

Can the World Survive the Triumph of Capitalism?

by Jeffrey E. Garten



Harvard Business Review

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Harvard Business Review

JANUARY-FEBRUARY 1997

Reprint Number

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As free markets spread from Beijing to Budapest, the global economy is spinning out of control.

Can the World Survive the Triumph of Capitalism?

by Jeffrey E. Garten

One World, Ready or Not: The Manic Logic of Global Capitalism
William Greider
New York: Simon & Schuster, 1997

Suppose the following ad appeared in your favorite magazine:

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able. Plan 1: Seat on comfortable Lear jet, deluxe accommodations, \$25,000. Plan 2: William Greider's new book, \$27.50.

Which would be the better option? Even if you had the money for the tour by jet, I'd suggest buying the book. Reading it would take less time, and the experience would also be colorful, intense, and educational.

Greider, a writer for *Rolling Stone* and author of several important books on economics and politics (including *Secrets of the Temple: How the Federal Reserve Runs the Country*) has set out to describe the engine of global capitalism and then take the machine apart to see how each piece actually works and how they all fit together. In the process, he asks the most fundamental questions about trade, production, finance, and the environment.

What makes the book gripping, however, is the answers he provides and the way he provides them. He

shuttles between places such as the Motorola factory outside of Kuala Lumpur, where young female workers exchange their veils for surgical masks in order to manufacture semiconductor chips, and Toyota's No. 4 Assembly Shop in Japan, where scores of long-necked welding robots do the work of hundreds of skilled workers. Greider takes the reader from Shaanxi province in China, where the Hongyuan Aviation Forging and Casting Industry Company subcontracts for Boeing and Siemens, to cramped Wall Street offices where derivatives are traded. During these and many other trips, he introduces working and unemployed men and women, managers who oversee production, and a pageant of people who reflect on economic change. All the while, Greider provides historical perspective: for example, he traces the iron and steel industry's movement from South Wales in the eighteenth century to England, Germany, the United States, Japan, Korea, and now China; and he brings out the connections between the flowering of capitalism in the nineteenth century and the rise of communism and fascism in the twentieth.

Who's in Control?

Greider's message is profoundly disconcerting. He is convinced that although the rapid spread of free-market philosophy since the end of the Cold War has created countless pockets of prosperity from Shanghai to Warsaw, the world economy has spun out of control and is heading for a cataclysmic fall. He discerns three ominous, converging trends. The first trend is increasing production: the world will soon be awash in

Jeffrey E. Garten is dean of the Yale School of Management in New Haven, Connecticut. He was formerly a managing director of the Blackstone Group, an investment banking firm, and undersecretary of commerce for international trade in the Clinton administration. His next book, which focuses on the challenge to the United States of big emerging markets, will be published later this year by Basic Books.

surplus goods. Multinational companies, engaged in brutal competition for market share, have expanded to the far corners of the globe. Their profitability depends on holding down wages in places such as Indonesia and China, which guarantees that workers in those locations cannot afford to buy what they make. Meanwhile, there is no way that consumers in the West can absorb mountains of new production. In the automobile industry, for example, global overcapacity will equal the production potential of the entire North American industry within four years. Surpluses are also building in chemicals, pharmaceuticals, electronics, and textiles.

The second trend is the rapid, constant flow of money across borders. Greider shows how large the stock of financial assets has become and how powerful Wall Street is relative to Washington and other governments. In 1983, for example, the central banks of the United States, France, Germany, Japan, and Great Britain held \$139 billion in reserves, and daily trading in foreign exchange was \$39 billion. Ten years later, the reserves of those banks amounted to \$278 billion, and daily foreign-exchange trading had soared to \$623 billion – and the ratio of trading to reserves is even higher today.

Powerful private markets are calling the shots in the world economy. They are inducing the developed countries to grow far more slowly than is desirable, says Greider, by demanding that governments rein in budgets too fast and keep monetary policy too tight. A long cycle of economic contraction and deflation may follow as a result. In addition, Greider fears that the phenomenal growth of investable funds far outstrips sound investment opportunities. When people see that their expectations of returns cannot be met, or when a few big deals turn sour, everyone will head for the exits and set off a panic.

The third trend is rapid industrialization in the emerging markets. Greider believes that the planet cannot sustain that growth without irreparable environmental damage. All over Asia and Latin America, he

sees a showdown with nature. For example, today there is one car for every 680 people in China's population of 1.2 billion. (The ratio in the United States is one car for every 1.7 people.) What will happen when the better-off Chinese workers and capitalists – and there will be many more success stories in China in the decades to come – fill their streets and highways with automobiles?

