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Beyond capital and wealth

Dennis J. Snower

Abstract

The world is economically integrated, but socially fragmented. Thus economic progress can become decoupled from social progress. As long as social progress is closely linked to and flows from economic progress, it is appropriate for government to focus attention on economic policy to promote economic growth. Indeed, for at least the first four decades of the postwar period, there are good reasons to believe that this was broadly the case for most developed economies. Then, starting in the 1980s and accelerating after the financial crisis of 2008, we argue that social progress in these countries became progressively decoupled from economic progress. The result has been the phenomenon of misery in the midst of plenty: despite continued economic growth, we witness rising dissatisfaction among large segments of the public, declining trust in most public and private institutions, rising nationalism and populism, rising discontent with globalization, increasing unwillingness to accept migrants and refugees, and growing ethnic and religious conflicts. This paper argues that the prevailing thinking about government policy is an outgrowth of the Age of Coupling. In the Age of Decoupling, however, a radically different approach to government policy is required, one that focuses not just on material wellbeing and its distribution, but also on promoting people's sense of empowerment and social solidarity.

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Introduction

We live in an economically integrated, but socially fragmented world. The forces of globalization have made the citizens of most nations economically interdependent, while national boundaries keep them socially disconnected. Under these circumstances, economic progress can easily become decoupled from social progress. That is the fundamental challenge of our age.¹

It is a puzzling age. On the one hand, most people around the world are far more prosperous, healthier, better fed, less threatened by violence and live longer than ever before. On the other hand, in both developed and developing countries populism and nationalism, religious and ethnic conflicts are on the rise. Globalization is under attack; refugees in many parts of the world have increasing difficulty finding safe havens, public trust in politicians, business leaders, media and NGOs is falling across the G20 and beyond.

Why are people so dissatisfied even though average living standards are higher than ever? Why have the rising living standards in developed countries had so little positive influence on self-reported happiness and the incidence of depression and suicide? Why do so many citizens believe that their political leaders are strangely disconnected from their troubles and fears?

It turns out that the answers to these questions all hinge on the relation between social and economic progress. These answers have an important bearing on global governance, the role of the G20 in particular.

The legacy of coupling

We find these questions puzzling because our thinking has been shaped by historic events when social progress flowed from economic progress, so that what is good for the economy is also good for society.

In the West, this was the legacy of World War II. The war had generated a sense of social solidarity; the postwar reconstruction was a massive exercise in empowerment. In short, citizens felt socially embedded and empowered; what they sought, after the privations of war, was peace and material prosperity. Success in achieving peace and prosperity sprung from pursuing free market activities, free trade, within constraints set by their democratically elected governments.

The underlying worldview favored the postwar “liberal world order,” in which sovereign nations engaged in multilateral agreements, with the help of postwar institutions such as the United Nations, the International Monetary Fund, the World Bank and the International Bank for Reconstruction and Development. In the prosperous times that followed, governments offered their citizens increasing material security through steady expansions of public health, public education, welfare and other social services. The tax-and-transfer system became more redistributive.

¹ C. Kelly and B. Sheppard, “Realigning Business, Economies and Society,” G20 Insights, Overarching Visions (http://www.g20-insights.org/policy_briefs/realigning-business-economies-society/).

After the collapse of the Soviet Union, this liberal world order was extended to the ex-communist countries. Managed free markets and liberal democracy briefly came to be considered global normative ideals. Though this view of liberal democracy was soon to be challenged by Russia, China and others, managed free markets remained the avenue to greater material prosperity. This economic strand of the liberal worldview remains prevalent throughout the world.

It is hard to overestimate the importance of these events – the end of World War II and the end of communism – in shaping the liberal worldview. This worldview rested on a few fundamental assumptions: The individual is the basic unit decision making. If left to their own devices, individuals make decisions that make them as well off as possible. Thus the freedom to choose is the individual's most basic freedom. Free-market economies are self-regulating systems that lead to efficient market outcomes, which no one can be made better off without making others worse off. Inequitable distributions of income can be corrected by redistribution policies, but only at the expense of efficiency. Liberal democracies enable voters to choose governments that provide the appropriate collective goods and undertake the appropriate redistribution.

