

We need to rethink capital

Published: January 13, 2026, 4:34 am

We talk about capital as if it's only money or machines, but that's a dangerously narrow view. In this video, I unpack the six forms of capital we should measure, protect, and value: productive, financial, human, natural, environmental, and societal. And I explain why the Politics of Care demands a complete rethink of what truly matters for a sustainable future.

<https://www.youtube.com/watch?v=Rf30E9qklvI?si=3mPbK3QKjAt8Aqu0>

This is the audio version:

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This is the transcript:

In a previous video, I talked about the concept of capital in the framework of accounting because it really matters that you understand what capital you're referring to if you're going to have a meaningful accounting framework for an individual, for a company, or even for a country.

But the feedback I got was that a lot of people are confused about just what capital is, and a lot of people even think that the term is one they don't want to refer to because, well, capitalism is something about which they're deeply uncomfortable.

But the fact is, we can't avoid the concept of capital when we come to accounting, and as I say, that's for individuals, for companies or countries.

Accounting is about two things. They are stocks and they are flows.

The stock of something is what we actually have at a point in time, and that is the physical or other assets that we possess, which will provide us with benefits in the future. That is what capital is.

It's a stock of things that exist now, which are not being consumed immediately, but which will underpin our future well-being, and that's it.

I'll explore precisely what various types of capital are as we go through this video, but keep that point in mind; it's always something that we are possessed of now that is going to benefit us in the future, and it benefits us by enhancing the flow of our well-being, and that's the difference between stocks, the capital, and the flow, our income on which we live.

Flows happen over time.

Stocks exist at a point in time.

One, the flows is represented by an income statement, whether for an individual, a company, or a country, and all of them can be possessed of an income statement, and the stocks are represented by the balance sheet, again, for an individual, a company, or a country, and all of them can have a balance sheet as well.

This is important because if we don't understand the concept of capital, we don't understand what we are trying to prioritise in life.

What we count really matters.

If something is important to us, we should count it.

If we count the wrong form of capital, we won't get the outcomes we want.

And so that's my cue. Let's look at what sorts of capital we've got, and there are at least five we need to explore in this video.

The first is productive capital, and this is something that you won't have much difficulty recognising.

Productive capital is essentially the tools that we use for the production of our well-being.

In a business context, this is machines, this is buildings, this is infrastructure, this is IT,

this is vehicles and everything like that.

All of this is manmade. It's tangible, and it wears out over time. In accounting jargon, we call it depreciation.

The point is, it doesn't last forever, and anybody who pretends it does is talking complete nonsense.

It's been absolutely central to traditional economic models, and the whole theory of the development of capitalism was around this concept of bringing together people's money so that they could pool productive capital to create those things that we needed to advance society.

This originally happened with things like canals and railways, and then with the Industrial Revolution, and it does still happen now.

Physical capital is still important to our well-being. It's obviously important to your well-being.

You need somewhere to live. That's capital.

You need furniture that's capital.

You might want a car that's capital.

You might want other things like a computer or a phone, which you don't consume immediately. They are productive capital because they exist now to provide you with a benefit in the future.

The point, though, is that if we overemphasise the importance of productive capital in our society, we end up with a situation which we've reached, where we overproduce capital and the goods that it can create, and as a consequence, we literally begin to destroy our planet by extracting too much from it; again, quite literally, digging up too much, burning too much, and creating climate change with consequences for the planet as a whole.

The second form of capital we need to talk about is financial capital. Productive capital was the first form of capital which capitalism focused upon, and it has an accounting concept that goes with it called the historic cost Convention.

Financial capital is the modern replacement for productive capital as the focus for capitalism and is heavily influenced by neoliberalism.

The focus is upon maintaining money at its value, and the value of financial instruments that represent money, like shares and bonds.

The focus is not so much on actual production, but on simply maintaining the monetary value of an investment that a company, an individual, or even a government has under its control.

Money is highly mobile and therefore detached from the real economy, which is how it became so heavily associated with tax havens, which are a fundamental instrument in the management of financial capital and are deeply destructive of economic control of the economy, and so democracy, and financial capital is used to distort priorities and concentrate power without necessarily producing anything of consequence for the majority of people in the country.

Financial capital is important as a tool, but it is not our master and should not be, and yet in the accounting system of International Financial Reporting Standards, which has been the world standard since 2005, financial capital has become the entire goal of neoliberal business.

It isn't a chance that we've had two major financial crises since 2005 when this system came into place, and I know one was linked to COVID, but it was more than that, and this is an unsustainable form of both accounting and capital.

So let's talk about another form of capital, which is really important, but which is massively under-emphasised by government, and by business, and too often by people, and it has almost no recognition at all in accounting, and this is human capital.

It's what you know. It's what I know. It's what everybody else we know knows. This is all about knowledge, skills, but also our health and our experience. It's built up through education, through training and healthcare. It's managed through care, and that word is really important here, and human capital and the curiosity associated with it is what drives innovation and productivity.

