

‘Don’t be the villain’: Niall Ferguson looks forward and back at capitalism in crisis

The roots of discontent with global capitalism run deep, according to the historian. By looking back, business leaders can get a clearer view of what’s coming.

by Niall Ferguson

Capitalism is in crisis, as usual. There will always be people questioning the legitimacy of the system. As Joseph Schumpeter wrote in *Capitalism, Socialism and Democracy*, published in 1942, capitalism has at its heart creative destruction, and that creates pain; it creates losers. This is the normal state of affairs, and we shouldn’t be surprised that it’s going on.

Without the financial crisis, the trends that were increasing income inequality might have led to some kind of political backlash. But trends often need a crisis to bring them to the forefront of people’s minds. That’s one of the lessons of history: trends, if they unfold over decades, don’t necessarily produce big political outcomes; there needs to be some kind of catalyst.

In 2008–09, we had the biggest financial crisis since 1929. It was perfectly clear at the time—and I remember writing this in early 2009—that there would be a backlash. The shock was an enormous one. It affected some countries—Greece, for example—as severely as the Great Depression. If there had not been some kind of reaction, that would have been remarkable. It took the financial crisis to make everybody start talking about inequality, even though if you look at the data on income or wealth inequality, it had been widening since the 1980s in the United States, and indeed in quite a few other countries around the world.

Nineteenth-century parallels

To understand where we are now, you need to go back to the late 19th century, which saw a period of extraordinary globalization. I tend to think of it as the first age of

globalization: enormous increases in trade, in capital flows, in migration. And then in 1873, there was a financial crisis, one of the first really global financial crises, and in the aftermath of that, populism on both sides of the Atlantic came to the fore. It was the usual cocktail: nativism on immigration (“We have to restrict immigration”); backlash against free trade (“We have to impose tariffs”); attacks on corrupt elites (“These terrible people who run the place have to go”). And outsiders came to the fore politically. This is the standard formula for populism.

In the 1870s, there was a chap in California named Denis Kearney, whose slogan was “The Chinese must go” and who campaigned to restrict immigration from China into the United States very successfully. In 1882, Congress passed the Exclusion Act, and from that point on, Chinese immigration to the United States was limited to the point of stopping altogether. So we’ve seen a late-19th-century version of this movie before, and there’s nothing about it that’s new.

Don’t be the villain

What tends to happen in the wake of a crisis as the dust settles, once people recover from their financial difficulties and turn to politics, is that they castigate big business. It’s very striking that the big banks were the first targets of public dissatisfaction, but that has spread in recent years to the big technology companies. And I think there’s a good reason for that. Ultimately, what has made our populism distinctive is not so much the content, not the ideas, which are entirely historically familiar; it’s the form, and the form has been determined by the advent of social media, the dominance of our public sphere by network platforms, Google and Facebook in particular, but also Twitter. And it perhaps was predictable that after a certain amount of time, these network platforms would be the targets for attack. We now have a debate, which is one of the few bipartisan debates in the United States, about the power of big technology companies. Antitrust is an issue that you hear debated both on the left amongst Democrats, and on the right amongst Republicans.

From the vantage point of a chief executive, reputation is extraordinarily important. When it comes to the shifting sands of legislation and regulation, unpopular companies are vulnerable in a way that popular companies are not. The obvious lesson from the Gilded Age is don’t be the villain of the piece. John D. Rockefeller became the villain of the original antitrust movement in a way that Andrew Carnegie avoided. Why? I think it’s partly about bad luck, in the sense that Standard Oil was unlucky enough to be the target of some extremely effective muckraking reporting, and that didn’t happen to Carnegie. But it’s also because Carnegie understood the power of philanthropy to offset the unpopularity that you inevitably accumulate as a successful businessman. And Carnegie was extraordinarily revolutionary in his philanthropy. He said that you should give it all away—not half, as in the giving pledge that we have today—all of it. In a wonderful essay on wealth, Carnegie argued that you should spend the first third of your life educating yourself, the second third making money, and the third third giving it all away. So there’s a reason that we remember him fondly. Most of us associate him more with public libraries than with steel. I think there’s a lesson here, and we see some people, such as Bill Gates, learning it well.

Business in the crosshairs

If your company has not been in the crosshairs—or let me be more precise—has not been on the receiving end of a Twitter storm, then don't worry, it soon will be. It is, I think, part of the new postcrisis world that every reputation of any entity or individual that is publicly prominent will come under attack. You don't need to put many feet wrong. One gaffe will do it; one slip, one lapse can get traction on social media in an enormously rapid way, and it can escalate in a terrifying way.

I suspect that many CEOs haven't yet come to terms with that threat. It's always tempting to say, "The bells of hell go ting-a-ling-a-ling for you but not for me." And when you're watching somebody else twist in the wind in the midst of a social-media outrage, you don't think, "It could be me tomorrow"; you think, "Oh, God, that terrible person! I hope I'm not in any way associated with them." That is the standard mentality of people, but it's coming, I think, to any prominent individual or company at some point. Q

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This commentary is adapted from an interview conducted by **Allen Webb**, editor in chief of *McKinsey Quarterly*, at a July 2019 conference in Edinburgh, Scotland. The conference was hosted by the Edinburgh Business School at Heriot-Watt University and the Haas School of Business at the University of California, Berkeley, and titled "The new enlightenment: Reshaping capitalism and the global order in a neo-mercantilist world."

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