

What we need in 2017 is a new, democratic capitalism

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2016 was interesting. Might we agree on that? I am not sure I would describe it as good. I am not sure I liked all that happened. But it was interesting. It's unnecessary to recall individual events to reach this conclusion. What I am interested in are two things. The first of these is why these things happened. The second is their implications.

The why question is, I think, relatively easily explained in five ways. First, in 2008 global financial capitalism as we then knew it tried to collapse. Second government action around the world saved it from the extinction its own actions would have delivered. Third the cost of that action was largely borne by those who had benefitted least from the upside of that financial capitalism. Fourth, government exacerbated that perceived cost by putting in place policy that ensured that financial capitalists gained enormously from the recovery: QE that boosted asset prices enormously and that then underpinned them with low interest rates achieved that goal. The result may have been more secure banks, but most remained in their existing ownership under the continuing management of many of those who had brought them close to ruin, all of whom appeared to suffer little as a consequence. Fifth, unsurprisingly people had by 2016 begun to say they'd had enough of the consequences of that policy and were rejecting it in the only way that appeared available, even if doing so appeared indiscriminate or even irrational.

The why question can then be summarised as the consequence of the superficial rejection by a mass of the population of a political system that appeared, irrespective of the hue of the particular party in power, to support financial capitalism, come what may. I used the word superficial in that last sentence quite deliberately. That is because it is relatively easy to sequence a reason for the rejection of financial capitalism in the way I have done, but the reality is inevitably more complex, took longer to develop and is more significance than the superficial explanation might suggest. There are in reality a number of deeper reasons for this failure.

The first, and perhaps most important of these is that post 1989 and the fall of communism financial capitalism has been the only significant prevailing economic narrative in the world outside China, where it also has influence. And it has very

obviously failed most people. When most people depend on wages to meet their costs of living and wage earnings have not materially increased, and as a share of GDP have decreased, during this period people can feel worse off either absolutely or relatively, and with complete justification. If the premise of financial capitalism is 'more is better' (and it is) then quite clearly it failed for most people. After a quarter of a century of waiting for their turn to come people have realised that outcome does not exist in financial capitalism.

Second, financial capitalism has failed on its own terms. Capitalism requires that those with ideas have access to the funding they need to grow their businesses that drive the process of wealth creation that underpins the value that this system delivers to society. But financial capitalism is a mutant form of capitalism and it does not work as the theory of capitalism suggests.

The reality is that financial capitalism is not driven by innovation or new ideas. Nor is it associated with access to new capital. Its goal is to preserve the wealth of those who are already rich. These people are inherently risk averse: the entrepreneur is driven by what they have not got (which is not just wealth, but is also seeing their idea work). The result is that they are inclined to take risk and our capitalist infrastructure was designed to help them do that with other people's money. This is why limited companies exist in the form that they have, even if very few are used in the way intended these days. The wealthy in a financial capitalist system are, however, the opposite of entrepreneurs: the greatest fear of those who have wealth and the status that goes with it is that they might lose those two things. Nothing else matters as much to them as much as this. And since entrepreneurial activity is risky they really are not interested in that.

The world's large companies got this message, loud and clear, some time ago. Those managing these companies realised that their shareholder owners wanted the share price of the companies they invested in to rise steadily, expected that they make steady income payments, and retain a cash buffer to ensure that if anything goes wrong the company can survive the storm. And this is what management have sought to supply. Mergers and acquisitions have not been driven by anything more than the need to consolidate asset value and deliver stable cash flows from established earning sources. Shareholder value has been focussed on rising share prices. Systemic tax avoidance played a big part in delivering what looked like earnings growth. Lobbying for reduced tax rates achieved the same goal without any real increase in innovative activity taking place. And cash piles have grown as a result, excepting the banks. That is why they were always relatively undervalued, although the implicit guarantee of governments was always there in their case: it was (as it turned out) rightly thought that most were just too big to fail.

There was a problem with this policy though. Its inherent risk aversion meant that real rates of investment in new goods and services declined: this was an activity too uncertain as to outcome for risk averse companies to be committed to. The demand for risk free returns was met in another way. Privatisation of assets with secure income

streams, like utilities, water and telecoms were followed by others with artificially created secure incomes streams such as PFI schemes and outsourcing arrangements. The regular spending of the majority of the population and the tax revenues of government were in this way turned into asset growth for a minority.

And when even these measures were not enough to ensure that the wealth of a minority could be protected there were always tax havens to hide that wealth, shelter it from tax and even from the claims of other members of the family's of those who thought that they had accumulated this value. The role of the trust in this is particularly important: once value is assigned to such arrangements the trustees first of all have the right to retain ownership, usually long after the death of the person who created the arrangement. But they also have what trustees describe as a 'fiduciary duty' not to lose the money entrusted to them. This requirement does, of course, suit them well: it ensures that they have an income in near perpetuity. It has other consequences too. First, it can often deny income to next generations, who might squander and so dissipate it, as has almost always been the pattern in the past. But second, it also denies it to risky activity. What this means is that at its very pinnacle capital has ceased too behave as capitalism demands.