It's really important because this is how we are skilled. The only problem with it is if we overemphasise human capital, the risk is that we simply begin to view ourselves as economic units, and we also place a value on ourselves as economic units, and some of us might be valued a lot more than others, and that is in fact a way in which we can drive inequality rather than remove it.

So let's, before we come to any conclusions, talk about another form of capital, and that is natural capital.

Natural capital is the stock of the natural resources of the world, the forests, the water, the soil that we have, the things that provide the support for life itself.

These things are fundamental to our well-being because, without natural capital, we won't survive. They are renewable. We do know, of course, that we can replenish all these things by looking after them, so they can be infinite. But we also know that we

can pollute them. They can therefore be finite.

This is a form of capital which is decidedly flexible in the way in which we are able to treat it. We can value it or we can undervalue it. That is our choice. We have been undervaluing it. The cost is now very clear. It's up to us to make sure that natural capital survives.

We can contrast natural capital with what I think is the next form of capital, which is slightly different in emphasis, but only slightly, and that is environmental capital, and I make the point that it's different because environmental capital looks at those systems of natural capital as an integrated whole: as a more holistic view of capital.

This is about the climate, it is about air, it is about ecosystems, it is about maintaining planetary balance and our capacity to absorb waste very critically. And we've heard about this very recently. New reports about plastic suggest that we are stressing the planet beyond its capacity to absorb plastic waste. This is where environmental capital is degraded. Environmental capital is non-substitutable. It is irreplaceable if we destroy it, and markets cannot, as a result, price it adequately, so we have to think carefully about how we manage it.

Finally, another form of capital, which I think is important, and you could just call it human wisdom, but I'm going to call it societal capital. And this exists at an enormous range of levels.

Go into any organisation and you will recognise that societal capital exists because it is that knowledge which basically makes networks of humans work. It creates norms for interchange and creates institutions and trust, and I've seen this in everything from families to small businesses, to large businesses, and again, to governments and countries, and even to international relations.

It is societal capital that lets us relate to each other, but which in turn creates social cohesion and cooperation. Built over time, it can be quickly destroyed, and that is the fear I have with regard to fascism, which does set out to destroy that capital so that those in charge can do things which would otherwise be considered beyond imagination, and if you want an example of that, look at what Israel is doing in Gaza, which is beyond very recent human imagination. No one could have imagined only a few years ago that we would see another genocide on this scale in our lifetime.

So it is possible to destroy societal capital, but it is also possible to sustain it.

The difficulty is that markets have a tendency to destroy societal capital and erode its foundations because they don't value it.

And this is why we need to make choices. As human beings we need to use our wisdom, which is a form of capital, to decide between what we are going to put emphasis upon,

where we are going to count things and where we are not, what is going to be non-quantifiable and irreplaceable, and therefore something that we have to place emphasis upon, even though we will never be able to translate it entirely into monetary form, and we also have to decide what is essential for our long-term, based upon our ethics.

Now, this form of thinking is usually excluded from any form of economics, and that's important to say.

Not all capital, as a consequence, is equal in the way in which it is considered by economics or in the way in which it is valued, or the way in which it impacts upon us.

Some capital must be regulated and protected, and many of those later forms I've just discussed, whether they be natural capital or environmental capital or some forms of human capital, and certainly societal capital, all have to be considered to be protected. They must be subject to regulation, or they can be eroded to a point where they cannot be sustained and without exception, those forms of capital must be stewarded in a way that wisdom requires. In other words, we must impose good judgment upon their management, and that does not just come down to money.

Sustainability means we must rethink what we value and measure, and count as a result. In other words, what I'm getting to is the point that we have to fundamentally reconsider what is important to us. It isn't just the means of production, it isn't just money, but the forms of societal structure that we have had to date have placed most of their emphasis on those things, and that's why I'm so frustrated.

If you look at socialism, social democracy and fascism, they really do put their focus on productive capital above all else, at least in their history to date. They are looking for a material means of production, and making it the priority of society.

If we look at capitalism and neoliberalism, their priority is financial capital.

But the point is these priorities are, in my opinion, both outdated and unsustainable because the damage that they create to natural, environmental, human, societal, and other forms of capital are too dangerous to allow their further growth without regulation and control.

So we must, as a consequence, begin to fundamentally rethink what we measure in our society, and if you want to know what the big difference is between what I talk about as the Politics of Care and what others discuss as socialism, or social democracy, or capitalism, or neoliberalism, or even fascism, this is it. In the Politics of Care, there is a new concept of capital.

The Politics of Care will prioritise natural, environmental, human, and societal capital. It would focus on human wisdom, even though we will never be able to put a value on it.

The focus is upon meeting needs and doing so as a society, and letting wants only be satisfied when everybody has enough.

This shift in emphasis from a form of politics that prioritises either productive or financial capital towards a politics that focuses upon our natural, environmental, human and social capital is what really defines the Politics of Care.

And for those who are saying what I'm talking about is just a form of social democracy, no, it isn't, because what counts in a Politics of Care is fundamentally different from what counts in either socialism or social democracy or capitalism or neoliberalism.

This is a totally different approach to politics as a consequence.

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