Capitalism at Risk, Updated and Expanded

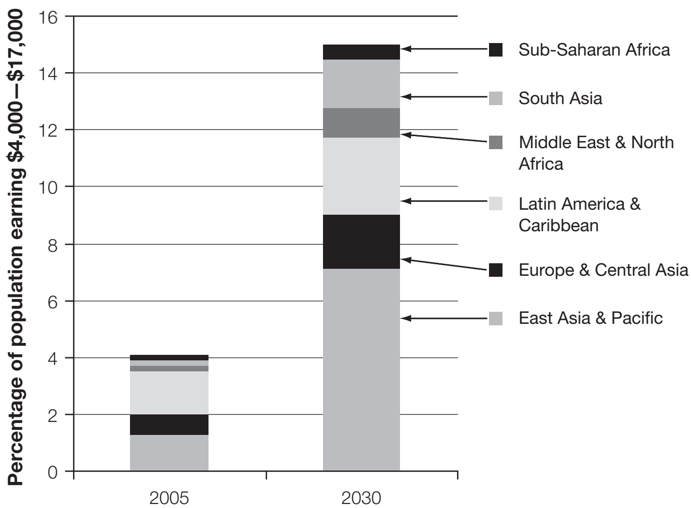
How Business Can Lead

By Joseph L. Bower, Herman B. Leonard, and Lynn S. Paine

Contents

FIGURE 2-1

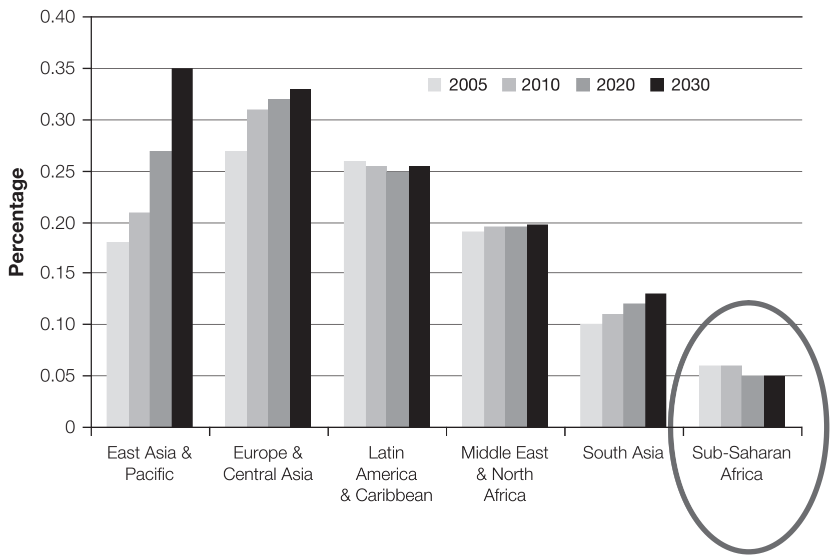
Percentage of population earning $4,000–$17,000 (purchasing power parity, per capita)



Source: Adapted from Richard Newfarmer et al., *Global Economic Prospects 2007: Managing the Next Wave of Globalization* (Washington, DC: The World Bank, 2007), xvi, fig. 7.

FIGURE 2-2

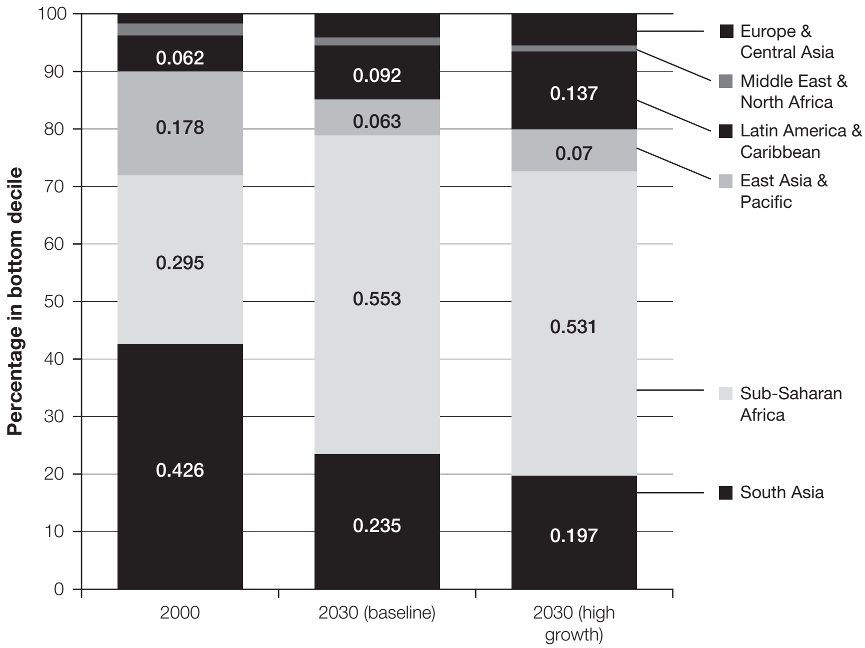
Per-capita income, 2005–2030, as percentage of per-capita income in high-income countries



Source: Adapted from Richard Newfarmer et al., *Global Economic Prospects 2007: Managing the Next Wave of Globalization* (Washington, DC: The World Bank, 2007), xvii, fig. 8.

FIGURE 2-3

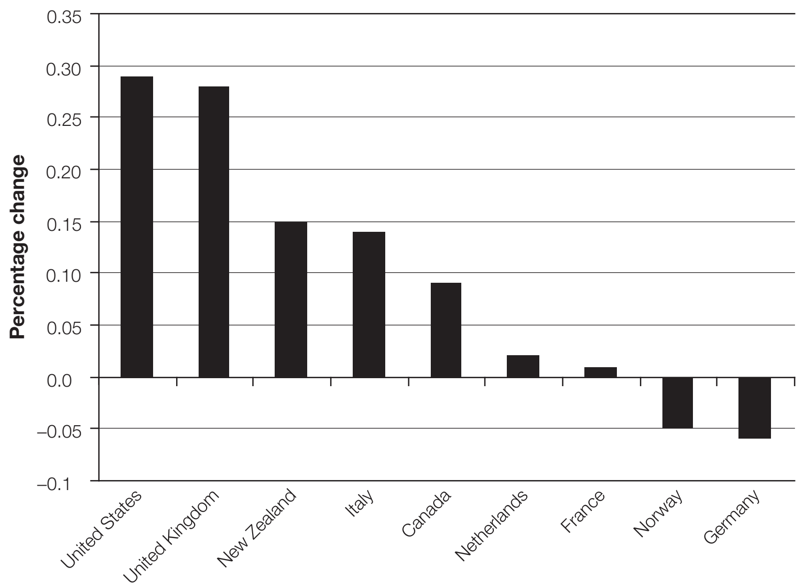
Population share in bottom decile of global income



Source: Adapted from Richard Newfarmer et al., *Global Economic Prospects 2007: Managing the Next Wave of Globalization* (Washington, DC: The World Bank, 2007), 78, fig. 3.3.