Capital is no longer made available to those best able to use it in the real economy. Financial capital is now held apart, circulating in a world all of its own where it is asset values built from speculation and not income earned from genuine economic activity that determine status, which is the ultimate goal of the winners in this game. Financial capitalism is, then, killing itself from within.

It's my suggestion that a mass of what are described as 'ordinary' people have also realised this in 2016. They hate the opacity that has let wealth accumulation happen. They resent the consequences of that wealth divide. They feel the injustice of declining public services supplied by privately owned contractors for whom this trade seems to be a one way bet. They appreciate the argument that tax havens are designed to hide wealth, and the machinations that accumulate and maintain it. They realise that a tax system where those on higher incomes are most likely to pay less overall than those in the middle is one that is fair. And they have protested as a result.

They have blamed Wall Street. They blame Brussels. They have blamed any and all politicians on whose watch this had happened. They voted for those who had never had political power as a result. Whether they would get the change they wanted as a result was not the primary consideration: that is why I think those claiming these results indicate an historic shift to the right need to exercise more care in my opinion. The only reason why the right won was that they were ready, with a message of intolerance to a system they said they disapproved of and yet of which they are key proponents.

The paradox is hard for some to stomach. But it also implies that although the alt-right thinks it may win from this bizarre situation I doubt that is true in the long run. In fact they are just one of at least five different alternatives to financial capitalism as we have

known it that I can identify at present. They have the advantage that their alternative is easiest to understand: it can be summarised as being more of the same, but only more extreme. So in their model the social safety net goes. The tax cuts to support the asset values of the wealthy are even more extreme. The privately run alternatives to the state that are a mechanism for transferring the regular drip feed of tax payer money into private hands, such as private health, education and infrastructure provision, will be encouraged. The state as a provider will wither: its aim will simply be to act as a revenue raiser for private contractors. Even the police, defence and judicial systems are not immune to this: the state as we know it is under attack from the alt-right.

The problem for those on this wing of politics is that it will not take people long to realise that this is just more of what they have already rejected. It will not be long before people will, if given democratic freedom, reject such an option. That is why we should expect increasing attacks on that democratic freedom: the alt-right and democracy do not happily co-exist. Democracy is in its view a tyranny of the masses that might threaten the wealth holdings of the few and as such democracy is, in any significant form, to be undermined at all costs. Gerrymandering, the denial of decision making rights to parliaments, and attempts to reduce the size of the electorate (e.g. by making it harder for students and those who move home often) are all features of this behaviour. If the alt-right is to get its way we should expect more on that theme. The use of surveillance powers to suppress effective opposition is also very likely.

Of all the alternatives to the existing structure of financial capitalism the alt-right variant is clearly the most likely at present. Brexit is clearly an opportunity to create this in the UK. I do not think it is sustainable though. Financial capitalism has failed; so too will any political solution built on keeping it in place. Oppression may sustain it for a bit: all the characteristics of fascism could quickly be put in place in an attempt to achieve that goal. This would be profoundly uncomfortable and deeply dangerous for many and let's not pretend it is not plausible, because it is in the short term.

But what if it could be avoided? What are the other alternatives to financial capitalism? There are several. One would be some form of socialism in the sense of private ownership of the means of production being replaced by their state ownership. I have to be candid though and say that I simply cannot see that happening in such simplistic form. Whilst I have no doubt at all that there is real concern about some privatisations, and a rational desire to reverse them, there appears to be no great desire amongst the population at large or amongst any significant political group to bring major companies in sectors where the private sector has traditionally held sway into state ownership. Nor can I foresee a desire to reduce the role of the private ownership of smaller business, although an increased role for cooperatives may well be very popular. As a result I cannot see this option happening.

Nor can I see Chinese style state socialism having much appeal although it is, of course, plausible. There are three reasons. The first is that it is not obviously successful in itself in avoiding the excesses of financial capitalism. Second, it appears to be predicated on

a form of financial imperialism to command the resources it needs and that cannot be readily replicated. Third, it is unlikely to be culturally sustainable in the long term in a Western environment. This argument deserves to be elaborated: for now the important point is that I cannot see anything altering those outcomes, which is why this is not likely to be a viable option.