Greider's main concern is that the losers in the global economy – those earning rock-bottom wages, those who suffer when growth slows, those who live with the worst effects of environmental degradation – far outnumber the winners. He draws examples not just from Indonesia but also from Germany, where the middle class watches as its social safety net is dismantled; and not just from Thailand but also from the United States, where workers' real incomes have stagnated or declined in the last two decades. The book

highlights the hundreds of millions of people who feel cornered, powerless, and alienated, and questions whether these men and women will remain politically passive.

Greider contends that no one will take responsibility for global capitalism in all its dimensions. Multinational companies are obsessed with breaking into foreign markets. Lenders and investors are preoccupied with financial returns and the security of their assets. And political leaders are leaving the outcome of the great political issues of our times – the distribution of wealth

Greider contends that no one will take responsibility for global capitalism in all its dimensions.

and power within and among societies, the treatment of ordinary citizens, and even human rights questions – substantially to private markets. It's one thing to support a smaller and more effective public sector, managed according to sound business principles whenever possible. But it's another to say that the global capital market ought to be the sole arbiter of social and political issues – which is de facto what political leaders have done out of neglect, ignorance, or a sense of impotence. Surely it is a sad state of affairs when the marketplace is seen as a better place to sort out large public problems than the chambers and hallways of enlightened governments.

No one speaks for the people, says Greider, and as a result, capitalism will swing to an extreme until it produces a popular backlash, class politics harden, and widespread social conflicts flare up. How far off is this collision between free markets and society? Not too long into the next century, Greider implies.

Even as he paints these dark clouds, the author believes a lot can be done to preempt a collision. He would like to see a global effort to "bring up the bottom" – to improve the conditions and wages of workers



in emerging economies so that they can be consumers as well as producers. He advocates a renewed focus on economic growth in place of the current orthodoxy that rewards austerity. He believes that governments can exert much more influence on the trajectory of the world economy than they do, especially if they act in concert. He proposes the establish-

bilities of governments and corporations in the global economy?

Beyond tackling the right issues, Greider has history on his side. In the long run, capitalism has led to substantial progress in the human condition, but it has not done so in the absence of crises. It took Great Britain more than a century and a half after the industrial revolution to

fully understand. The heavy dependence of so many nations on exporting holds the world economy hostage to a continuation of economic growth and trade liberalization. Add to that the systemic problems cited by Greider, and the burden of proof rests with the optimists. This much is clear: the idea of self-regulating markets is a dangerous delusion.

Elusive Solutions

Greider seeks answers to the central questions, Can capitalism be altered and reformed? Or is the world doomed to keep renewing inhumanities in the name of economic progress? In the end, his broad recommendations do not seem feasible in today's climate; and some of his prescriptions could cause huge disturbances. For example, if the United States imposed a tariff on imports from countries with low labor standards, there would be at least two consequences. Politically, the world trade system would go into a tailspin. All of Asia and Latin America would protest and hold up trade measures concerning the protection of intellectual property rights and greater access to markets for foreign investors. Economically, the United States would be shooting itself in the foot because the price of imports would soar, creating inflation and making exports – which are composed of ever increasing amounts of imported materials – much more expensive.

Powerful arguments can also be made against Greider's wish to con-



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ment of new industries that not only manufacture products but also consume their own environmental waste. Finally, he calls for a new international ideology – *global humanism* – in which the focus of economics is not just production and profits but also the dignity of labor.

Is Greider right?

He certainly raises fundamental questions that ought to be hotly debated but rarely are, either by political or corporate leaders. (It was no accident that in the midst of the most sweeping changes in global economics in 50 years, virtually nothing was said in the U.S. presidential campaign about any of the questions Greider asks.) What will be the impact of nearly 2 billion non-Western workers entering the global economy over the next decade and working for \$5 to \$10 per hour at a rate of efficiency 80% to 90% that of workers in the West? Where will the purchasing power come from to absorb the massive production increases made possible by low-cost labor, technology, and new investments? How should the public think about the disproportionate growth of financial assets in relation to their underlying earnings capabilities? What are the broader responsi-

shake off a class-ridden society and create true democratic capitalism. France had to mount a violent revolution even to begin making the transition. The United States endured the Civil War as well as periods of violent labor strife. Germany and Japan had to be destroyed by war before they could emerge as democratic societies. Given the economic and political transitions now under way, what makes anyone think that China, Indonesia, or Mexico will emerge as democratic, free-market nations without violent eruptions along the way?

