Re-Imagining Capitalism for the Long Term
Situating the Volume

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INTRODUCTION: THIS TIME IS DIFFERENT . . . BECAUSE IT HAS TO BE

This time is different is the title of a book by economists Carmen Reinhardt and Kenneth Rogoff (2009), which puts the 2008 financial and economic crisis—now widely referred to as the “Great Recession”—into a long-term, historical perspective by examining what they call “eight centuries of financial folly.” One does not have to agree with their argument that (excessive) government borrowing is largely to blame for the recurrent cycles of boom and bust—and others have pointed to more varied and complex origins of the most recent and previous crises (e.g., Coffee, 2009; McLean and Nocera, 2010; Krugman, 2008). What they do show quite clearly, however, is a concurrent pattern of denial, short-term memory, and, most importantly, a failure to learn from the past to prevent future crises. Let’s examine our own thinking: does the 2007–9 crisis not seem far away today, with most of its negative consequences already behind us? Probably. And since many believe these recent challenges have been overcome, why not go back to business as usual?

Capitalism has indeed survived much more daunting challenges. Take the Great Depression of the 1930s, when large parts of the population even in the most developed economies faced not only unemployment but widespread poverty and even starvation. Or, more fundamentally, the emergence of a system diametrically opposed to capitalism in the Soviet Union after 1917: with collective or state rather than private ownership, no individual incentives, and central planning instead of market exchanges. It spread to half of the globe after World War II, prompting Nikita Khrushchev to famously predict
in 1956 that communism would eventually “bury” capitalism. But it did not: with very few and largely marginal exceptions, capitalism has actually triumphed around the world: market-based reforms in China from 1978 onwards, the end of the Soviet bloc and its planned economy, symbolized by the fall of the Berlin Wall in 1989, and the liberalization of the Indian economy since 1991.

However, this time, we believe, needs to be different; not because of the recent “Great Recession,” but because of a confluence of many factors that provide humanity with rather unprecedented challenges, which, if left unresolved, might threaten not just the capitalist system but prosperity and global order. There is no doubt that capitalism has been an engine of wealth creation since the first Industrial Revolution in the 18th century. It has led to sustained productivity gains and long-term growth, lifted an increasing part of humanity out of poverty and subsistence, and, consequently, spread around the globe from its origins in the Atlantic economy (Maddison, 2001; McCraw, 2011). But today, there are fundamental questions about the consequences of capitalism and, hence, its future: is capitalism still improving the wealth and well-being for the many? Or, as some have suggested, has it become detrimental not only for the economy, where long-term value creation is being sacrificed to the pressures of short termism, but also for society, where the gap between rich and poor has increased—often significantly—and opportunities to lift oneself out of poverty have decreased (e.g., OECD, 2011, 2015; Piketty, 2014; Wilkinson and Pickett 2009). And what about the natural environment, which seems increasingly under threat in ways that could have unforeseen consequences for centuries? Moreover, are those entrusted with its functioning, namely business and political leaders, able—and willing—to put the interests of a broader set of stakeholders before short-term, sometimes personal gains?

We also believe that this time can be different, because there is a widespread recognition that “business as usual”—in the broadest sense of the term—is no longer an option. Concerns about the consequences and future of capitalism are not a question of political left or right. In this respect, in the US for instance, the Tea Party and Occupy Wall Street or the popular support for the rather different positions taken by Donald Trump and Bernie Sanders reflect two sides of the same coin—whether their proponents like it or not. And worrying about the consequences of climate change or the water supply is no longer the exclusive domain of governments, the United Nations or non-government organizations (NGOs), but has become a matter for the C-suite.

This volume reflects both the urgency of the needed action and the opportunity to achieve a wide-ranging agreement and lasting movement towards a more responsible, equitable, and sustainable model of capitalism in order to generate long-term value—even if questions remain regarding what exactly the necessary reforms should be and who should drive them. The volume is unique in that it brings together many of the leading proponents for a
Reformed, re-imagined capitalism from the fields of academia, business, and NGOs. Its contributors have been at the forefront of thought and action in regard to the future of capitalism. Both individually and collectively, they provide powerful suggestions of what such a long-term oriented model of capitalism should look like and how it can be achieved. Drawing on their research and/or professional experience, they write in an accessible way aiming to reach the broad audiences required to turn a re-imagined capitalism into a reality.

