Capitalism: what has gone wrong, what needs to change, and how it can be fixed—global propositions, national initiatives, local solutions

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Abstract

The distinguished contributors to this issue of the Oxford Review of Economics were asked to address the question of what has gone wrong with capitalism, what needs to change and how can it be fixed. The objective behind the solutions discussed in these essays is to retain as far as possible the benefits of globalization, technology, and market processes, while addressing sources of disaffection and discontent by prioritizing convergence in attainable levels of earned incomes and wellbeing within and across countries. Three key ideas run through the articles. The first is the inadequate depiction of the individual in conventional economics as a person preoccupied with consumption and leisure. The second is widespread support for greater devolution to local decision- taking, and an emphasis on the importance of cooperation in communities. The third is the critique of economic orthodoxy implied by the concept of radical uncertainty. Together these articles provide an inspiring assessment and reconceptualization of capitalism, and offer practical ways of addressing its deficiencies while preserving its merits.

Keywords: Capitalism, globalization, devolution, communities, markets, financial systems

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I. Introduction

The global capitalism that has reshaped economies, societies, and politics since the 1970s was driven by a novel economic ideology, eagerly seized upon by businesses and governments around the world. In combination, new corporate behaviour and public policies shaped by this worldview unleashed five processes: deregulation and privatization, expanded international trade, outsourcing from developed to developing countries, increased migration from developing countries to developed, and rapid financialization within and across borders. Both individually and in interaction, these processes had major effects at the national and local level, some positive but many increasingly negative. Cumulatively, they resulted in social and political polarizations which have become unsustainable.

The new ideology consisted of a cluster of propositions. The first was that commercial value could be maximized by handing management of companies and public policy to exceptionally smart, and highly motivated people, who could deploy the novel principal–agent theory to incentivize their workforce (Mitnick, 1973; Ross, 1973). The second was that commercial value, so maximized, would be a good proxy for social value without government interference. The third was that the redistributions of income resulting from this maximization, whether within countries or between them, were not a proper concern for economists as they involved value judgments but could be addressed by compensating transfers on which no professional opinion could be offered beyond concerns about the disincentive effects of transfers on effort.

Unfortunately, no part of this new ideology proved to be correct. Empowering and incentivizing the 'smartest' did not maximize commercial value because this neglected the importance of commitment, trust, and collaboration around common purposes to address radical uncertainty. Commercial value, so generated, was in any case not a good proxy for social value since some of the largest opportunities for commercial profit were predatory, involving wealth extraction rather than wealth creation.

Finally, political systems seldom proved capable of making compensating transfers, partly because the winners used their success to gain disproportionate influence over public policy, but also because, even when they occurred, transfers could not compensate for the destruction of capacity to contribute, and the resulting loss of dignity and community that are intrinsic to human meaning and values. In dismissing the need to consider these contributory as well as distributional effects, economists effectively exposed themselves to the same devastating critique that Tom Lehrer succinctly levelled at the rocket scientist, Wernher Von Braun: '"Once the rockets are up, who cares where they come down? That's not my department" says Wernher von Braun.'

These three errors were reflected in the tragic trajectories of many of the 'rockets' which the neoliberal framework ignited. The gains from greater global efficiency created large groups of uncompensated losers, both within and across countries, and the chosen route to generating global gains had the side-effect of massive stresses on public policy at the national level, and marginalized and neglected losers at the local level. The result was disaffection and political activism with unpredictable repercussions.

Belatedly, many economists are questioning the cluster of ideas responsible for the inequality,outsized private gains, and widespread loss of dignity. This collection of essays is authored by a group of eminent economists engaged in the enterprise of identifying 'what has gone wrong with the way contemporary market capitalism works, what needs to change, and how it can be fixed'. Each author presents distinct and important ideas, but their overall theme is the recognition of the need to combine global, national, and local solutions supported by new commercial, financial, and governmental behaviours around a set of values beyond financial ones at the national and international level.