Some would say that modern finance can handle these transitions. After all, safety nets now exist in the form of central banks, treasuries, and the International Monetary Fund – institutions that have acquired substantial crisis-management experience, including the 1987 stock market crash and the 1995 bailout of Mexico. But many serious vulnerabilities remain in the system. The links between markets and institutions resulting from the phenomenal expansion of exotic financial instruments have created a level of risk that no one

Can capitalism be reformed? Or is the world doomed to keep renewing inhumanities in the name of economic progress?

trol the flow of capital and raise revenues at the same time by taxing financial transactions. For one thing, the sheer impossibility of getting all the major governments to cooperate would lead free markets to migrate

to the least-regulated jurisdiction. And Greider has one particularly ill conceived idea: that the United States should close its trade deficits by imposing a large, emergency tariff. It's difficult to think of a quicker way to set off a protectionist scramble around the globe.

But these are quibbles in the context of this amazing book. Probably no fundamental reforms of the magnitude sought by Greider can or will be made, and so the die is cast for the next few decades – for better or for worse. But Greider at least sets a direction for thinking by making it clear that a world economy on automatic pilot will eventually drive itself off a cliff.

And *One World, Ready or Not* is on firm prescriptive ground regarding one issue – growth – that does not require altering the model of capitalism so much as changing ways of thinking within that model. Greider's pleas for a progrowth thrust in place of the timidity that exists around the world is dead right. This isn't just a question of what the

zero and even though competitive forces in the economy have never been stronger. The government has lashed itself to the mast of a balanced budget by the year 2002, an arbitrary deadline. A balanced budget is held out as the solution to low levels of savings and investment – a link that is dubious in the context of a \$7 trillion economy.

Greider asks whether slow growth and higher savings go together or whether the U.S. economy needs to grow faster in order to boost savings and investment. The experience in Asia, where the rate of savings has been the highest in the world, indicates that faster growth must precede higher savings. It's true that when the major countries restrain the growth of their economies, central bankers and bondholders are happy. But is that the right prescription for the rest of society?

What Can Business Do?

What are the implications of Greider's thesis for business leaders? If you believe that the global economy is headed for a meltdown, your enthusiasm about expanding operations to China, India, or Brazil is likely to be limited. But the kind of disruptions described in this book, if they occur at all, could take generations. Devising a business strategy

based on these considerations is tricky, but doing nothing different is not an intelligent option.

The social conflicts described in *One World, Ready or Not* are likely to appear in isolated spots at first. Individual corporations are prime targets of political resentment (as they have been for many decades). Companies can redouble their efforts to be good local citizens – to be known for investing in the local workforce and community by doing more to train and educate employees, set high safety standards, and provide as much health insurance as possible. Greider describes in lurid detail how bad working conditions are in the emerging markets. Multinationals must help; they are increasingly at risk if they don't try.

Greider makes it clear that a world economy on automatic pilot eventually will drive itself off a cliff.

Federal Reserve Bank or the Bundesbank will do over the next quarter or the next year. It concerns an overcautious mind-set, a mind-set throughout the global economy that does not recognize the cumulative impact of the policy actions of national authorities.

In Europe, growth is being restricted by a self-imposed deadline to reduce budgets in preparation for adopting a common currency. Japan is considering raising interest rates even though its economy is flat for the fourth straight year. In the United States, the conventional wisdom that the economy cannot grow more than 2.5% per year is becoming a dangerous self-fulfilling prophecy. The public is obsessed with inflation, even as it has approached

Companies will also need to develop their own shrewd foreign policies. Particularly in the emerging markets, they will need the ability to distinguish between short-term adverse trends – those that they can handle or ride out – and long-term fundamental forces.

Consider one example from India. In 1995, a local election brought to power a new administration that immediately abrogated a \$3 billion contract with a consortium led by Enron Corporation to supply electrical power. The power project was to be the largest single foreign investment ever made in India, and up until the effort to close it down, the national government was seen as embracing the trend toward economic liberalization. However, in the midst of the Enron fiasco, several U.S. companies contemplated withdrawing from India; they feared that it marked the beginning of tensions to come as Indian governments might try to win votes by whipping up the public against foreign companies. It took considerable intervention by the U.S. government to per-

suade the companies not to burn their bridges prematurely.

After a year of white-knuckle negotiations, Enron revived its contract, and none of the major U.S. investors pulled out. Today a new national government in India is attempting to reassure foreign investors that the underlying support for foreign investment remains

ers therefore must look beyond their own bottom lines to propose solutions to major public-policy issues. If they don't, the concerns raised in this book will prove all too valid.