Blindsided through decoupling

Gradually, however – a starting in the 1980s and accelerating after the financial crisis of 2008 – social progress in the West became progressively decoupled from economic progress. This should not have been surprising. The solidarity from wartime efforts and the empowerment from postwar reconstruction faded with the passage of time. The need for economic security was increasingly addressed through rising government involvement in education, health, welfare and social security provision. Education and health services also promoted skill acquisition, leading to better, high-paid jobs.

But while citizens' desire for improved and more secure living standards was being addressed, their needs for solidarity and empowerment were gradually being neglected. The processes of globalization and technological advance – through out-sourcing, off-shoring and automation – disrupted long-standing workplace relationships as well as the associated social communities. The traditional nuclear families gave way to more flexible, often more short-lived arrangements. The social media restructured social networks, away from durable geographic affiliations towards transient electronic contacts among likeminded individuals. As Western consumerism penetrated progressively more countries and absorbed progressively more attentional space (through ubiquitous advertising and entertainment), long-standing cultural ties were undermined. Around the world, a disaffected class of young people was emerging, its members cut adrift from their religious, ethnic and national roots, increasingly addicted to consumerism, subjectively disenfranchised by blind global forces, and increasingly devoid of intrinsically meaningful pursuits. This development contributed to the proliferation of narcissistic gratification on the one hand and to a combination of nationalism and religious extremism on the other.

At the same time, the rapid restructurings of global value chains – the relocation of segments of production processes around the world, to wherever per unit costs happened to be lowest at the moment – led to a spreading sense of economic disempowerment. The allocation of work around the global became dramatically more flexible, as costs of transporting information fell; but the flexibility of most people's skills did not rise in tandem. Recent advances in digital technologies are enabling machines to take over progressively larger swathes of routine work, but education and training systems have hardly responded. Thus most people have few opportunities to acquire new forms of creativity and social competences that they need to combine with technical skills, in order to remain employable. The resulting "polarization of work" – a hollowing out of the middle segment of the income distribution – is accompanied by a polarization of economic empowerment. As machines take over more cognitively predictable work, this sense of disempowerment is felt by skilled "knowledge workers" higher up the skill distribution. And as machines improve their sensory-motor abilities (sensing their environments and responding accordingly), the sense of disempowerment among the low-skilled workers intensifies.

In the presence of this flexible dispersion of production activities across countries and the free movement of financial capital, governments became increasingly ill-equipped to provide the economic and social security that citizens had come to expect. However, most politicians continued to make their usual promises of material prosperity and security. The widening gap between political promises and their fulfillment led to rising citizen distrust of their governments, alongside a growing sense of political disempowerment.²

The recent symptoms of the decoupling of social from economic progress could be found in the many telltale signs noted in the introduction: public discontent with globalization (even among those whose living standards were thereby improved), unwillingness to accept refugees (even when these refugees were expected to generate more net gains for their hosts), rising nationalism, as well as growing ethnic and religious conflicts. The Brexit vote, often motivated by the wish "to take back control" (even if the decision led to economic losses) and the public resonance with Trump's "American first" call (even among those whose jobs were not off-shored), as well as the protests regularly surrounding the G20 summits, were further evidence of decoupling.

Many politicians – still wedded to the liberal worldview – were blindsided by these developments. They interpreted them solely as grievance against rising inequality. They were confirmed in this narrow perspective by much of the economics profession, which remained focused exclusively on people's material needs. The only issues relevant for economic policy, according to this view, were "the size and distribution of the economic pie." Free-market activities, in the absence of externalities, led to economic efficiency – that is, the maximal size of the economic pie – but this pie might be inequitably distributed. Governments could redistribute this pie, but generally at the cost of economic efficiency. This was the well-known "equity-efficiency tradeoff." In this intellectual context, it was not surprising that economists

² Some driving forces behind past, present, and expected future decouplings of social and economic progress are surveyed in: Dennis Snower, "The Dangerous Decoupling," G20 Insights, Overarching Visions (http://www.g20-insights.org/policy_briefs/the-dangerous-decoupling/).

overwhelmingly interpreted the growing social discord in the West as the outcome of rising inequality. Thomas Piketty's book, *Capital in the Twenty-First Century*, which focused on inequality of wealth and income in Europe and the United States since the 18th century, became an acclaimed international bestseller. Many other books in the same vein followed.

