



The Future of Market Capitalism Panel Discussion

- Moderator: **Michael E. Porter**, Bishop William Lawrence University Professor
- Participants: **Thierry J. Breton**, France's Former Minister of Economy, Finance, and Industry; Senior Lecturer
Sir Ronald M. Cohen, Chairman, Portland Capital LLP, Portland Trust, Bridges Ventures
Lawrence H. Summers, Charles W. Eliot University Professor, Harvard University

Overview

Today, the world faces an agonizing dilemma: Wealth creation comes from market capitalism, yet the market system has been hard for many parts of society, resulting in insecurities and inequalities. Under political pressure to make changes, the business world and the public sector must devise strategies and policies for revamping the capitalist system.

Possible solutions include applying business principles to societal problems through social entrepreneurship, and seeking profits in ways that also make a broader contribution to society.

Context

This panel discussed shortcomings of the capitalist system and ways the business community can better serve broader societal interests. Topics included social entrepreneurship, the role of public policy, and the development of a stronger safety net for workers.

Key Takeaways

- **There is a growing sense that capitalism is failing.**
For years, society equated capitalism with a better future. People wanted to generate wealth for themselves and create a better life for their children. Progressive societies recognized that only businesses can create wealth.

However, there are many negative consequences resulting from a market system, such as fears, insecurities, and inequalities. People feel that the capitalist system is failing.

There are real questions about the legitimacy and integrity of a system where executives make, on average, 350 times more than the lowest-paid workers. Making hundreds of millions of dollars seems immoral in a society where people are living in poverty. Today, in a time when governments are becoming so involved in the financial world, there is increased push-back on high executive pay.

Another reason for the perception of failure is that in many countries, when citizens pay taxes, the money is used to pay off the country's debt. It is not used to invest in the well-being of its citizens by building schools or improving the health care system.

"The debt that has accumulated will be one of the worst problems of capitalism that countries will have to address."
— Thierry J. Breton

In Sir Ronald Cohen's view, market capitalism will ultimately be judged by the reaction of the business sector and public sector to the human problems caused by today's crisis. If steps are not quickly taken to improve the social consequences that affect huge portions of the population, the backlash against capitalism will be serious.

- **The capitalist system must change and help to support a safety net for workers.**

All of the problems associated with capitalism have worsened with globalization. American workers now compete with workers all over the world. In this environment of job insecurity, the safety net for the working class is nonexistent in the United States.

"This issue of the safety net is crucial."
— Michael E. Porter

It is Professor Summers's assertion that executives typically get about a year or more of severance pay if they are let go from a job. Non-executives, such as secretaries, drivers, and janitors, typically get just a few weeks of severance. There is no process to help individuals through a job loss. The training system is incapable of providing any meaningful support.

"There is something odd about the way our economic system is structured, where people who least need insurance against bad outcomes get the most, and people who need insurance the most get the least of it."
— Lawrence H. Summers

Moving forward, if the capitalist system is going to exist, many aspects will have to change. This includes insurance, pensions, and training. These are all areas where the business community has an important voice and can make a difference.

- **Social entrepreneurship is coming of age, but must be developed into a formal profession.**

Business entrepreneurship is the most powerful way of creating wealth for the population. Using the same principles, social entrepreneurship provides a fresh approach to addressing some of society's greatest problems.

There is a close correlation between economic prosperity and social cohesion. Investments are never made in poor areas. As a result, there are few opportunities. Studies show that when less than 5% of the people in an area are positive role models, the area spirals down into crime and violence. It is crucial to provide opportunity to these areas and to do so in intelligent ways, using replicable, sustainable, and scalable models.



The time has come to develop social entrepreneurship into a formal profession and to create institutions to support social entrepreneurship. Social venture funds could become a significant element of private equity investment and entrepreneurial finance. Sir Ronald Cohen has asked the British government to contribute 300 million pounds from unclaimed bank assets to an organization focused on social finance. This organization will act as a wholesaler of capital to the social sector. For these sorts of institutions to succeed, talent needs to be attracted into the social entrepreneurship arena.

Social investment is the way for people with business backgrounds to show that business principles can serve as a multiplier for philanthropy. Applying the analytical skills and methods taught at Harvard Business School to the solution of social enterprise is absolutely fundamental to this effort.

“Thirty years ago, if you’d talked about the potential impact of entrepreneurship, [in Europe] people would say you’re crazy. Today, the same is true of social entrepreneurship.”

— Sir Ronald M. Cohen

- **In addition to social entrepreneurship, broad-reaching public policies are needed.**

While social entrepreneurship is important, in Professor Summers’s view, the small-scale successes of social entrepreneurship will not on their own have a large enough impact on society. In addition to the efforts of social entrepreneurship, broad-reaching public policy is needed to make society’s fundamental systems, like education and health care, work more effectively. (When people discuss policies and reforms, they often focus on the poor. Professor Summers encouraged focusing on the middle class. This group doesn’t want handouts; it simply wants the opportunity to compete.)

However, one of the barriers to the implementation of public policies to address the negative consequences of market capitalism is that such policies are often not widely supported by the business community. Too often, members of the business community are narrowly focused on advancing the specific issues relevant to their own short-term interests. They push to lower taxes, pursue specific tax breaks, or lobby for a particular issue. In these ways,

business actually makes it more difficult to address society’s larger, long-term interests.

The business community and business leaders must acknowledge the need for public policy to address the issues that threaten the future of capitalism. Businesses must look beyond their narrow, short-term interests toward what is good for society and for their businesses in the longer term.

“We need public policy that makes sure that every kid has a chance to have an education, that does something about big urban school districts, and that makes a health care system that generally works.”

— Lawrence H. Summers

- **There are many ways businesses can address social problems, while still satisfying their own self-interest.**

Businesses should seek profit opportunities in places that also make a broad societal contribution. By employing a lens that focuses on doing well (financially) by doing good (for society), many attractive opportunities are likely to be discovered. Specific examples include:

- *Employing the disadvantaged.* Businesses are uniquely positioned to create independence for people through jobs. When the government provides unemployment benefits, it creates dependency instead of giving people a chance. Some companies have elected to locate in economically troubled areas. In many cases, they find workers who are better and lower-cost than if the business were located in a “fashionable” place to live.

“People don’t want charity; they want a chance.”

— Sir Ronald M. Cohen

- *Environmental initiatives.* Some of Harvard’s highest-return investments have been stimulated by looking at environmental issues like better insulating a building. These types of projects had a three-year payback period, while also benefiting the environment.

“Make sure that no stone goes unturned in terms of seeking profit opportunities in the places that are also making a broad societal contribution.”

— Lawrence H. Summers
