

# Corporate Governance and Sustainable Global Capitalism

By Jean-Pierre Lehmann

In 1991, as George Bush Senior proclaimed the “New World Order,” the French political scientist Thierry de Montbrial countered that it was not a new world order we were witnessing, but a “chaotic transition to uncertainty.” As the third millennium enters its third year, the chaos and the uncertainty are notably more conspicuous by their presence. This refers not only to Sept. 11, the possibility of war with Iraq, the threat of North Korea and other traumatic phenomena, but to a much more profound *malaise* in respect to the very legitimacy of the global economic system.

## Historical Dynamics of Global Capitalism

Historians generally concur that the 19<sup>th</sup> century lasted from the fall of Napoléon in 1815 to the outbreak of World War I in 1914. The 20<sup>th</sup> century, the one the eminent British historian Eric Hobsbawm entitled *The Age of Extremes*, lasted from 1914 to the collapse of the Soviet Empire in 1991. Since 1991 we have entered the 21<sup>st</sup> century.

The 19<sup>th</sup> century was, by and large, a period of great progress and great promise. Though wars occasionally punctured the European landscape – e.g. the Crimean and Franco-Prussian wars – it was essentially, especially compared with the previous century, a century of peace. The Industrial Revolution, born in Britain, spread to Northwestern and parts of Central and Eastern Europe, ultimately to very far away destinations, including in the 1880s Japan. Prodigious advances in science and technology generated a revolution in communications and transportation, allowing not only people quickly and safely to circumnavigate the globe, but also, thanks to the telegraph, the instant diffusion of informa-

tion and the transfer of capital. This was the era of globalization, as the world had never seen, and still has not seen since.

Late 19<sup>th</sup> century globalization witnessed not only the booming of foreign trade and investment, but also the spread of ideas and, in stark contrast to today, the massive movement of people across fairly borderless national frontiers. In 1850 the population of Latin America and the Caribbean was 38 million, by 1900 it was 75 million; population figures for North America were respectively 26 and 83 millions. These massive increases were primarily driven by migration.

The 19<sup>th</sup> century was also an era of social progress in fields ranging from educational reform, women’s rights, the elimination in some countries of the death penalty and, notably, the abolition of the slave trade and of slavery itself in countries such as the United States and Brazil.

The 19<sup>th</sup> century is also the era that cradled capitalism. The old feudal classes whose position and wealth were based on land were either overthrown or fairly rapidly replaced as the ruling elite by the emergence of a meritocratic capitalist middle class. New technologies and forms of social organization brought to an end production by artisans and cottage industries, and inaugurated mass factory-based production. Novelists such as Emile Zola and Charles Dickens, political philosophers such as Karl Marx and Friedrich Engels and many others, lambasted capitalism as a system of brutal exploitation which only a full-fledged class war could eradicate. Of course there were many quite hideous abuses. With the passage of time, however, in this area also progress was coming about. Labor laws to protect workers were introduced, in some countries trade unions were allowed, and governments

increasingly became wary of the need to shield the public from abuses, including market violations through monopolistic cartels.

The 19<sup>th</sup> century was no Utopia. It witnessed many cynical and heinous events, such as the Opium Wars in China – including the destruction of the summer palace in Beijing – and undoubtedly the most brutal of all forms of modern colonialism in the Belgian Congo. It was, however, as indicated above, on balance a period of great progress and where many of the world’s citizens could hope for a better life, if not for themselves, at least for their children.

The undoubted success of global capitalism notwithstanding, it was true then – as it is now – that the system never gained widespread popularity or ideological support. Though it was promoted by economists – a discipline that came into its own during this period – this was generally not the case among political theorists, philosophers, let alone poets! Intellectually, ideologically and emotionally, the critics of capitalism had much greater popular support and appeal. Although a growing number of capitalists began introducing programs of what today would be called “corporate social responsibility,” the impact beyond their factory gates was limited. In the popular mind, then, as now, the capitalist economic system was equated less with the political philosophy of liberalism, democracy and liberty, but more with the social force of Darwinism. Capitalism is perceived as a system that is designed to exploit the weak and enhance the power and the wealth of the strong who play by unfair means. Certainly this view could be vindicated by the fact that by the end of the century, scandals of corruption, interference in the political system and other abuses of power emanating from the world’s captains of industry prolif-

erated.