The remainder of this introductory chapter first provides an overview of the debates about capitalism and its future from the late 18th century until the present day. This will help to situate the contributions made by the various chapters in the volume, which are briefly summarized later in this chapter.

**CONTEXT: CAPITALISM AS A DYNAMIC—AND DEBATED—SYSTEM**

Capitalism—short for a system based predominantly on private ownership, individual incentives and rewards, and exchanges through markets—has never been of a single uniform type. And since, as Dore (2002: 116) succinctly put it, “[t]ypes of capitalism are not static,” capitalism has seen many changes over time—sometimes significant ones—and there have always been debates about what capitalism should look like. We will outline these debates and changes in the remainder of this section, showing how they gradually became more organized and comprehensive—reflecting both the spread of capitalism itself and a growing recognition of the need for reform to make it more sustainable. What has to be noted is that there were also those, like Karl Marx, who rejected capitalism completely or saw it, at best, as a stage in the evolution towards other, supposedly more productive and equitable forms of economic organization. We will leave them aside here, since their predictions and the efforts to turn them into reality ultimately proved unsuccessful and capitalism prevailed.

**A Patchwork of Reforms since the Late 18th Century**

Efforts to reform capitalism started with what is now called the first Industrial Revolution, which originated in parts of England in the late 18th century and then quickly spread through much of Europe and across the North Atlantic (e.g., Pollard, 1981; Stearns, 1998). It saw significant increases in output and productivity based on new sources of energy (the steam engine), the
development of increasingly sophisticated machinery (in particular in the textile industry), and the introduction of new forms of organization (the factory), which brought together hundreds, at times thousands of workers under a single roof. While contributing to economic growth and, ultimately, the improvement of living standards across an increasingly industrialized world, these developments also created hardships for many, namely those working in the new factories, which included many children. From the outset, attempts were therefore made to reform the emerging capitalist system to alleviate these hardships and share capitalism’s benefits among all those involved. In general, these efforts remained piecemeal, largely based on individual initiatives, but they did create “pockets” of alternatives, i.e., more socially responsible and equitable capitalist models, some of which lasted or even expanded over time, and, occasionally, turned into the foundation for broader reforms.

Many of these initiatives were “bottom-up,” with visionary business leaders playing a significant and visible role. One of the most prominent among them was Robert Owen (1771–1858), who turned a cotton mill at New Lanark in Scotland into a social experiment that was both commercially successful and significantly improved conditions for workers and their families and, therefore, became an exemplar for many social reformers at the time. In order to improve both the productivity and well-being of their workers, other industrialists also adopted social policies, generally subsumed under the “paternalism” label with the efforts by the German steel producer Alfred Krupp in the 19th century described as being “among the first steps towards industrial social responsibility” (McCreary, 1968: 24–5; for a more comprehensive overview see Husted, 2015). At around the same time, other German industrialists went even further, collectively suggesting the regulation of working hours and wages as well as the introduction of pension schemes funded by employers and workers—decades before the German government actually took such steps. These suggestions, it should be noted, were primarily motivated by the recognition that a sharing of the gains from industrialization would benefit all and make the capitalist system itself more acceptable (Reckendrees, 2014).

There were also bottom-up collective endeavors, many of them self-help initiatives, notably in the form of mutual societies or cooperatives. Among them, the consumer cooperative established in Rochdale, England in 1844 as the Rochdale Society of Equitable Pioneers served as a model for subsequent efforts and its explicit “principles,” including open membership and democratic control, were adopted formally by the international cooperative movement in 1937. Cooperatives form another “pocket” of stakeholder-driven organizations to this day—operating alongside, often in the shadow of, privately owned or publicly traded companies (for an overview see Birchall, 1997). More prevalent in certain sectors, such as agriculture and housing for instance, they have also thrived in financial services—and continue to do so.
And so do mutuals, i.e., policyholder-owned insurance companies, with State Farm and Nationwide as two prominent US examples (Borruso, 2012).