The objective behind the solutions discussed in these essays is to retain as far as possible the benefits of globalization, technology, and market processes, while addressing sources of disaffection and discontent by prioritizing convergence in attainable levels of earned incomes and wellbeing within and across countries. The challenge is how to achieve this in a system riddled with in-built rigidities and vested interests, making the task appear hopeless to many. But the ideas in this issue are sufficiently inspiring and insightful as to suggest practical ways of breaking the seemingly impenetrable logjam.

II. The issue

(i) The New Globalization, 1970–2020

The stresses of modern capitalism are put in perspective in this issue by the economic historian Kevin O'Rourke (O'Rourke, 2021). As he argues, the New Globalization that began around 1970 continued an old process by which competition reliably generates growth: Schumpeterian creative destruction. By globalizing these competitive pressures, *per capita* global growth of around 1.5 per cent a year was sustained for half a century. Moreover, the rising *per capita* income occurred against a background of global population increase of 1.4 per cent a year: growth created enough opportunities that the Malthusian trap was decisively averted. No criticism of capitalism should belittle this achievement: no other form of economic organization has come close to matching it. As Martin Hellwig reminds us in his contribution (Hellwig, 2021), global growth on this scale has delivered immense benefits.

But that process involved massive destruction as well as creation. Not only were those who lost out left with ruined lives, but the global process of decentralized maximization unleashed a massive increase in predation through wealth extraction alongside wealth creation through increased production, while introducing system-level vulnerabilities which decentralized maximization could neither reveal nor address.

O'Rourke highlights two potent reasons why those who lost from destruction were cut off from the new opportunities. One was spatial: the job losses in any country were not randomly distributed, but concentrated in certain industries and cities in which they had agglomerated. As a city lost its export activity, supporting activities also declined, and house prices collapsed. But people are less mobile than jobs. They have attachments and identities that bind them to place. The other reason was that public policy animated by the prevailing economic philosophy misconstrued human motivation. In line with the trivializing depiction given in most economic textbooks, people were viewed primarily as consumers for whom work entered negatively in the utility function. Given this misperception, those whose skills became worthless in their home city could be fully compensated by financial transfers: the more materially needy they were, the larger the transfers should be.

This welfarism was compounded by a crude technological pessimism that artificial intelligence (AI) would rapidly make non-cognitive skills redundant. In combination, these ideas are currently reflected in arguments for universal basic income (a proposal that reappears every time there is a wave of automation). As O'Rourke emphasizes, people in fact get a sense of dignity from their role as workers able to contribute to their families and society. This cannot be compensated by transfers of consumption: contrary to the precepts of utilitarianism, dignity and money are incommensurate. Hence, the policy implication of place-concentrated job loss should have been mass retraining to equip local workers for new productive jobs. Instead, public spending on non-cognitive further education was reduced.

Hellwig reinforces O'Rourke's focus on spatial exclusion with a growing sense that the system has become rigged against most people. Perhaps, extending the labour market concept pioneered by Assar Lindbeck and Dennis Snower, we might distinguish between insiders and outsiders, growing exclusion being shown by the emergence of an enlarging class of 'outsiders' who have lost agency and influence. As workers and citizens, they have stakes in business and public organizations, but they have lost all power over the decisions taken in those organizations. Hence, decisions such as reductions in training could be taken by 'insiders' who either misunderstood or ignored the concerns of those affected. Hellwig also emphasizes the neglect of macro-risks. This directs attention to another fundamental mistake, namely that theindividual maximizing behaviour of firms would align with the maximization of aggregate social welfare. The error in this assumption became apparent during the Global Financial Crisis, but has subsequently been repeated in respect of the supply chain risks of Covid-19 andthe security risks of chip manufacture. Systemic risks are neither recognized nor managed bya system reliant only on individual maximization. Finally, Hellwig points us to the impetus for this exaggerated faith in micro-level incentives, and its corollary of rising executive pay: financialization.

Predatory behaviour spread throughout the corporate sector, but its epicentre was an unprecedented wave of financialization. This is the core of Anat Admati's powerful critique of the corporate sector (Admati, 2021, this issue). Financialization not only directly burned resources and introduced systemic risks, which crashed the global economy at enormous cost, but it created new pressures on non-financial corporations to revolutionize their style of management. Although these weaknesses became increasingly manifest, they were not addressed. Partly this was because globalization meant public policy interventions were needed not at the national but at the international level, where there could be no equivalent to the state. But perhaps more importantly, at the national level too, public policy was increasingly captured by the massive power of financial sector lobbying: far from addressing the problem, public policy compounded it.

