

Capitalism's Diverging Future

A decade and a half after the fall of the Berlin Wall, there is little question that capitalism is the globe's dominant economic system—and will remain so for the foreseeable future. Countries around the planet took note, and most (like, for example, India) moved away from command and control models towards a more open form of capitalism. In the wake of this shift, it was tempting to see a global convergence around a single Capitalist system and even today there is an undertone of Capitalist triumphalism among believers in pure market-oriented economies. In fact, after a brief convergence, it appears that the consequence of Capitalism's ascendance is a divergence of capitalist models. "Global Capitalism" is becoming "Global Capitalisms" and at least three variations are already discernable.

Local Variations: Three Key Dialects

Markets are not just global; they are also very much local and deeply influenced by local cultural norms. Thus, beneath the global veneer, capitalism is undergoing subtle but dramatic local mutations into emergent variants of Capitalism. The shape of several capitalist forms can already be perceived, and it is all but certain that over the next few decades, these regional capitalist differences will sharpen and mature into distinct systems that are likely to provide us with new ways of harnessing commerce but may also become the source of new frictions. And in half a century or so, this divergence may even become the source of an entirely new economic/political model that challenges "traditional" capitalism that the US takes for granted.

Presently, three variations of capitalism stand out:

Entrepreneurial market capitalism. This is what most people think of when they utter the word "capitalism." It is a capitalism that celebrates the individual entrepreneur, and embodies a near-religious belief in free markets. It is the form of capitalism most typified by the United States in general, and Silicon Valley in particular. It is the Capitalism of Apple, Microsoft and dot.com billionaires.

Cultural capitalism. This is the emergent capitalism of Europe, and its focus is less on individuals than on communities—and ultimately on entire cultures. It is the capitalism embedded into the norms of the European Community and as concerned as much with continuity as it is with innovation. It is a capitalism of Swiss Cows, French restrictions on work hours and the Airbus

Community capitalism. This is the emergent capitalism in Asia, with a focus larger than the individual but smaller than an entire culture. Rather, the center of Community Capitalism focuses on an extended group that often, but not always maps onto extended family ties. It is a Capitalism that honors the creation of wealth, but is often uneasy with the outsized success of individual entrepreneurs, exemplified most recently by the takedown of Livedoor founder, Takafumi Horie by the Japanese business establishment.

New Capitalisms: Source of Strength and of Conflict

The age of one-size-fits-all capitalism is past – if it was ever here to begin with—and the capitalist forms that tie closest to their underlying cultures are likely to be the most successful.

That said, it is interesting to consider the strengths and weaknesses of each emergent system. Entrepreneurial capitalism, for example, excels at nurturing small new enterprises better than European cultural capitalism. In France, for example, bankruptcy is a badge of shame while in Silicon Valley, an executive who has had a few start-up failures is considered "seasoned." On the other hand, the European system may have the upper hand when it comes to generating the capital and effort required

for large long-term efforts. Just ask Boeing, which in 2003 found that once-upstart Airbus had pulled into first place in the commercial aviation business. The difference? Airbus was able to mobilize long-term money from its nation-state partners, while Boeing had no such option and had to rely instead on military and other contracts.

But the biggest surprise may be the power of community capitalism in the newly-capitalist mainland China. There are no believers so fervent as recent converts, and capitalism in China has blended with traditional cultural values to become a force strong enough to have already made China the world's largest consumer electronics manufacturer. And before this decade is out, China will be the world's largest auto manufacturer.

It is tempting but premature to call winners and losers in this capitalist divergence. China's success suggests that cultural capitalism could become the most effective capitalist form, until one contemplates the myriad challenges China's capitalist success has created, from growing social inequalities to urban overcrowding and a growing list of environmental horrors. Meanwhile, Airbus' emergence as an equal to Boeing is a credit to the long-view structural advantages of European Community Capitalism, but recent management scandals and doubts about the long-term economic viability of the A380 along with larger issues such as the paucity of solo entrepreneurs in Europe give one pause. And in the United States, our Market Capitalism is also very much a mixed bag, delivering astounding new innovations, but also weakening a shrinking middle class and creating social anxieties as one industry after another moves offshore.

Each of these three Capitalist forms is considered in greater detail below.

The U.S.: Entrepreneurial Capitalism

Entrepreneurial capitalism is a capitalism that ultimately measures its success in wealth generated and innovations created. It's the embodiment of the American faith in the ability of anyone, no matter humble his or her beginnings, to rise to the top.