The outbreak of World War I shattered the illusion that the prosperity generated by capitalism in turn generated, indeed guaranteed, peace. Norman Angell, the “Toffler of the late 19th century,” wrote an international best-seller in 1910 entitled *The Great Illusion*, in which, among other things, he confidently asserted that: “international finance is now so interdependent and tied to trade and industry that military and political power can in reality do nothing.” Famous last words! Less than a decade later, with several millions killed in battle, the world emerged weary, but perhaps not wiser, from the first of the many barbarous horrors it would experience in the 20th century.

John Maynard Keynes was keenly aware, as he wrote in his 1919 publication, *The Economic Consequences of the Peace*, that the world had irrevocably changed. Public opinion was not in the mood for introspection, however, and leaders were keen simply to get the show back on the road. So in the 1920s not only did the appearances of life resume pretty much as before, but indeed the 1920s in America, Europe and Japan witnessed an era of giddy hedonism.

The Bolshevik Revolution in Russia in 1917 and the political victory of Benito Mussolini in Italy in 1922 gave rise not only to ideologies but also to national political systems of the two doctrines fundamentally opposed to liberal democracy and capitalism, and that were to hold sway throughout most of the 20th century: communism and fascism. Within little more than a decade after World War II, the liberal capitalist system collapsed in much of the world following the onset of the 1929 Great Depression. Not only was the system seen as exploitative, corrupt, brutal and based on private greed at the expense of the public good, but also as clearly inefficient. It did not create wealth; it destroyed it. The battles throughout the 20th century between the three contending “isms” of communism, fascism and capitalism entailed both war and bloodshed and competition for people’s hearts and minds. With the death of the



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Spanish military dictator Francisco Franco in 1975, fascism in Europe finally came to an end. Communism survived for another decade-and-a-half.

The American political philosopher Francis Fukuyama was, in many respects, quite right when with the fall of communism he proclaimed the “end of history.” The year 1991 appeared to have settled the victory, game, set and match, for liberalism based on individual liberty against state collectivism and between a political economy driven by the market as opposed to state planning and control.

### The Exuberant Nineties

The 1990s witnessed a very profound global capitalist revolution. In a reverse domino theory scenario, communist regimes fell one after the other throughout Europe. Communist states persist elsewhere, notably in Asia, but the biggest of them all, China, has not only been a player, but indeed a leading actor, in the global capitalist revolution following the reforms introduced and intensified by Deng Xiaoping. India under Prime Minister P.V. Narasimha Rao in the early 1990s proceeded to dismantle the Nehruvian state-economic socialist protectionist system and to challenge its hitherto unquestioned legitimacy. Carlos Salinas de Gortari in Mexico and Fernando Henrique Cardoso in Brazil were among the more radical Latin American leaders who proceeded to transform the very ideo-

logical and structural bases upon which their economies had existed for decades.

As the Cold War had ended and a new era name needed to be found, by the mid-1990s the term the “global era” was quite widely coined. The 1990s had ushered in globalization; henceforth humanity was living in the global era. This was given substance not only through the massive increase in trade and foreign investments, but also by developments in global institutions. The most significant milestone in this context was the establishment of the World Trade Organization (WTO). Whereas its predecessor the General Agreement on Tariffs and Trade (GATT) had counted 90 member states in 1990, by the end of the decade the figure had risen to 142, with another 30 countries seeking admission. Just as in the first phase of globalization in the late 19th century, however, the 21st century globalization was also driven by remarkable developments in information, communication and transportation technologies and most spectacularly so by the Internet.

Perhaps nothing symbolized the “triumph” of global capitalism so much as Davos, the annual gathering organized by the World Economic Forum. Though attended by political leaders, Davos is above all the high mass and consecration of the CEO. CEOs were the heroes of the era: in America Jack Welch of General Electric Co., in Europe Percy Barnevik of ABB were

hailed as the leaders of the leaders, but others, such as Vivendi Universal's Jean-Marie Messier, were the toast of the global town and constantly in the public limelight. *The Economist* coined the term "Davos Man" to portray the profile of the leaders of this new era. Just as splendid monarchs in the past built their empires by military conquest, the new lords of humankind, the CEOs, built their empires by acquisitions. The more mega, the better. It was, or appeared, to be all go-go-go.

