



Balanced Capital

Introduction

If you've never come across the term "Balanced Capital" that may be because I've invented it. It's a bit like writing a tune – you're never quite sure if you've actually written it or just recreated a tune you've forgotten you heard. Everything in this paper is my take on an idea that's come out of much more solid work done by numerous other, smarter people. I'm telling myself a story of how things could be and in this article I would like to share that story with you.

Whatever the semantics, the concept of Balanced Capital is based on guidelines developed by the UN for use by those working to rebuild communities damaged or destroyed by famines, war or natural disasters. They set out the essential components for a stable society capable of growth and regeneration. I believe a lot of the work has its foundations in the regeneration of Germany following the end of WW2 and the work on rebuilding South Africa after apartheid, as well as decades of experience working in the developing world.

The curious thing to me is that having done such exhaustive analysis of how stable societies capable of growth and regeneration work, and what the essential ingredients are, we completely ignore this knowledge in the developed world. We rely on the institutions and behaviour patterns that have evolved as we pioneered the path to the whole idea of a stable society capable of growth and regeneration. So when those institutions and behaviour patterns start to fail us, when they are undermined by the restless energy of a new generation or by technology that would have seemed like magic a few decades ago, let alone in past centuries, we don't know what to do. We don't know how to stabilise our society. We revert to all the old, failed, behaviour patterns – closing ranks around a national, cultural or religious identity, and apportioning blame to those outside it. We cling desperately to the back of the dragon because if we fall off we know he will consume us.

That's what I see going on in the world right now. I think we need to understand something about how we got here before we begin to see how we can find a way forward.

Since the dawn of what we might call 'the age of science' round about the 18th century, there has been a growing belief that human beings can command and control the world around them. The agricultural revolution and the invention of scientific farming methods has transformed food production. The industrial revolution and its harnessing of fossil fuel to create bountiful cheap energy has transformed the whole world. Our systems of finance and trade have become immensely sophisticated, and our relationship to the earth we live on has become increasingly dysfunctional. The oceans are choked with our waste. The quality of the air we breathe is compromised. Species are going extinct at a record rate. And of course, we are changing the very climate that has allowed our own species to thrive on this planet.

All the evidence suggests that human beings never could and never can command and control the world around us. We are not at the 'top' of any 'evolutionary tree'. Life is a complex adaptive system – chaos. For every human action, there are multiple reactions throughout the natural system of life on this planet. It is never possible to foresee all the consequences of our actions.

Does this absolve us from responsibility for those consequences?



I argue that it doesn't. If we take no responsibility, we are relinquishing all control over our future, and there are plenty of indicators flagging up red now to suggest that abdication of responsibility means the end of human life on this planet.

It may be that we cannot prevent that outcome, but that is no reason not to try. We are all emotional human beings, with limited power and limited understanding. Faced with a crisis, we can respond with fear, anger and despair, or with resolve, understanding and an unwavering belief that we're going to win. I prefer the positive option.

I am starting from the premise that it is never possible to foresee all the consequences of our actions – but that relates to consequences we would think of as positive, as well as ones we would think of as negative. I doubt if the Tolpuddle martyrs would have believed that 100 years later every man and woman in Britain would have a vote, and there would be a Labour Party which had been in Government and remained the main rival to the Tories. When Thomas Clarkson wrote his essay “Is it lawful to make slaves of others against their wills?” for the Cambridge University essay competition of 1785, could he have foreseen the Abolition of Slavery Act and all that flowed from it?

We cannot control nature, but what we could do is continually improve our understanding of how the planet's systems – which we rely on for our very existence - work, and the impact our activities have on them. We could also improve our understanding of how human societies work – that would enable us to work consciously to create and maintain stable, self-governing communities capable of growth and regeneration.

I believe Balanced Capitalism offers a governance model for the future that could help us resolve the economic and political crisis we are currently experiencing.

The Five Capital Model

The five capital model essentially defines five capital flows which are necessary for wealth creation.

I think every word of that sentence is open to misinterpretation, so let's unpack it with some definitions. As previously stated, these are my definitions, which I ask you to share for the purposes of understanding my story.

Wealth: The means and ability for an individual to live as they wish, with an abundance of good things at their command; the freedom to indulge in activities which give individual pleasure and gratification; to feel safe in possession and enjoyment of this wealth and to have confidence in the future to (at least) the next two generations (children and grandchildren).

Wealth creation: The activities human beings undertake, individually or collectively, to create wealth.

Capital: The core input and conditions necessary for wealth creation to take place.

The names I use for the Five Capitals are Natural Capital, Knowledge Capital, Social Capital, Created Capital and Financial Capital – they may be represented slightly differently elsewhere, but the principles remain the same. ‘Balanced Capitalism’ is the means by which all these capital flows are managed and maintained to create and distribute wealth.



