Book Review

William Kingston
How Capitalism Destroyed Itself: Technology Displaced by Financial Innovation
Cheltenham, UK; Northampton, MA, USA: Edward Elgar Publishing, 2017.

Reviewed by Eleanor D. Glor

We are living an economic and political era of increasingly right-wing extremism, declining trust in government and high inequality, in which most people's capacity to meet their needs has stayed the same or declined over 40 years. Many people believe that this situation is the fault of unions or government or at least that government could fix it by bowing out. More and more stridently, we have been told that the answer is lower taxes and less government. Right-wing governments (which have been most governments) have tried this answer, introducing tax cuts and austerity on spending. Austerity has been accomplished largely on the backs of the poor and the non-profit organizations that try to help them. Tax cuts for businesses have been accompanied by exhortations to innovate and some funding has been put into subsidizing their innovations. A few large corporations have received most of the benefits in profit and share prices. William Kingston has a more original diagnosis of the slow economic and income growth that has ensued in Western economies.

Dr. Kingston, lecturer in the School of Business at Trinity College, Dublin, Ireland, examines the historical periods of quick economic growth, the technologies that drove them (Kondratieff [large] cycles) and the economic, political, moral and intellectual property environments in which they emerged. Kingston believes that periods of active economic growth have been based on new technologies and new intellectual property regimes. An economic historian, he begins with antiquity, tracing the way each environment for innovation and its institutions were created in the West. For example, he describes the new technologies developed by the monks in the Christian monasteries, which occurred in collective environments. "To the extent that monasticism made large numbers of educated men into 'doers,' tacit knowledge, leading to improved technology, was the result" (Kingston, 2017: 50). The Viking Raids of the 9^{th} and 10^{th} centuries brought the first wave of Benedictine monasticism (Black Monks) to an end. It was rekindled by the monasteries centred on the Abbey of Cluny, involving 314 monasteries and 10,000 monks at its peak. The monasteries created an ethic of the nobility of labour, although this was eventually abandoned by the Cluniac monks. The ethic was recreated by the new order of Cistercian (White) Monks. Their work created "increasingly greater scope for the kind of organizational and productive skills they possessed" (p. 51). The White Monks were forerunners of the intense focus on the economic aspects of life that emerged even more strongly in the 16^{th} and 17^{th} centuries. At that time there were changes in politics, morality, the creation of the work ethic during the Reformation of the 1500s and the invention of printing a little earlier. This was followed by the long (two generations) Kondratieff cycles of the Industrial Revolution, based on steam and electricity.

Parallel to these economic cycles, people and businesses secured more and more freedom from responsibility for what happened to their organizations and their ownership shares, culminating in the present, when they have been almost entirely freed of such responsibility. All they can lose is the value of their own shares. In the past, they could lose their entire fortunes. While these intellectual property inventions made some sense in the environments in which they were created, Kingston demonstrates that they made no sense in the latest financial boom, because they created an incentive to take unreasonable risks.

Joseph Schumpeter, writing in 1939, was the "first economist to grasp the importance of economic innovation fully" (p. 8). He studied three cycles: the industrial revolution (1780s to 1842), the age of steam and steel (1842-97) (the bourgeois Kondratieff) and electricity, chemicals and motors (1898-1929). He recognized the clustering of innovations at the beginning of Kondratieff cycles, and believed the innovations were the causes of the cycles. Some see information technology as a subsequent Kondratieff cycle and hope gene splicing will be the next. The financial innovations of the 2000s, on the other hand, proved to be a disaster, culminating in the crash of 2008.

Kingston sees parallel institutional changes in property rights as supporting these cycles: the first Kondratieff cycle was made possible by the introduction of "full" property rights, the second by general limited liability law and the third by patent protection making "corporate investment in R&D attractive" (p. 13). Each long cycle, then, originates in a discrete event which causes investors' perceptions of future profits to be more optimistic.

Market power is not the power to make a market, but rather to unmake it, to find ways of escaping the constraints which market forces seek to impose, especially downward pressures on prices. Modern property rights provide a range of ways to escape the constraints. Trademark registration law, for example, creates a barrier, provided by the state, to entry to the market in the form of an exclusive right, a monopoly.

By considering the environments which supported innovation and growth throughout history, Kingston concludes that the problem today is not high or low business taxes or lack of initiative, but the capture of government policies concerning intellectual property by the industries that need to be controlled and guided to serve the public good. The incentives created by this capture of government policies have led to corporations being allowed to give large amounts of money to favoured politicians, especially in the USA. This has facilitated the election of these politicians; lobbying; favourable changes in laws and regulations; court judgements favouring corporations; and corporations acting solely in the interests of their corporations. Governments and corporations acting in the public interest have been largely lost. Out-of-control corporations have in turn led to economic bubbles (extreme market highs) that make the rich richer and extreme lows that require huge taxpayer intervention to rescue foolish corporations too large to be allowed to fail. Corporations and industry are no longer required to bear the risks they create.

About the Author:

Eleanor D. Glor worked as a public servant in the Canadian public sector at four levels of government and has written about public sector innovation for publication since the 1980s. She ran the Innovation Salon, a meeting on public sector innovation, from 1995-2005 and is the publisher and founding editor of *The Innovation Journal: The Public Sector Innovation Journal.* She is Fellow, McLaughlin College, York University, Toronto. Most recently she edited *Leading-edge research in public sector innovation: Structure, dynamics, values and outcomes* (Peter Lang), "Innovation and Organizational Survival Research," with Mario Rivera in James D. Ward (Ed.), *Leadership and Change in Public Sector Organizations: Beyond Reform* (Routledge), and Studying Factors Affecting Creation and Fate of Innovations and their Organizations II: Verification of Raters and the Instrument (*The Innovation Journal: The Public Sector Innovation Journal*, 22(3)). Eleanor can be reached at: glor@magma.ca

Reference:

Schumpeter, Joseph A. 1939. *Business Cycles: A Theoretical, Historical and Statistical Analysis of the Capitalist Process.* New York, NY: McGraw-Hill