The heart of Admati's critique is that globalization allowed the financial sector to use its growing power to transform the functioning of non-financial corporations, which are the core of the real economy. Corporations are powerful organizations which operate almost as states within the state, manipulating the rules that govern their conduct. This derives from the legal identity of corporations that allows them to act with impunity as independent organizations with weak levels of external oversight or accountability, combined with the potential to earn substantial private benefits from bending the rules of the game in their favour.

The problem has been exacerbated by the growing dysfunctionality of governments around the world, as well as the disconnection between the national level at which states exercise authority, and the international level, at which large corporations increasingly operate. Furthermore, there has been increasing pressure from financial capitalism to deliver ever greater returns to investors and executives. Far from exerting the discipline that capital markets are supposed to exercise, investors intensify the predatory behaviour of companies, thereby ensuring that wealth extraction dominates wealth creation. Misinformation, deception, and power prevail in a system of regulatory capture. Admati concludes that we need to challenge the flawed and naïve assumptions and claims that are conventionally made about financialized capitalism.

If the financial sector has been so spectacularly damaging without policy effectively addressing it, the deeper question is why? The answer is provided by Maurice Obstfeld (2021, this issue). The sector became so powerful that it bought political influence on a grand scale. Obstfeld demonstrates this power by contrasting the policy responses to the globalization of trade and the globalization of finance. Rising protectionism reveals political responses to citizens' loss of trust in the consequences of expansion in global trade, whereas there is as yet no equivalent policy response aimed at reining in the power of global finance.

For Thomas Philippon (2021, this issue), the problem with the Washington Consensus was not that it was fundamentally defective, but that it was oversold and promised too much too quickly. Capitalism should deliver growth and can help with climate change, but it cannot deliver all the other values to which we attach importance in relation to education, health, and social care. For these, institutional reform is needed. However, this reform has been woefully lacking, particularly in the US.

Where reform has occurred, Philippon argues that it has sometimes delivered strong and rapid improvements. He cites the example of anti-trust and competition policy on which the US led the way until the end of the twentieth century, but since then has failed to advance at the pace of Europe. As a consequence, dominant firms have become more entrenched in the US with adverse effects on labour's share of income relative to that of capital. In contrast, 'most European markets are now at least as competitive as their American counter-parts, and several are more competitive,' (Philippon, 2021).

(ii) National initiatives

The common implication of the articles discussed above is that capitalism does not work reliably on autopilot: when it derails, as it has under the stresses of the globalization of trade and finance, it needs active public policy to reset it. Yet, to date, public policies have been inadequate and in important respects compounded the problem.

Public agency rests overwhelmingly with the governments of nation states. Some of them loosely cooperate in various clubs, but few exercise significant supra-national agency. The central message of the articles to which we now turn is that the accumulating failures of capitalism are the result of accumulating failures in government.

Tim Besley opens this critique with the proposition that the future of government is more pertinent than the future of markets (Besley, 2021, this issue). He makes a plea for 'cohesive capitalism': a web of government actions through which capitalism is reshaped to work for all citizens, supplemented by direct public provision in areas where the state has an advantage. Here, governance is cast broadly into four elements. One is democracy: the system of government must reflect the composition of its society. It ties in with the criterion that Besley and Persson (2011) use for a satisfactory state, namely 'common interest', where public policy is sufficiently aligned with the interest of most citizens to maintain their cooperation. In many societies of the OECD, despite formal mechanisms of democracy, this criterion is no longer met.

The next element is the legal-cum-regulatory system. The unambiguous evidence from the Global Financial Crisis and repeated subsequent corporate scandals, such as Purdue Pharma, Carillion, and Wirecard, is that this has gone drastically wrong. The mounting complexity of regulation has handed power to the specialist lawyers who can win court cases, and hence to the deepest corporate pockets that can outbid others in hiring them. The public regulatory agencies are hopelessly outcompeted in these bidding wars, as revealed by the lack of successful prosecutions.

