

## OVERARCHING VISION

# Realigning Business, Economies and Society

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## Abstract

The authors set out to analyse how and why an apparent misalignment between business activities and economic growth on the one hand, and sustainable and acceptable societal outcomes on the other, has arisen. They ask when, how and why did economic progress diverge from societal progress? They propose that an understanding of such divergence should facilitate a better understanding of how we can realign business, economies and society – what interventions might support a realignment and what principles could underpin them. They suggest that some proposals seeking to roll back aspects of the realities of a globalised, interconnected world leveraging market economies and increasing technology capabilities are unlikely to be effective – and in fact these drivers need to be purposefully targeted to meeting critical societal needs. Finally, the authors make a number of observations which flow from the analysis and which are relevant in the context of formulating approaches for the future. This policy brief should be read in conjunction with the available working paper.

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## Challenge

In a 1989 essay “The End of History”, author Francis Fukuyama laid the groundwork for his 1992 book “The End of History and the Last Man”, in which he suggested that:

***“What we may be witnessing is not just the end of the Cold War, or the passing of a particular period of postwar history, but the end of history as such.... That is, the end point of mankind's ideological evolution and the universalization of Western liberal democracy as the final form of human government.”***

At the time at which this was being written, it must indeed have seemed that the most effective economic and political system had been developed, certainly in contrast to the major ideological competitor of the previous 70 years or so.

Without arguing or suggesting that the approach was by any means perfect or without fault, it is indeed fair to suggest that market economies - typically at that point embedded in liberal democracies - had delivered huge overall progress by almost any qualitative measure globally - and if anything this accelerated in the period after 1989 - again at a global level.

However less than 20 years later, much of the world endured the consequences of the largest financial and economic crisis since the 1920's - and its effects continue to reverberate through economic, financial and political systems to this day. It is unsurprising that this has raised fundamental questions about the functioning of the global economy, the outcomes being delivered, and the social

and therefore political sustainability of these outcomes. Much of the challenge to the current model is centered on political systems in Western developed markets. However this probably reflects differing stages of economic development. The reality of a major challenge to this model in a globalised interconnected and interdependent world means that the potential implications are significant for all economies.

These concerns have - equally unsurprisingly - fed into the political process in many developed economies in particular, with explicit challenges to hitherto widely accepted assumptions about global free trade, financial markets, and technology.

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## Proposal

### The nature and purpose of an economy

It is useful to begin with a fairly fundamental question regarding the nature and purpose of an economy in the first instance - not least since this is often assumed in discussions and debates, and these underlying assumptions can often be very different. For this purpose therefore, and in very foundational (perhaps simplistic) terms, an economy is considered to be the “engine” by which human needs (and desires) can be met by virtue of being addressed as opportunities - and this matching of needs and opportunities reflects human activity and behaviour on both sides of the equation. – Ultimately the needs are human, and the addressing of the opportunities also reflects human behaviors and attributes - in turn meeting some of the same human needs.

An economy therefore, is an ever evolving framework of rules, habits, agreements, behaviours and practices etc seeking to leverage human attributes to match human needs. Ever greater innovation on the opportunities side of this equation creates ever greater evolution in the needs (or desires) and therefore demands, which in turn drives the opportunities.

Ironically the greatest opportunities almost certainly arise (at least in theory) when and where the needs are demonstrably greatest - provided the “engine” can function effectively - in other words provided the institutional framework supports the realisation of these opportunities. Therefore it is principally the effectiveness of the construct of the “engine” which largely determines the degree to which needs will be met and opportunities will be realised.

Since the objective of the economic engine is to match human needs with opportunities and capabilities (including leveraging technology and other innovative capabilities), the starting point must be to identify and deliver on these ever evolving human needs, and then leverage the engine to match these needs and opportunities - as has always been the case. And to do so on a constantly iterating basis, driving progress based on innovation which in turn leverages, creates and responds to evolving needs.

### What, Why and When?

It is fair to suggest that one reason for Fukuyama to make the statement quoted above was that there appeared to be good grounds for doing so. The philosophical debate which shaped politics and economics in the decades since WW2 was over. With the fall of the Berlin Wall, well managed market economies - which typically were embedded in liberal democracies - were plainly seen to have made better provision for their citizens. In fact the degree of economic - and therefore societal - progress in that post WW2 period had been extraordinary...

This is a key point. For many decades, economic growth as measured in primarily financial terms had delivered social progress – and the overall system had largely evolved to operate on this basis – and successfully so at both macro-economic level and business level.

