

Institute for the Study of
Business in Global Society

DOING BUSINESS IN A DIVIDED WORLD



Harvard
Business
School

What is the Institute for the Study of Business in Global Society (BiGS)?

The world is facing a series of unprecedented and existential challenges. The planet is rapidly warming, centuries of social injustice are being laid bare, and economic inequality is growing to levels not seen in decades. From across the political spectrum, critics have decried business's role in causing and exacerbating these challenges. At the same time, society is increasingly looking to business to help solve these problems.

The Institute for the Study of Business in Global Society was established to help and harness business to address these issues—and to show that business can play an essential role in solving them. BiGS brings together a community of scholars, students, and practitioners to examine those areas where business and society interact and occasionally collide, and to explore how business can help address some of society's greatest challenges.



BY EDOARDO CAMPANELLA*

Doing Business in a Divided World

Why does American society feel so fractured today?
And what opportunities does business have to help address the gaps?

Since the founding of their nation, Americans have believed in their fundamental ability to move up the ladder of life—to work hard, do well, and provide their children with the trappings of a better future.¹ And for more than three centuries, this ethos has generally proven true.² Observing the United States in 1831–1832, the French aristocrat Alexis de Tocqueville, accustomed to the rigidity of European society, was surprised to see that “new families are constantly springing up, others are constantly falling away, and all that remain change their condition.”³

Over the past several decades, however, for a growing and large fraction of the American population, the American dream seems to have faded. Middle-income Americans feel unable to improve their socioeconomic status, and significant empirical evidence supports their concerns. Across and within generations, mobility rates in the U.S. are indeed lower than in many other OECD countries and lower than they were in the United States a century ago.⁴

Social mobility rates in the U.S. have declined over the past century and are lower than in many other OECD countries.

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Historically, trust in a highly meritocratic system, where each person gets what he deserves and climbs the social ladder accordingly, has made Americans especially tolerant to inequality.⁵ But high inequality is also now one of the reasons why social mobility has stalled in America. Countries with greater inequality tend to have less social mobility between generations—a phenomenon dubbed the Great Gatsby Curve after Francis Scott Fitzgerald’s famous story of the *nouveau riche* Jay Gatsby (chart 1).⁶

The intuition is simple: it is far more difficult for poor people to climb the economic ladder when the rungs are farther apart. And in the United States today, 50% of income differences in one generation are due to differences in the previous generation, meaning that most children essentially inherit their economic standing from their parents and grandparents.⁷ Thus, even in an ostensibly meritocratic society like the United States, inequality tends to get entrenched, perpetuating privilege from one generation to the next.

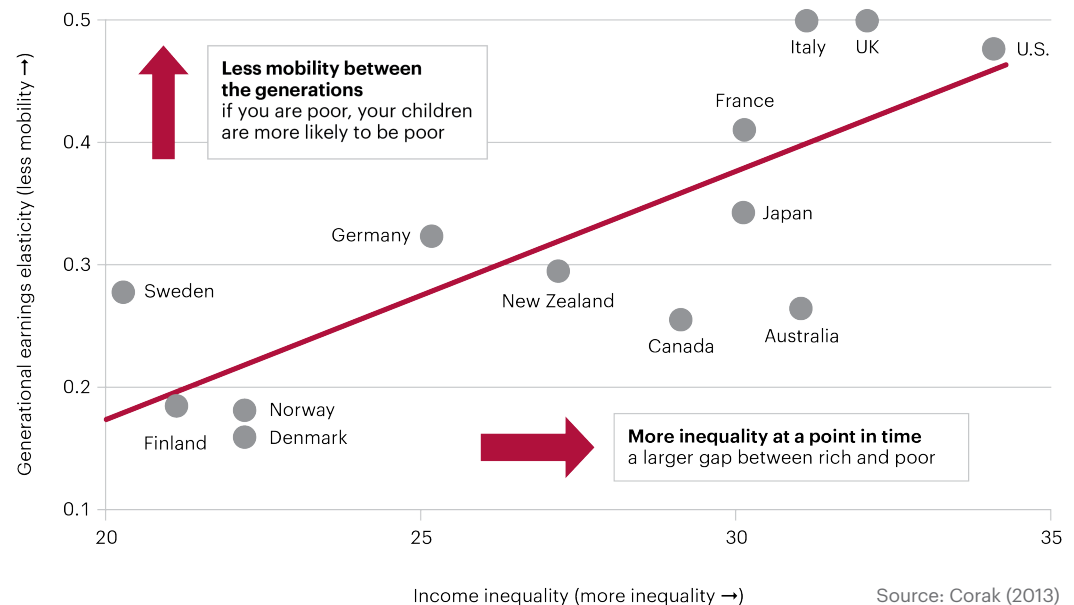
Restoring equality of opportunity has traditionally been seen as the responsibility of government. But increasingly Americans are expecting firms to shoulder some of this burden as well. According to a 2022 Edelman Trust Barometer, around 50% of respondents believe that business is not doing enough to address societal problems.⁸ For consumers, employers, and investors alike, it is increasingly important to identify with brands that are socially engaged. And even among Democratic voters, business today is more trusted than the government.⁹