Under pressure from an emerging civil society, an increasingly vocal press, as well as the growing labor movement and its affiliated political parties, governments eventually started adopting broader reforms. In Britain, for example, the Factory Acts of the 1830s and 1840s outlawed child labor, which, nevertheless, persisted longer in other countries and continues until this day in parts of the developing world. And in the late 19th century, Germany was among the pioneers in introducing compulsory social insurance—a practice gradually adopted elsewhere throughout the 20th century. In general, the late 19th and early 20th century saw more organized and sustained efforts to improve various aspects of the capitalist system.

More Systematic Attempts to Improve Capitalism

Capitalism developed further with the so-called second Industrial Revolution in the late 19th and early 20th century, which, first in the United States and then elsewhere, saw the creation of large-scale organizations supplying fast-growing urban markets with packaged consumer goods as well as automobiles and also producing the necessary inputs, including steel, chemicals, and machinery (see, e.g., Chandler, 1990). As a result, the benefits of capitalism became more wide ranging and widespread, but so did the challenges—not surprising given that many companies now had tens or hundreds of thousands of employees. Efforts to address these challenges also became more pronounced and increasingly organized, though trailblazing individual initiatives persisted as well.

Examples for the latter include, quite prominently, Henry Ford (1863–1947), who dramatically improved productivity and output through the introduction of the moving assembly line in the production of his Model T automobile. He transferred part of the gains to consumers in the form of lower prices and also shared the resulting profits with his workers by reducing working hours from nine to eight per day and by more than doubling wages to $5 per hour—a significant amount for the early 20th century—famously aiming to enable these workers to buy the cars they helped produce. In a kind of virtuous circle, the higher wages attracted better workers and reduced turnover and absenteeism, resulting in even higher efficiency (see, e.g., Brinkley, 2003). Another important, albeit less well-known individual pioneer was the Boston-based department store owner Edward A. Filene (1860–1937) (Stillman, 2004), who in 1916 created an international association to spread more social business practices among retailers worldwide and, in 1919, established a foundation—originally called the Twentieth Century Fund in 1922 and today known as the Century Foundation—to more widely promote his ideas of a socially
responsible capitalism. Foundations set up by other successful industrialists, including Ford, Carnegie, and Rockefeller, pursued similar aims, “promoting the well-being of humanity throughout the world” as the latter puts it today (<https://www.rockefellerfoundation.org/our-work/>)—even if they were originally also intended to deflect critiques of these entrepreneurs as “robber barons.”

Overall, these initiatives were part of more comprehensive efforts in the United States to reform its capitalist system during what is now referred to as the Progressive Era between the 1890s and the 1920s (for an overview, see Gould, 2001; for the connections with Europe, Rodgers, 1998). The initiatives aimed at limiting excessive concentrations of economic power, notably through anti-trust legislation; reducing corruption and inefficiencies in local government; furthering women’s rights including universal suffrage; and improving public education, widely seen as the “grand solution” to society’s troubles. These changes were precursors to a more systematic, government-led effort to improve the capitalist system following the stock market crash of 1929 and the ensuing Great Depression—reforms initiated by US president Franklin D. Roosevelt beginning in 1933 and generally subsumed under the “New Deal” label (for an overview, see Kennedy, 2009). They comprised, among others, banking and financial regulation, including the creation of the Securities and Exchange Commission, the introduction of labor standards and union rights, the inception of social security, initially for the unemployed and retirees, as well as large, publicly funded infrastructure projects.

Opposed by some, many of these measures found the support of forward-looking business leaders—among the most prominent being Thomas Watson Sr., who came to think of IBM “as more than a company... an institution that would improve the world and promote peace, capitalism and democracy” (Maney, 2003: 174). Similar ideas were also espoused by the emerging business schools, many of which were promoting a wide-ranging social role for managers (see for details Khurana, 2007; Engwall et al., 2016). This is perhaps most succinctly expressed by the then dean of the Harvard Business School (HBS), Donald K. David, in the introduction to a book on The Responsibilities of Business Leadership (Merrill, 1948: xiv), which reproduced the presentations of leading US managers at HBS:

The competent business administrator must know that in a free society his enterprise can maintain profits over any considerable period of time only by serving the public and by achieving a proper balance among the real long-term interests of employees, stockholders, suppliers, customers, and all others directly affected by the activities of the business.

