Capitalism redefined featuring Nick Hanauer

Nick Hanauer, entrepreneur and venture capitalist, argues that it’s not a better economic system we need but rather a better understanding of the system we have.

This video is part of a collection of conversations with leaders, thinkers, and activists from philanthropy, business, the arts, tech, and beyond outlining bold visions for the future of philanthropy.

Transcript begins.

[Nick Hanauer, entrepreneur and venture capitalist. A white man with dark hair, wearing a dark suit and a white dress shirt.]

ANNOUNCER: Please welcome Nick Hanauer.

[applause]

NICK HANAUER: Hello, everybody. So, it has been said that you are what you eat. Maybe. But it is certainly true that a society is what it believes. And, as a society, some of our most closely held economic beliefs, the beliefs that frame our politics, our policy, and our culture, are wrong—and, worse, they’re pretty terrible for us. Because it turns out that virtually all of the conventional economic assumptions we have made these last decades—what we teach in our schools about how human economies work—are objectively, scientifically false. Our behavior model, our systems model, our theories of value and growth. For example, we believed in a behavioral model that holds that people are homo economicus—perfectly selfish and relentlessly self-maximizing. It’s not true. We can be selfish, of course, but decades of science reveals that humans have evolved to be innately moral, reciprocal, and cooperative. What makes us unique isn’t our competitiveness. All animals compete. It is our unmatched capacity to cooperate at scale, which has enabled our species to dominate the planet. We believed that the economy is an equilibrium system within which, if one thing, like wages, goes up, another thing, like jobs, must come down. It’s not true. The economy is an ecology—a complex, adaptive, increasing-return system where when wages rise, for example, so do jobs. Believing that when wages grow, jobs shrink fundamentally mischaracterizes the economic dynamics in these systems, in the same way as if you believed that when plants grew, animals shrink. This is not how the system works. There is no equilibrium in an economy. We believed that price equals value, and that people are always paid their marginal product, exactly what they are worth. It’s not true. Price sometimes equals value, but, please take it from a successful capitalist—we never ever pay people what they are worth. We pay them what they have the power to negotiate. And, for sure, we never pay ourselves what we are worth. We pay ourselves as much as we can get away with.
NICK HANAUER: We believed that the availability of concentrated capital was the principal constraint on economic growth. It’s not true. The economy isn’t money. It’s people. And the more people we fully include in the economy as innovators, entrepreneurs, well-paid and well-educated workers, and robust consumers, the faster and more prosperous the economy grows. Why does it matter that all these academic assumptions are wrong? Because they logically and inevitably lead to a higher-level set of heuristics that has shredded our economy and our democracy over these last decades. Heuristics like, raising wages kills jobs. Tax cuts for the rich create growth. Government is always inefficient. The market is a perfect meritocracy. Greed is good. The rich are makers. The poor are takers. And there is always a trade-off between increasing amounts of economic fairness and justice and economic growth and efficiency. So here’s the thing—there’s a Nobel Prize in economics attached to every single one of those ideas. And they are all wrong. Because here’s the thing—if you accept these neoliberal assumptions, the truth is there is only one economic outcome that is possible. The rich will get richer and everyone else will get poorer. Orthodox economics and neoliberalism have presented itself as science—as immutable, timeless truth. That is a lie. That is a lie. It is weaponized pseudoscience. Neoliberalism is a protection racket for the rich and the powerful. So how do we change our beliefs in a way that will lead to a more equitable society and more prosperity for all? The latest science suggests five rules of thumb. Rule one. The market isn’t a jungle. It’s a garden—and, tended like a garden, markets are the greatest social technology ever invented for solving human problems and creating prosperity. But unconstrained by social norms and democratic regulation, markets inevitably create more problems than they solve. Rule two. Economic inclusion is not this liberal luxury to be afforded if and when we have growth. Economic inclusion is the cause of growth in market economies. The economy is people. The more people we include in it, the better it works. Who’d of thunk it? Rule three. The sole purpose of the corporation is not to enrich shareholders but rather to increase the welfare of all stakeholders—workers, customers, community, and shareholders alike. Rule four. Greed is not good. Being rapacious doesn’t make you a capitalist. Being rapacious makes you a sociopath.

NICK HANAUER: And in an economy as dependent upon cooperation as ours, sociopathy is as bad for business as it is for this society. And, finally, unlike the laws of physics, the laws of economics are largely a choice. So, neoclassical economic theory has presented itself as immutable, natural law, when it is merely a collection of preferences, narratives, and social norms. If we want a more equitable, more just society, we need new economic beliefs. And here’s the good news: If we want new economic beliefs, now we know that all we have to do is choose to have them. Thank you.

[applause]

[New gospel of wealth. What does #GenerosityToJustice look like to you? Ford Foundation dot org forward slash new gospel.]
End of transcript.