FIGURE 2-4

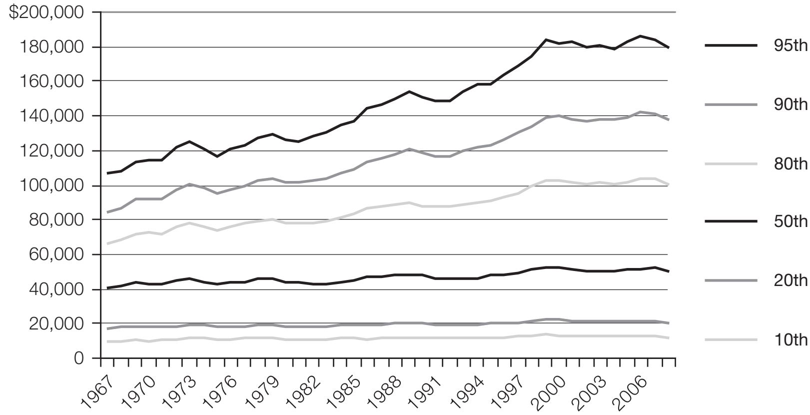
Change in gap between 90th and 10th percentile earners, late 1970s to mid-1990s



Source: Adapted from Richard Newfarmer et al., *Global Economic Prospects 2007: Managing the Next Wave of Globalization* (Washington, DC: The World Bank, 2007), 106, fig. 4.2, using data from Larry F. Katz and David H. Autor, "Changes in the Wage Structure and Earnings Inequality," in *Handbook of Labor Economics*, vol. 3A, ed. Orley C. Ashenfelter and David Card (Amsterdam: Elsevier, 1999).

FIGURE 2-5

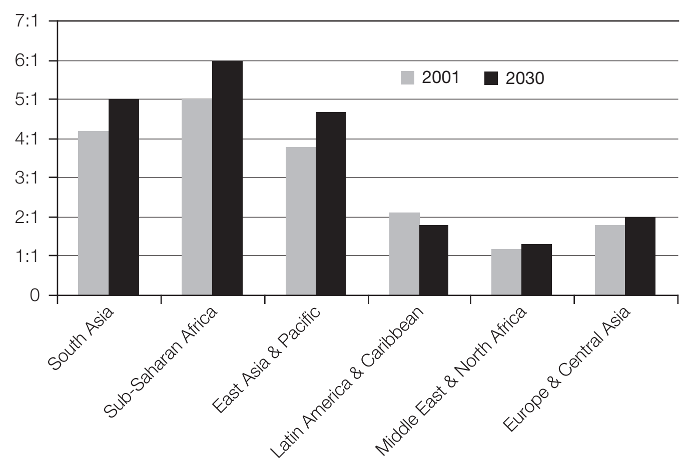
U.S. real household income by percentile



Source: Compiled from data in Carmen DeNavas-Walt, Bernadette D. Proctor, and Jessica C. Smith, "Selected Measures of U.S. Household Income Dispersion: 1967 to 2009," table A-2 in *Income, Poverty, and Health Insurance Coverage in the United States: 2009* (Washington, DC: U.S. Census Bureau, September 2010), 40–43, available at www.census.gov/prod/2010pubs/p60-238.pdf.

FIGURE 2-6

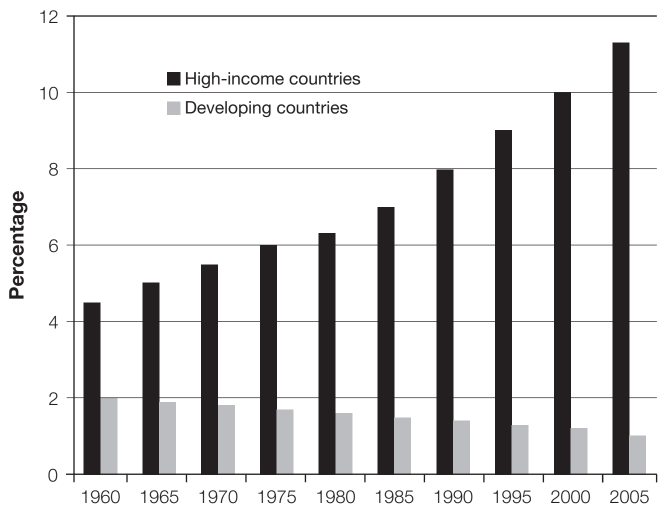
Ratio of skilled to unskilled workers by region



Source: Adapted from Richard Newfarmer et al., *Global Economic Prospects 2007: Managing the Next Wave of Globalization* (Washington, DC: The World Bank, 2007), xviii, fig. 9.

FIGURE 2-7

Immigrants as percentage of host population



Source: Adapted from Richard Newfarmer et al., *Global Economic Prospects 2007: Managing the Next Wave of Globalization* (Washington, DC: The World Bank, 2007), 32, fig. 2-3.