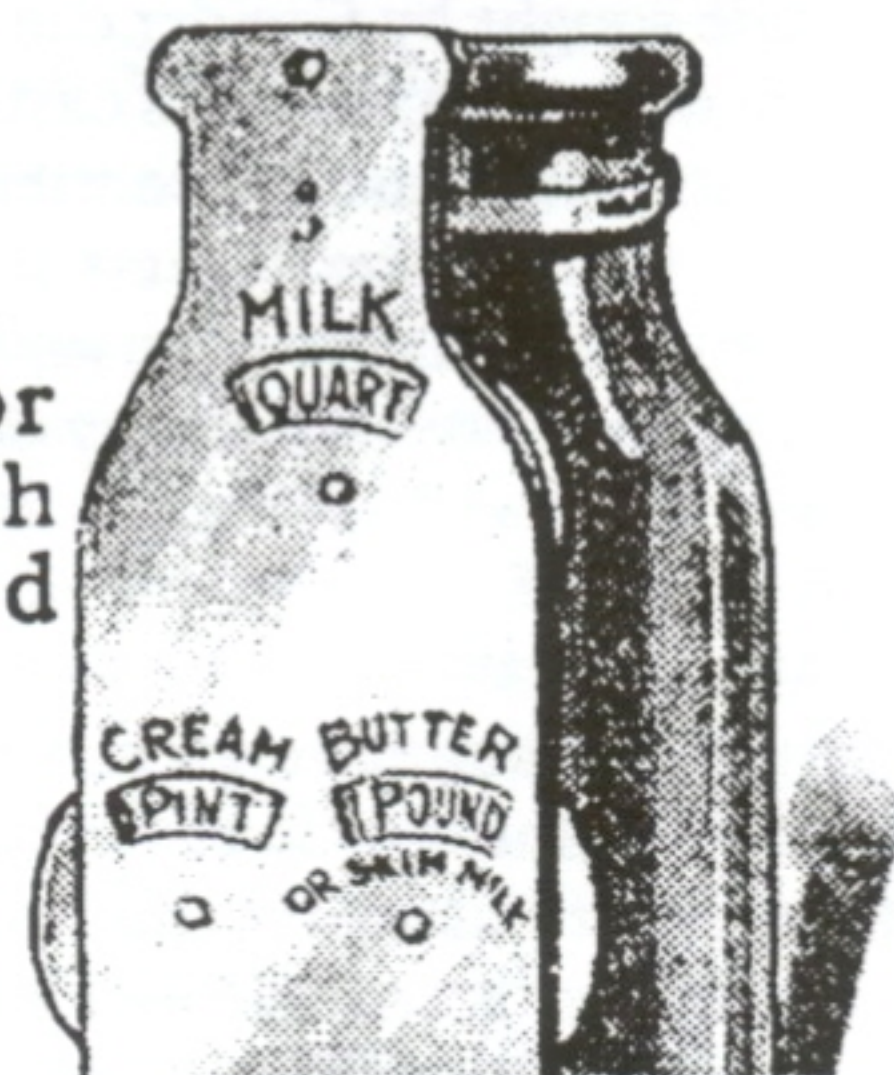
In *One World, Ready or Not*, Greider has combined high-class journalism, exhaustive research and analysis, and thoughtful but strongly

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strong. The lesson is that multinationals operating in risky climates will have to make sophisticated appraisals of rapidly changing political and social situations as never before. And they will have to cultivate ties with all constituencies in emerging economies in order to weather the inevitable storms that will rage in countries undergoing tumultuous change. Finally, business leaders need to talk more openly about the dilemmas of operating in a global economy – such as when and how to impose Western standards of human rights and how to balance the short-term interests of stockholders with a company's long-term interest in creating an environment that produces sustained profits.

Greider believes that the public sector has the prime responsibility for creating the framework for global commerce. In theory, he is right; but the balance between public and private power has shifted toward the latter. Government resources are dwindling, and the public sector is attracting fewer of the most talented people today than it has previously in the postwar period. Business lead-

opinionated commentary. He is the preeminent American writer on the impact of economics and politics on society. At a time when Americans have embraced moderation and centrist government – because, in my view, they don't trust any leader with a bold idea – and when governments in Europe, Japan, and elsewhere are bereft of all ideas about how to approach the next century, Greider has sounded an alarm in an attempt to jolt people into thinking beyond the next election, quarterly earnings report, or paycheck.

Multinationals will need to develop their own shrewd foreign policies.

He has prodded us to reexamine our self-satisfaction now that the Cold War is over and democracy and free markets are everywhere in vogue. Agree with him or not – and many will have a strong reaction against his populist views – he has written one of the most stimulating and important books of the decade.

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