In 2003, the mood is more sedate, not to say depressed. Following two years of global lackluster economic performance, the collapse of Argentina, the bursting of the dot.com bubble and the egregious Enron-type scandals, the reign of the swashbuckling CEO appears to be at an end, or at the very least in suspension.

### 21<sup>st</sup> Century Global Capitalism's Fault-lines

The giddy 1990s masked the fact that the system contained some profound flaws and dangerous fault-lines. The froth of the new economy euphoria notwithstanding, in reality it remained the case that the world economy depends on three major engines: the United States, the European Union (EU) and Japan. While throughout the 1990s the U.S. engine was going full speed ahead, the EU engine tended more to turn on itself, while the Japanese engine was in full throttle reverse.

The paralytic stagnation of the world's second biggest economy for over a decade can hardly augur well for the sustainability of the global capitalist open economic system. This is all the more the case in that although initially the comment could often be heard that the problem in Japan was the politicians and not its firms – an illusion fostered by the generally hagiographic Japanese management literature of the 1980s – by the second half of the decade it was clear that with a handful of exceptions corporate Japan was in a pretty paltry state (to put it mildly).

The disease in Japan, however, was

only one of the underlying fault-lines of 21<sup>st</sup> century global capitalism. It was ruefully commented at the time of the end of the Cold War that although massive literature existed on the subject of the transition from capitalism to socialism, there was no such literature, let alone a thesis, on the transition from socialism to capitalism! A decade after the transition was undertaken and the term "transition economies" was coined, the success stories are very few and far between. The shock therapy prescribed by economists such as Jeffrey Sachs in fact, as commentators often point out, resulted in a lot of shock and not much therapy. Problems have arisen not only from macroeconomic mismanagement, but also from the failure of the firm to gain respect and legitimacy. Corruption, nepotism, mafia connections and money laundering have characterized corporate governance in a good deal of the so-called transition economies. Communism may have been defeated in 1991, but by no means can it be decreed that capitalism has been victorious.

A great, and quite legitimate, concern arose in the second half of the decade regarding the robustness of the system. Just as the literature on the East Asian miracle economies was wildly proliferating in quantity and spewing forth all sorts of theories, mainly of a highly dubious character – e.g. the "Asian values" syndrome – and Davos-men proclaimed the birth of the Asian century, or, in the words of former ABB CEO, Göran Lindahl, the Asian millennium (!!), the Asian financial crisis descended on the region like an enormous destructive typhoon on July 2, 1997. In the ensuing three years contagious currency crises spread across the globe, engulfing East Asia, Russia, Brazil, Turkey and Argentina. Was the system itself doomed to collapse, as it had been in 1929? Was it possible to have economic globalization when local institutions were apparently so primitive and systems of management and supervision obviously weak and, worse, corrupt?

At The Evian Group plenary meeting in 1997, its late chairman David de

Pury warned that there was a great social "backlash" rising against the global capitalist open economic order. His call fell on mainly deaf ears. Though the Asian crisis temporarily dampened spirits, with the new economy still rushing ahead and the American economy in hyperactive mode, exuberance quickly returned. Then in November 1999, almost to the day a decade after the collapse of the Berlin Wall, came Seattle.

The basic tenets of the anti-global capitalism movement as it emerged in Seattle and in the formation of what came to be known as the "protest community" include the following: the system is predicated on greed; it increases significantly the disparities between the haves and the have-nots; it disrupts local cultures and societies; it imposes the power of the multinational corporations; it erodes national sovereignty; it causes environmental degradation and abuses of human and labor rights through its lowest cost driven race to the bottom.

### Meeting the Challenges of Global Capitalism

The intellectual case of the anti-globalization movement is weak. Most of the tenets indicated above can be fairly easily rebutted. Globalization in fact offers enormous opportunities in both welfare and wealth creation. The problem, however, is that not only is the intellectual case for global capitalism rejected by militants of the protest community, but it does not wash either with the majority of public opinion. Survey, after survey, after survey, pretty much everywhere in the world, notably in Europe, converge to show that the majority of citizens feel alienated from the capitalist system. When asked which institutions they trust most and which they trust least, though the "most" category varies somewhat – often however with non-governmental organizations (NGOs) at the top – invariably corporations and especially multinational corporations are at the bottom, invariably by quite a margin.