There can be no doubt that rising inequality played a significant role in creating the growing dissatisfaction in the Western middle classes. Median household incomes in many countries had stagnated while aggregate income continues to grow. But this was far from the whole story.

After all, human wellbeing springs from many sources that are unrelated, or at best tangentially related, to economic success: a sense of personal and social achievement; engagement with the world around us through intrinsically meaningful activities that develop our capacities; tolerance and respect for oneself and others; a sense of social belonging; and the opportunity to promote the happiness and relieve the suffering of others. In time when social prosperity is coupled to economic prosperity, economic success promotes the achievement of these other sources of wellbeing. But once decoupling occurs, it is possible for people living in material affluence (by historical standards) to be justifiably miserable. After all, man does not live by bread alone.

This is what politicians missed, namely, that public discontent was also arising not just from inequality but, profoundly and independently, from a sense of disempowerment and social estrangement. Neither phenomenon is closely related to inequality or other measures of economic performance.

Disempowerment and estrangement, as distinguished from inequality, can help us understand the widespread popular appeal of the resurgent nationalisms and populisms. When significant segments of Western voters feel that they are losing control over their lives, they will respond with enthusiasm to politicians who promise to "take back control" and "make America great again." Those who are worried by the disintegration of their traditional communities and workplaces will feel attracted to a political program that promises to "bring our jobs back home," "keep immigrants out" and restrict access "extreme vetting" of refugees from Muslim countries. The existence of inequality with or across Western countries cannot account for the popularity of these policies. After all, these policies don't provide hope of reducing these inequalities, but they do promise to reduce disempowerment and estrangement.

Disempowerment – a sense that one's own exertions are not sufficient to ensure one's prosperity, security and fulfillment; a sense of being unable to control one's fate and the concomitant absence of a stake in the economic system – arises not merely from relatively low income and wealth, but from a belief, objective or subjective, that one is at the mercy of forces beyond one's control. Redistribution of income and wealth can reduce inequality, but it may exacerbate disempowerment if it reduces incentives to find jobs and acquire skills. That is the problem that is frequently inherent in passive labor market policies, such as unemployment benefits. It is also the problem that may bedevil guaranteed basic income, which provides some economic security and may empower people if used as transition to a job or other forms of meaningful activity, but otherwise does not address the problems of disempowerment and estrangement. People living in countries with dispersed income distributions may nevertheless feel empowered, provided that social mobility is sufficiently high.

Estrangement – a sense that the communities from which one gains one’s identity are falling apart – is not merely a matter of inequality either. People who are estranged from their peers – in their workplace, neighborhood, or country – do not automatically become socially integrated through a rise in their incomes. Estrangement is a fundamentally social, not economic, problem. The estranged are all those people who fear that the social fabric of their communities is being undermined through a variety of dislocations: job dislocations associated with global supply chain adjustments, migrants who feel ostracized in their host countries, host citizens who feel alienated from and threatened by migrants, and cultural and religious groups who feel that their identities are called into question through changes in their social environment.

Nor are disempowerment and estrangement merely about deficient income mobility. Income mobility is about the chances that the poor become rich and vice versa. By contrast, disempowerment and estrangement reflect a declining stake in the economic system and in society. This stake cannot necessarily be restored through improved income prospects. There have been many societies around the world with little economic and social mobility, but nevertheless a strong sense of common destiny. Mobility can be improved through social services and reverse discrimination, but these are no guarantee for a common stake in the social and economic systems.

Disempowerment and estrangement are often interrelated. Disempowerment includes a loss of the sense of control over one’s fate, lack of access to meaningful activities and frequently disrespect for oneself, often closely related to intolerance and disrespect for others. A loss of social achievement and control is not only disempowering, but is also socially estranging.

The common perception, in developed and developing countries, that politicians are disconnected from the concerns of their voters and often captured by special interests has a more than a grain of truth. Most politicians have been focused on economic policies that address economic performance, while the voters are suffering from social ills that economic performance alone cannot overcome. The decoupling of economic and social progress may also help explain why so many people in both developed and developing countries are engaged in the intense pursuit of material things, even though this does not lead to major, enduring improvement in their life satisfaction and leaves depression, burnout, and suicide rates largely unaffected. Like their political leaders, the public is also focused on economic performance, largely unaware of its neglected social needs. Beyond this, politicians are often beholden to special interests that have a strong influence on voter behavior or election financing. This is the source of the well-known vicious circle by which the wealthy elite influence policy and thereby trench its privileges, thereby exacerbating the inequality that generates the wealthy elite.