By the end of World War II, these ideas, which we would today subsume under the notion of a “stakeholder model” of capitalism (e.g., Freeman and Reed, 1983; Aguilera and Jackson, 2010), had become widely accepted within
the US, where they were enshrined for instance by Peter Drucker (1954) in *The Practice of Management*, and inspired further reforms under presidents Eisenhower and Johnson during the 1950s and 1960s. Often, building on earlier home-grown efforts, they also drove similar changes towards a more socially responsible capitalism in many Western European countries and in Japan—usually with the active engagement of domestic modernizing elites in both business and politics, wide-ranging intellectual and material support from the US government and businesses, as well as some of the above-mentioned foundations and institutions (see, among others, Djelic, 1998; Kipping and Bjarnar, 1998; Kudo et al., 2004). While difficult to establish a singular causal link, it is nevertheless notable that during the ensuing decades all these countries, including the US, saw unprecedented economic growth leading to unrivalled prosperity for large parts of their populations—a period referred to as an “economic miracle” (*Wirtschaftswunder*) in Germany or “the thirty glorious years” (*les trente glorieuses*) in France. And it should not be forgotten either that the opportunities opened for many by this stakeholder model helped contain and eventually push back the sway communist ideas and parties held in many of these countries.

Thus, between the 1930s and the 1960s, socially responsible, long-term-oriented capitalism moved from isolated “pockets” during the earlier period to the mainstream and became commonplace and widely accepted—at least in the most developed parts of the world. But, as it turned out, despite its undeniable successes, the hold of the “stakeholder model” on capitalism was tenuous, especially in the US, where a different model, focusing more on shareholders, started to emerge in the 1970s—in turn shaping developments elsewhere.

**From Revival (and Triumph) to a Quest for Fundamental Renewal**

It is difficult to ascertain why what appeared like a successful model of socially responsible, stakeholder-oriented, and long-term-focused capitalism became increasingly questioned. Part of the problem might have resulted from the stakeholders’ own doings, with each group putting their specific interests over those of others; part might have been external pressures, including the uncertainty and turmoil created by the Vietnam War, the demise of the Bretton Woods system and the resulting currency fluctuations, the oil crises and skyrocketing prices in the 1970s; another part emanated from ideas questioning the role of government in the economy, later often summarized as “neo-liberalism” (Krugman, 2007)—altogether creating what historian Charles Maier (2010) has referred to as a profound “malaise.” This in turn opened the door to a fundamental rethinking and reshaping of the
capitalist system in the US toward the interest of a single stakeholder, those owning company shares—with the rationale for this shift probably best summarized by Milton Friedman (1970), who argued that the corporate executive was only appointed by the stockholders as “an agent serving the interests of his principal” and that the “social responsibility of business is to increase its profits.”

US capitalism did revive during the 1980s and 1990s and it did triumph over the communist economic system. It is not clear whether this was a consequence of the focus on “shareholder value” as it came to be called, or resulted from other factors, including, first and foremost, the information and technology revolution. In any case, US growth rates during this period never approached those the country experienced in the post World War II decades. Not only did the US evolve but so did other countries, in particular those in Northern Europe, which modernized their own version of capitalism, retaining its more responsible and inclusive nature, while making it more competitive (see, e.g., Fellman et al., 2008). The increasing divergence between capitalist systems became the subject of more intense scholarly research, which examined the respective features of what tended to be referred to as “shareholder” and “stakeholder” models or, quite influentially, as “liberal” and “coordinated” market economies (Hall and Soskice, 2001).

