

Books that are noteworthy

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The Crisis of Democratic Capitalism, by Martin Wolf, Penguin Press, 496 pp., 2023

Martin Wolf is not only well known for the economic and financial insights he has been delivering over the decades writing for the Financial Times, but also his insightful books. His latest is perhaps the most ambitious. It contends that market capitalism enabled continuous wealth creation while democratic institutions fostered liberties, rule of law, effective administrations and individual creativity. Michael Novak liked to call the great American experiment as “Spirit of democratic capitalism” which he wrote in 1982. There is a delicate yet powerful balance between market capitalism and representative democracy, at times called a “symbiotic pair”. It needs to be desperately protected and even further nurtured. Especially now when we see so much confusion, chaos and – yes – crisis. We all seem to accept that the crisis can embody both (overt) threat and danger with (covert) opportunities and/or yet unknown possibilities. Almost a decade ago Philip Kotler wrote his *Democracy in Decline* lamenting and pointing out why democracy is not working well and why having elections is not enough. He called for bold reforms: of elections, congress, political parties and leading with ethical vision and statesmanship.

Ours is more complex and prone to conflicts, new political reality with more fractured relationships. We are seemingly not satisfied with government’s policies, corporate strategies, and social objectives where democratic system gets out of sync with market economy principles. We see capitalism as highly productive but also highly destructive at the same time. It became clearer in the recent decades. Take a broader context: globalization and development, shift of priorities after the global financial crisis - especially after the Covid pandemic. These crises were in fact much bigger than we ever could imagine. Yet, not only Kotler but many others warned us, for example Mike Larry Diamond in his *Democratic Recession – democratization of wealth* (especially the last decades of the 20th c. (1980-2000)). If in ‘60s, or ‘70s the US President won elections, people who voted for another candidate did not only accept a winner, but also showed solidarity and social unity that kept a social cohesion. Not so, now. Diamond says: “we have to reform and defend our democracy in the United States so that it can function effectively to address our major domestic and international challenges, and so that American democracy can once again be seen as a model worth emulating. We cannot do this without reforming the current electoral system of “first-past-the-post” voting and low-turnout party primaries, which has become a kind of death spiral of political polarization, distrust, and defection from democratic norms.”

The *Crisis of Democratic Capitalism* comprises four parts. The first half explores market capitalism and its relationship with liberal democracy. Wolf demonstrates a natural balance that market capitalism is akin (if not directly leads to) representative democracy. That balance instituted

undisputed wealth, industriousness, initiative, personal liberties as well as human flourishing. Wolf argues that we have now too many angry, disillusioned, disappointed, disfranchised and distressed people. Our operating model of liberal democracy, rule of law with constraining institutions, elaborate human rights, and increasingly regulated market economy is becoming very complex and complicated system to navigate. Is the US economic model by more and more regulations becoming plutocratic or autocratic? Hopefully no! We will have no democracy without a vibrant, dynamic open market economy, which stabilizes livelihood, depoliticizes market capitalism. Profit motive remains a key drive (“no margin, no mission). Wolf point out to a distressing fact that liberal democracy in the US is declining quickly. He quotes Freedom House rating the US as lower than ever. Yet, the US still is an economic and military leader. Erosion of democracy as a part of long-term economic failures is exemplified in rising inequality, lowering of social mobility, decline in productivity, with seemingly concomitant, infinite increase in high tech innovations and creative initiatives in social media. We simply face a decline in trust towards elites, governments, corporations and rise of populism with its destabilizing consequences. The new and rising digital economy enables limited “rentier capitalism” to reward a few and leaves many behind. The effect is increasingly destabilized, fragmented society. So what can we do to regain the lost values we so desperately need? Wolf suggests and calls for more spirited public debates. But more civilized and more compassionate. Empathy seems to be forgotten and yet it is central for burgeoning democracy. Plato taught us more than two Millenia ago that if you want a stable democracy, you will need a strong middle class. In short, here are four key words that could help return to democratic capitalism and create a strong middle class and thus a better world: dignity, opportunity, prosperity, and security. Without a solid middle-class people invariably look for some instant “savior”.

