'. So being hooked on competition may actually be compounding a tendency towards sub-optimal outcomes, reinforced through the norms of a traditionally masculine business environment.

Second, the Invisible Hand is just an optimistic myth. It offers a reassuring but inaccurate justification for self-interested behaviour. While order does frequently rise out of chaos, there is no evidence to suggest that this always tends towards the good, and certainly none sufficient to justify society's reliance on it. The crowd is sometimes wise, but not invariably so. In fact, leaving things to the Invisible Hand skews the market in favour of the strongest and most powerful. This maximises their utility, but not that of society, or the world at large.

Third, the idea that 'utility' is the best way to measure the effectiveness and morality of the market only works if the Invisible Hand really exists. This is because the concept is an empty one – utility for what? If there is no guarantee that individually selfish behaviours produce a good outcome overall, a system based on this thinking cannot be moral, without help. And the sort of help this requires – government intervention – is exactly what the economists are trying to avoid, because it interferes with the smooth functioning of the market, and gets political, fast. Even if this idea was a sound one, the idea that Economic Man is a rational agent is wildly optimistic. We are all subject to irrational urges, whether through peer pressure, emotions, or our psychological make-up. Assuming we are all robots just leads to confusion about how the market actually works, and about how best to run it.

Fourth, the assumption that the price mechanism, left to its own devices, will settle at a scientific equilibrium, is nonsense. It ignores the interplay between supply and demand, and the potential for both of these to be manipulated. As well as air-brushing out the historical debate about 'just' prices, market pricing ignores historical questions about cost. This obscures a very important debate about hidden costs, or 'externalities', like the social cost of drinking or smoking, or the cost of pollution. In an age where the limits of the planet are starting to be felt, it is vital that this debate about the market's embeddedness is not ignored. There is now no cod left in Newfoundland, and the planet is running out of other commodities all the time.

Fifth, Adam Smith's original notion about the different interests of owners and managers has had catastrophic consequences. It's used negative psychology to generate HR policies that assume employee recalcitrance, limiting the ability of organisations to unlock human potential. Worse, it's been used to justify the disastrous ubiquity of executive shareholding. This practice, hand-in-hand with the idea of the supremacy of the shareholder, has made corporate strategy defiantly short-term and manipulative.

Sixth, the belief in the shareholder as king owes more to a romanticised ideal about the nature of shareholding than it does to reality. Ignoring the extremely limited sense in which shareholders actually 'own' businesses, modern patterns of shareholding make the 'shareholder' a rather bizarre and certainly fleeting concept. The average time for which a share is now held? About 11 seconds. Blink and you'll miss it. Sticking to the romance that the shareholder is a nice old bloke who founded the company just drives short-termism. In an attempt to keep him in socks by keeping the share price high, companies neglect wider issues of governance and accountability by ignoring other company stakeholders. This romanticism has fuelled the exponential rise of board-room pay, and an overly narrow measurement of corporate performance. Many would now argue that shareholder value is the WMD of capitalism.

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Seventh, the dominance of the limited liability model is extremely risky. In a global economy, the resilience of the system will always depend on diversity, so no one single model should prevail. In institutionalising moral hazard, limited liability also plays into an increasingly irresponsible shareholder culture, because there is no downside. More encouragement in law and public policy of alternative models for enterprise would introduce healthy 'competition' between business models. And more employee ownership and mutualisation would spread risk, as well as creating a wider range of businesses with different risk profiles and models of success.

These core assumptions – Capitalism's seven Deadly Sins – have got to be destroyed, before a healthier system can be created like a phoenix from their ashes.

I would hope that anyone listening to these arguments would be persuaded by them without any further ado. Little of what I have said is revolutionary or new. But we are here tonight in this place because Christians have a particular contribution to make to this important debate. Too often 'theology' in the public square is the equivalent of the Britisher abroad – say anything slowly and loudly, and they are bound to understand you eventually. Or theologians decline to comment on 'technical' areas like economics and finance, thereby conceding the fight without a punch being thrown. But Jesus was not afraid of wading into controversy, and we must be similarly bold. And if theology is ever to escape the charge of being irrelevant or just preaching to the converted, brave theologians must ask difficult questions in the public square, if only on the basis that everyone has a worldview, declared or otherwise. In this case, the worldview that cradled capitalism was unashamedly Christian, so reforming capitalism from the same worldview has an historical and cultural logic to it.

