

Review of Paul Collier's book, **The Future of Capitalism**

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Many of us have been reading Paul Collier for years for his insightful assessment of poor countries, none more than his *The Bottom Billion*, a provocative study of those countries least able to escape extreme poverty. Despite his career working in and on poor countries, **The Future of Capitalism**, has little to do with that. Rather, it is about the future of the US and the UK in dealing with their own challenges. In it, he draws on the insights of the great political economists, and shows the breakdown of community in these two countries, the hollowing out of regional areas, the agglomeration of wealth in the metropolises, the sins of the financial community, the sins of the legal industry, the decline of good childrearing practices, and the inappropriateness of much education spending. (I've probably left out one or more of his targets.) But it is not a diatribe. Rather, it is a carefully crafted analysis of where we have gone wrong, and somewhat, how to fix it.

Collier is not writing about capitalism in the world. His references to poor countries are limited to discussion of the moral responsibility of "rescue" in cases of extreme deprivation, and for limiting the extent of immigration into rich countries, in order to maintain confidence in a shared national identity.

He starts with Adam Smith, arguing that *The Theory of Moral Sentiments*, and *An Inquiry into the Nature and Causes of the Wealth of Nations* are of a piece. We have neglected the first and enthroned the second to our own loss. Smith believed that humans in all societies have a moral sense of fairness and reciprocity – such as ostracizing "free riders" who wish to enjoy the benefits of society without its mutual obligations. Instead of embracing Smith's moral dimension of human interaction, the economics profession has embraced only the profit-maximizing, self-contained individual. Greed is good, for it maximizes the welfare of everybody.

This extreme individualism has resulted in the hollowing out of small towns and the massive accumulation of wealth in urban agglomerations. Capitalism's critics have attacked it, instead favoring extending the welfare state and attempting to redistribute income. For Collier, this effort gives the poor rights without obligations. And rights are not just those of deprived individuals, they are rights for disadvantaged groups. New rights keep being created all the time – the latest being the lawsuits against all of New York's art museums for denying access for the blind under the Americans with Disabilities Act.

This extension of rights has produced a sense that members owe nothing to their communities or to society, and that the government owes them something. He attributes this to Jeremy Bentham and John Rawls, who attribute nothing to individual initiative, and base their approach on the need for redistribution to produce equality of economic condition. Among much else, Collier argues that people have a deep obligation to raise the children that they created as a

primary concern during that part of their lives. Some need help, but the community needs to support them, based on mutual obligation.

Collier spends considerable effort in understanding the growth of the metropolis and the hollowing out of small cities and towns. He attributes this, as most economists do, to the externalities that arise from agglomeration. Ideas and innovations flow faster when smart people are in close proximity. This creates an externality that creates rents. Rents are incomes in excess of the payment needed to induce production of a good or service. Henry George famously favored taxing land appreciation for the state to capture some of the benefits of land appreciation in urban areas. Collier argues that land taxation can only capture part of the benefits of agglomeration in the current world. (He does note that New York does this far better than London.)

The other important rent accrues to the highly-paid workers in the metropolis. Their pay is much higher than that needed to procure their services. He proposes a location tax on high-income individuals based on their location. Further, the resources from both this and the land appreciation tax should be provided to the national government, not the state or city where they work. This would help offset the agglomeration, and perhaps keep more skilled workers away from the metropolis. It might also help promote investment away from the metropolis.

Collier also spends time on education, emphasizing the special importance of pre-K education, exhorting for better teaching (and teachers) in K-12, but he lays special emphasis on the failure of the university to prepare many people for the careers they are likely to have, rather than their dream when they enter the university. He suggests that Germany and Switzerland have bridged this gap far better than the US or the UK

Some tidbits:

- About one-third of what the legal and financial sectors do contributes to society. One-third is zero-sum games (if I win you lose), and one-third is destructive, making society less prosperous than it would otherwise be.
- The current business-school mantra is that the corporation's only responsibility is to maximize the interests of the owners, ignoring customers, employees, and the communities in which they operate. This loss of an ethical sense leads to Enrons, Volkswagen rigging its pollution emissions, Wells Fargo cheating its customers, McKinsey's recommendations to Purdue about how to increase the potency and use of its opioid, to say nothing of the numerous sins of Wall Street. The very idea that financial advisors should act in the interest of their clients is anathema to some.
- Silicon Valley libertarians long for a global village where Bitcoin replaces central banks, and nation-states fade away. This is pernicious, since the state (hopefully ethical) is the

glue that creates cohesion in society. Nationalism is important, but only as a societal binder, not as an aggressive force against other countries.

- “almost all of us cherish six [values]: loyalty, fairness, liberty, hierarchy, care, and sanctity.”
- “At its best, education widens our empathy, enabling us to put ourselves in the place of others. But in practice, it often does the opposite, distancing the successful from the anxieties of ordinary communities. Armed with the confidence of meritocratic superiority, the vanguard see themselves as the new Platonic Guardians, entitled to override the values of others.”
- “as our societies have become more divided, they have become less generously disposed to those on the other side of the divide.”
- “Pragmatism is an admission of ignorance, and the confidence that comes with an ideology is much more satisfying.”

What is to be done?

This is the weakest part of the book. After identifying the serious ailments in our society, his proposed actions seem a bit thin. They include:

1. Bring back the smoke-filled room. Collier wants candidates for major offices to be chosen by already-elected people, who are likely more pragmatic and attuned to attracting moderate voters than the current system, which encourages ideological extremes.
2. Tax the megalopolis. As noted earlier, Collier argues that part of the hollowing out of small cities and towns comes from the externalities of agglomeration. Both they and urban landowners should be taxed more to generate revenues to improve the lives of those left behind in the towns. This is likely to produce howls of rage from high-income workers and landlords, as well as city and state governments. He proposes that those taxes go to the national treasury for the benefit of the entire nation.
3. Build communities. This is harder to define, but seems to involve interacting with those whose participation in society is minimal, and cajoling and encouraging them to accept their responsibilities as parents and members of the community.

This is an inadequate summary of a very complex and intricately-connected book – all in 215 pages.

You should read, and think about, the book and decide how to participate in what needs to be done.

Possible Discussion questions

1. Is democracy doomed?
2. Does this book have any relevance for developing countries?
3. How can we address the challenges of this book?