How then did a disconnect or misalignment arise)? When did things change? What were the drivers of this change, and how did these drivers influence the performance and impact of the economic system as a whole?

Our working paper suggests that there were three major drivers of change in this regard - globalisation, technology, and “financialisation”. Each of these change drivers of itself would not and could not have had such a transformational impact. However the three combined certainly did - not only did each reinforce the effect of the other two, in fact together they began to change the very nature of the effect which each one in isolation could have. Each has contributed enormously to the massive economic and therefore societal progress seen in the world over the last several decades. And yet the combined effect of all three means that each individual driver in its current form has probably run its course in terms of delivering such societal progress and needs to evolve for the next stage.

Equally significant is the timeframe over which this evolution has taken place. The fall of the Berlin Wall in 1989 is psychologically important - and it is no coincidence that the subsequent years saw a major acceleration in measures to drive free trade on a global basis between market economies, supported and facilitated by a globalised financial system and an emphasis on financial performance at both business and macro-economic levels, and in each case leveraged exponentially by ever increasing technology capacity and capabilities in the same period. All three of these drivers heavily influenced the performance of global economic system - and began to do so in increasing combination from the early 1990s onwards.

## So what?

First, it is critical not to lose sight of the progress and impact which each of these drivers has had in positive terms - the data is strong and supportive. Well managed market economies have consistently delivered more successfully than alternatives, and can continue to do so. A globalised world is a reality - issues (and opportunities) will not respect national boundaries - technology, disease, security, migration, ideas, climate - many critical factors will be relevant for all countries regardless of borders - to say nothing of an enormous degree of economic interaction and interdependence, globally and regionally. Which means that addressing both issues and opportunities will continue to require a high and perhaps ever increasing level of engagement on a cross border basis - and this engagement will need to take place between broader groups of stakeholders, including businesses and governments, but also citizens generally.

Second, the manner in which the drivers of the change have evolved the systems within which they operate offers some suggestions for considering how these systems might evolve in order to reintroduce some greater alignment between business, economies and society. In each case, it is not that each driver is the problem - it is arguably the degree of emphasis on each driver in isolation which became problematic, and so a re-balancing is needed. A globally interdependent economy is a reality, and attempting to roll back to some prior state might well be destructive (in terms of outcome). However it is not sufficient to aim for global progress on average. Human needs must be met - progress must be made – on a local basis, albeit in a global context. This duality of emphasis - global and local - applies to the other drivers also. Financial performance is an essential element underpinning a market economy, but it cannot be the only measure of performance or success in a globalized economy which is leveraging ever increasing technology capabilities - other broader

measures reflecting target outcomes in societal terms must also be considered - and these measures must be tailored to local circumstances and must be aligned as between business performance and macro economic or societal performance. This represents a significant and urgent challenge for policy makers, but also for businesses, especially businesses operating on a global or multi-territory basis. And finally technology. As technology begins to disrupt ever broader swathes of traditional employment, it is simplistic to suggest that this process can be halted or even delayed, or to suggest that there needs to be a largely financial solution (such as minimum guaranteed income for displaced workers). There is an urgent need to revisit the very basic purpose of the economy - an engine to match human needs and opportunities - and to consider how the emerging technologies can help us re-imagine how to meet human needs previously incapable of being addressed in a traditional manner, how we can combine humans and these technologies to do so, and how we can evolve the global and local financial and economic systems to create the conditions to allow this to happen. Humans displaced from their jobs are very likely to want a far more fulfilling and human response than simply to be offered a basic income to meet the most basic of financial needs.

### What comes next?

There is little question but that we are at the relatively early stages of the influence and potential impact of technology in particular. This makes a debate about the future shape of the economy and the role of business and of government and a focus on sustainable societal outcomes all the more urgent. Other factors such as demographics and eroding trust in traditional institutions will likely exacerbate the pressure on current systems. Absent an evolution in how these systems function together, there is a risk that we will see further dislocation, dissatisfaction, and therefore political extremism. However it is perfectly feasible - at least in concept - to decide to intervene in these systems in a manner which reorients them to more positive outcomes - realigning business, the economy and society. This is not an easy task, nor a quick one - and possibly not even a finite one. But it is an important one, and it is hoped that framing the debate in the manner described and supported by this paper can make some small contribution to the necessary progress.