As we have seen, Capitalism's seven Deadly Sins are competition, the 'invisible hand', the assumption of utility, the assumption that market pricing is just, the assumption of agency theory, the assumption of the supremacy of the shareholder, and the assumption of the legitimacy of the limited liability model. In each case, these assumptions have become flawed. From a Christian point of view, these flaws are not just operational errors, but grave injustices.

First, man is made in the image of God, and is given stewardship over creation for the good of the whole of creation. Economics, or 'the running of the household', is therefore seen by Christians as a sacred trust, not a dismal science. While, on the face of it, competition appears an optimal strategy because it aims to improve outcomes over time, the costs of it are too great. Squandering information by hoarding it is wasteful, and reduces the possibility of enhanced outcomes. While game-playing enables the exercise of God-

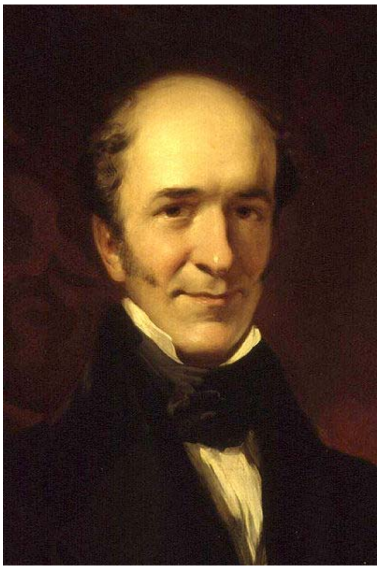
Business Value Game being played at the Agile Conference in Chicago in 2009

given intelligence, making it the default approach to economic life privileges ego over outcome, to the dis-benefit of creation as a whole. A bias towards the male of the species is also repugnant to most Christians, in spite of official HR policies to the contrary. *What would a regulatory and business context based on 'co-operate where you can: compete where you must' look like?*

Second, the Invisible Hand looks Christian, in that it borrows from the idea of Divine Providence. And while many Christians still believe in some sort of benign fate, the gift of free will carries with it the responsibility of its exercise. This argues against a laissez-faire attitude, particularly one which has been shown to advantage the rich and powerful at the expense of the poor and vulnerable, and of the planet's resources more generally. *How could the poor's full participation in the marketplace be accelerated, and the rich's tempered to restore justice?*

Third, 'utility' encourages an impoverished interpretation of the nature and destiny of mankind. Our Trinitarian God has created us out of and into relationship. A short-term transactional and competitive frame makes us adversaries not brothers. God has also designed us richly and not as automata, and the complexity of our decision-making is still only partially understood. That we have a capacity and calling to be selfless is a cornerstone of Christian belief, so the selfishness of Economic Man is a travesty. *What would a corporate strategy genuinely based on maximising human flourishing mean for the culture and results of organisations?*

Fourth, market pricing. Again, laissez-faire is actually a vote for the powerful. Allowing pricing to be manipulated pollutes the entire marketplace by sending distorting signals. And Christians as stewards cannot ignore the issue of costs, just pricing and externalities. This assumption is perhaps the trickiest to unpick, because history suggests that States distort prices as badly as do unfettered markets. But transparency and disclosure about costs, margins and impacts – even in the subsidiaries of subsidiaries - would allow consumers to make better choices about which products and services to buy. *Why can't corporates publish breakdowns of their costs, margins and impacts more transparently?*



The economist John McCulloch *who when limited liability was discussed in the 1860s opposed it on the grounds that everyone is personally responsible to God for all their actions.*

