



The Future of Market Capitalism Introduction

- Speaker: **Joseph L. Bower**, Baker Foundation Professor

Overview

The spread of market capitalism around the world over the past 100 years has lifted the prosperity of many nations and people. Research from the World Bank predicts the trend of rising wealth will continue, a view that is shared by many global business leaders.

But recent research conducted by HBS indicates that business leaders harbor many concerns about market capitalism and see critical challenges that must be addressed. These issues include inequities in the distribution of wealth, environmental challenges, migration of workers, and the threat of protectionism. Governments and international organizations need to devise solutions to this problem.

Harvard Business School can play a role in contributing to the resolution of these issues by equipping future business leaders with the understanding, skills, and values to embrace these challenges.

Context

Professor Bower distilled takeaways from a two-year research project exploring the views of global business leaders and HBS faculty on what might threaten the world's economic progress.

Key Takeaways

- **Market capitalism has propelled unprecedented global prosperity.**

The past 100 years have seen market capitalism create unprecedented economic growth and wealth across societies the world over. Economically, the world is light years ahead of where it was a few decades ago when India was synonymous with famine.

Data from the World Bank show that from 1975 to 2002, two-thirds of the world's territories increased in wealth. More growth is projected over the next 25 years, even in low- and middle-income countries. As a consequence, gaps in societies' income extremes are projected to shrink.

An implication: globalization can be pro-poor. Trade liberalization benefits lower-income segments of populations and plays an important role in increasing the ranks of the global middle class.

Yet amid this widespread prosperity, two years ago (well in advance of the current financial crisis) Harvard Business School initiated a research project asking global business leaders and HBS faculty, "What could go wrong? What could injure or kill the golden goose?" These questions could not be more timely. Even after the U.S. financial sector's immediate problems are resolved, mighty

economic and societal challenges will still face the world's political and business leaders.

"The question is only slightly different now: What else could kill the golden goose?"

— Joseph L. Bower

- **While optimistic about market capitalism, global business leaders see clear threats.**

The business leaders questioned—from Europe, Asia, Latin America, and the United States—expect the stunning growth that capitalism has wrought to continue. But they voiced myriad interwoven concerns related to the management of companies, the management of countries, and the ability of governments and businesses to build international institutions equipped to confront future challenges.

The concerns primarily fell into four categories:

- *The political and social consequences of inequities in the distribution of wealth.* Even as the economic situation of many poor people around the world has improved, in many cases the gap between rich and poor has grown. As a result, even though people are better off than they once were, there is still a growing sense by many of being left out. Many segments of societies have little hope of participating in the economic growth going on around them. The poor in America are no more prosperous than they were two decades ago.

"There's a growing sense of being left out even as the world becomes more prosperous. You can't achieve a sense of legitimacy, cannot have moral credibility if the system is unjust."

— Research participant

A danger of people feeling left out is political backlash and the acceptance of populist leaders, such as Hugo Chavez in Venezuela. The progressive government in India, which championed "India Shining," was voted out, as only a small minority of India's population saw the benefits of India's economic development, and a majority said, "I don't see anything shining."

The critical factor in addressing this inequity is social mobility. The World Bank has shown a correlation between the degree of social mobility and income disparities—the greater the ability of people in a society to move into a higher socioeconomic segment, the more equitably income is distributed within the society. Dramatic economic progress has been seen in countries where mobility is high, such as China. Income growth is also associated with higher-level skills and education.

- *Dramatic income disparities can escalate migration between countries, with difficult political consequences.* In many parts of the world, migration is a reality and presents a significant challenge. As one research participant said, "Needed are productive, progressive ways



to enable people to move in and out of countries to fill a service gap but not be a threat to existing populations.”

- *The environmental challenges associated with economic progress.* Businesses have responsibilities not just to shareholders for profit, but to people and planet as well. But too often, the people and planet responsibilities seem to go unrecognized by business.
- *The inability of national governments and international institutions to unite around sensible solutions to these problems.* Research participants worried that governments will respond to societal challenges in ways that slow economic growth rather than expand its accessibility to lower-income populations (e.g., via education).

In general, governments and businesses don't seem to realize that they're "in this together," that both have interests in promoting stable and inclusive economic systems. Participants also expressed concern that governments are not working together to build the kinds of international institutions that are required to deal with the world's global economic and environmental problems. Such collaborative institutions are needed to create trade-liberalizing and stability-promoting systems that serve the broad interests of people around the world.

"I think it behooves all CEOs to understand that we have a stake in stability also, and we're going to have to learn to make our contributions to worldwide stability."

— Research participant

- **For HBS, these challenges require cultivating the appropriate understanding, skills, and values in future leaders.**

Research participants were asked how they thought Harvard Business School could contribute to the resolution of these issues. "We heard three kinds of answers," said Professor Bower:

- *Create entrepreneurs who create companies that promote socioeconomic equity.* Many of the challenges participants noted are entrepreneurial opportunities in

disguise; Harvard Business School should develop awareness of these challenges and of the necessity to create businesses that create economic opportunities for poorer populations.

- *Create leaders with the global management skills to manage diversity, complexity, and scale.* These skills are desperately needed to resolve the future challenges of governments and global institutions.
- *Provide thought leadership.* Harvard Business School should create more resources (such as case studies) that highlight these global challenges, create working groups to find solutions, devote more resources to understanding these issues, and teach their lessons. These complex issues will require entirely new paradigms that encompass an expanded role for business leaders. Future leaders will be encouraged to reach for objectives beyond maximizing shareholder value, taking them into uncharted waters.

"We're discussing complex objectives, not just maximizing shareholder value. . . . When leaders begin to deal with system-level problems, their authority is far from clear, and their legitimacy will often be attacked."

— Joseph L. Bower

If HBS is to embrace these challenges, new understanding, new skills, and an appropriate set of values will be required. Developing those attributes will be a huge challenge—but they are what the future requires.

Other Important Points

- **Continuing African poverty.** The data showing that market capitalism has boosted incomes mask different realities for people living in different countries at different socioeconomic levels. Specifically, economic growth in Sub-Saharan Africa is failing to keep up with growth rates elsewhere. This low economic growth combined with high population growth is perpetuating poverty in Africa.