### We need to re-imagine the current system to realign business, economies and society

Governments, business and other stakeholders must engage together to refine and reframe both the manner in which the system operates as well as its intended outcomes. This is undeniably complex so it may be helpful to outline some observations that emerge from the analysis and that can underpin the approach. They are not intended to be exhaustive or complete, but a starting point for interested parties to frame their approach in a diverse range of policy areas.

- **Globalisation is unavoidable.** Ideas, innovations, diseases, refugee flows, climate and market demand – among other factors – do not respect national boundaries. Some form of globalisation is inevitable.
- **Economic growth – as currently measured – is not always benign.** One of the key assumptions underlying the last 70 years of economic development has been that if you grow the economy as measured in financial terms, social progress will follow. This is not necessarily true – as our analysis shows.
- **“Average” success or progress is not enough.** It not sufficient to aim for economic opportunity across a country or region (or even globally), unless there are people gaining opportunity in the most critical communities within countries and regions.
- **Technology, in particular, is indifferent to its impact on people.** It is critical to consider how emerging technologies can help meet human needs previously incapable of being addressed in a traditional manner, how we can combine humans and these technologies to do so, and how we

can evolve the global and local financial and economic systems to create the conditions to allow this to happen.

- **Both financial (GDP) and societal target outcomes should be explicitly framed.** This necessitates a key role for government and citizens, and must reflect the needs of local communities, cities and regions, as well as countries as a whole. And not all „needs“ are equal. There are basic human needs which are foundational, and these will need to be determined and then addressed as priorities. It is likely for example that outcomes should be prioritised, according to some form of „hierarchy of needs“ (see working example of cities in the working paper).
- **The full potential of market economies operating in a globalised environment should be leveraged to deliver on outcomes by country, region, city etc.** A key role for the government is to create the conditions necessary for locales to address opportunities and challenges effectively and to create the institutional framework to encourage the economic engine to match human needs and opportunities.
- **Reporting should be adjusted to reflect broader financial and societal objectives.** This is applicable to both a macro level (moving beyond GDP) and at a business level (moving beyond shareholder value).
- **Policy must be aligned on the factors that influence business outcomes and broader objectives –** especially in the context of global businesses operating locally – reflecting the ‘license to operate’ and broader ‘purpose’. This requires engagement between government and business.
- **The factors that created the world we are experiencing today form a coherent system, any solution must take that into account.** Any efforts at change needs to understand that a host of institutions and measures were created to make the system work as it does. ‘One off’ changes will be brought back to the centre as a result of all of the other forces in place. Therefore, there is a need to assess the legacy frameworks of institutional elements that currently influence business behaviours and outcomes (regulatory, legal, fiduciary, compensation, tax etc) to align with a re-framed system – government and business.
- **A significant number of entirely new jobs must be created, in addition to redefining what we mean by work.** Opportunities to do valuable work will require a dramatic growth in the number of new firms, some recasting the nature of work and people willing to adapt. This is likely to be the most important challenge of the next few decades – matching evolving human needs with evolving opportunities leveraging technology, market economies and a globalised world to do so.
- **Large scale establishment of businesses should be targetted locally, leveraging global platforms and technology, to drive target outcomes –** with a priority focus on areas of greatest need.
- **A greater focus on education** is needed with direct engagement between governments and business to deliver skills for the future, matched to expected needs and opportunities with an emphasis on technology enablement.
- **It is important to engage the very wealthy** to participate in activating capacity and capital in an aligned manner, reflecting broader outcomes.
- **It is vital to plan to engage broader stakeholder communities on a sustained basis** in relation to needs, priorities, choice, plans, progress, reporting, pilots etc – governments and business.

These observations are relevant for all actors in the system – governments, businesses, policy makers etc. There is a need for a different conversation by taking stock of the many inter-related challenges society is facing, diagnosing the complex problems people are encountering at a local level and creating the conditions for these issues to be both addressed and measured more holistically. This is a process and one that can – and should – prompt a high degree of experimentation across sectors and communities.

The current system must be redesigned if we are to forge a path towards better and more sustainable societal outcomes, and to enable well run market economies in a globalized world to deliver them, leveraging huge technological capabilities to do so.

A healthy economy needs a healthy society, just as a healthy society needs a healthy economy. This is one of the defining lessons of the period since the end of WW2. It has long served business and policy makers well to create the conditions for this commonality of interest. It is time for the framework to evolve so that there is a greater commonality of purpose, and not just of interest.

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