Fifth, agency theory, which would appear justified because of Original Sin. Christ's sacrifice paid this debt, and there is no room for such a stunted reading of human nature in Christian Theology. God gave us the ultimate freedom, and it does violence to the very essence of the Christian story to assume the recalcitrance of man. Of course we incline to sin, but structuring it in just encourages it, creating a race to the bottom that is fundamentally dehumanising, as in the case of executive pay. *How might a glass half-full approach, coupled with visibility, encourage better behaviour?*

Sixth, the narrow view that the shareholder's rights trump all others is an affront to the notion of stewardship. It trivialises the human endeavour bound up in an organisation, and encourages an arms-length approach to responsibility. The only Christian way to view the aim of an organisation is to look at its contribution to human and planetary flourishing. The culture of greed inculcated by the twin evils of agency theory and shareholder value is deeply sinful. *Why are we hanging on to this model, and what would need to happen for it to be dismissed as a flat-earth philosophy?*

Seventh, limited liability, as a model, structures moral hazard into the system, and schools executives in irresponsibility. A Christian reading of the situation argues in favour of a more democratic approach to ownership. One that recognises more fully the contribution and role of employees, who are made in the image of God, and are exercising their God-given talents in the workplace. *Given that the results of shared ownership speak for themselves, what is really stopping more companies from migrating to this model?*

These themes, of human nature, freedom, responsibility, and the protection of the vulnerable, point towards an economy that is more careful of relationship. The test of its health is the health of every single relationship. Consumer, customer, supplier, employer, employee, neighbour, environment - these all merit due weighting.

In the jargon, we're dealing with a complex adaptive system. Such systems are so fragile and responsive, that the best way to influence them is with nudges not shoves. But what might good 'nudges' look like? We're probably all familiar with Government nudges like fluoride in tap water, free school meals, and the smoking ban. But did you know that the reason there are mirrors in lifts is to reduce graffiti, and that planting trees and shrubs in housing developments halves property and violent crime? One of my favourite nudges is in Telford, where they have set a speed restriction of 12 miles an hour. You'd certainly have to drive carefully to stick to that!

12 mph sign in Telford
Clearly someone actually did not drive carefully

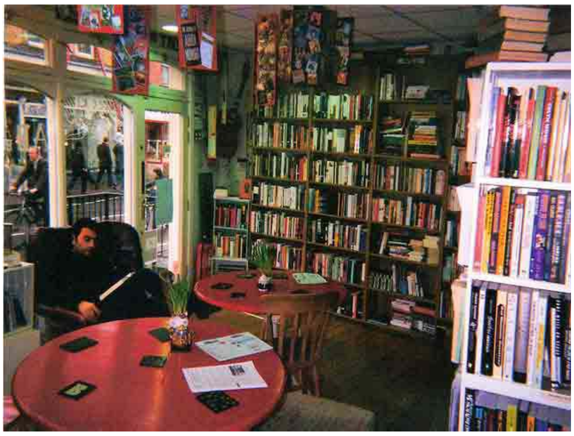
The Cabinet Office now has its own 'Nudge Unit' to come up with better 'choice architecture' for us all. A recent nudge was the introduction of alcohol gel throughout hospitals to encourage hand sanitation, which reduced 'superbug' infections by 40% in the space of a year. And of c ourse I have a large list of things I'd like the Government to do too. But I don't think we can afford to wait for them to catch up. In any case, there is a compelling body of research that suggests that consumer action is often more effective than State intervention in bringing about rapid change.

But those who have the most power are the most able to shape the system in their own image. Every transaction is like a vote, so rich consumers obviously have more votes than the poor. Apart from $100,000 handbags, we've created markets for such vital products as collar stiffeners and mobile phone charms, whose utility might puzzle those who are struggling to put bread on the table. In the UK, many towns have lost their fishmonger, but have gained a fish spa. The well-heeled can now have a pedicure carried out by *garra rufa* fish, but you have to drive to an out-of-town supermarket to buy your fish.

Little Angel mobile phone charm

On the upside, charities, social enterprises, and enlightened multi-nationals move ceaselessly to create new markets for the poor, by 'voting' on their behalf. For example, ToughStuff and SELCO have pioneered the use of solar power and rechargeable batteries in Africa and India, to fuel lights, mobile phones, radios and sewing machines. And HP has introduced a new solar-powered digital camera and backpack printer, distributed through self-help groups of local women. Cheap wireless computers are now available, with antennae made from recycled tin cans.

