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Paul S. Adler¹

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Abstract

Paul Adler was Program Chair for the 2013 meeting of the Academy of Management in Orlando, Florida, in August. In this capacity, he organized the “All-Academy Theme” component of the meeting program, helped by a committee of Tom Kochan (MIT), Jerry Davis (U. Michigan), Carrie Leana (U. Pittsburgh), and Stella Nkomo (U. Pretoria). The theme was “Capitalism in Question.” The essay below is an edited version of Paul’s presentation of the theme at the Presidential breakfast session, August 11, 2013. He argues that recurrent economic and financial crises and the emergence of protest movements around the world should encourage us as management scholars to consider more carefully the broader “political–economic” context of business and management—how organizational behavior, structure, and strategy differ across societies characterized by different political–economic structures, whether variants of capitalism or alternatives to it.

Keywords

capitalism, regulation, socialism political-economic systems

Each year we give our Academy of Management meeting a focal “theme,” and our recent meetings have devoted a day of the program to the chosen theme. The theme creates a common reference point for our heterogeneous community of scholars, helping create some common ground for spontaneous discussion. It also serves as a prompt to reflect on some important topic. Looking back over the themes of previous meetings, I see two main types. Some are important because they could be fruitful areas of research, but risk being overlooked due to our current division of intellectual labor. Other are important because they impose themselves on us because of changes in the world around us.

This year’s theme—“Capitalism in question”—was the second kind. Capitalism is indeed in question in the minds of many people around the world. That it is in question is hardly surprisingly, given the repeated financial crises that have shaken the global economy; the prolonged economic recession/depression and austerity in many regions; growing inequality and the persistent frustration of people’s economic aspirations; the mounting environmental crises facing the planet; and given too, the proliferating protest movements responding to all these problems and threats. Of the many factors contributing to these phenomena, the theme focused our attention on the role of the basic political–economic structures of our several societies. It was—and remains—a *timely* theme. And it was also an *appropriate* theme, because the meeting took place at Disney World in Orlando, Florida, which stands as an extraordinary monument to both the wonderful and worrisome aspects of capitalism’s impact on culture, work, city planning, and children’s dreams.

But this was a somewhat *different* theme from most of those preceding it, because it drew our attention away from

management itself and toward the broader context within which management theory and practice takes place. Although some of our colleagues have worked on these context issues for many years, many management scholars might find it challenging to broaden their field of view so dramatically. But it is a challenge my committee and I wanted to put to our colleagues. After all, big changes in the broader context inevitably prompt reflections on what we study and teach, and such changes sometimes demand that we familiarize ourselves with new domains of scholarship. Just as the advances in neuroscience push us to learn more about brain physiology’s role in organizational behavior, so the proliferating challenges in and to capitalism push us to learn more about political economy as a factor shaping behavior in and of organizations. Although we have a sizable body of management research on the impact of *national culture* on workplace interactions, on management systems and processes, and on organization structures and strategies, the 2013 theme prompted us to consider the way these phenomena also differ across different *political–economic systems*.

If capitalism is in question, the first question is surely: What are the distinctive features of capitalism as a political–economic system? There are different ways of answering this question, but our working hypothesis was that we can start

¹University of Southern California, Los Angeles, USA

Corresponding Author:

Paul S. Adler, Department of Management and Organization, Marshall School of Business, University of Southern California, Hoffman Hall 716, Los Angeles, CA 90089-0808, USA.
Email: padler@marshall.usc.edu

with three features of capitalism that differentiate it from systems common in earlier times: (a) market competition among profit-driven firms; (b) wage-based employment under hierarchical control within these firms; and (c) limited government authority over these firms' activities.

These three defining features of capitalism have important benefits—benefits that are especially salient when we compare capitalism with pre-capitalist systems like feudalism. Market competition among profit-maximizing firms creates pressure to innovate; so capitalism is a very dynamic, creative, growth-oriented system. Wage-based employment within these firms means that workers are free to move among employers; so workers are not bound by slavery or vassal relations. And limited government means that those involved enjoy freedom of contract; so we can buy from and sell to whomever we want.

These same features of capitalism come, of course, with downsides in the form of costs and risks. First, while market competition stimulates innovation, markets are not stable: They are instead rather dynamic and even crisis prone, as we have been reminded in recent years. To cite just one indicator, since 2007, some 10 million Americans were evicted from their homes when the housing bubble burst and they were left unable to pay their mortgages. Market competition has several other, well-known downsides. It directs innovation toward the most profitable paths, leaving many fundamental social needs unmet. The market's time horizons for financial returns are far too short to deal with long-run ecological dynamics. Firms under profit pressure have little reason to factor into their decisions positive or negative externalities. Furthermore, given the possibility of economies of scale and scope, and given the likelihood of information asymmetries, market competition often morphs into oligopoly.