There is another option, referred to by Wolfgang Streeck in his book 'How will capitalism end?'. This is that there may be an interregnum between power systems. This alternative suggests that when financial capitalism collapses, as collapse it will, there will be no alternative ready to take its place. This, it is argued, will not prevent the demise, but the outcome will instead be a void: a new dark age if you like. The state, existing forms of organisation and power and structures of trade might all collapse but nothing will replace them. There will be instead be a limbo where life will continue using ad hoc structures until a new form or organisation emerges. I have to say I think this incredibly unlikely. When multiple forms of tyranny exist I cannot see a power void unless those multiple forms of tyranny are simultaneously used to maintain a state of chaos. This though is unlikely because current forms of tyranny are all dependent upon the power of industrial production and organisation. Without them such conflict would be hard to maintain and I think a form of government would emerge quite quickly, albeit quite possibly tyrannical in form. It's a scenario that in that sense is plausible. It is also one I think most would think best avoided.

So what else is there? Most obviously the option exists for capitalism to morph into a new form. It has, of course, done this many times before. Laissez-faire capitalism of the nineteenth century was transformed by the rise of organised union power and the slow increase in the power of the state by the time of the 1930s New Deal. The post-war Keynesian consensus transformed capitalism again. Since 1980 financial capitalism has changed capitalism once more. There are far too numerous forms of nuance within this process of change to recount; the key point is that capitalism has only survived as an organisational form for economic activity precisely because its own ability to adapt has proved to be greater than its own inherent tendency to fail, which it is currently evidencing again.

It's my suggestion that such an option of further reform is possible, but only if there are enough people and politicians working for it. And I stress, this is not an option where tinkering is possible: the changes between one system of capitalism and the next tend to be significant and they would have to be in this case. That would be because some of the most fundamental issues that any economic order has to address would be subject to change in this reform to capitalism.

That first fundamental is about power. Whoever exercises power has control in capitalism. Traditionally this was a small elite. The extraordinary nature of the post war settlement was the diversification in that power base, achieved by the rise of a middle class and in particular their access to wealth through the rise of the defined benefit pension scheme. When linked to the related rise in professional managerialism this did

for a while provide a base for capitalism with a diverse power base. Financial capitalism quite deliberately tried to reverse that trend, in part by subverting the new upper echelons of the managerial class to work in the interests of the old financial power elite through the concept of supposed shareholder capitalism. A new capitalism, call it democratic capitalism if you will, would need to redefine the power base whose interests it served or it could not and would not succeed in delivering change.

The current political mood does happen, of course, to demand that change. Call them the 99 per cent; the declining middle and working classes; the mass of people left behind, or whatever else you will, the fact is that a great many people know they have been excluded from the benefits of financial capitalism. If capitalism is to succeed then it has to deliver rewards for these people or it could not succeed. This is the most fundamental reform: everything else that follows has this overall objective in mind. The control of capitalism has to be democratised if capitalism itself is to survive.

The second fundamental is the way in which the communication of power is exercised. It has been exercised at various times through the ownership of land, or the the ownership of companies, the control of banks and coordination of power through related elites. Again, of course, I summarise, grossly, but the essence is what matters. In most cases ownership has been key; even when the power of elites has not always been related to wealth it has usually ended up that way by the absorption of the new elite into the aristocracy of wealth. A new capitalism has to break this pattern for a very obvious reason: many of those to whom rewards must now be paid do not have ownership of wealth now and so cannot leverage it to secure the communication of power. This means that a new power proxy has to be found in its place. This is where the state has to now play a role. In particular, financial power was created behind a veil of opacity. It is a requirement for transparent accountability that will shift that power to a mass of people and the state is the enabler of that process.

Third, the return to be maximised has to be decided upon in any new system. Rent (in its various forms), interest and profits have all had their turn. Although not explicit, rent has been the maximised return in financial capitalism which is why it is now so obvious that it has failed to deliver a return to anything but money. The whole essence of the economy post 1980 has been the extraction of reward to financial capital from income streams generated by others (and in particular labour via debt interest payments and the state via the diversion of tax revenues). The rentier - whether in a bank, a tax haven, the boardroom, or in the buy-to-let market - has made returns where others have not. The return to labour is going to be key to the new capitalism, not least as the number of people in the world continues to increase.

Constraints have also always defined capitalism in its various forms. Land was limited. So too was money when backed by gold. Capital was limited by the interest rate. Wages have been constrained by supply side reforms. Some of these constraints have been real. Others have been manufactured to suit a purpose very obviously aligned with that of the power elite. The true nature of the externalities that have actually constrained

capitalism have never been properly recognised within the various systems that have been worthy of that name. This, though, can no longer be true. The environment does not create a real constraint within the economy that cannot be ignored. The rate of return to labour can be increased, but only within this condition: the requirement is that any one generation must leave for the next the opportunity that it enjoyed or they have claimed for themselves a part of the natural capital of the world to which they were not entitled.

