Ditchley Backgrounder - Rethinking Capital

In Ditchley’s **A Profound Economic Crisis: finding a way through to a better future,** we are asked to provide new thinking and address policy alternatives to help resolve a host of serious disruptions that have overtaken society in recent years.

Symptoms of The Crisis: the list is longer than popularly understood

Financial disruptions including (1) the return of inflation, potential stagflation (2) crippling public sector debt, (3) rapidly escalating interest rates and accompanying financial (and social) turmoil

Ecological/Energy disruptions including (1) failure to advance the net-zero agenda, (2) energy demand about to rise by an order of magnitude (at least) and (3) contradictory policy and price signals, discouraging long term energy investment

Geopolitical disruptions including (1) return of virulent anti-western authoritarianism, and (2) war, Russian invasion of Ukraine (hot), China threatening Taiwan (cold) (3) rapid collapse in the win-win globalization agenda and Washington Consensus assumptions

One could also add:

Economic disruptions including (1) inability to close the gap on growing inequality, (2) massive misdirection of capital to unproductive sectors (property and the stock market), and (3) an unresolved growth paradox

Political disruptions including the (1) rise of neo-romantic identity politics, (2) lack of vision at the political level (3) absence of political will, due to self-imposed limitations on the role of government.

Root Cause: Capitalism’s Third Wave

The root cause, the deep causal force producing these disruptions, is an historic shift in capitalism’s underlying ‘engine of growth’, which in the last half century has transitioned from an industrial to a digital knowledge-based economic paradigm. This change is historic, equivalent in scale to the 15th century commercial revolution and the 19th century industrial revolution.

The fundamentals of the economy have radically transformed. Now institutional changes are needed at all levels. At the macroeconomic level, the conventional neoliberal agenda and monetary assumptions need to be rethought and reformed. In addition, economic and accounting professions need to be modernized to accommodate intangibles. These primary reforms will identify vast quantities of undocumented value present in our economy, while triggering systemic changes in financial reporting, business decision-making, banks’ lending protocols, investment analytics and government monetary agency.

History reveals that in paradigm shifts of this kind, the disruptive forces coalesce rapidly in a web of seemingly unrelated superficial crises. However, it also teaches us that simply treating the symptoms is not enough; we must attack the underlying disease with new thinking and fundamental reforms: what Rethinking Capital’s research efforts describe as a *Normative Re-set*.