The third element is public provision, and here again public policy has been drastically deficient: pensions, health care, and training are all salient examples. As to pensions, the growing burden of ageing populations on public finances has encouraged greater reliance on private-sector providers. This has been complemented by increasingly rigid and intrusive regulation of private pension schemes to the point that many have been closed to both new contributions and new members. As a result, a growing majority of people are being forced to achieve security in old age without being able to share investment and longevity risks.

As to health care, the huge and persistent variation in health outcomes within the OECD is indicative of a failure to learn from different country experiences. Excessive reliance on market provision in the USA, and on centralized state provision in Britain, contrast with the more successful blended systems of Western Europe. Similarly, training for non-cognitive skills varies massively between the successful intensive approach of Switzerland and Germany, and the reliance on unsuitable market processes in the USA and Britain.

Besley's final element, peace and security, has failed as badly as the others. International interventions in fragile and conflict-affected states have been so unsuccessful as to have eroded public confidence in state competence. International attempts to substitute for lack of state capacity in conflict-affected countries with the armed forces of the major powers have met with repeated and sometimes catastrophic failure.

Besley argues that delivering on these four elements rests ultimately on two pillars: building state capacity, and persuasive communication that forges a degree of social cohesion around common purposes. The two go together: state capacity cannot substitute for a lack of willing compliance on the part of citizens.

Just as globalization has caused spatial divergence between booming and broken places within OECD societies, so it has in some emerging market societies. Several Latin American societies are experiencing social crises of divergence and polarization which are even more acute variants of the same policy failures. Globalization has triumphantly reduced poverty in China at a rate without historical precedent, but while most of Asia has converged rapidly on the OECD societies, much of low-income Africa and Central Asia has fallen further behind the global mean (Bourguignon, 2015). Indeed, the *Changing Wealth of Nations* (World Bank, 2021) reports absolute declines in *per capita* assets between 1995 and 2018 in 26 countries, mostly in Africa. For these societies, already at the bottom of the global economy, future growth prospects do not appear promising.

This is a spectacular failure of globalization over the past half a century. Vera Songwe, Under-Secretary-General at the United Nations and Executive Secretary of the United Nations Economic Commission for Africa, argues that this is a missed opportunity (Songwe, 2021, this issue). While financial capitalism has diminished in significance in developed economies as other factors such as intangible, human, and natural assets have grown in significance, financial capitalism remains of great, and arguably increasing, importance for Africa. Financial capital is desperately needed to promote the establishment and development of indigenous business beyond the resource extractive sectors. For the past 30 years, the motor of global capitalism has been to connect the vast pools of capital with the cheap labour of China and Eastern Europe. But this phase has ended in demographic crises. The major untapped pool of cheap young workers for the next few decades is Africa and the region is ripe for conventional capitalism.

Celestin Monga of Harvard, former Chief Economist of the African Development Bank, picks up on Besley's themes to explain the failure of capitalism to take root (Monga, 2021, this issue). He argues that African societies have yet to develop adequate state capacities: starved of revenues, they have consequently not provided the foundations upon which a socially productive capitalism could develop. Instead, a corrupt African capitalism reinforced the patronage and contest for control of state resources which characterized the polity. Underlying this was an inheritance from colonialism: social fragmentation such that the checks and balances which should have come from civil society were extremely weak. His solution is to create spatial enclaves within which the state is sufficiently effective to enable conventional capitalism to thrive, and build out from this new core. Ethiopia was a model of this approach that was attracting much interest around the region, but it has currently been derailed by the social fragmentation of which he writes.

Left-behind poor countries have some analogies with the left-behind regions within OECD states. But gesture politics and the lack of global governance have compounded the problems of effective public policy responses. Grandiose gestures and incoherent policies abound: British aid for strengthening state capacity has co-existed with increasing reliance on recruiting African doctors for the National Health Service (NHS). Britain has 18 of the world's top 100 universities whereas Africa has none, yet Treasury policy has been that British universities should train fewer than half the doctors that the NHS needs, recruiting doctors trained at public expense from Africa. Ghana has to train two doctors for each one that it needs; as for fragile Sudan, more of its doctors have been lured to London than are practising in the country.