TABLE 2-1

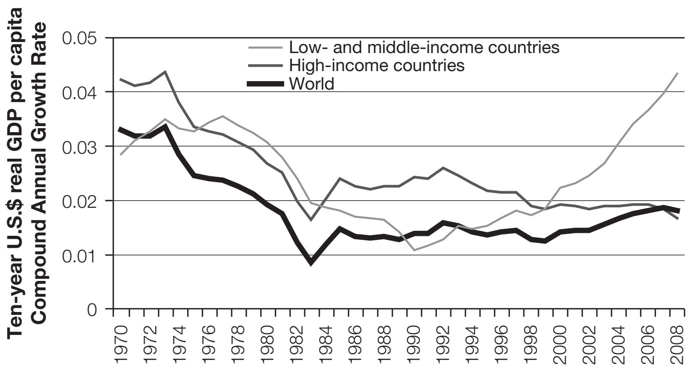
Growth in global labor force

	All workers (millions)			Unskilled workers (millions)			Skilled workers (millions)		
	2001	**2030**	**Annual growth (%)**	**2001**	**2030**	**Annual growth (%)**	**2001**	**2030**	**Annual growth (%)**
World	3,077	4,114	1.03	2,674	3,545	0.98	403	598	1.37
High-income countries	481	459	–0.16	327	276	–0.58	154	183	0.60
Developing countries	2,596	3,684	1.21	2,347	**3,269**	1.15	249	415	1.78

Source: Adapted from Richard Newfarmer et al., *Global Economic Prospects 2007: Managing the Next Wave of Globalization* (Washington, DC: The World Bank, 2007), 110, table 4.2.

FIGURE 2-8

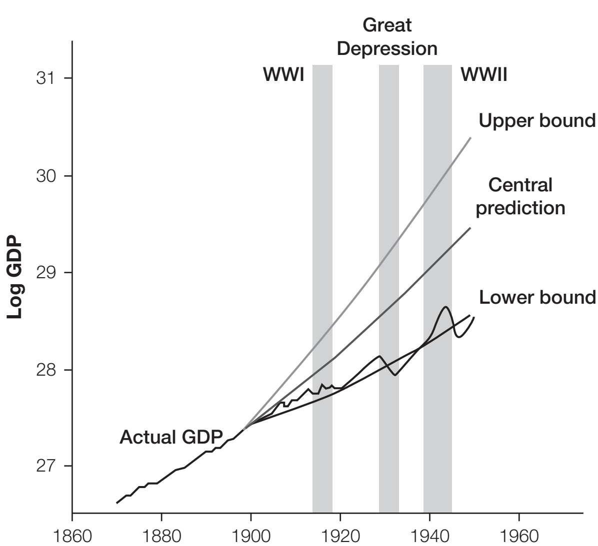
Ten-year per-capita real GDP growth



Source: Compiled from data in International Monetary Fund, *World Economic Outlook: Rebalancing Growth* (Washington, DC: IMF, April 2010), data file for fig.1.2 available at www.imf.org/external/pubs/ft/weo/2010/01/index.htm.

FIGURE 2-9

G-5 GDP: forecast versus reality, 1900–1949



Source: Based on Maddison 2001 and World Bank staff estimates, as reproduced in Richard Newfarmer et al. *Global Economic Prospects 2007: Managing the Next Wave of Globalization* (Washington, DC: The World Bank, 2007), 55, box 2.2.

Note: GDP is expressed as a natural log (mathematical convention used to facilitate comparison of numbers over time) in millions of 1990 international dollars (a hypothetical unit of currency used to facilitate cross-country comparisons).

TABLE 3-1

The recovering global economy (percentage change from previous year, excluding interest rates and oil prices)

	Percent change, by year[a]			
	2008	**2009**	**2010e**	**2011f**
Real GDP growth[b]				
World[c]	**1.5**	**–2.2**	**3.9**	**3.3**
High income	0.2	–3.4	2.8	2.4
OECD countries	0.1	–3.5	2.7	2.3
Euro area	0.3	–4.1	1.7	1.4
Japan	–1.2	–6.3	4.4	1.8
United States	0	–2.6	2.8	2.8
Non-OECD countries	2.5	–1.8	6.7	4.4
China	9.6	9.1	10	8.7
Russia	5.2	–7.9	3.8	4.2
Brazil	5.1	–0.2	7.6	4.4
India	5.1	7.7	9.5	8.4
Sub-Saharan Africa	5.2	1.7	4.7	5.3
World trade volume	**2.7**	**–11**	**15.7**	**8.3**

a. e = estimate; f = forecast.

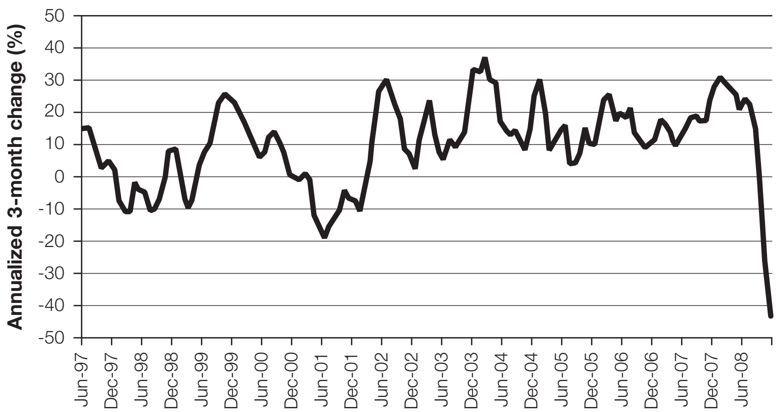
b. Aggregate growth rates calculated using constant 2005 dollars GDP weights.

c. Calculated using 2005 purchasing-power-parity weights.

Source: Adapted from the World Bank, http://web.worldbank.org/external/default/main?contentMDK=20675180&menuPK=612509&theSitePK=612501&pagePK=2904583&piPK=2904598 (April 18, 2011).

FIGURE 3-1

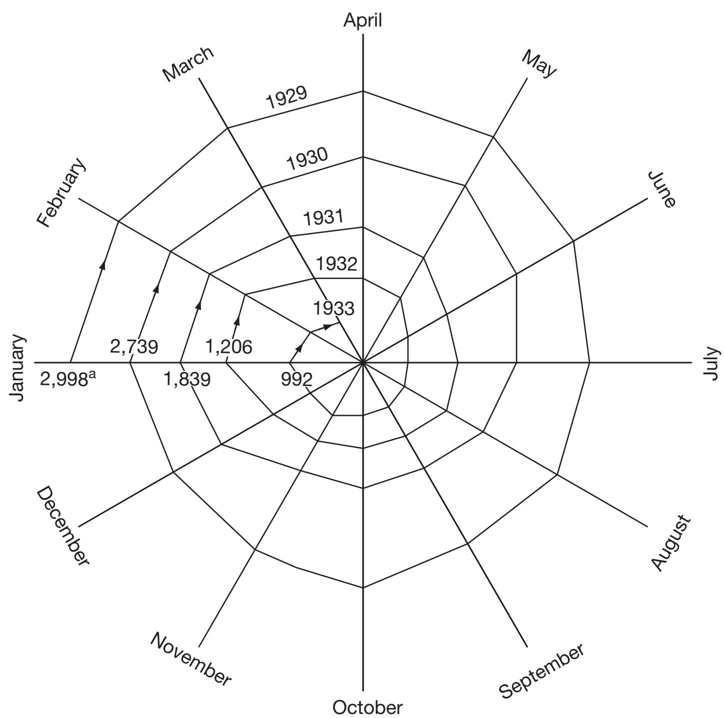
Growth in global trade



Source: Compiled from data in International Monetary Fund, "World Economic Outlook: An Update of the Key WEO Projections," January 28, 2009, fig. 2.