Below is a social media comment and book endorsement by Eduardo Calixto.

“The Crisis of Democratic Capitalism” by Martin Wolf is a powerful and thought-provoking examination of the intricate relationship between democracy and capitalism. As the chief economics commentator of the Financial Times, Wolf brings his wealth of knowledge and experience to bear on the pressing issue of the unraveling marriage between these two fundamental pillars of modern society.

Wolf’s book serves as a compelling rebuttal to the arguments suggesting that capitalism can thrive without democracy or that democracy is better off without capitalism. Instead, he convincingly argues that both democracy and capitalism are mutually dependent and indispensable for human flourishing. While acknowledging the flaws and inequalities within the current system of democratic capitalism,

Wolf maintains that it still remains the best framework for fostering prosperity and the common good.

One of the central concerns highlighted in the book is the growing strain on the relationship between democracy and capitalism. The author explores how prosperity has stagnated and the benefits of economic growth have become increasingly concentrated among a small elite, leading to rising inequality and a retreat of the wealthy from societal responsibilities. At the same time, the resurgence of authoritarianism poses a significant threat to the values of democracy, even in traditionally democratic nations like the United States and England.

"The Crisis of Democratic Capitalism" is a meticulously researched and well-argued exploration of the complex dynamics between democracy and capitalism. Wolf's analysis is firmly grounded in both historical context and contemporary realities, offering readers a comprehensive understanding of the challenges and opportunities at hand. His call for aligning our ideals and interests in order to preserve and strengthen democracy serves as a timely and urgent reminder of the importance of this ongoing struggle. In conclusion, Martin Wolf's book is a must-read for anyone concerned about the future of democratic capitalism. By offering a nuanced and compelling assessment of the current crisis and proposing solutions to reverse the alarming trends, Wolf reminds us of the indispensable role that democracy plays in shaping a just and prosperous society. "The Crisis of Democratic Capitalism" is a sobering yet ultimately hopeful exploration of the challenges we face and the actions needed to safeguard democracy for future generations.

Martin Wolf is associate editor and chief economics commentator at the Financial Times, London. He was awarded the CBE (Commander of the British Empire) in 2000 for services to financial journalism. Wolf won the Overseas Press Club of America's prize for Best Commentary in 2013 and the 2019 Lifetime Achievement Award at the Gerald Loeb Awards. He was a member of the UK's Independent Commission on Banking in 2010–11. Wolf is the author of *The Shifts and the Shocks: What We've Learned—and Have Still to Learn—from the Financial Crisis*.

Power and Progress: Our Thousand-Year Struggle Over technology and Prosperity, by Daron Acemoglu and Simon Johnson, 2023

Amazon is rating this bestselling book at 4.3 (out of 5) yet this bestselling book is incredibly creative reinterpretation of economics and history that may clearly change the way we perceive our world. In brief, Amazon kindle endorsement says it best:

"A thousand years of history and contemporary evidence make one thing clear: progress depends on the choices we make about technology. New ways of organizing production and communication can either serve the narrow interests of an elite or become the foundation for widespread prosperity.

The wealth generated by technological improvements in agriculture during the European Middle Ages was captured by the nobility and used to build grand cathedrals, while peasants remained on the edge of starvation. The first hundred years of industrialization in England delivered

stagnant incomes for working people. And throughout the world today, digital technologies and artificial intelligence undermine jobs and democracy through excessive automation, massive data collection, and intrusive surveillance.

It doesn't have to be this way. Power and Progress demonstrates the path of technology was once—and may again—be brought under control. Cutting-edge technological advances can become empowering and democratizing tools, but not if all major decisions remain in the hands of a few hubristic tech leaders. With their bold reinterpretation of economics and history, Daron Acemoglu and Simon Johnson fundamentally change how we see the world, providing the vision needed to redirect innovation so it again benefits most people."