Similarly, while the enormously expensive strategy of sending troops to conflict-ridden societies has failed to reduce fragility other than temporarily, that of reducing fragility by accelerating job growth has been neglected. As elsewhere, most productive jobs will be generated in the private sector, but to date NGO romanticism has skewed aid towards support for social programmes and micro-enterprises. The scarce resource for African job generation is the organizational capability possessed by formal firms: there are simply too few of them and this has been compounded by the macroeconomic impact of COVID. The typical OECD government wisely spent around 20 per cent of GDP protecting its firms; but the typical African government has struggled to finance 2 per cent. The region needed help from OECD governments but it has not been forthcoming. The cost of this inaction will only become apparent over the next decade.

Minouche Shafik, whose international career largely focused on addressing the divergence of poor countries, picks up on Besley's theme of the need for common purpose, a proposition that spans both poor and OECD societies. Her central plea is for a new social contract between states and their citizens (Shafik, 2021, this issue). Like Besley, she sees this contract as a commitment by the state that henceforth capitalism will be run in such a way that it works for all citizens. She works through the opportunities for public policy to reconcile the dynamism of capitalism with this commitment. These focus on OECD societies although, appropriately adapted, their equivalents could be adopted in poor ones.

Job insecurity and informalization can be countered by investments in worker flexibility: as cited above, the large variations within the OECD are a great potential strength—democracy's natural laboratory—if only they can be harnessed for rapid learning. Shafik cites the retraining programmes of Nordic countries and New Zealand as good examples. Echoing Besley, she sees a role for social protection by an active state, but as a complement to retraining, so that, in tandem, they encourage willing compliance by citizens in the process of creative destruction that delivers the growth with which O'Rourke sets the scene.

She also sees jobs loss and informalization as, in part, a consequence of poor public policy. Taxation of work has been too heavy relative to taxation of capital, encouraging excessive capital intensity and skewing innovation to being labour-saving. Similarly, poor regulation, such as the ease with which self-employment can reduce tax liabilities, has encouraged excessive informalization and reliance on the 'gig' economy of unprotected workers, especially in the Anglo-Saxon labour markets.

Margaret Levi provides a penetrating diagnosis of government failure: the ideas commonly described as neoliberal which seemingly justified small government (Levi, 2021, this issue). Liberty was reduced to freedom from the state, and awarded highly selectively. Thus, in California, home to the most successful corporations of the early twenty-first century, the state budget was squeezed because an effective lobby managed to put a cap on property taxes, while the tech companies themselves used fancy legal arrangements to park their vast profits offshore in tax havens. Not only was the budget squeezed, but it was redirected from the public university system to an expansion of prisons. The liberty of the prosperous not to be burdened by taxation was matched by a reduction in liberty for others less well-off, as the enhanced opportunities provided by low-cost university education were replaced by the loss of opportunities inflicted by expensive incarceration.

Levi proposes an institutional redesign to promote 'inclusive communities of fate'. By this resonant phrase she refers to the opportunities for mutual gain inherent in the many situations described by those positive-sum games characterized by strategic interdependence. The communities are designed to recognize the fact that the destinies of their members are intertwined. As she describes in an account of Australian dockers, communities of fate can even have international span, but their most evident opportunities are in smaller, spatially bounded communities such as towns. Building economic communities of fate has enabled Swiss towns to overcome the individual corporate incentives to free-ride, inducing local firms to train local youth because it is the right thing to do. Similarly, social communities of fate are likely to be more effective in addressing the chronic problem of loneliness through local charities and social enterprises than direct provision of a loneliness service by government.

And this emphasis on the local, takes us naturally to our third group of articles.

(iii) Local solutions

Kaushik Basu picks up on the theme of building social norms, central to the proposals of Shafik and Levi. For markets to function as economic analysis presupposes, depends upon norms of mutual trust, and presumptions of cooperation that are themselves dependent upon public policy (Basu, 2021, this issue). Norms vary massively over time and between societies and have negligently been eroded to varying degrees in the societies of the OECD. But as Basu demonstrates, for some scarce resources, markets are often not the best means of allocation, while legal and regulatory reforms can switch the process of allocation from markets to norms. Thus, in Swiss towns, the scarce resource of training is allocated primarily by a benign non-market process of social pressure. Common purpose has been built both nationally and locally, so that the manager of a firm that chose to free-ride on the training provided by others would suffer a loss of good opinion. Indeed, the norm has become sufficiently entrenched that free-riding is not even entertained as an option.