FIGURE 3-2

The collapse of world trade, 1929–1933



a. Numbers refer to total imports of 75 countries, in millions of dollars.

Source: Charles Kindleberger, *The World in Depression 1929-1939* (Berkeley: University of California Press, 1986 [revised and enlarged edition]), 172.

TABLE 3-2

Consumption of energy and petroleum in China

Year	Energy consumption (million tons of standard coal equivalent)	Percentage of energy imported	Petroleum as percentage of consumption	Imports as percentage of petroleum consumption
2000	1,455	9.8	15.5	43.3
2001	1,504	9.0	15.2	39.8
2002	1,594	9.9	15.5	41.4
2003	1,838	10.9	14.8	48.6
2004	2,135	12.5	14.9	54.5
2005	2,360	11.4	13.8	52.7
2006	2,587	12.1	13.5	55.8
2007	2,805	12.5	13.1	57.7
2008	2,915	12.6	12.8	61.7
2009	3,067			

Source: CEIC China Premium database, www.ceicdata.com.

TABLE 3-3

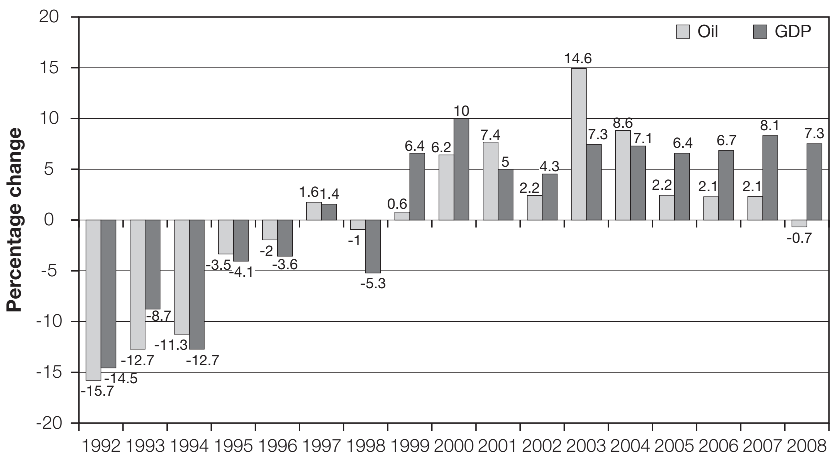
Food price hikes and consumption

Region	Percent increase in food prices, 2006–2008	Food as percentage of household expenditures
Rural population		
East Asia & Pacific	12.4	71.5
Europe & Central Asia	–0.2	63.4
Latin America & Caribbean	6.9	51.2
Middle East & North Africa	25.9	64.5
South Asia	5	65.3
Sub-Saharan Africa	9.6	68
Developing world	6.7	66.1
Urban population		
East Asia & Pacific	13.8	67.5
Europe & Central Asia	–0.5	57.9
Latin America & Caribbean	1.6	44.1
Middle East & North Africa	12.5	57.1
South Asia	4.8	64.4
Sub-Saharan Africa	4.9	53
Developing world	4.1	60.4

Source: Andrew Burns et al., *Global Economic Prospects 2009: Commodities at the Crossroads* (Washington, DC: The World Bank, 2009), 11.

FIGURE 3-3

Russian oil production and GDP



Source: Marshall Goldman, *Petrostate: Putin, Power, and the New Russia* (Oxford: Oxford University Press, 2008).

FIGURE 4-1

FIGURE 4-2

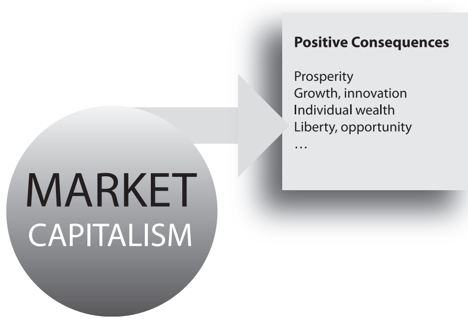


FIGURE 4-3


MARKET
CAPITALISM
Positive Consequences
Prosperity
Growth, innovation
Individual wealth
Liberty, opportunity
...
Negative Consequences
Inequality, exploitation
Environmental damage
Resource depletion
Financial instability
...
Disruptive Effects
Climate change
Environmental collapse
Pandemics
Terrorism, war
Organized crime
Political chaos, upheaval
Expropriation, overregulation
...

FIGURE 4-4


MARKET
CAPITALISM
Positive Consequences
Prosperity
Growth, innovation
Individual wealth
Liberty, opportunity
...
Negative Consequences
Inequality, exploitation
Environmental damage
Resource depletion
Financial instability
...
?
Disruptive Effects
Climate change
Environmental collapse
Pandemics
Terrorism, war
Organized crime
Political chaos, upheaval
Expropriation, overregulation
...
Largely Exogenous Forces
Religious fundamentalism
Nationalism
Ethnocentrism
Radical movements
...
Truly Exogenous Forces
Biological evolution
Tectonic shifts
...