There was also a growing chorus of critical voices, warning about the consequences of what one of its earliest critics, Michel Albert (1993), referred to as the “neo-American model” and its “obsession with individual achievement and short-term profit.” Albert not only exhorted his native France to espouse the alternative “Rhine model” exemplified by Germany, Switzerland, and the Netherlands, but also highlighted the dangers of exclusion and short termism for the US itself. Similarly, Dore (2000) defended the merits of what he termed “welfare capitalism” and voiced concern about companies even in countries like Germany and Japan that favored “stockholder capitalism” and its features such as stock options or an obsession with quarterly results.

Rather than these warnings, it was ultimately the excesses and resulting crises from within the shareholder model of capitalism that prompted more widespread reflection and growing calls for reform: the dot com-fueled stock market boom and its eventual bust in 2000, the major corporate scandals of the early 21st century, including Enron, Worldcom, and Bernie Madoff, and, last but not least, the “Great Recession” from 2007 to 2009, triggered by certain financial practices, in particular the so-called subprime mortgages and their securitization (see e.g., above, also Lewis 2010). Critics of “quarterly capitalism” (Barton, 2011) and proponents for reform now increasingly came from a wider range of academic disciplines, press outlets, and, most importantly, from the business community itself—with a growing number of leaders pointing not only to the consequences of the Great Recession as a reason for re-imagining capitalism but also highlighting
even broader challenges such as climate change and the growing threats to our water and food supply. Many of the most prominent among this growing chorus of voices advocating and promoting change to the capitalist system are assembled in this volume.

IMPROVING CAPITALISM FROM WITHIN

Taken together, the chapters in this volume aim at moving capitalism forward, re-imagining a capitalism that lives up to its promise as an engine of innovation and wealth creation and allows us to successfully face current and future societal and environmental challenges. The book stands in the long tradition of those from inside capitalism who espoused its tremendous benefits, while recognizing its shortcomings and developing ways to overcome them. It brings together many of the leading thinkers and actors pioneering and pursuing similar goals.

Their contributions are subdivided into three parts. The first part looks at those individual leaders who have, through their actions, become trailblazers and can serve as examples for a re-imagined capitalism. The second part provides in-depth analyses from various perspectives on capitalism’s weaknesses and, more importantly, how it can be made better, focusing in particular on the role business can play in this respect. The third part offers suggestions about the specific steps that should be adopted to move toward such a responsible and sustainable capitalism for the long term, capped by a concluding chapter outlining what it might look like.

The first part opens with a chapter by Paul Polman, who presents the steps Unilever has taken to move beyond the short term and adopt policies that lead to shared prosperity and protect the planet. Conscious of the limitations of what a single company can achieve, he forcefully argues for collective action, which in his view can only succeed if business manages to regain the trust of society through a renewed sense of purpose. In their chapter, Kathleen McLaughlin and Doug McMillon show how a company that has sufficient reach and scale (and is prepared to work with multiple stakeholders) can influence and even reshape global systems in ways that benefit both business and society, illustrating their argument with Walmart’s efforts towards food sustainability. The next two chapters deal with organizations that have a built-in long-term focus. First, there are family firms that, as Galen G. Weston explains, aim to create value for all stakeholders over decades rather than quarters by espousing long-term-oriented, and sometimes unconventional policies—a characteristic often summarized under the label of “patient capital” and illustrated here with examples from a variety of family businesses including the author’s own, Loblaw. Cooperatives are another such long-term-oriented type of organization, and their functioning is discussed in detail by
Monique Leroux based on her experience at Desjardins. The resilience of cooperatives, which became apparent during the recent financial crisis, is based on a democratic governance model leading to much greater focus on the main stakeholders. One important stakeholder, the community, is at the center of the chapter by Ratan N. Tata, who shows that throughout his own organization’s history, serving the communities where it operated was seen as the very purpose of its existence. While this might have been originally driven by the less-developed context in which the Tata organization evolved, he argues that an engagement with local and broader communities can be a way for companies to contribute to building better societies in the 21st century. In the final chapter of this section, Nick Lovegrove and Matthew Thomas build on a study of many responsible leaders to argue that those who have a broad set of experiences covering multiple sectors, disciplines, and cultures are best equipped to deal with the complex challenges facing business and society today and in the future—ultimately suggesting a need to rethink the notion that excellence requires only specialization.