Sam Bowles and Wendy Carlin agree that social norms need to be integrated into economic models, but emphasize the greater scope for this approach at the local level, strengthening them by building on local identities (Bowles and Carlin, 2021, this issue). For this, spatially devolved agency is needed both in public governance and finance, something which varies considerably between OECD societies: in Germany both are devolved to the regional level, whereas in Britain both are highly centralized in London. Their final plea, for a triadic partnership between government, markets, and civil society, is developed in more depth by Raghuram Rajan: local community is the neglected 'third pillar' without which capitalism has marginalized too many people (Rajan, 2021, this issue).

Rajan endorses the principle of subsidiarity: decisions should be decentralized to the lowest level at which they can sensibly be taken. This will vary by context and time and so cannot be pre-set by a constitution. But the principle applies not just to government but to corporations: by building common purpose, senior management can devolve the process of innovation to teams working in parallel. The role of senior management is to periodically reset that common purpose, monitor the devolved processes of innovation, and spread the evidence from success so that the entire business learns rapidly. Devolved finance is important because in determining whether to provide finance for start-ups and scale-ups, local knowledge of management capabilities is essential. Without such firms, a city will struggle to remain at the global frontier.

Dani Rodrik and Stefanie Stantcheva build powerfully on Rajan's thesis with four important proposals (Rodrik and Stantcheva, 2021, this issue). One is to concentrate public policy on the expansion of jobs with mid-level skills, reversing the polarization into an elite of highly remunerated cognitive skills being serviced by a growing underclass of low-skill manual workers. The second is for public policy to promote specific industries in specific places. This is a recognition that place-based development is inherently contingent on the coordination of expectations: firms wish to locate where they think others will locate. Since many future spatial locations could be locally stable equilibria, market mechanisms struggle to achieve coordination on the high-investment equilibria. Instead, once a city is broken, low investment tends to persist: coordination by default.

Their next proposal is for indicative planning: in their phrase, a 'productivist state' in contrast to the consumption focus favoured by advocates of universal basic income. Their final proposal is to recognize that the direction of technological change is endogenous: both public funding of research, and the ability to redirect private research by taxation and regulation, make it a policy choice. The scope for AI to replace humans in computational tasks can release people to perform the more complex tasks of balanced judgement inherent to the many situations characterized by radical uncertainty that the human brain, the most complex entity we know of in the universe, is uniquely equipped to manage. In particular, tasks involving human interaction are likely to be better performed by humans than by AI, and as incomes rise due to the contribution of AI to productivity, the demand for human-provided services, such as teaching, entertaining, creating, advising, and caring, is set to increase.

Where Rodrik and Stantcheva propose a repurposed state, Rebecca Henderson proposes a repurposed corporate sector. Building on Kay (2011) and Mayer (2018), she regards the profit-as-purpose approach of a generation of corporate leaders as socially unsustainable (Henderson, 2021, this issue). Profit is a constraint, not a purpose, best achieved obliquely. She is sceptical of regulation as a means of constraining the choices of profit-driven firms, but more hopeful if is it used to shift the structure of corporate governance from profit to socially useful purpose. There are many such purposes, mundane as well as captivating, but the reinsertion of norms, recognized by all these contributors, precludes purposes that are socially damaging, to which profit-driven businesses have been propelled by pressure from the financial sector.

Our final contributors, Colm Kelly and Dennis Snower, begin with the analytic economic point that the adverse side-effects of globalization, technological change, and the expansion of finance, in combination violate all five conditions for efficient markets, giving rise to abuse of dominant market positions, asymmetries of information, increasing returns to scale, failure of markets to clear, and presence of many externalities. Kelly and Snower (2021, this issue) agree with Henderson on the importance of refocusing business on addressing societal problems, with their specific emphasis being on measurement. They argue for the translation of environmental and societal goals into clear quantitative targets with a legal responsibility to report performance against them. This is in the spirit of conventional management theory: what can be benchmarked can be improved, but it switches the measured target from profits to purpose.

