**Aberrant Capitalism**

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**Video Abstract Transcript**

This Cambridge Element, titled Aberrant Capitalism, makes the important case that contemporary criticism of capitalism is misplaced. Capitalism is the economic system that has raised global well-being and living standards by thousands of percentage points over hundreds of years. Critics are decrying a capitalism that’s an aberration, not the standard. Steve Denning and I build our book on the Ludwig von Mises insight that capitalism is entrepreneurial, not managerial.

Entrepreneurship is the economic function that propels living standards upwards by identifying customer needs, meeting them with innovation and submitting that innovation for market evaluation. We study entrepreneurs like Josiah Wedgewood in 18th century England who revolutionized dinner ware for customers from royals to rural farmworkers. In the 19th century, we examine the invention of the corporation that brought scale and scope to life improving customer innovations such as affordable illumination, rail transportation and communications, and safe and palatable packaged foods and productivity devices like sewing machines. These cororations were led by entrepreneurial owners using their private property, including reinvested profits, to create value-generating capital. The world prospered.

What happened? The entrepreneurs exited and the managers entered. At first, they continued the customer value creation purpose of the firm: we cite Procter and Gamble as an example of the early twentieth century. But then entropy set in. Entropy means the diversion of work into non-value creating purposes. First came managerialism as command and control. Two world wars brought central planning, which spilled over into a government-entangled business management. Bureaucracy became sclerotic and value-sapping. Then came financialization: extraction of value for a few managers and their enablers in the financial sector, instead of value creation for customers. The critics of capitalism are really criticizing corporations, their management and the concentrated anti-customer economic power of the financial sector.

But there is hope. The new digital corporations are more customer centric. We examine the new business models that are driven from the bottom up and the outside in by customer preferences not managerial planning. We end our study on that optimistic note - but with the caveat that the old and aberrant twentieth century management practices, that are still taught in business school, must be roundly rejected in order for capitalism to be reimagined.