This is the capitalism of Gates and Buffett, and also of GE and IBM, for under entrepreneurial capitalism even the largest of players do not forget that they, too, once were small. And at its core, is the new idea, the new product, and ultimately, the new experience served up to consumers. Above all, it is the capitalism of the individual, and thus individual entrepreneurs are worshipped above groups, and even when groups and not individuals are the innovators, individuals are typically given the credit.

It is also a capitalism that knows how to fail in the right way. Whether it is in the form of individuals tanking a start-up or two on their way to entrepreneurial success, or the silicon Valley system where the turmoil of company starts and closings is a big part of the region's decades-long success, Entrepreneurial Capitalism knows how to take risks and fail its way forward to ultimate success.

This system is typified by small players, but even large companies exhibit the same quality as the example of Boeing's competition with Airbus suggests. Boeing originally considered developing an A380 competitor, but the capital demands and questionable market size for super-jumbos led the company to opt instead to begin work on the "Sonic Cruiser," a novel plane whose advantage was speed, rather than size. However, after several years development, Boeing concluded that Sonic Cruiser was not the win they were seeking and the company didn't hesitate to cut their losses and start down a new path towards the new 787 "Dreamliner". The 787 won't turn heads -- it isn't huge like the A380 and it won't be as fast as the sleek Sonic Cruiser was projected to be, but it could hit the sweet spot in a market beset by the need to fuel economy and flexibility. And it is easily the most innovative new passenger plane in decades, perhaps the first of a whole new generation of aircraft, while for all its size, the A380 is merely the highest expression of a design philosophy that dates back to the middle of the last century.



Of course the American model has its limits. At moments it seems unable to muster a sufficiently long view with commensurate capital availability. And it continues to struggle in dealing with its excesses, perhaps even overreacting to events as typified by the impact of Sarbanes-Oxley, which has contributed substantially to the cooling of the IPO market in the US and made it difficult for companies to recruit corporate directors and even executive officers. More generally, the bloated salaries of CEOs is very much an artifact of an over-emphasis on individual contributors, turning pedestrian executives into something akin to sports super-stars.

Europe: Cultural Capitalism

Cultural capitalism is less than comfortable with showboat solo entrepreneurs; it's suspicious of their intentions and concerned about the larger community implications of innovation. It is a capitalism that preserves seemingly anachronistic economic activities for the sake of cultural continuity – and above all, identity. For example, the average Swiss cow receives more in annual subsidies than most individuals in the developing world. Swiss cows thus make the most expensive milk in the world, but they also support heritage-communities of family farms that in turn keep the Swiss country looking so very Swiss.

But perhaps the quintessential expression of Cultural Capitalism is in France, where in 2002, the government ordered a 35-hour workweek in response to a job shortage and then very publicly arrested a handful of corporate executives caught working late in their offices. And following the summertime heat-deaths of retirees in 2003, it seemed utterly unremarkable for the government to order corporations to require their workers to devote one day per year to help the elderly.

Above all, Cultural Capitalism is a capitalism that measures progress less in the number of innovations created, but in the social and cultural benefits it confers to civil society—and nowadays, in its contributions to the goal of creating a cohesive European community. For an apt symbol of Cultural Capitalism, one need look no further than the images on the EU's currency depicting European cultural monuments that on closer inspection are not images of actual monuments, but idealized pan-European cultural confections. Cultural Capitalism does not merely promote culture; it is also building on cultural myths old and new. This capitalism could thus as easily be called Monnet capitalism, after Jean Monnet, the father myth-maker of the European Community.

Asia: Community Capitalism

Community capitalism is a system in which capitalists serve a social unit larger than their nuclear family, but less than an entire culture. At its purest, the relevant unit is defined by the extended family, and thus is it tempting, but wrong-headed to label community capitalism as “Confucian Capitalism” a term that found some currency in the latter half of the last century. Wrong-headed (and distinctly un-PC) because explicitly Confucian values are shared by only a small percentage of Asia's myriad cultures while the community urge can be observed from Japan to India.

China (and to a lesser degree, India) is the obvious candidate to become the leading exponent and beneficiary of Community Capitalism, but the most compelling present-tense example is Singapore, a hyper-cultural stew of Chinese, Malays, Indians and others united around a nationalist identity inextricably linked to commerce. Moreover, it is misleading to label a country as the leading exponent, when in fact, the most likely unit of community capitalism is not the nation-state, but the *city-state*. When Singapore is eventually bypassed, the passing-by will likely be done by the Shanghais and Hong Kongs and Beijings, and not China as a whole.