The prevailing liberal, free-market worldview – favoring material wealth accumulation as the focus of individual economic activities and wealth-oriented public policies – is currently under attack in both developed and developing countries. Its underlying assumptions are all being called into question in the rising tide of the social discontent that fuels today’s nationalisms, populisms and various forms of cultural and religious extremism. The individual is no longer viewed as the only fundamental unit of society; the disorientation and anger from the dismantling of communities tells us that there is more. People have a right to more than wealth, security and freedom. Free-market economies, supported by free trade and free capital

movement, do not necessarily form a harmonious, self-regulating system. Liberal democracy has not brought us “the end of history.”

The world is not converging on a single economic and political system and a common set of values, to be addressed through a common set of economic policy prescriptions, such as those of the Washington Consensus. International relations are no longer governed simply by a limited number of international organizations respecting sovereign borders or simply by institutions enforcing common rules to which all national governments are expected to adhere. Counterexamples, such as the World Trade Organization and the International Criminal Court, abound.

Rethinking government policy in an age of decoupling

The liberal worldview that grew out of the Age of Coupling implied a clear division of responsibilities among members of society: Consumers maximize their material wellbeing, businesses maximize their profits, governments make the rules that provide basic public services and permit free markets to coordinate economic activities, and supranational institutions permit mutually beneficial negotiations among national governments pursuing their own ends. Under this division of responsibilities, it was claimed free trade and free capital flows would, as if by an Invisible Hand, make everyone as well off as possible.

Under these assumptions, it is easy to understand how economic progress came to be considered the driver of social progress. National economic performance is generally measured largely by gross national product (GDP) and national wealth. Business performance is measured by shareholder value. The resources that generate this wealth were conceived as “capital.” Machines and factories are “physical capital;” people’s skills are “human capital;” the stock of financial instruments is “financial capital;” natural resources are “natural capital;” and social attitudes such as trust, which promote human cooperation, are “social capital.” Capital is the input that produces material wealth. Wealth is what makes people happy.

Then economic growth – rising material wealth – raises social welfare. The more widely the wealth is distributed, the more people become happier. When citizens are dissatisfied, their governments can come to rescue through wealth-creating policies.

This is not an appropriate approach to government policy making in an Age of Decoupling. As long as social progress follows economic progress, it is natural for governments to aim for promoting economic growth in order to create maximal material wealth. But once social progress goes its own way, we must reconnect our thinking with the fundamental purpose of government. This purpose is to promote the wellbeing of its citizens, broadly conceived.

The investigation of the decoupling phenomenon has highlighted three major problems: deficient economic growth and inequality, disempowerment and estrangement. To address these three problems, it is useful to consider the following three components of human wellbeing, summarized by the acronym “WES”:

- W stands for material “wealth,” satisfying people’s material needs. This covers the traditional realm of goods and services, the traditional focus of economic policy making. It centers on GDP-related measures, as well as security from adverse shocks to income, health, and employment, addressed by traditional social and welfare services.
- E is for “empowerment,” which involves people’s need to control their fate and be part of the decisions that fundamentally affect their lives. It involves mastery of the environment, personal growth, attaining personal goals and creativity.
- S stands for social “solidarity,” covering the needs of humans as social creatures, living in communities.

With regard to global problems – involving global externalities (such as financial market reform or greenhouse gas abatement), global social dysfunctions calling for new global norms (such as fighting corruption and creating transparency) and global inequities (such as transnational income inequalities – this trilogy of human needs must become associated with a corresponding trilogy of G20 objectives. The current G20 preoccupation with wealth-oriented policies, must become extended to empowerment- and solidarity-oriented policies as well.

“Empowerment” involves giving people the motivation, capacities, resources and opportunities to develop their strengths in ways that are meaningful to them and their communities. It gives people control over their lives and contributes to their self-actualization, making them more responsible and accountable for their actions.

“Solidarity” covers several distinct elements. In terms of motivation psychology, it covers both care (compassionate concern, altruism) and affiliation. In terms of social psychology, sociology and anthropology, it covers identity formation, the establishment of social norms and values, and the development of common narratives that promote an understanding of the social environment, motivate social action, and make social assignments.