The second part of the volume starts with a reflection by John Kay about which aspects of capitalism are behind its triumphs, highlighting that markets are excellent in providing honest feedback but are also prone to rent seeking, with actors trying to increase their share of existing wealth rather than creating new wealth. The success of modern business, he therefore argues, cannot only rely on individual initiatives but depends equally on cooperative activities and an embeddedness in social institutions and the community. Andrew Crane and Dirk Matten explain in more detail the broader role of business in society today, including the protection of human rights, the provision of public services, and the participation in public policy—all of which, they suggest, require a careful reconsideration of corporate purpose, performance, and partnerships. From a more normative point of view, the chapter by R. Edward Freeman, Bidhan L. Parmar, and Kirsten E. Martin also suggests that capitalism in the 21st century has little alternative to being responsible, which requires revising some fundamental assumptions about business and value creation, including the relevance and interdependence of all stakeholders. Bryan W. Husted points out that, depending on the conditions, doing well financially and being good towards society and the planet might not always be feasible. This might require managers to make certain trade-offs between the two—trade-offs which should be made with an explicit consideration of all consequences. Lynn Stout’s chapter dismantles the myth that maximizing shareholder value should be the only corporate objective. In the final chapter of this second part of the volume, John Stackhouse looks beyond the corporation at the role of public opinion and the press as a force for the reform of capitalism. Their influence, which, as seen above, was quite considerable in the past, has been diminished by technological innovation. While increasing the accessibility and ubiquity of
information, technology has also reduced attention span, fragmented dialogue, and made transformative collective action more challenging.

Contributions in the third part of the volume focus on how, within this context and beyond individual leadership, capitalism can be re-imagined and reformed more profoundly and broadly. Drawing on a multi-year inquiry into the development of a more sustainable economy by the United Nations Environment Programme, Simon Zadek outlines a financial system that would favor an inclusive and balanced economic development. A similar role at the corporate level could be played by the adoption of so-called “integrated reporting,” which is discussed in the chapter by Robert G. Eccles and Birgit Spiesshofer. It re-orient companies away from their current short-term focus by allowing them to account for the material issues that affect their ability to create value over multiple time horizons. Drawing in particular on Canadian and US cases, Edward Waitzer and Douglas Sarro highlight the powerful role that legal systems are starting to play in requiring corporations to consider all stakeholders and the long-term consequences of their actions. Another powerful actor, institutional investors, is at the center of the chapter by Gordon L. Clark and Michael Viehs, who forcefully argue in favor of more active ownership and effective stewardship by these investors toward corporate social responsibility (CSR) based on their survey of extant studies showing a positive correlation between CSR and financial performance. In their chapter, Bruce Simpson and Tiffany Vogel put the onus for more responsible behavior squarely on corporations and their leaders, suggesting that CSR is most effective when based on what they call the “trinity” of visionary leadership, mindful strategy, and flawless execution. The following two chapters in this part examine two specific examples of how the challenges to a transformation of current systems can be overcome in practice. Focusing on the mining industry, Richard A. Ross and D. Eleanor Westney argue that to limit environmental impact and make wealth distribution more equitable require a recognition of the diversity of stakeholders and of the values underpinning their various expectations—pointing in particular to the role of boards in finding the necessary balance. In a more bottom-up approach and focusing in particular on the US case, Shawn Bohen and Gerald Chertavian highlight the need to provide disengaged and disadvantaged young people with economic opportunities in the labor market to restore their faith in the capitalist system and help companies fill the skills gap.

To conclude the volume, Dezső Horváth and Dominic Barton go beyond the suggestions made in the various chapters to outline their vision for what a re-imagined capitalism should look like. At the macro level, they see it as evolving from a narrowly defined shareholder capitalism to a focus on long-term value creation and prioritization of a broader set of stakeholders. Similarly, at the micro level, they exhort asset managers, executives, and board
members to move away from “quarterly capitalism” and act like owners, using longer time horizons to invest and create sustained value.

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