The Avoidable War: The Dangers of a Catastrophic Conflict between the US and Xi Jinping's China Hardcover, by Kevin Rudd, 2022

With over 500 ratings of 4.6 (out of 5.0) this is an excellent narrative, commentary and policy prescription for avoiding catastrophic conflict. Kindle brief review states: A war between China and the US would be catastrophic, deadly, and destructive. Unfortunately, it is no longer unthinkable. The relationship between the US and China, the world's two superpowers, is peculiarly volatile. It rests on a seismic fault—of cultural misunderstanding, historical grievance, and ideological incompatibility. No other nations are so quick to offend and be offended. Their militaries play a dangerous game of chicken, corporations steal intellectual property, intelligence satellites peer, and AI technicians plot. The capacity for either country to cross a fatal line grows daily.

Kevin Rudd, a former Australian prime minister who has studied, lived in, and worked with China for more than forty years, is one of the very few people who can offer real insight into the mindsets of the leadership whose judgment will determine if a war will be fought. *The Avoidable War* demystifies the actions of both sides, explaining and translating them for the benefit of the other. Geopolitical disaster is still avoidable, but only if these two giants can find a way to co-exist without betraying their core interests through what Rudd calls "managed strategic competition." Should they fail, down that path lies the possibility of a war that could rewrite the future of both countries, and the world.

Voluntary Insurance in the Process of Service Quality Improvement Jarosław Wenancjusz Przybytniowski, Wydawnictwo Rys: Poznan, Poland (2023). ISBN: 978-83-67287-74-6

Reviewed by: Kenneth S. Friedman, Regis University, Denver, Colorado, U.S.

This is an important book. While its immediate focus is on Poland and the insurance industry, it provides a template that can be extended to many countries and to any industry with a significant service component. It is carefully written and densely referenced by an author who has contributed much to the field, and it bravely takes on the complex subtleties of the topic. Unlike many monographs that fail to go

beyond abstract technical issues, this provides a template that insurers could use to improve their quality of service. While this appears to be the first study devoted to the improvement of insurer service quality in Poland, the basic themes are widely applicable. The monograph also raises questions that invite further valuable research.

The topic is a consequential one, for it sets out a spectrum whose opposite poles could be described as win-win (excellent service quality) or lose-lose (poor service quality). The ultimate aim of the monograph is to provide a set of straightforward operational criteria that would enable insurance providers to improve their quality of service. The importance of attending to these issues is underlined by the somewhat surprising net dissatisfaction of customers with their service (in particular, with the speed and certainty with which claims are processed). The basic thesis is 'the increase in competitiveness of the market of voluntary economic insurance in the process of improving service quality is dependent on the quality of the service provision.' (p. 117)

At the win-win end for the insurer, high quality service leads to customer retention and enhances a positive reputation, which bolsters its competitive position and generates higher profits. "Improving the quality of services is increasingly becoming the basic factor of a competitive advantage in the insurance market" (p. 52). For the customer, better service provides greater peace of mind, but also policies more efficiently tailored to the needs of the insured.

There are two basic issues to be confronted. The former is the measurement of quality of customer service. The latter, which can be addressed only after the former is resolved, is an exploration of the nature of the relationship between better service for the customer and better results for the insurance provider. This monograph is focused primarily on the former issue. That itself raises a number of complex issues. Przybytniowski illustrates the complexity with two opposing claims: (i) 'On the other hand, bearing in mind the concept of service quality, it can be stated, based on the literature, that it is a unique and abstract category which is difficult to define and measure...' (p. 53); and (ii) '... it is a myth to say that the quality of voluntary insurance services cannot be measured.' (p. 54) This conflict is central for the claim that quality of service is critical to customer retention and consequently, to profitability. Yet 'In management theory, it has been accepted that there is no direct possibility of measuring quality, especially the quality of the service, as there is no objective unit of its measurement...' (p. 57)

It may be that quality of service is characterized by a cluster of properties, from subjective (treating customers with dignity and respect) to objective (efficiently settling claims).