For example in a 2000 survey carried

out by the Canadian Public Affairs company Edelman Associates on a sample of 20,000 respondents in 20 countries (including industrialized countries, but also developing countries such as India and Brazil), on the question "whom do you trust" in respect to their statements on human rights, the answer was 86% for NGOs, 25% the media, 20% governments and only 3% corporations. Questions in respect to environment and health provided similar results. Corporations are therefore simply not believed when they say they are not exploiting workers in sweatshop factories, that they are not spoiling the environment and that, for example, genetically modified organisms are not harmful to health.

The widely respected Pew Research Center in its 2002 "Global Attitudes Report," based on an extensive survey carried out in 44 countries, arrives at very similar conclusions. In the words of the report: "At a time when trade and technology have linked the world more closely together than ever before, almost all national publics view the fortunes of the world as drifting downward."

Capitalism is clearly not a perfect system. No system is likely to be. Yet the whole of the 20<sup>th</sup> century proves beyond any doubt that all the alternatives are far worse. At their best, such as Nehruvian socialism in India, they produce very low growth and thus multiply poverty, at their worst they generate brutal political regimes such as Stalinism, Pol Pot, North Korea and Myanmar. The challenge must be to improve capitalism, not to replace it. This should command the efforts of most social agents, including corporate leaders, intellectuals, officials, NGOs and politicians. That, however, is not what is happening. Instead defenders of liberalism and global capitalism find themselves engaged in rear-guard often highly unpopular battles to "defend" the global open capitalist order. The ravages caused by illiberal economic regimes throughout the 20<sup>th</sup> century notwithstanding, it is the critics of capitalism that still dominate the moral high ground.

### Towards Sustainable Global Capitalism

The problem with communism, as it has been said, is communism, whereas the problem with capitalism is capitalists. Persons such as Nakauchi Isao of Daiei, Percy Barnevik of ABB, Jean-Marie Messier of Vivendi, Kenneth Lay of Enron and the many, many other erstwhile leaders cum fallen heroes of capitalism, by their egregious greed, megalomania and irresponsibility cause enormous harm. They bring us back to the age of swashbuckling capitalist robber barons who did so much to undermine the system that when the wind of war and depression came it collapsed like a house of cards. The same risks happening again. Though some may feel moral indignation at their behavior, the critics of capitalism instead gloat in saying, "I told you so;" it is, they allege, inherent in the system.

There are two crucial driving forces in the current global political economy environment that must be stressed. One is that the system is and will remain fragile. It is in the very nature of capitalism, indeed one of its major strengths, that it will experience booms and busts. This is the fission arising from what Joseph Schumpeter called creative destruction. The idea promulgated by new economy enthusiasts, and emphatically poo-hooed by economists such as Paul Krugman, that the laws of the business cycle gravity no longer applied has proved to be woefully nonsensical. Capitalism can never promise the dream that other systems, such as socialism, did, even though the dreams turned into nightmares. It is no doubt for this reason that capitalism will probably never capture people's hearts and serve as an inspiration to poets.

A second crucial driving force refers to the information and communication technological developments and their social consequences, in particular the rise of expectations. The world, with the exception of a few outposts like North Korea, has increasingly, due to the Internet, become the proverbial glass house. And, as the proverb has it,

people who live in glass houses have to be careful when they take baths. Because corporations are distrusted, and the Enrons of this world seem to justify that distrust, they will be subject to the minutest of scrutiny. Transparency is probably the most important corporate terminology for the 21<sup>st</sup> century.

Corporate leaders must have these two driving forces constantly uppermost in their minds. As Peter Drucker pointed out in the article he wrote in *The Economist* in November 2001, entitled "The Next Society," "an important task in the next society's corporation will be to balance the three dimensions of the corporation: as an economic organization, as a human organization, and as an increasingly important social organization. In the next society, the biggest challenge for the large company – especially the multinational – may be its social legitimacy, its mission, its vision."

Capitalism will probably never be wildly appealing. It is, however, the only system, in spite of all its imperfections, that has proved that it can create wealth on a sustained basis. With the world facing many challenges, not the least of which is the tremendous demographic increase that the developing world will witness in the next couple of decades, it is essential that capitalism be maintained and so far as possible perfected, both in its social impact and in its efficiency.

This must be the overriding concern of all forms and reforms of corporate governance. The aim must be that the term ethical, responsible, accountable, transparent and honest capitalism will not be seen as the hilarious oxymoron that it is today. JITI

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