FIGURE 4-5

Antecedents
Institutions
Legitimate governing authority
Transparency
Accountability
Competence
Rule of law
…
Social and Political Conditions
Peace and stability
Tolerance of diversity
Belief in market system
Understanding of market system
Shared ethical framework
Adherence to law
Health and education
…
Resources
People
Capital
Goods and services
Information
Natural resources
…
MARKET
CAPITALISM
Positive Consequences
Prosperity
Growth, innovation
Individual wealth
Liberty, opportunity
…
Negative Consequences
Inequality, exploitation
Environmental damage
Resource depletion
Financial instability
…
?
Disruptive Effects
Climate change
Environmental collapse
Pandemics
Terrorism, war
Organized crime
Political chaos, upheaval
Expropriation, overregulation
…
Largely Exogenous Forces
Religious fundamentalism
Nationalism
Ethnocentrism
Radical movements
…
Truly Exogenous Forces
Biological evolution
Tectonic shifts
…

FIGURE 4-6

Antecedents
Institutions
Legitimate governing authority
Transparency
Accountability
Competence
Rule of law
…
Social and Political Conditions
Peace and stability
Tolerance of diversity
Belief in market system
Understanding of market system
Shared ethical framework
Adherence to law
Health and education
…
Resources
People
Capital
Goods and services
Information
Natural resources
…
MARKET CAPITALISM
Prosperity
Disruptive Effects
Climate change
Environmental collapse
Pandemics
Terrorism, war
Organized crime
Political chaos, upheaval
Expropriation, overregulation
…
Largely Exogenous Forces
Religious fundamentalism
Nationalism
Ethnocentrism
Radical movements
…
Truly Exogenous Forces
Biological evolution
Tectonic shifts
…
Equity Markets
Capital Markets
Debt Markets
Intermediate-Goods Markets
MARKET CAPITALISM
Product Markets
Raw-Materials Markets
High-Skill
Labor Markets
Low-Skill

FIGURE 4-7

Antecedents
Institutions
Legitimate governing authority
Transparency
Accountability
Competence
Rule of law
Social and Political Conditions
Peace and stability
Tolerance of diversity
Belief in market system
Understanding of market system
Shared ethical framework
Adherence to law
Health and education
Resources
People
Capital
Goods and services
Information
Natural resources
MARKET
CAPITALISM
Mediating, Regulating and Participating Institutions
Prosperity
Growth, innovation
Individual wealth
Resource depletion
Financial instability
Disruptive Effects
Climate change
Environmental collapse
Pandemics
Terrorism, war
Organized crime
Political chaos, upheaval
Expropriation, overregulation
Religious fundamentalism
Nationalism
Ethnocentrism
Radical movements
Truly Exogenous Forces
Biological evolution
Tectonic shifts
Standards and requirements
Government: laws and policies
Business press and media
Regulatory and other oversight bodies
Industry association rules and standards
Legal system of corporate governance
MARKET
CAPITALISM
Professional association rules and codes
Contract enforcement prohibition of fraud
Business groups and societies
Antitrust rules and enforcement
Accounting rules and professional standards
Provision of safety and security
Business and professional education
Mediating, Regulating, and Participating Institutions

FIGURE 4-8

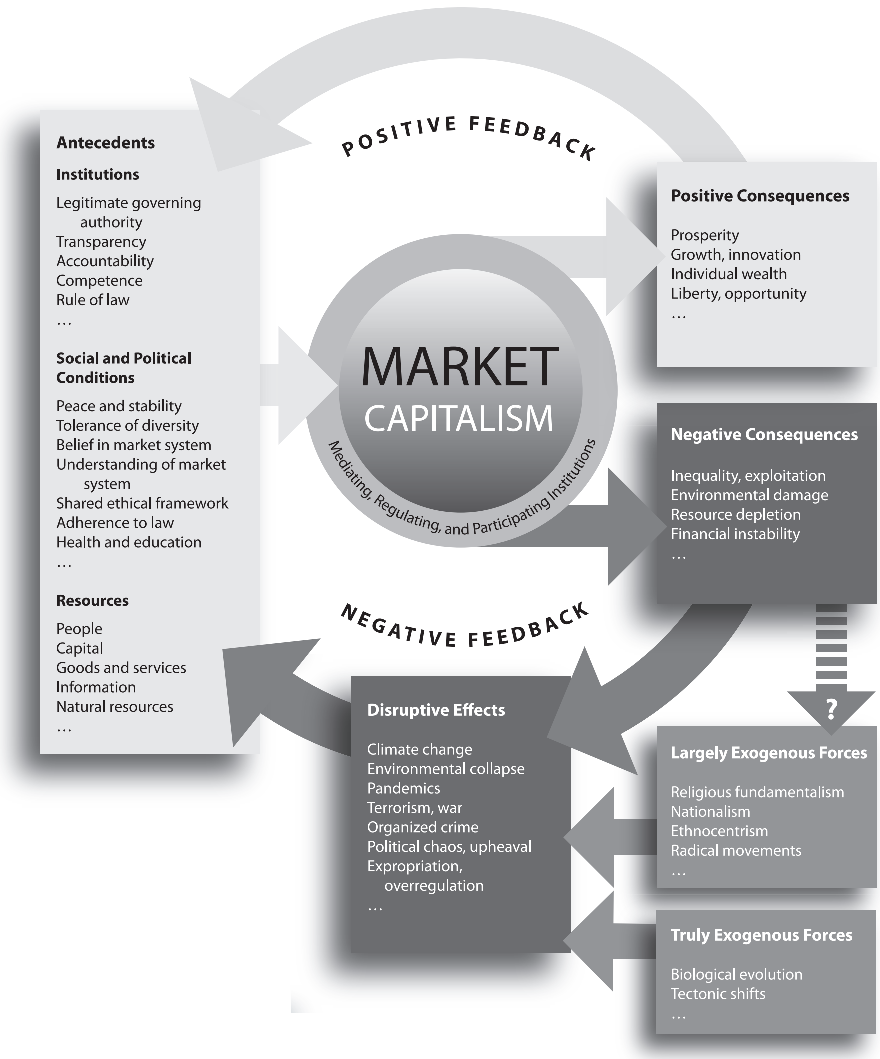
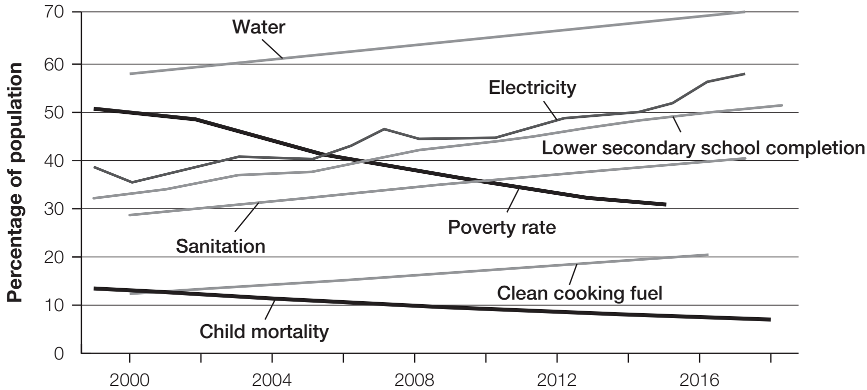

