The End of Capitalism -- So What's Next?

by Klaus Schwab, Founder and Executive Chairman, World Economic Forum

This year's World Economic Forum in Davos saw intense debate about the future of capitalism. Many participants were asking whether capitalism, with all of its excesses, still has a place in today's world. The media, meanwhile, speculated that if even managers and bankers were raising doubts about the system's future, then perhaps capitalism had already been laid to rest in Davos.

The reports about capitalism's imminent demise may be somewhat exaggerated, as the ideology of a free but socially committed and fairly regulated market economy was never questioned in Davos. However, there was some discussion as to whether capitalism in its present form serves or undermines the free market economy. A clear distinction needs to be made in this regard between the ideology of a social market economy based on individual responsibility on the one hand, and the term capitalism as such on the other. Over the course of the past 200 years a range of different interpretations of capitalism have emerged as a reaction to industrialization. In historical terms, the transition from manual trades to machines required an ever increasing degree of investment, and therefore the provision of capital. In this sense, capitalism is not an ideology as such, but an applied theory of the creation and efficient deployment of capital as a factor of production. In its genuine sense, capitalism is therefore the component of an economic system that relates to the capital market, enshrined in the principles of a free market and guaranteed ownership. However, these principles are part of a more comprehensive ideology.

Unfortunately, in today's parlance this free market ideology has been equated with "capitalism" as a technical component. As a result, it is easy to gain the impression that the free market economic system founded on individual freedom and, at the same time, social responsibility, is to blame for the excesses of a capitalism that has lost its equilibrium. This is clearly incorrect. The subject of intense debate in Davos was not, therefore, the end of capitalism as an ideology, but the issue of how capitalism's technical components -- which have come off the rails -- can be reformed.

One of the criticisms of capitalism centers on the widening gap between winners and losers due to the so-called turbocapitalism that is a result of global competition. In this context, the so-called Nordic model demonstrates that a high degree of labor market flexibility and social welfare systems do not have to be mutually exclusive -- indeed, they can actually be combined to very good effect. This type of economic policy also enables countries to invest in innovation, childcare, education and training. The Scandinavian countries, which underwent a similar banking crisis in the 1990s to that which we are now experiencing in other Western economies, have shown that by reforming regulation and social welfare systems, flexible labor and capital markets really are compatible with social responsibility. So it is no coincidence that these countries are now among the most competitive economies in the world.

Other aspects of the criticism of capitalism that are worthy of serious consideration are excessive bonuses, the burgeoning market in alternative financial instruments and the imbalance that has emerged between finance and the real economy. However, we do see some progress in these areas thanks to mounting pressure from the general public, governments and also the market.

So even though capitalism was not laid to rest in Davos, it is fair to say that capital is losing its status as the most important factor of production in our economic system. As I outlined in my opening address in Davos, capital is being superseded by creativity and the ability to innovate -- and therefore by human talents -- as the most important factors of production. If talent is becoming the decisive competitive factor, we can be confident in stating that capitalism is being replaced by "talentism." Just as capital replaced manual trades during the process of industrialization, capital is now giving way to human talent. I am convinced that this process of transformation will also lead to new approaches within the field of economics. It is indisputable that an ideology founded on personal freedom and social responsibility gives both individuals and the economy the greatest possible scope to develop.

To ensure that this capacity for development is fair, better regulation and safeguards are required -- above all for capital markets -- which also necessitate global coordination. In this sense, capitalism is now called upon to make the necessary adjustments for it to remain a key pillar of our free market economic system, but also for it to adapt to today's circumstances and to be the servant rather than the master of a socially responsible market economy.

Ultimately, it is a question of returning to the stakeholder principle which I developed and presented in a book published in 1971 and which is now undergoing a renaissance under the name of "shared value creation" thanks to Harvard professor Michael Porter. In an age when social networks are enabling greater participation and transparency, companies will only be able to achieve economic success if they can generate long-term benefits not just for their shareholders, but also for the common good.

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