“Care” is one of the richest and most enduring sources of human happiness: the capacity to promote the happiness and relieve the suffering of others, the opportunity to use one’s greatest abilities in the service of others. “Affiliation” satisfies the need for social belonging. It involves the capacity to create and sustain affiliative relationships, covering cooperative contributions to one’s workplace, neighborhood, nation, or other social groups. In the process we create trust and trustworthiness. Affiliation also enables us to develop self-acceptance and tolerance of others, self-respect and respect for others.

“Identities” are our conceptions of who we are and who we want to be. “Social norms” are the rules of behavior that are considered acceptable in social groups. “Moral values” are ideals or principles that provide the basis for distinguishing right from wrong. “Narratives” are sequences of causally linked events, unfolding through time, used as templates for interpreting our ongoing experiences.

W, E and S are indeed three separate, universal sources of human well-being, associated with distinct policy objectives. No one of these sources is reducible to the other two. Empowerment and solidarity are certainly not reducible to wealth and thus cannot be effectively addressed through the traditional wealth-oriented policies.

The way to deal with disempowerment is through empowerment-oriented policies (E-policies), not merely through wealth-oriented policies (W-policies). These include vocational

training, employment subsidies, lifelong learning, political communication of promising social and economic plans to their citizens, and the building of communities that value the contributions of their citizens. Active labor market policies are particularly useful in this regard, but it is important for policy makers to remain aware of the massive job dislocations that the new digital age is expected to generate. As machines take over more and more cognitive work, active labor market policies that promote traditional skills are likely to become progressively ineffective. What is required is a redirection of education and training towards social skills, in combination with the traditional cognitive ones. The workers of the future will require not “activation” of existing skills, but “transformation” of their abilities. Beyond that, they require a transformation of the organization of labor and the governance system in which they operate. New organizations are emerging that are more inclusive, horizontal, socially and environmentally oriented, and more oriented to towards the flourishing of the workforce than the traditional organizations. “Transformative labor market policies” – both in terms of skills and organizational structure – are a better name for the employment policies that the future calls for.

Estrangement is to be tackled through solidarity-oriented policies (S-policies). These are the policies that have largely been left to the whims and vagaries of politics, social activism and advertising – the primary shapers of social identities. Estrangement arises from a lack of perspective-taking. When populist politicians create strong dividing lines between social groups in their countries, then members of different groups become less willing and able to take each other’s perspectives into account. As they develop distinct destinies, they come to care less for one another, have less mutual respect, and ultimately less tolerance for one another. Atrocities become possible when there is no interchangeability of perspectives. To kill, soldiers are taught to dehumanize their enemies, enabling them to disconnect from their enemies’ perspectives. A similar disconnection took place between Serbs and Croats when Yugoslavia dissolved, between Hutus and Tutsis during the Rwandan genocide, between the Nazis and the Jews, and so on.

S-policies are ones that promote perspective-taking. The process of globalization and ICT advance has brought about unprecedented contact among disparate social groups. Without policies that promote perspective-taking, the citizens of the world cannot develop the good will necessary to support the global problem-solving initiatives that are required to deal with our truly global problems, such as financial crises and climate change. S-policies involve the promotion of strong local communities and organizations (including businesses) that actively strengthen these communities, as well as the promotion of civil society organizations. Participatory decision making processes in local and national politics also can enhance not only a sense of empowerment, but also a sense of social solidarity.

This new approach – WES – will require a new conception of the appropriate division of responsibilities between consumers, business and government. Consumers will be concerned not just with maximizing their individual utility, but also with the social and environmental impacts of their decisions. Business leaders will need to focus on more than maximizing short-term profits, but also strengthen local communities, provide empowering jobs and engage in environmentally sustainable activities. And policy makers will need to supplement their W-policies with E- and S-policies.

This implies a broader worldview, reaching beyond wealth as the goal of economic activities, beyond capital as the source of wellbeing, beyond shareholder value as the objective of business, beyond the equity-efficiency tradeoff as a menu of policy choices, and beyond gratification of individualistic wants towards economic goals that strengthen social goals and towards social goals that strengthen economic ones. This worldview will recognize that thriving economies requires a thriving societies and vice versa. To thrive, economies and societies will require not just material wealth, equitably distributed, but also widespread opportunities for personal achievement and social embeddedness.

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