Natural Capital

Natural capital is the context in which human wealth creation takes place. Our biggest and most essential natural asset is the planet we are born on. On this planet exist the conditions for human life, and at the time of writing, there is no other planet known to humankind where such conditions exist.

Wealth creation activities therefore must take place within the parameters dictated by conditions required for human life on earth to continue. This is a non-negotiable, non-tradable capital. It is given to us the moment we are born, and removed from us when we die and that's the only transaction that can take place. Each of us has a responsibility to ensure that future generations of human beings enjoy this essential human right.

Within that overriding constraint, which I call humanity's "prime directive", humans make use of naturally occurring resources to create wealth. Some of these resources are renewable – a harvested crop can be regenerated by planting new seed. Energy can be generated by harnessing naturally occurring energy such as solar energy, air and water currents, or by storing and controlling the release of such energy (eg hydro power, or, in a more complex context, nuclear power). Some however are non-renewable – inert matter dug out of the ground does not regenerate. Non-renewable resources should be used responsibly, and work conducted to synthesis/re-use such materials so that the natural stock is not worked to exhaustion.

Both renewable and non-renewable natural resources are tradeable, but full use of knowledge capital must be applied to the value attached to them.

As with any human activity, the impact of the use of any natural resources on the 'prime directive' of maintaining a planet fit for human habitation must also be measured, monitored and controlled.

Knowledge Capital

The scientific name given to the human animal is homo sapiens, which is Latin for "wise man". These labels were devised by taxonomists to describe the dominant characteristics of the organism they were labelling – thus the first man-like creature to walk on two legs instead of four is labelled 'homo erectus' or 'upright man'.

Although arising from scientific observation, the labels are, of course, filtered through the brains of the people who invented them. In 1758, Taxonomist Carl Linnaeus chose to describe "creatures like me" as "creatures having or showing experience, knowledge, and good judgement." AKA wisdom.

If we accept Linnaeus' label, wisdom is therefore humanity's unique evolutionary adaptation. It's why we are a phenomenally – dangerously - successful species.

Carl Linnaeus, of course, was a man of some experience, knowledge and good judgement – otherwise, he would not have been classifying the human animal in scientific terms. But the trouble is that not all examples of homo sapiens have the same sort of enquiring, challenging, scientific mind, and many are born and brought up in an environment that actively discourages the development of an enquiring and challenging mind. Apart from the significant numbers of people whose growth and development is stunted by poverty, neglect or abuse, adults all too often set out to control or direct childrens' behaviour rather than



stimulate their intellectual growth. No-one ever developed an enquiring, challenging mind by doing, or believing, everything they were told.

So it is that we end up in the 21st century with all the power that generations of enquiring and challenging minds place in the hands of our species, but hardly any understanding of what we're doing. A significant number of the population have no desire – and perhaps no longer the ability – to try and understand what we're doing. Yet decisions which impact the future viability of human life on Earth are taken as if all opinions have equal weight.

If we are to stabilise our societies, grow and regenerate, we have to empower knowledge over ignorance. Every time we denigrate experience, deny scientific evidence and exhibit the attention span of a mayfly when confronted by complex problems, we take one more step on the road to destruction. Knowledge matters. It's the single most important factor in our survival. Without it, we will render our own planet uninhabitable by humans. We will have destroyed our own ecological niche.

Social Capital

Homo Sapiens is a social animal. We all know members of the human race we doubt are social animals, but joking aside, social interaction with our own kind is hard-wired into human nature. Our ability to interact socially with other animals is extraordinarily highly developed as well – why else do humans keep pets? This can be seen as evidence that social interaction is deeply important to human beings, so much so that we will seek it from other species as well as our own. We like to be accepted, admired, loved. We want to belong. We are emotional beings.

So we form friendships and partnerships – and we make enemies of those who disturb our comfort-zone. We gather in tribes – once the make-up of the tribe was forced on us by geographic proximity, but now we define our tribes as much by shared ideals, passions, faiths or activities as we do by location, though a shared cultural history still exerts a powerful emotional pull.

We form teams to get things done. From climbing buddies to armies, for playing football or for organising relief from natural disasters, we harness the formidable collective power of humanity to conquer the highest mountain, defeat the most intractable enemy, recover from the most devastating disaster. Or just to play a game. For fun. We come together to celebrate, to create joy in being human. Our emotional responses to each other and to life on Earth in general are expressed through art and literature, music and humour. We craft objects of rare beauty and develop technology with amazing capabilities. People study all forms of knowledge so that they can fulfill their dreams, help other people, make good decisions, right injustices, shape young minds, or simply better understand mankind's relationship to the planet we live on.