POSITIVE FEEDBACK
Antecedents
Institutions
Legitimate governing authority
Transparency
Accountability
Competence
Rule of law
…
Social and Political Conditions
Peace and stability
Tolerance of diversity
Belief in market system
Understanding of market system
Shared ethical framework
Adherence to law
Health and education
…
Resources
People
Capital
Goods and services
Information
Natural resources
…
MARKET
CAPITALISM
Mediating, Regulating, and Participating Institutions
Positive Consequences
Prosperity
Growth, innovation
Individual wealth
Liberty, opportunity
…
Negative Consequences
Inequality, exploitation
Environmental damage
Resource depletion
Financial instability
…
?
NEGATIVE FEEDBACK
Disruptive Effects
Climate change
Environmental collapse
Pandemics
Terrorism, war
Organized crime
Political chaos, upheaval
Expropriation, overregulation
…
Largely Exogenous Forces
Religious fundamentalism
Nationalism
Ethnocentrism
Radical movements
…
Truly Exogenous Forces
Biological evolution
Tectonic shifts
…

FIGURE 9-1

Two decades of progress in the world's poorest countries

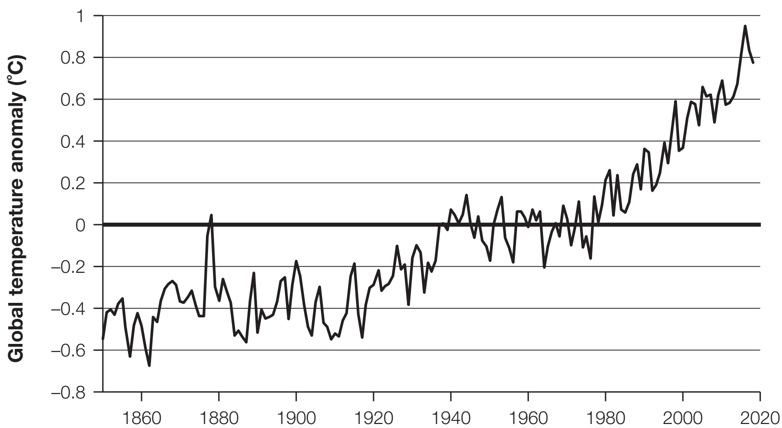


Source: Donna Barne, "Two Decades of Progress in the World's Poorest Countries," World Bank Blogs, December 11, 2019, https://blogs.worldbank.org/opendata/chart-two-decades-progress-worlds-poorest-countries.

Note: Progress among lower-income countries receiving assistance from the World Bank's International Development Association. The graph shows the percentage of the population that has access to at least basic drinking water, basic sanitation, clean cooking fuel, and electricity; percentages of relevant age groups completing lower secondary school and people living in extreme poverty; and mortality rate of children under age five. The declining black lines and rising gray lines both indicate progress.

FIGURE 9-2

Global average temperature anomalies, 1850–2018

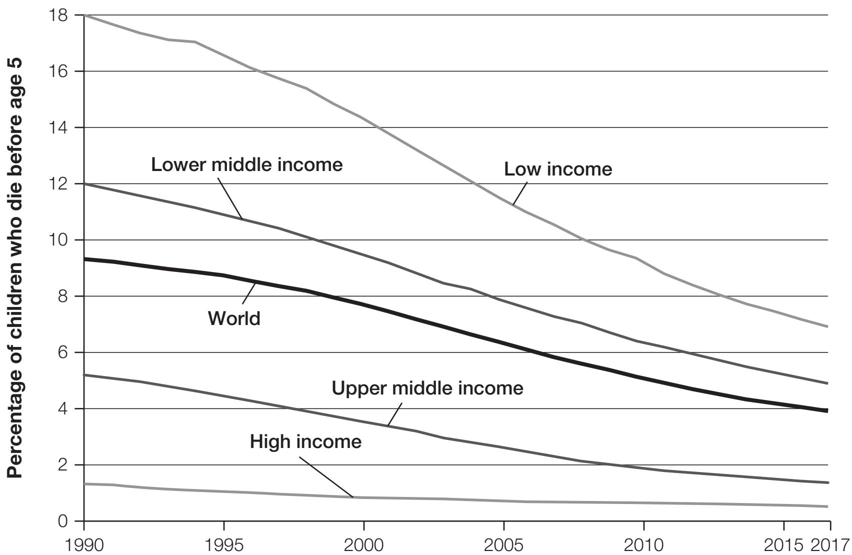


Source: Our World in Data, "Average Temperature Anomaly, Global," Global Change Data Lab, accessed September 17, 2019, https://ourworldindata.org/grapher/temperature-anomaly. Data from C. P. Morice, J. J. Kennedy, N. A. Rayner, and P. D. Jones, "Quantifying Uncertainties in Global and Regional Temperature Change Using an Ensemble of Observational Estimates: The HadCRUT4 Dataset," *Journal of Geophysical Research* 117 (2012), D08101, doi:10.1029/2011JD017187.

Note: Land data prepared by Berkeley Earth and combined with ocean data adapted from the U.K. Hadley Centre. Global temperature anomalies relative to 1951–1980 average.

FIGURE 9-3

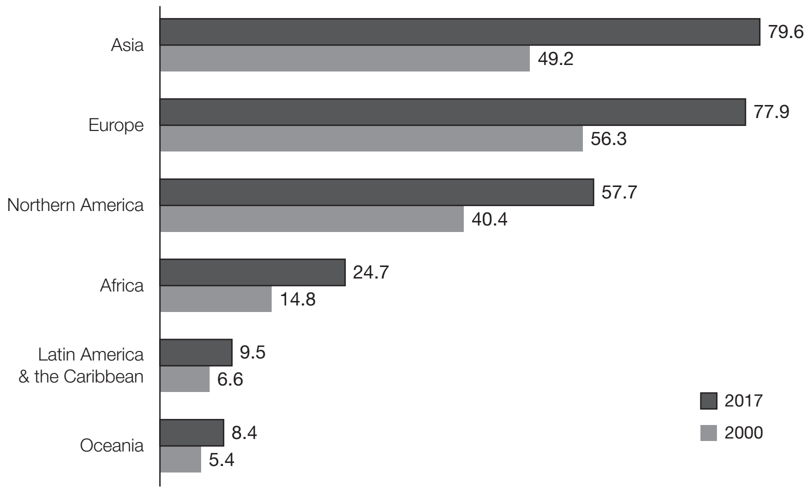
Child mortality by income level of country



Source: Max Roser, Hannah Ritchie, and Bernadeta Dadonaite, "Child Mortality and Income Level of Country," in *Child & Infant Mortality* (Our World in Data, 2013; updated November 2019), https://ourworldindata.org/child-mortality#child-mortality-and-income-level.