Yet it is plausible that there is no single formal definition of 'quality of service'. More generally, Hilary Putnam ('The Analytic and the Synthetic,' *Minnesota Studies in the Philosophy of Science*, vol. 3 (1962) p. 358f.) has argued compellingly that even simple words like 'cat' do not have an adequate formal definition. (We call something a cat if it sufficiently resembles other cats in critical properties, but those properties may change as we learn more about cats.) It may be that there is no single set of properties that necessarily apply to all and only high qualities of service. Instead, there

may be a number of similar measures of quality of service, measures that may change as new products or new modes of interaction are developed. The author chooses one of these, SERVQUAL, that appears especially well-conceived.

This measure meshes with 'many customer complaints about insurance service provision concerning: lack of notifications related to the insurance policy continuation, delays in insurance claim payouts, misunderstanding of insurance terms, lack of empathy from the insurance company's employees...' (p. 112) The author's template enables the analysis of the individual components of quality of service, enabling companies to intelligently prioritize investments. For the insurance industry in Poland, the payment of claims appears the most significant components of quality of service. 'This brings about that the claims settlement procedure is the most critical moment associated with the process of providing the property insurance service. It is in the course of this that customers actually assess the value of the service offered, i.e., they compare what they perceived to what they received.' (p. 113) 'When analyzing general trends or directions of changes, it was observed that the greatest opportunity for the process of improving the quality of the economic insurance service is no longer the insurance company's offer itself and the associated insurance premium, but the course of the process of providing the service after the occurrence of a fortuitous event covered by the insurance contract.' (p. 114)

(This accounts for the survey focusing on those customers who experienced payable events and settled claims with the insurance provider – confining one to a much smaller sample, but eliminating those who may have had minimal contact with their insurance company (and be unfamiliar with its customer service). This could provide a means for quantitative measure, comparing the proportion of insured who cancel insurance or switch insurers after some settlement with the proportion doing this before any settlement. A larger proportion of the former would suggest a greater importance to the role of quality of customer service. In addition to considerations of customer service quality, the monograph implicitly points out steps that insurance companies could take to enhance profitability. '...the longer customers remain with a particular insurance company the less likely they are to resign from the services of the insurer, even if they consider the credibility of the insurance company undetermined...' (p. 112)

Providing a loyalty discount, rebating some of the additional profits achieved by customer retention to the customer, would aid customer retention – a win for both the insurance company and the insured. Of particular interest, the monograph suggests a trade-off between quality of service and premiums. 'At the same time, it can be stated that the insurance premium paid by customers and proposed by insurance companies of Sections I and II for the proposed service is inadequate to the level of the service provided.' (p. 160) If this could be quantified, it would be of value to insurance providers. Seeking to maximize profitability, they could rationally choose between adjusting premiums and investing in consumer service. While the construction of the survey and the development of a new questionnaire,

corrected for the primary characteristics of the service studied, is thoughtful and intelligent, the reviewer would have some question with methodology that stems from the reliance on survey questionnaires.

'The use of a research tool such as a survey questionnaire enabled easy collection of data, which could be processed statistically in a simple and effective manner. Therefore, it should be stated that the survey questionnaire is an accurate research tool which allows for the acquisition of reliable data.' (p. 117) Survey questionnaires have become a common methodological tool. However, ease of data collection and calculation does not guarantee accuracy. Systemic errors in election polling illustrate the difficulties.

It may be that certain questions (Have you had property insurance for more than five years?) invite accurate responses, while others (Would you accept less empathetic service in return for a lower premium?) may invite bias. Terminology, the wording of questions, may have some impact. 'Have you [(i) failed to renew (ii) chosen to not renew] an insurance contract?' may receive different answers depending on whether the question is worded (i) or (ii).

The addition of other sources of relevant information, source material, (p. 130) buttresses the conclusions of this monograph. Supplementing this buttress with additional statistics (correlations between numbers of people who changed insurance companies and measures of quality of service of those companies) may further enhance confidence in the results.

There are some minor issues. As one, the function of the delay between 'The study was conducted on a purposively selected group during March-April 2019.' (p. 127) and 'The time scope covered the year of 2021, whereas the spatial scope covered the entire Poland. The research was conducted in national insurance companies of Sections I and II, which, firstly, conducted their insurance activities in 2021, and secondly, as of December 31, 2021...' (p. 119) is unclear. As another, the survey being filled out by only those who consented to it (p. 129) may select for those with strong opinions. A larger proportion of those may be negative. Separately, the claim that the mean (rather than the mode) reflects the strongest concentration in a distribution (p. 131) is not the case for all distributions.