III. A synthesis

Faced with the questions of what has gone wrong with capitalism, what needs to change, and how can it be remedied, this highly distinguished group of authors has cohered around a cogent critique of the ideas by which the pathologies of economics have misdirected policies. The topics of the moment that understandably dominate public discussion are climate change and the pandemic. Several authors have suggested specific policy remedies but in the main they have focused on the fundamental processes of which these are the unintended and undesirable consequences. We highlight three underlying ideas which run through the articles.

The first is the inadequate depiction of the individual in conventional economics as a person preoccupied with consumption and leisure. In contrast, evolutionary biology suggests we are strongly motivated by purposes beyond consumption and leisure with a capacity to be morally load-bearing. To harness this, cultural resets as well as regulation are required to redirect business and finance from the pathologically exploitative organizations that they are sometimes depicted as being, to ones that recognize their role in society and potential to promote human and environmental flourishing.

The second generic idea is the widespread support for greater devolution to local decision-taking, and an emphasis on the importance of cooperation in communities. Far from being selfishly individualistic, humans have a strong capacity to cooperate in communities. But this is often easier to achieve at local than national or international levels, and, as several authors have suggested, principles of subsidiarity should guide much decision-taking. In particular, many poor countries lack the governance systems to promote internal cohesion and, at the global level, the formal mechanisms of collective action are weak and may become weaker as geo-political tensions intensify. More effective global governance of climate change is vital, but our future survival cannot be left to depend on it—we must also incentivize and resource decentralized initiatives by nations, regions, communities, and businesses.

The third commonality across the articles is that the critique of economic orthodoxy implied by the concept of radical uncertainty is back in fashion, amplified by the challenge of Covid-19. Change occurs through an uncertain dynamic process involving multiple equilibria, driven by creative destruction, innovation, and social learning, rather than known ascent along a unique equilibrium path interrupted only by random shifts and shocks. This is profoundly important for the formulation of policy which to date has sought to derive toolkits of policies from economic theory and 'evidence', instead of recognizing the more appropriate analogy of an entrepreneur who uses a broad body of knowledge and experience within which to position experimentation, learning, and adjustment. Far from being an inferior computer, the human brain has evolved to be well-suited to decisions under uncertainty, and decisions devolved to teams within which people naturally cooperate enable rapid learning through experimentation and copying.

This brings us back to the failings of modern economics. In seeking to reposition itself as a 'science', economics lost contact with the humanities and social sciences that are critical to its practical application and policy formulation (Coyle, 2021). This has been perpetuated through the way the subject has come to be taught and researched: a relentless narrowing of scope and deepening into technical specialism, as illustrated by a preoccupation with issues of causality and the 'gold standard' of randomized control trials.

While this is a necessary part of scholarship, almost all major advances in knowledge, the economy, and public policy, have come through promoting links between specialist subjects. With the rediscovery of Adam Smith's *The Theory of Moral Sentiments*, economics has belatedly begun to draw on a rich interdisciplinary perspective that recognizes the need to embrace the full complement of human knowledge. The relative power and preferential taxation of capital in relation to labour should be redressed and the need to re-establish public and private institutions that together support families, care, education, and health in communities recognized.

Similarly, while the growth of China has reduced poverty, it has happened at a devastating cost to our environment. Developing nations understandably castigate developed nations for their hypocrisy in expecting them to restrain their economic development for the environmental benefit of others. We will not solve the environment through policies that impose social damage on the most disadvantaged, just as we will not address social injustice by creating environmental catastrophes. Such issues remind us of the need to embrace societal alongside environmental remedies. While the benefits of globalization do not have to be jettisoned, they need to be made compatible with humanity's broader goals.

We have erred seriously in our characterization of the world and that misconception has had disastrous consequences for its nature, future, and survival. This issue sets out why we have got here, what its consequences have been, and how we should alter the trajectory. With that understanding, it will be possible to sow the seeds of reform and renewal; without it, the prospects are bleak.

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