FIGURE 9-4

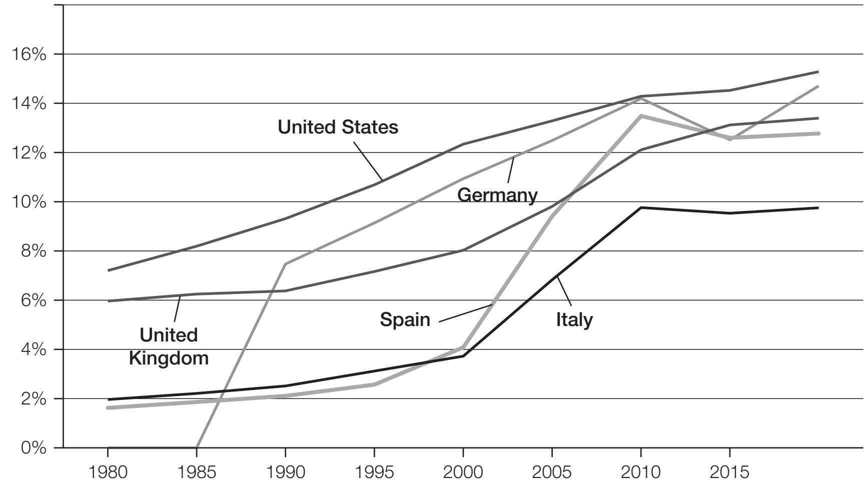
Number of international migrants (millions) by region of destination, 2000 and 2017



Source: UN Department of Economic and Social Affairs, Population Division, "International Migration Report 2017," United Nations, 2017, www.un.org/en/development/desa/population/migration/publications /migrationreport/docs/MigrationReport2017_Highlights.pdf.

FIGURE 9-5

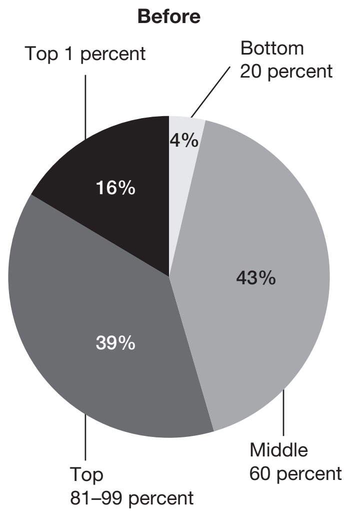
Immigrants as a percentage of population



Source: UN Department of Economic and Social Affairs, Population Division, "World Population Prospects: 2017 Revision," United Nations, 2017, https://population.un.org/wpp/.

FIGURE 9-6

Distribution of income before and after federal transfers and taxes, 2016

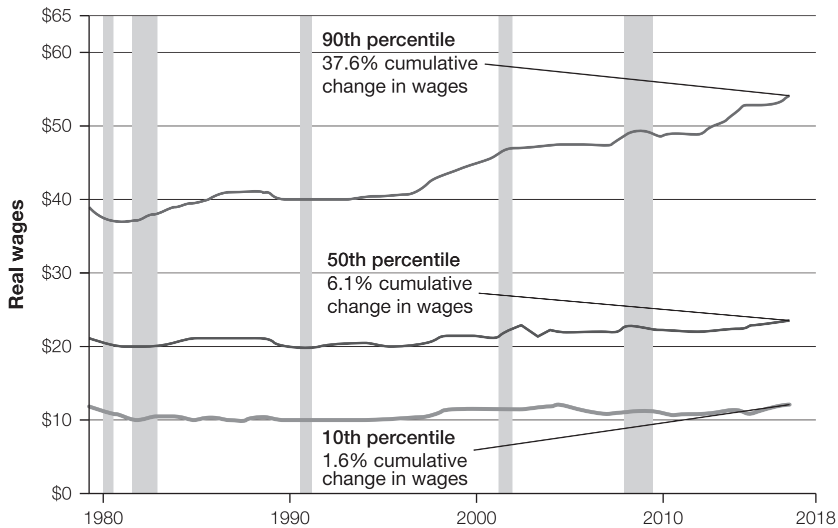


Source: Chad Stone, Danilo Trisi, Arloc Sherman, and Jennifer Beltran, *A Guide to Statistics on Historical Trends in Income Inequality* (Washington, DC: Center on Budget and Policy Priorities, January 13, 2020), https://www.cbpp.org/research/poverty-and-inequality/a-guide-to-statistics-on-historical-trends-in-income-inequality, accessed January 29, 2020.

Note: Figures do not add to 100 due to rounding.

FIGURE 9-7

Real wage trends in the United States between 1979 and 2018



Source: Adapted from Congressional Research Service, "Real Wage Trends, 1979 to 2018," updated July 23, 2019, https://fas.org/sgp/crs/misc/R45090.pdf.

Note: Shaded vertical bars represent periods of recession.

TABLE 9-1

Real income growth by groups (in percentages)

	Average real income growth	Top 1% real incomes growth	Bottom 99% real incomes growth	Fraction of total real income growth (or loss) captured by top 1%[a]
Full period, 1993–2012	17.9	86.1	6.6	68
Clinton expansion, 1993–2000	31.5	98.7	20.3	45
2001 recession, 2000–2002	–11.7	–30.8	–6.5	57
Bush expansion, 2002–2007	16.1	61.8	6.8	65
Great Recession, 2007–2009	–17.4	–36.3	–11.6	49
Recovery, 2009–2012	6.0	31.4	0.4	95