Second, although wage-based employment guarantees that people are not tied to *any one* employer, if people lack the resources to start their own businesses, they have no choice but to submit to the authority of *some* employer. There is a huge discrepancy between the experience of domination at work where managers have the right to tell employees what to do and how, and the experience of democratic participation rights in the political sphere. Moreover, capitalism provides no economic mechanism that links income from work and income from profits, and this absence seems to lead to burgeoning inequalities of wealth and income.

Third, although limited government means freedom to contract, it also means that government has only limited ability to mitigate the downsides of market competition and wage-based employment. Limited government means that society cannot exercise its collective will over the direction of economic development; instead, members of society remain hostage to the unplanned vicissitudes of markets and to the harsh consequences of market failures. More fundamentally, although government's authority over economic

Table 1. Varieties of Capitalism.

	Role of government	
	Weaker	Stronger
Role of community		
Weaker	Competitive capitalism	Regulated capitalism
Stronger	Ethical capitalism	Social democracy

activity is limited, it takes considerable government coercion to create and sustain this system of private property and to deal with conflicts engendered by the resulting inequalities of power and wealth. Finally, it is difficult to avoid the impression that when government's power over firms is so limited, firms' power over government tends to tighten.

Given these downsides of the basic capitalist structure, it is not surprising that some countries have moved away from the canonical free-market form of capitalism, creating other varieties of capitalism. Some of these varieties broaden the objectives of the firm to encompass social and environmental goals, some deepen the participation of employees in management decision making, and some strengthen government's regulatory role. To map the varieties of capitalism created by such reforms, we might array them on two dimensions: (a) the role of government (i.e., whether economic choices are driven more by market forces or by government authority) and (b) the role of community (i.e., whether economic actors are assumed to function in an exclusively self-interested way or in ways that reflect community norms and obligations of reciprocity). By way of approximate illustration, we might put the United States in the Competitive capitalism cell, France in the Regulated capitalism cell, Sweden in the Social democracy cell, and Germany somewhere between France and Sweden (see Table 1).

Of course, within a given country, there is scope for variation: Some regions, some industries, and some firms display features that might differ from the over-arching country-level system. But country-level factors constrain that variation, through the weight of inherited patterns of property relations, established systems of law and regulation, and shared values and norms. Moreover, there are important constraints on national variation emanating from the supra-national level, such as those we see within the European Economic Community, with the World Trade Organization, and with the power of the international financial markets to discipline countries' policies.

Given the limited success of any of these variants in eliminating the downsides of capitalism without impairing its benefits, debate continues about the desirability of more radical changes aimed at creating alternatives to, rather than variants of, capitalism. This debate has waxed and waned in intensity over time, but the radical impulse has persisted, pushing to replace competition with collaboration, or to

Table 2. A Wider Map.

	Role of government		
	Weak	Medium	Strong
Role of community			
Weak	Competitive capitalism	Regulated capitalism	State capitalism
Medium	Ethical capitalism	Social democracy	State socialism
Strong	Cooperative economy	Market socialism	Democratic socialism

replace wage-based employment with cooperative ownership, or to replace limited government with economic planning. To map this broader debate, Table 2 extends Table 1 in both directions. Looking further afield than the varieties that we see in the advanced Western economies, we see a broader spectrum of systems—which we could illustrate approximately with Mondragon (the federation of cooperatives based in the Basque region of Spain) in the Cooperative economy cell, Singapore in the State capitalism cell, China in the State socialism cell, and the former Yugoslavia in the Market socialism cell: across these systems, we see important differences in the modal forms of organization and in the conditions of work and life.

Each of these variants and alternatives has its proponents but also its critics. Faced with arguments for reform or radical change, we have seen in recent decades a reenergized set of arguments from proponents of free-market, competitive capitalism. They argue that government failures are more likely and more dangerous than market failures; that stronger government, even if it promised faster or more equitable economic growth, would undermine key freedoms; and that stronger community would stifle individual rights.

Our theme therefore draws us into a great debate—one that brings us into closer conversation with our colleagues in the other social sciences, and indeed with our fellow citizens: Is capitalism the “end of history” (as Francis Fukuyama argued), the best, or the least bad, system conceivable? Many argue that history has already rendered its verdict on this question, given the failures of 20th-century communism. On the other hand, it is worth considering the parable offered by Bertold Brecht’s poem about the Tailor of Ulm:

Ulm, 1592.

Said the Tailor to the Bishop:
Believe me, I can fly.
Watch me while I try.
And he stood with things
That looked like wings
On the great church roof -
That is quite absurd
A wicked, foolish lie,

For man will never fly,
A man is not a bird,
Said the Bishop to the Tailor.

Said the People to the Bishop:
The Tailor is quite dead,
He was a stupid head.
His wings are rumpled
And he lies all crumpled
On the hard church square.