Unlike Cultural Capitalism, Community Capitalism places less emphasis on cultural continuity; this is a capitalism eager to innovate quickly in the service of its core motivations. For example, Singapore has



turned its economy on a dime several times over the last several decades in response to outside imperatives. In the late 1960s for example, Singapore’s leaders placed a huge (and hugely winning) bet on becoming an electronics manufacturing center. Then as manufacturing challengers emerged, Singapore reinvented itself again, aggressively cultivating local startups to replace the exiting overseas manufacturers, cultivating its local knowledge economy, and even marketing itself as a destination for nouveau-riche Chinese tourists. Now Singapore is innovating once again, determined to become a “Knowledge Island”, a key node in a global knowledge economy.

Community capitalism a capitalism that does not place heavy emphasis on politics, for the role of government and politicians is to clear the way for efficient market and capitalist activities. Again, Singapore is the perfect example. Singapore is a democratic society, but one unfamiliar to Americans in the details. It is in effect, a one-party democracy. Its inhabitants expect their government to be corruption-free and pro-business, and so long as it is, no one really has the time or interest to mount a real opposition to the party in power.

Implications: New Ideas, or Old Conflicts...

These three Capitalist forms are summarized in Table 1, below. Each system clearly has its own advantages and drawbacks. Consider the contrast between US and European Capitalism in the case of Airbus. As already mentioned, Europe’s long-view Cultural Capitalism gave Airbus the resources it need to catch Boeing in the aviation business. But then in 2006, Airbus stumbled in part because it’s multi-national, cross-cultural structure caused unexpected delays in delivery of the A380, a problem compounded by stock irregularities and an embarrassingly unprofitable exit by one of the original industrial partners.

	Entrepreneurial Capitalism	Cultural Capitalism	Community Capitalism
Typical Country	United States	France	Singapore
Key Driver	Innovation	Cultural Continuity	Pragmatic Materialism
Key Units	Individual	Region	Local community (extended family/city-state)
Key Value	Independence	Tradition	Family stability
Time Frames	1-2 Quarters	decades	The immediate in the service of the next generation
Politics	Free Market	Market Regulation	Realpolitik
Guiding Philosophy	Novelty worshipping	Cultural idealist	Social and economic pragmatist
Technology	Push the Envelope	Evaluate Cultural Effects	Use to advance strategic economic/social objectives
Guiding Metaphor	Tilt-Up Building: the pieces come together quickly	Swiss Cow: preserves cultural meanings	Shopping Mall: A global agoura for the local populace

Table 1: the Three Capitalisms Compared.

In contrast, Boeing’s risky entrepreneurial bid to build an entirely new airframe, the 787, is paying off in strong orders that put it back in the lead over Airbus as 2006 closed. In fact, the two planes offer an interesting contrast: Technically, the huge A380 is mostly a legacy plane, the culmination of a design



tradition reflected in the last fifty years of the jet age, while the less dramatic-looking 787 breaks with aerospace design and building tradition in dramatic ways.

China is the bellwether for Community Capitalism's evolution. Will it evolve in ways that emphasize community, or will it take on a more entrepreneurial bent. 2006 was the year when it seemed there was no shortage of arrogant Chinese startup CEOs bluntly lecturing foreign audiences much as American CEOs have been wont to do in years past. Is this a passing stage, or the new norm?

China's capitalist rise also underscores the question of competitive advantage among capitalist systems as the World faces ever greater challenges. Which system can best deal with the economic challenge of global climate change -- an entrepreneurial do-it-fast American Market Capitalism, a go-long Cultural Capitalism, or an Asian Community Capitalism. Which will harness the brainpower of its populations more efficiently? Which will become the center of the new industries of the 21st Century?

Meanwhile, there is no reason to believe that capitalism's divergence will stop at three variants. Other Capitalist forms are brewing from an Islamic Capitalism that neatly sidesteps the ungodly sin of taking interest, to a Socialist Capitalism being attempted by Hugo Chávez in Venezuela. Russia too is in flux: Putin's takedown of Yukos head, Mikhail Khodorkovsky, underscore's the country's unease over individualistic Entrepreneurial Capitalism, but Russia is not rushing to embrace Cultural Capitalism either. I'll bet we such a Russia caught in a lurching see-saw between an entrepreneurial model and something with more Socialistic -- perhaps even Communist-- elements working their way in.

And then there is the rest of the world, notably Africa, but also other regions struggling with globalization in the face of myriad social and economic issues. But even here, there are signs of innovation and change in the form of everything from the hopeful developments in South Africa to the exuberant reckless hustling entrepreneurship to the Nigerian spammers. In this age of relentless change and surprise, who knows, perhaps the next Bill Gates will emerge from the slums of Lagos.

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