The power of social capital is awesome. It's the means by which knowledge is created and transferred, and it's the means by which wealth is created. Together, Wise Human has achieved extraordinary things. The world we live in today would in many ways be unrecognisable to the medieval peasant ploughing his strip of land at the mercy of nature and subject to the beck and call of his feudal master. It might, however, seem all too familiar to someone serving the Roman Senate, once they looked past the technology to the behaviour patterns of the people with wealth and influence.



When we reduce everything to the individual pursuit of individual wealth, we deny and frustrate the power of social capital. It has no direction. No common purpose. Unguided by experience or knowledge, people lose their judgement. They come together in negative, destructive forms. People who feel they have no purpose, no place in society, disconnect with social norms. People who perceive that they have nothing left to lose do not care what they pull down, what treasures they destroy, what legacies they obliterate.

For every capital flow, there is a debit and credit entry on the balance sheet. The cost of running up a debt in social capital is profound.

Created Capital

Created capital is the legacy we inherit from those who lived before us, and the legacy we pass on to future generations. It incorporates both the 'hardware', such as buildings, roads, bridges, transport and communication systems, machinery and artefacts of all sorts – and the 'software', such as political systems, economic systems, legal systems, systems of religious teaching, systems of behaviour (etiquette, manners, morality), repositories of observed fact, and the stories we tell ourselves about the world, about the past, about the future. About being human.

The Wise Human acts as a good steward of this created capital and uses it to improve the world he was born into for future generations. The Foolish Human squanders it on self-gratification until he finds himself out in the wilderness up to his neck in water with the rain pouring on his head.

In the 21st century we've reached a tipping point. Are we homo sapiens or homo stultum – Wise Human or Foolish Human?

Financial Capital

All of which brings us to the last and least of the capital flows. Which unfortunately, far too many people consider to be the first and foremost, indeed the only, capital to be measured.

It's my proposition that a complete misunderstanding of the role of financial capital is how we've got into this mess in the first place. Arguably, it's not really a capital at all, just part of the Created Capital.

Not that money doesn't matter. It matters very much. It's a dominant feature of the Created Capital we inherited, and in today's world you can't do anything without it. We regard the wealthy with awe, fear and envy. Money is power. We all want it, we all need it; life is utterly miserable if you don't have enough of it. But money is not wealth. It's the means by which an individual achieves a state of being wealthy.

Money has proved itself a very effective system for trade, which is what all interaction between human societies, peaceful or otherwise, is currently based on. You have something, I want it, so I exchange it for a token of value. You take the token of value and exchange it for something you want. Those with accumulated tokens invest them in an idea for generating lots of tokens, and reap a return when the idea is successfully realised, and so capitalism and the concept of credit and debt is born.

The big problem we have with the complex financial constructs that run today's global economy is that the tokens are increasingly disconnected from the things of value that they are exchanged for. And we are increasingly consigning the knowledge of how it all works to



algorithms that capture and multiply all the fallibility of human minds into intransigent, uncaring systems incapable of being modified by human compassion.

Just because we inherited a big machine doesn't mean we have to be slaves to it, especially when it's carrying us on a fixed route to a very unpleasant destination. The road to hell surely is paved with good intentions. So can we please stop the bus before it tips us into the brimstone?

We need to re-think money, how we use it, how we share it, how we value it. Until we do, we're stuck on the treadmill, blindly serving the Mammon that's destroying us.

Conclusion

By thinking of the wealth of a nation in more scientific terms, we could set objective measures of political performance. The political debate would be based less on claim and counter claim, and more on the evidence of how any particular government managed not only the economy, but the country's social and knowledge capital. It would show how well our infrastructure is performing, and – critically – how we stand in relation to our impact on the natural capital without which nothing else can function.

It's not that we don't have the means of measuring the capital flows that create stable societies capable of growth and regeneration. Much time and brainpower has been put in to creating new measures of performance that can replace GDP as a guide to the wealth of a nation. What's lacking is the will to use them. Democratic electorates remain wedded to the celebrity circus, holding unrealistic expectations of all our politicians and treating them with such contempt that the calibre of the people prepared to stand for election seems to be in terminal decline. The standard of political debate has descended to the bearpit. Election campaigns are increasingly personality contests, full of overblown claims and downright lies. Money talks, and what it frequently spouts is propaganda. We elect the people who lie most convincingly, or look like they might do the least harm. No political leader is held to account for what they actually do in office. Democracy, like capitalism, needs to evolve if it's going to survive. I believe the concept of Balanced Capitalism gives us the parameters to start drafting the roadmap.

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November 2018