And 'Each year, 1,500 questionnaires were prepared for the survey, for customers of both Section I and II, and as many were submitted to interviewers, of which a total of 2733 correctly completed questionnaires were received.' One would expect the number of correctly completed questionnaires to be less than the number of questionnaires submitted.

Yet it should be stressed that these minor issues, which could be addressed in a subsequent edition, do not detract from the scope or value of this study.

The main value of this monograph lies at opposite ends, the micro and the macro. At the micro level, the template provides insurers (or any service providers) with a detailed component-by-component view of their customer service. It is plausible that some components are more important than others to customer retention, and even that some may have only minimal relevance to such retention. The 'efficiency' of

some of these components, the ratio of the benefit in customer retention and profitability to the cost of providing them, may be high while that of others may be low, or even negative. The structure of such efficiencies would be valuable information to insurance providers. At the macro level, the template constructed by the author is not confined to Poland and the insurance industry. It can be applied to any market economy and to any industry in which quality customer service is an important component of success.

This monograph raises additional questions, areas for study. A significant one involves a closer inspection of the connections among customer service, customer retention, and corporate profitability and competitiveness. Some of this is addressed in the monograph. The author notes: '... a small increase in the existing customer retention rate can significantly improve the company's profitability, since the costs of acquiring new customers are higher than the costs of maintaining current service recipients. In property insurance, high customer retention rates are closely linked to the economic results of insurance companies of Sections I and II.' (p. 109)

This addresses one of the connections between customer retention and profitability. One might reasonably ask how this relates to customer service. Is there a strong correlation between a customer changing his insurance carrier and either that customer's rating of quality of service or that insurance carrier's average perceived quality of service? Similarly, is there a correlation between the overall quality of service provided by an insurance carrier and its profitability?

While it is initially plausible that if other things are equal, better service quality should be positively correlated with – and a cause of – greater retention of customers, which should generate greater competitiveness and higher profits, one cannot take this for granted. It might be that most people who change insurance carriers are shopping for lower premiums, rather than better service. If that is the case, then quality of service may play a lesser role than other factors such as marketing and pricing. It may then be those advantages to size, to being better known, to being able to spread recruitment and training costs over a wider base, to being able to specialize in types of contracts offered, to being able to spread total expenses over a larger number of policies – thereby reducing random risk – and to being able to out-compete on price will play a predominant role in competitiveness. Along these lines, the author notes: 'when deciding on the purchase of a specific voluntary economic insurance, customers are primarily guided by the amount of the insurance premium, rather than by provisions related to their rights and obligations, as they do not read the general terms and conditions of insurance.' (p. 109)

Similarly, 'It arises from the belief that the amount of compensation that customers will receive from the insurance company will be adequate to the amount of the damage suffered and at the same time will be higher than what they would receive from another insurer. This is related to the fact that not all insurance products have the same features, and as a result, it is easy to identify the basic differences between products in terms of the offered insurance agreements. If there are few interactions between insured and

insurer, it is plausible that pricing would remain the pivotal consideration counterbalancing inertia. One might obtain evidence for this from a survey of customers who have changed their insurers.' (p. 110)

It appears from these passages that quality of customer service may play a minimal role in customers' loyalty. One could gain evidence for this from a broader survey of customers who had changed insurance carriers. What percentage of all changes were due to those who changed without having experienced an insurable event? Would a large percentage suggest that most customers shop for the best apparent value, rather than switching because of a

dissatisfaction with service? If quality of customer service were to play only a small role, it may be that the additional costs of training and retaining quality employees exceeds the customer retention gains made from better customer service. In view of these considerations, other things are not equal, and it is not immediately clear that investing to improve the quality of customer service is a net positive for the insurer. This monograph, while not specifically addressing these questions, provides a background, a foundation, that may be valuable in intelligently addressing them.