This hints at another factor which has differentiated different forms of capitalism, and that is their relationship with time. Original form rentier capitalism depended upon the steady progression of the quarter days for income to pass upwards. Laissez-faire capitalism was looking for the pay-back time on sums invested. Keynesianism looked to the future. Financial capital has been the reverse: it has sought to discount all the future gains from current action to the present and to consume them now. In financial capitalism it is as if there was no tomorrow. In a new form of capitalism there must be: by making sustainability the constraint it will have to focus on how to use the present to best effect to preserve future benefit for those who deserve it. The mind set of financial capitalism is reversed.

Last, but not least, each form of capitalism appears linked to a different understanding of the nature of government, most of which reflect an iteration of democracy. As rentier capitalism was replaced by laissez-faire capitalism the power of the Lords passed to the Commons, elected on a limited franchise. It took decades more, and the rise of labour power, before universal franchises were adopted. Unsurprisingly the diversified capitalism of the Keynesian era followed. Financial capitalism has seen democracy in retreat in the face of the power of the lobby, the revolving door, the power of crony appointments and an increase in centralised power attributable to executives. If a new form of capitalism is to survive government itself must evolve to create it, meet its needs and support its functioning. If that capitalism is to reflect a return to people then the associated democracy must also be more accountable to them. The demand for this is already apparent. There is an expectation that power will be devolved, decision making and tax will be decentralised and local interests will be reflected in the processes of government. That said, whilst the demand may be apparent the constructs of government do not, in very many ways, facilitate that process at present meaning that reform is essential.

A new capitalism is needed on the basis of these foundations. It must be a democratised capitalism that delivers power to the people who work at all levels in that capitalist system through systems of accountability that are designed to increase the rewards to the majority of people who have not benefitted under financial capitalism subject to the constraint that the environment imposes operating within a new understanding of the democratic structure of government.

That said, and despite the very apparent changes in priority that these suggestions represent, there is much about this new capitalism that will appear familiar. There will

still be large, publicly quoted companies that operate across much of the globe. How they account, who to, and who manages them within what constraints may, however differ. Despite that they will also be recognisably similar to, and often be simple and natural developments of the companies we now know.

Employment will also still exist, and most people will still earn wages. Their relationships with their employers will though be differently negotiated. Their influence over the workplace will definitely increase. Security of employment will be more important. The influence of the state, or its agents, working as often as possible through power structures devolved to employees themselves, will be more apparent in many workplaces.

Amongst the self employed and in small companies the changes may not be so apparent, although the opportunities for those wanting to create, and as importantly, grow these types of business may be enhanced.

That said in some areas the state is much more likely to be managing activity than now, and will do so without any pretence that it is mimicking the market. The confidence of the public sector in its own ability to manage in the public interest which cannot be determined by the power of consumer spending alone will be greatly enhanced. The key performance indicators may recognise financial constraints but it will be service priorities that will predominate.

Taxes may, or may not rise. It is highly likely that those on financial wealth will. Their power to avoid obligations will be broken by international cooperation, enhanced accountability and the sensible use of bank and other financial data to identify those who really owe taxes on the reward they make from the societies that provide them with benefits. Some of the resulting taxes will be new, but taxes on income and consumption, the use of land and trade will all still be found. Accounting though may look very different: a system of reporting that is at least as much concerned with returns to employment as it is with capital will look very different to one that seeks to hide financial power from view.

What will be certain is that the social safety net will become more central to the relationship between the state and those who live in its jurisdiction and it will be the state who will be supplying most of the associated services.

To put it another way, such a system will redraw the boundaries of power, management and control and redefine the reason why they exist. Capitalism - in the form of the power of the market - will be embraced and encouraged to allocate resources to maximise the return to people across a range of interests, from being consumers, investors, employees and fellow citizens (each of which it will be realised can exist simultaneously and not discretely) - but the limits to that power will also be recognised. When there is a natural monopoly there is no effective market. When there is no choice the consumer is disenfranchised. When the market cannot price returns there is no

point pretending that it can. Then the state has to act and use its discretion, and there is also no point in pretending that when doing so it is not rational: truly accountable democracy provides that rationality.

I believe such a system is possible. All going well I hope to outline the ideas that flesh out this idea during 2017. The need to do so is obvious. With financial capitalism failing there is a void and that void needs to be filled. A new form of capitalism (in the sense that private ownership of some of the means of production survives and is even encouraged, within constraints) that has very different priorities to the one it will replace has to be the best alternative available. But to make sure that happens radical reform will be required. Thinking about these reforms to build their foundation in reality is essential if 2017 is to begin to deliver the basis for a new optimism. That may be part of the role of this blog next year, in between the inevitable of the day-to-day that consumes so much of life.

Ideas and comments are welcome, but make them constructive please. I am really not interested in anything else.