The fact that the system is just a massive complex of relationships and transactions is a huge opportunity for Christians everywhere. Christians are estimated to control $10 trillion around the world. At least 6% of the world's investment capital is reckoned to be in the hands of religious bodies. In England, the Church Commissioners alone have an asset portfolio of £5.5bn, while collectively Anglican PCCs spend over £800m a year. We are the rich, so we should be doing more with our financial 'votes' to include the poor in the global marketplace. And there are a lot of us. According to the Census, every other person you meet in the street considers themselves a Christian. Each Sunday, 1 million people go to a Church of England church, and 1 in 4 primary schools are run by the Church of England, teaching 1 million children each year. There are still 26 Bishops in the House of Lords, and over 25,000 Church of England clergy active in their local communities.



Browsing in a quirky bookshop
The Albion Beatnik bookshop in Oxford

This represents a lot of muscle that should be mobilised in shops and online, in businesses and in the investment community.

One example of such action is the Fair Trade movement. While there have been fair trade goods around for some time, in 1998 the market in the UK was worth a mere £17 million annually. Thanks to strong support from Christians, buying fair trade products at the back of the church every Sunday, over the next decade the market multiplied exponentially, reaching the £1 billion mark in 2010. Now, the UK coffee market is about 15% fair trade, which shows that it doesn't really take that long to transform a whole sector by creating an entirely new segment.

So let's imagine you are standing at the Pearly Gates. St Peter asks to see your Bank Statement. Would you be proud of it? If you want to help reform the market, you can start right there. Where do you bank? Do you support your local credit union, or invest through micro-finance or peer-lending schemes? Which charities and churches do you support through regular and tax-efficient giving? And where do you shop? Are there transactions on your bank statement from local shops as well as from Tesco and Amazon? Research by the New Economics Foundation has found that every £1 spent with a local supplier is worth £1.76 to the local economy, but only 36p if it is spent in a national chain. There is a great local initiative in Cape Cod. Their community campaign asks you to identify three local enterprises that you like having around and pledge to spend \$50 a month with each of them. This is great nudge thinking. Browsing in that quirky bookshop then buying cheaper online just means that the quirky bookshop won't be there for much longer. Use it or lose it. And for goodness' sake spend more time in your local pub, lest it disappear as well!

So, hurray! A pretty bank statement from a nice bank, awash with charitable giving and ethical shopping. But please don't stop there. Do you know where your investments are held? Most of us have a pension or two somewhere. Could you contact your fund manager and ask difficult questions about investment policy in case you are also up to your eyeballs in Wonga? And, the million dollar question, where do you spend that most precious of your assets, your labour? Whether you are in paid or voluntary employment, what more could you do to influence the policies and practices of your organisation and church to convert yet more capital to more Kingdom-friendly economic activity? And do your prayers at home and at church include not just the poor but also the rich, who could be doing so much more to right the balance of this lopsided marketplace?

There is a 1926 recording of Bow bells that was broadcast by the BBC World Service during the Second World War as a symbol of hope to the free people of Europe. They still use it as an interval signal, so I suppose anyone can now be a Cockney, if they have the radio tuned to the right station in the Labour Ward. Like the bells, JustShare was established to be a symbol of hope, a physical manifestation of economic justice for all, right in the heart of this global financial centre. Each of you here today has the potential to be the salt and light of a new economy, one that nurtures relationships rather than converts them into Net Present Value. So may I send you out with an uncomfortable conscience about your own bank statement? I think that if we all start there, great and graceful things may happen.

Eve Poole is Chair of Faith in Business, Ridley Hall. She is Associate Faculty at Ashridge Business School, following earlier careers working for the Church Commissioners and Deloitte Consulting. She has written books on The Church and Capitalism, *and* Ethical Leadership . *She keeps a blog at http:// evepoole.livejournal.com/ and is on twitter via twitter.com/evepoole*