Left Behind and The Future of Capitalism

Description

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This year's annual lecture in economics from the Cyprus Economic Society, featured Sir Paul Collier, a pre-eminent global development economist and professor of Economics and Public Policy at the Blavatnik School of Government, Oxford University, and former director of development research at the World Bank. Collier focuses on the economic challenges of poor countries and neglected places, rejecting neoliberal economics while championing pragmatic solutions to poverty, inequality, and migration through ethical capitalism and inclusive growth. The lecture centered on his latest book, "Left Behind," which examines why nations and communities fall behind in their developmental aspirations and explores strategies for renewal and inclusive growth. This article traces the key themes of Collier's work, drawing from both the lecture and selected portions of his published work.

Paul Collier's contributions are particularly pertinent to the current moment, as the global system is fragmenting and as societies are polarising from within. Understanding the dynamics driving our societies today, is fundamental for renewal and progress.

Collier stands as a notable critic of mainstream neoliberal economics, particularly the ideas of Milton Friedman. His critique stems from observing how these theories played out in reality. Neoliberal economics, he argues, has created significant societal divides and economic failures.

Neoliberal economics are rooted in the notion that market forces will automatically correct imbalances and lead to optimal outcomes, even if that outcome is the shutting down of a region or a sector, sometimes a whole country. Capital is seen flowing into a region or country after a shock and after prices and wages have crashed, to drive recovery. That will be the success story. But then if capital doesn't flow, then the prescription is that there is something wrong with the region altogether, not the theory, and people should leave the place. It's the same coin. But in reality, things do not happen according to the tale. Investors sitting in the City in London or in New York, will typically shy away from depressed areas, which leads to permanent underperformance, exacerbating inequalities rather than resolving them. Left onto themselves regions and countries can wither away.

Neoliberal policies with their one-size-fits-all approach have been detrimental to diverse regions leading to de-industrialization and the widening of the gap between thriving metropolitan centres and neglected provincial areas, and between successful and failed nations. The massive inequalities of free-market economics in turn, is a primary driver of the political radicalization that we see today.

In his 2007 book, 'The Bottom Billion', Collier examines roughly 60 of the poorest nations—home to one billion people—whose development has stalled. He identifies four development traps: the conflict trap, where civil wars and coups create cycles of violence and instability; the natural resources trap, where resource abundance can paradoxically hinder development by encouraging corruption and neglecting other sectors; the landlocked trap, where geographic isolation creates trade disadvantages, especially when neighbouring countries lack infrastructure or stability; and the trap of bad governance in small countries, where weak institutions and limited domestic capacity can devastate development prospects.

Capitalism may be the only system we know that can deliver rising prosperity, but left to itself, it can seriously derail. The Great Depression of the 1930s was such a circumstance—capitalism derailed. The same is true of the Great Financial Crisis of 2008. This latter crisis traces back to the 1980s and the origins of the Reagan and Thatcher neoliberal revolutions. Since then, we have faced three dangerous divergences: spatial, class, and global.

The spatial divergence is about economic activity and people concentrating in metropolitan areas while provincial towns and cities decay. The class divergence extends beyond inherited wealth to an education divide between the more and less educated, with the latter becoming increasingly devalued. The global divergence separates rapidly developing countries like China from stagnating nations—the bottom billion.

In Paul Collier's work, these divergences stem from two processes: the rising complexity of our economies and societies, and globalization.

Productivity advances typically come from technological and organizational innovations, which become harder to achieve as productivity levels rise. New productivity levels require greater complexity, which demands higher education and new skills. This creates a divide between the educated class and the less educated. The educated acquire more specialized skills and cluster in expanding metropolitan areas like London and New York, while provincial areas decline. This is the complexity story: rising fortunes follow rising skills.

Globalization, while beneficial on average, creates uneven outcomes. Some are bigger winners than others, and then there are losers. It has harmed manually skilled workers in developed countries and the world's poorest nations. As competition shifts from national to global markets, fewer places can excel globally. Many cities that were once national or global centers now fall to international competition.

Complexity and globalization have created stark winners and losers—major gains for the skilled in metropolitan areas and painful losses for the unskilled in the provinces. The sense of common purpose and obligation to workforce and community that once existed disappeared as both right and left embraced new intellectual agendas. The Reagan-Thatcher era saw this tradition of common purpose overtaken by Friedmanite neoliberal economics and the libertarian movement. Friedman famously argued that profit maximization should be a firm's sole purpose. Meanwhile, libertarian economics undermined the state's role. Between "greed is good" and "government is the problem," pragmatic public policy vanished.

When these anxieties remain unaddressed, they turn into anger, and people mutiny. This is what Brexit and Trump are all about. But mutinies do not bring solutions – they create opportunities for political extremes.

We need pragmatic solutions that recognize our dynamic world's changing problems. Solutions must fit their time. In the 1930s, for instance, we eventually came up with Keynesian economics, that worked from about 1945 to about 1970 and then derailed.

Paul Collier advocates public policies addressing both educational and spatial concerns. While the British educational system excels at developing cognitive skills, it neglects those less academically inclined. More resources should support vocational training with business community involvement. Then, Collier promotes "social maternalism" for supporting children from birth to age sixteen before they choose university or vocational training. The spatial divide must be addressed by bringing jobs and productivity to people, not taking people to where productivity is.

We need active public policy to address these educational and spatial divides. Market forces uncorrected will drive everybody to the vast metropolitan agglomerations. That is actually inefficient, because the big metropolitan agglomerations become congested. This is a case where market forces drive us in the wrong direction. Similarly, leaving vocational training to market forces leads to worker poaching rather than skill development.

Finally, we must restore the ethics of reciprocity within families, firms, and society. This moral framework emphasizes mutual obligations between citizens, employers and employees, and regions. It counters recent decades' hyper-individualism. The current capitalist model focuses too heavily on self-interest and profit maximization. Instead, the ethics of reciprocity, should guide reforms that make capitalism more ethical and inclusive.

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