

Michael Gove meets Adam Smith

“Capitalism, free markets, free enterprise, the freedom to invest, buy, sell, organise, innovate, choose and decide has been the single most liberating force in our history. It has raised billions out of poverty, brought food, water, heat and shelter, entertainment and enlightenment, the space to appreciate beauty and the time to cultivate relationships to peoples and nations which hitherto struggled simply to survive”

Michael Gove

It's extraordinary how the newspapers, with all their substantial reach and influence, manage to distort a really well-considered and deep analysis by a leading politician. There was a first rate example of that last week, with a series of shrieking headlines following Michael Gove's excellent presentation to the Policy Exchange on 5 June:

“Michael Gove lays out his bid to be Chancellor in post- Theresa May ‘dream team’” - the Sun

“Capitalism has failed, leading Tory Michael Gove declares” - the Mirror

Even the Times declared “Reforming capitalism is too risky for Tories” in a comment piece by Philip Collins.

It is unfortunate that none of them provided links to [the actual speech](#), unlike Share Radio. Be warned, it's a fair length - 5900 words, which I reckon must have taken 40 minutes to deliver, only slightly shorter than my own presentation on [Egalitarian Capitalism](#), which complements Michael Gove's insights by proposing some real calls for action.

The first thing to say is that Michael Gove's core analysis of the problem with modern capitalism is right. He starts by listing those aspects which have undermined the dynamism of capitalism over the past two hundred years, that is:

- Monopolies, or monopolistic behaviour;
- Excessive debt;
- Failure to celebrate innovators and disruptors;
- Moral failure to insist on proper respect for the excluded and disadvantaged.

He then goes on to argue that the convergence of these over the past two decades has led to the stagnation of growth and falling productivity.

In his political analysis he gives a succinct and accurate picture of the social democratic left, who have “seen it as their job to manage economies so as to generate, and then distribute, the fruits of economic growth”. What a neat description of the benign imposed solution that is socialism and universal welfare!

But the nub of his analysis is falling productivity, and he does little more than give some pointers on how to address it. He describes the traditional facts of productivity as defined by economists as land, labour and capital: or, in his words, nature, humanity and money.

And here is, I think, the heart of his proposition: “ *If we are both to improve productivity in the future and secure enduring support for capitalism we should think of land not as a factor to be exploited but instead think of nature as a resource to be nurtured and renewed, we should think of labour not as a commodity to be directed and deployed but humanity as a resource we should invest in and cherish, and we should think of capital not in terms of the return it immediately earns but the innovation and progress it generates.*”

He then goes on to look at each of these three drivers of nature, humanity and money in some depth, and I do recommend looking in detail at his comments on what has gone wrong. For example, the astonishing revelation that

corporate lobbyists spent a record €1.7 billion in 2016 persuading officials in Brussels to shape regulation in their favour - crony capitalism at its worst.

What he says about re-balancing in favour of future generations is also highly significant, in terms of education, the environment and economics. But the key purpose of his speech was to lay down a challenge for the Policy Exchange and all of us: "Capitalism, the means by which we generate not just economic growth but the prosperity which allows us all the chance to live in abundance, depends on, historically and now, the freedom to dare and differ".

In my opinion there are two aspects which are missing from his masterful analysis.

The first is an appreciation of the role technology has played in hollowing out wealth and productivity in developed nations. I have written in depth about this: for example, in last November's commentary "[The impact of technological innovation on productivity & wealth](#)". Technology's economic impact has included:

- Simultaneously producing huge supply scalability and de-monetisation which have caused significant price deflation and thereby ultra-low interest rates. These have had the effect of furthering the polarisation of wealth through rising asset values and undermining cash savings; and
- Undermining both skilled and unskilled employment as a result of automation and online services.

The second nearly-absent factor is the need for capitalism to be based on personal freedom. He makes reference to this - not as much as I would like to see (ref. last week's comment - "[The Tragedy of Imposed Solutions ..](#)") - with an appreciation of free inquiry and free speech. But it's not just inquiry and speech that matter, it's more giving all people a sense of participation and control. As I wrote just last week, imposed solutions - whether from the left or the right - will not stand the test of time. What then needs to bind society together is [Bishop Michael Curry's power of love](#), not politicians reaching for utopian solutions.

So where are the links between [Michael Gove's analysis](#) and my own proposals for [egalitarian capitalism](#)? I would say that there is indeed a close parallel, and I would hope that egalitarian capitalism will help the Policy Exchange rise to Michael Gove's challenge. Here are a few examples:

- [Excess financial intermediation](#) - providing some real proposals to re-balance the free market, for the benefit and participation of all;
- [Empowering disadvantaged young people](#) by using the Child Trust Fund as a vehicle for breaking the cycle of inter-generational deprivation (this is now a formal Budget proposal for November 2018);
- [Moving towards proper targeted relief for those in real need](#), and away from the imposed provision of universal welfare.

And it is in this latter area that I take most exception with Philip Collins' comments in The Times. His critique of Michael Gove finished in a call for heavy taxation of wealth as well as higher income levels, and a substantial re-commitment to the social care system. All his solution would result in would be an exodus of entrepreneurs and National Debt which would rise inexorably to above 100% of GDP. No thanks, Philip.

Let's rather re-balance capitalism by bringing opportunity to the most disadvantaged, by empowering individuals at all levels of society to take control of their own lives, and by reducing the over-bearing impact of excess financial intermediation and regulation.

And let's thank Michael Gove for his call for change.

Gavin Oldham

Share Radio

