

“Considerations for a Better (or maybe *True*) Capitalism”

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Point of Departure

- ▶ Most of the world lives now in market economies.
 - ▶ *Capitalist* economies.
- ▶ And a larger share of the world is moving in that direction.
- ▶ Yet, there is growing unhappiness, at least in Western countries.
 - ▶ Arguably, wealth is increasing.
 - ▶ But so is wealth inequality.
- ▶ Do we need a new system?
- ▶ What about “fixing” the one we have?
 - ▶ Position of this presentation.
 - ▶ Reason: it is feasible, changing the system, is much harder.

What is (textbook) Capitalism?

- ▶ Private property.
 - ▶ Including companies.
- ▶ Free markets:
 - ▶ For products.
 - ▶ For people.
- ▶ With competition among *many* companies.
- ▶ Government and courts apply the rules:
 - ▶ To defend companies.
 - ▶ To defend consumers.
- ▶ Financial markets are also free and competitive, of course.
- ▶ “Some” taxes are necessary to support the government.
 - ▶ According to “some” rules.
 - ▶ The rules apply equally to everybody.
- ▶ Other implicit things.

What about Real Capitalism?

- ▶ Competition?
- ▶ *Reward to risk?*
- ▶ Same tax rules for everybody?
- ▶ Same investing opportunities?
- ▶ Equality among investors?

Competition

- ▶ Lacking in many industries.
- ▶ Getting worse.
- ▶ Largest companies in the world:
 - ▶ They are monopolies or oligopolies in their industries.
 - ▶ They do not let companies to enter to compete.
- ▶ They have huge profits:
 - ▶ Not possible when there is true competition.
- ▶ How they keep their market power:
 - ▶ Influencing regulators (money and lawyers).
 - ▶ Buying newcomers.
 - ▶ Taking advantage of dubious intellectual property rules.

Competition in Labor Markets

- ▶ Limits to immigration?
- ▶ Limitation to mobility (*noncompete* provisions).

Intellectual Property

- ▶ Protected, as other private property.
- ▶ Main mechanism: Patent protection.
- ▶ Argument in favor:
 - ▶ It provides incentives to innovation.
- ▶ Accordingly, does it explain technology advancement?
 - ▶ Not obvious.
 - ▶ See work of Mariana Mazzucato.
- ▶ Flaws in the system:
 - ▶ Filing a patent is not trivial.
 - ▶ Clear advantage for deep pocketed companies.
 - ▶ Related, “patent trolls.”
- ▶ Arguably, the system favors big companies.

Overall Legal System

- ▶ Money is critical:
 - ▶ It pays lawyers.
 - ▶ It pays lobbyists.
- ▶ “Too important to hurt”?
- ▶ Recent legal cases (Facebook, Google, Goldman Sachs).
 - ▶ Real penalties?

Risk and Reward

- ▶ Basic principles (in market economies):
 - ▶ Risk taking can produce big losses.
 - ▶ In exchange, it can produce big rewards.
 - ▶ Risk taking is good for economic growth.
- ▶ Does risk-taking produce big losses?
 - ▶ Not always the case for large companies.
 - ▶ *Too big to fail.*
 - ▶ Plenty of examples of small companies going bankrupt now.
 - ▶ Not so many of the large ones.

Compensation

- ▶ Not completely different from risk/reward considerations.
- ▶ For example, hedge funds and 2/20 rule.
 - ▶ Collect percentage of earnings.
 - ▶ Do not participate in losses.
 - ▶ Risk/reward?
- ▶ Executive compensation:
 - ▶ “To reward the increase in value of the firm.”
 - ▶ Is that always the case?
 - ▶ Why so large sometimes?
 - ▶ Based on what parameters?

- ▶ “One share, one vote.”
- ▶ Really?
 - ▶ Less and less so.
 - ▶ Facebook, Google... And many new companies.
- ▶ Large *passive* funds:
 - ▶ Majority shareholders in many companies.
 - ▶ Not clear what they do with their votes.
 - ▶ Potential distortion.
- ▶ Boards of directors:
 - ▶ Supposed to supervise management.
 - ▶ But often it is just a group of friends... (and all guys).

- ▶ Same rules for everybody.
- ▶ Regardless of the regime.
- ▶ What if you have a business?
 - ▶ Many of your expenses paid by the business.
 - ▶ Not always easy to monitor revenue.
 - ▶ Why so many notes around? Large denominations?
 - ▶ Drugs, arms dealing,... Only?
- ▶ Tax havens?
- ▶ Loops, loops, loops...
- ▶ And lawyers.
- ▶ How much do wealthy people actually pay (Bezos, for example)?

- ▶ Fewer and fewer public companies.
- ▶ Can everyone invest in private companies?
 - ▶ Not at all.
 - ▶ Worst than that, good deals are only for a small club.
 - ▶ Always the same people benefit from startups.

Conclusions

- ▶ After all, maybe capitalism works.
- ▶ We just have not tried it.
- ▶ In fact, we might be getting further away from it.