The bells ring out in praise
That man is not a bird
It was a wicked, foolish lie,
Mankind will never fly,
Said the Bishop to the People.

(Bertold Brecht, *The New Reasoner*, 3, 1957-58, downloaded from http://www.amielandmelburn.org.uk/collections/nr/03_55.pdf, accessed Oct 12, 2013)

Brecht, without making his intention explicit, likened the failures of 20th-century communism to the failures of the pioneers of human flight. These pioneers invented primitive flying machines that either never got off the ground or got off the ground only to crash. Many naysayers took this as evidence that people were just not made to fly. But others persisted, and eventually they created workable airplanes. Just as there were strong voices proclaiming that we would never succeed in our efforts to fly, today there are strong voices arguing that it would be futile and even dangerous to try to create a superior alternative to capitalism.

In reality, in assessing the feasibility of these alternative systems, we have little guidance from either natural or social science. Despite—or better, because of—this uncertainty, these intellectual debates and political–economy experiments push us management scholars to consider some stimulating and important research topics. The work on display at the 2013 Academy meeting demonstrates the fruitfulness of this comparative political–economy perspective—pushing us to address new topics, and sometimes to discover new meaning and new urgency in existing topics.

First, at the level of political–economic *systems*, we have a host of research issues concerning the relative

performance of the different systems. State capitalism and state socialism seem to offer developing countries prospects for more rapid industrialization and growth. How well do these models really perform in comparison with the others, including in their capacity to deal with the mounting environmental crises? The competitive free-market model seems to generate not only high levels of innovation but also intensifying concerns about intellectual property as an anti-commons: What are the dynamics of innovation under different systems? At this system level, there are also important issues for research on the dynamics of system reproduction and change. Within and among countries, what are the institutional factors—economic, political, legal, cultural—and social forces that resist or drive system change? The moral and ethical issues are the subject of renewed debate and research. The role of trade unions and of social movements in driving system change has reemerged as a fruitful area of research. The transition of former communist countries to one or other variant of capitalism is an ongoing process that warrants our continued scholarly attention: these transitions do not seem to be gliding gracefully to pre-determined free-market model, but rather seem to be highly conflictual and indeterminate in their evolutionary paths. The cultural dimensions of capitalism have emerged as a rich area of research, with growing literatures on differences in gender roles across systems; on evolving attitudes toward work, wealth, and inequality; on the value of indigenous peoples' heritages; on the dynamics of corruption, among other topics.

At the *firm* level, a host of issues are emerging around alternative enterprise governance models whose objectives go beyond shareholder wealth maximization. We see a proliferating body of research on social and urban entrepreneurship as well as corporate social responsibility—their potential but also their limitations as vehicles for advancing social, environmental, and economic justice. The recent emergence of benefit or “B corporations”¹ in numerous states within the United States has opened up a new terrain for research. We are seeing a resurgence of research interest in cooperatives as form of enterprise governance, and in this context, renewed interest too in traditional pre-capitalist models of community and in community-based governance of common-pool resources.

Third, research focused on *individuals* often finds new meaning when placed in the context of “capitalism in question.” We already have a considerable body of research addressing the effects of government policies, national cultures, national and subnational cultures and ethnic or religious diversity, and systems of labor relations on the social

and psychological experience of work. We can enrich and sharpen this work by exploring variation across and within political–economic systems. We can further enrich that work by looking at system dynamics over time, asking, for example, how people respond to these trends, accommodating and rationalizing or resisting and opposing. Beyond the workplace, our research on the individual level can also explore how different political–economic systems affect non-work life: how work responsibilities can colonize non-work life, but also how positive work experiences can enrich people's capacities. We can study the psychological processes and dispositions that awaken people to their experience and to the possibility of a better system.

Finally, our questioning of capitalism prompts, we hope, reflection on the role of our home institutions, most notably business schools, in the broader political economy of capitalism as we know it. How are our universities embedded in this structure? What role are we playing, through our research and our teaching on the nature of political–economic systems, in fulfilling the vision of the Academy of Management, to “inspire and enable a better world?” We hope that our theme sparks renewed discussion and debate on this critical issue too.

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Note

1. According to <http://benefitcorp.net>: “Benefit corporations are a new class of corporation [in the US] that (1) creates a material positive impact on society and the environment; (2) expands fiduciary duty to require consideration of non-financial interests when making decisions; and (3) reports on its overall social and environmental performance using recognized third party standards.”

Author Biography

Paul S. Adler is currently Harold Quinton Chair in Business Policy at the Marshall School of Business, University of Southern California. He grew up and started his education in Australia, received his PhD in economics and management in France, and moved to the USA in 1981. His research and teaching focus on organization strategy and design and on business/government/society interactions. He is currently the President-elect of the Academy of Management.