

Reimagining capitalism to better serve society

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Capitalism has not kept pace with evolving societal needs, leaving more and more of the world's population behind with respect to wealth creation and prosperity. It may be time for a change.

Is capitalism still creating prosperity and well-being for the many? That's a central question behind *Re-Imagining Capitalism* (Oxford University Press, November 2016), a book coedited by McKinsey's global managing partner, Dominic Barton; York University's Schulich School of Business dean, Dr. Dezső J. Horváth; and Matthias Kipping, Richard E. Waugh chair of business history at the Schulich School. In this video interview, Horváth speaks with McKinsey's Rik Kirkland about the various forms of capitalism around the world, how societal well-being is strongly linked to enhanced competitiveness and productivity, and how a new generation of students wants to ensure that economic priorities meld well with societal needs.

Interview transcript

Capitalism's evolution

Capitalism is still the best form of creating wealth, no argument. But we know there are different forms of capitalism. After the Second World War, the US form of capitalism [a "stakeholder model," that is, a more socially responsible and long-term capitalism] had been exported to the European capitals—around the Rhine River, central Europe, and Scandinavia—and also to Japan. The Europeans worked further on it and further developed that capitalism.

The Americans, in the 1970s, when there was a recession emerging, changed course and very strongly went to a short-term focus, profit orientation only. You maybe remember Milton Friedman: the only responsibility a corporation has is to make money for its shareholders. That form of capitalism, which is called the neo-American capitalism, took off by the 1970s. It was focusing on shareholders in the short term. That is what later came to be called quarterly capitalism. On the other hand, the European countries moved more toward a stakeholder model and a longer-term focus.

How capitalism fostered income inequality

If you take what has been practiced in the United States, and also to a large extent in Britain, it resulted in huge income inequalities that eroded the middle class and resulted in less competitiveness and less innovation, while the Scandinavian countries, in particular, and some of the European countries came up in terms of being more competitive and more innovative.

For the Europeans, it's not only the corporations that focused on the long-term stakeholders. At a societal level, it also was more of an inclusive form of capitalism: a universal education system, universal healthcare system, housing conditions of great quality, safety of the population, and also quality of life, which created a happier group of citizens.

If you have a society that is well educated, healthy, has good housing conditions, safety, and a good quality of life, isn't it obvious that there would be a more competitive, highly productive society? It's part of the equation.

That's what the Schulich School has done over the years; we taught it not because the concepts were there but because it just made sense that you had to deal with all stakeholder groups. You can't even develop a strategy for the firm on a quarterly basis. It takes a much longer time.


The opportunity and challenge in restructuring capitalism

In addition to globalization, which is more and more fast paced, it's now also the disruptive technologies that are coming faster and faster to us. At the moment, digital transformation, for example, is huge in all sectors but particularly in the financial-services sector.

It's a very fast-paced, challenging environment, but you can look at it in two ways. It's, to some extent, a challenge and threatening, but to some extent it's also an opportunity. Corporations can capitalize on the opportunities.

Development is so fast, corporations don't always manage on their own. So you also need societies participating in it. It's more participating, reorienting, and retraining the population—from industry sectors that are outdated or dying to new, emerging industries. You need some basics in the society that are even more important.

I'm also more optimistic because of the new generation. Obviously, I see it in the school because I have undergraduates, MBAs, postgraduates, and executives. The new generation is very different. They are much more open and much more interested in new opportunities and moving into new areas. They accept that they don't have to spend all their life in one company or in the same job. And they are curious and doing it.

They're also more inclusive. They are more aware of societal issues, environmental issues, and sociopolitical issues, and they don't mind doing it. They are less interested in just quantity of life, which is money. 

Rik Kirkland is the senior managing editor of McKinsey Publishing and is based in McKinsey's New York office. **Dezső J. Horváth** is dean of York University's Schulich School of Business.