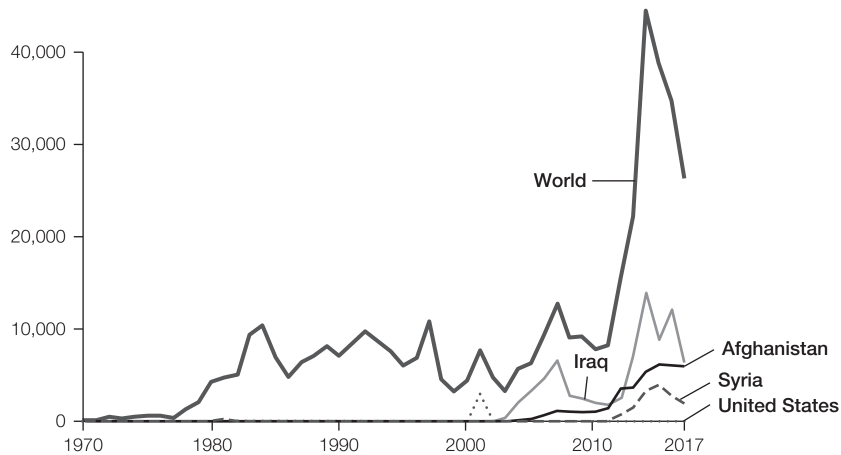
Source: Emmanuel Saez, "Striking it Richer: The Evolution of Top Incomes in the United States," University of California, Berkeley, Department of Economics, January 25, 2015. This is an updated version of "Striking It Richer: The Evolution of Top Incomes in the United States," *Pathways: A Magazine on Poverty, Inequality, and Social Policy* (Winter 2008): 6–7. Based on previous work with Thomas Piketty. Reprinted by permission.

Note: Computations are based on family market income, including realized capital gains before individual taxes. Incomes exclude government transfers, such as unemployment insurance and Social Security, and nontaxable fringe benefits. Incomes are deflated using the Consumer Price Index.

a. The fraction of total real family income growth (or loss) captured by the top 1 percent. For example, from 2002 to 2007, average real family incomes grew by 16 percent, but 65 percent of that growth accrued to the top 1 percent, while only 35 percent accrued to the bottom 99 percent of U.S. families.

FIGURE 9-8

Number of fatalities from terrorist attacks



Source: Hannah Ritchie, Joe Hasell, Cameron Appel, and Max Roser, "Number of Fatalities from Terrorist Attacks," in *Terrorism* (Our World in Data, July 2013; revised November 2019), https://ourworldindata.org/terrorism.

Note: Number of fatalities per year from terrorist attacks: total number of confirmed fatalities, including all victims and attackers who died as a direct result of the incident.

Appendix

Participants in Regional Business Leader Forums

In most cases, participants' titles and affiliations are shown as of the forum dates in 2007–2008; prior affiliations are provided when relevant.

Asia Regional Forum

Dr. Victor K. Fung
Group Chairman
Li & Fung
Honorary Chairman
International Chamber of Commerce

Raymond Kwok Ping Luen
Vice Chairman and Managing Director
Sun Hung Kai Properties

David Murray AO
Chairman
Future Fund, Australia
Former CEO
Commonwealth Bank of Australia, 1992–2005

Dato Timothy Ong
Chairman
Asia Inc Forum

Patrick T. Siewert
Managing Director
The Carlyle Group
Former Group President, Asia
The Coca-Cola Company

Sukanto Tanoto
Founder, Chairman, and CEO
RGM International (now RGE)

Eric Tong-Sheng Wu
Chairman
Shinkong Synthetic Fibers Corporation

Jaime A. Zobel de Ayala
Chairman and CEO
Ayala Corporation

Michael Shih-ta Chen
Executive Director
Harvard Business School, Asia Pacific Research Center

Europe Regional Forum

Bertrand P. Collomb
Director and Honorary Chairman
Lafarge

Frank E. Dangeard
CEO
Thomson S.A. (now Technicolor)

John Elkann
Chairman
Fiat

Oscar Fanjul
Vice-Chairman
Lafarge and Omega Capital
Former Chairman and CEO
Repsol

Maurice Lévy
Chairman and CEO
Publicis Group S.A.

Jean Peyrelevade
Chairman
Leonardo & Co., Gruppo Banca Leonardo (Milano)

Geoffroy Roux de Bézieux
Chairman and CEO
Croissance Plus

Sir David Scholey
Senior Advisor
UBS Investment Bank
Former Executive Chairman
S.G. Warburg Group plc

Vincent Dessain
Executive Director
Harvard Business School, Europe Research Center

Latin America Regional Forum

Carlos F. Cáceres
President
Instituto Libertad y Desarrollo, Chile

Jonathan Coles
President, Latin America
The AES Corporation

Ana Maria Diniz
President
Sykue Byoenergia

Jaime Gilinski
Chairman
Gilinski Group

Claudio Haddad
President
Insper Instituto de Ensino e Pesquisa

André Roberto Jakurski
Executive Director and Founding Partner
JPG Asset Management

Jorge Paulo Lemann
President
Fundação Lemann

Gustavo Roosen
Chairman
Envases Venezolanos S.A.

Manuel Sacerdote
Director
Sapresa

Woods W. Staton
President and CEO
Arcos Dorados, S.A.

Gustavo Herrero
Executive Director
Harvard Business School, Latin America Research Center

U.S. Regional Forum

Nancy Barry
President
Enterprise Solutions to Poverty

Hon. Elaine Lan Chao
Secretary of Labor
U.S. Department of Labor

John Clarkeson
Chairman Emeritus
The Boston Consulting Group

Ian M. Cumming
Chairman
Leucadia National Corporation

James Dimon
Chairman and CEO
JPMorgan Chase & Co.

Hon. William H. Donaldson
27th Chairman
U.S. Securities and Exchange Commission

David N. Farr
Chairman and CEO
Emerson

Paul J. Fribourg
Chairman and CEO
Continental Grain Company

William W. George
Professor of Management Practice
Harvard Business School
Former Chairman and CEO
Medtronic

Edmund A. Hajim
President
Diker Management, LLC

Jeffrey R. Immelt
Chairman and CEO
General Electric

Hamilton "Tony" E. James
President and COO
The Blackstone Group

Karen Gordon Mills
Managing Director and Cofounder
Solera Capital

Peter M. Nicholas
Cofounder, Director, and Chairman of the Board
Boston Scientific

Henry B. Schacht
Managing Director and Senior Advisor
Warburg Pincus
Former Chairman and CEO
Cummins Engine Company

C. Dixon Spangler Jr.
President Emeritus
University of North Carolina
Chairman
Golden Eagle Industries

James S. Tisch
President and CEO
Loews Corporation