To be sure, not all firms may wish to take up this additional mantle. Some may prefer to focus on the narrower goals made famous in Milton Friedman’s pivotal 1970 essay, concentrating on what he and others claim is the only appropriate role for the firm: maximizing shareholder value.¹⁰ Others may be unable to make the financial trade-offs that greater societal engagement might entail. But for those firms and business leaders who are looking for ways to help bridge society’s divides, this essay is intended as a primer of sorts—a way, at least, of describing some of America’s greatest divisions and exploring both where they come from and how they might best be addressed.

50%

of the public believe that business is not doing enough to address societal problems.

CHART 1. The Great Gatsby Curve



The Decline of Social Mobility and the Debate Between Merit and Class

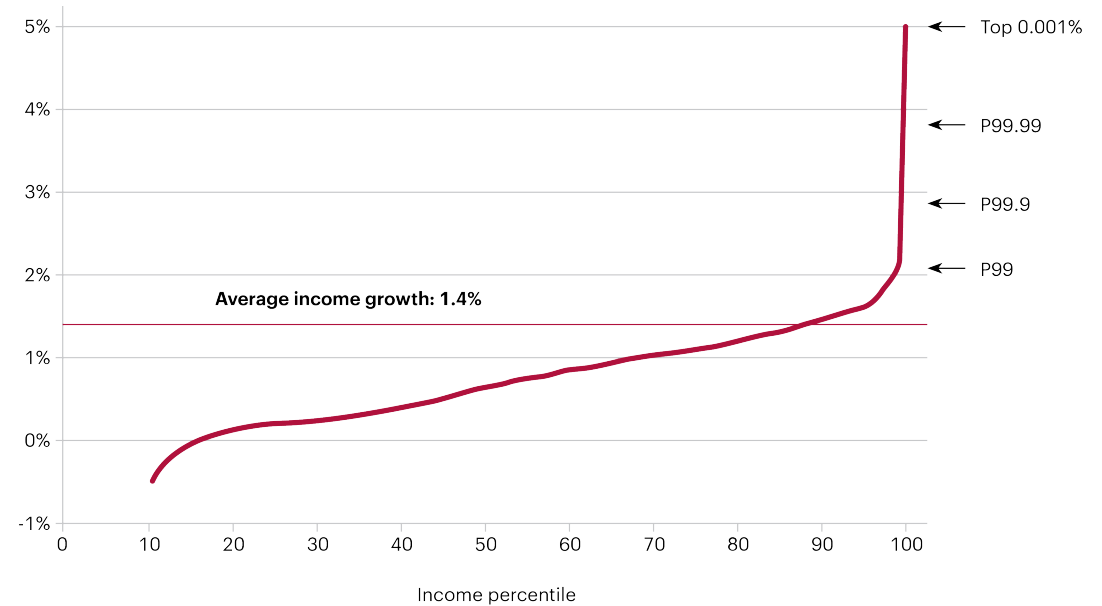
Although rising inequality is a serious problem around the world, it is especially pernicious in the United States. Between 1980 and 2018, incomes for the bottom 90 percent of the population barely increased. Instead, most of the aggregate income growth occurred among the country's top 10 percent—in particular, the top 1 percent (chart 2).¹¹ Of the world's 2,604 billionaires, 25% are American, and their share of total U.S. wealth has almost quadrupled over the last 40 years, from less than 1% in 1982 to 3.5% today.¹² At the apex of the corporate hierarchy, average compensation for a typical CEO rose by more than 800% from 1978 to 2016 while typical salaries increased by only 11.2%.¹³

In theory, inequality is the byproduct of capitalism itself: capital accumulation and innovation inspire the continuous search for new opportunities to profit. Entrepreneurs take risks of a different kind, ranging from the search for new trading routes to the development of experimental technologies such as artificial intelligence and the creation of new methods of management like the assembly line. They do not know in advance whether they will succeed or not. Some lose, but others win, reaping outsized rewards in the process.¹⁴

The first who ride a wave of innovation and pave the way for new industries enjoy fast-growing incomes, while workers stuck in the old economy see their wages eroded. Once the economy adapts to the new macroeconomic environment, inequality starts declining. Pioneers gradually lose their advantage under the pressure of stronger competition, and the overall economic pie gets larger as productivity rises.

CHART 2. Income growth is concentrated in the top 1% of earners

Annual pre-tax income growth in the U.S., 1980–2018



Source: Saez and Zucman (2020)

From 1978 to 2016

800%

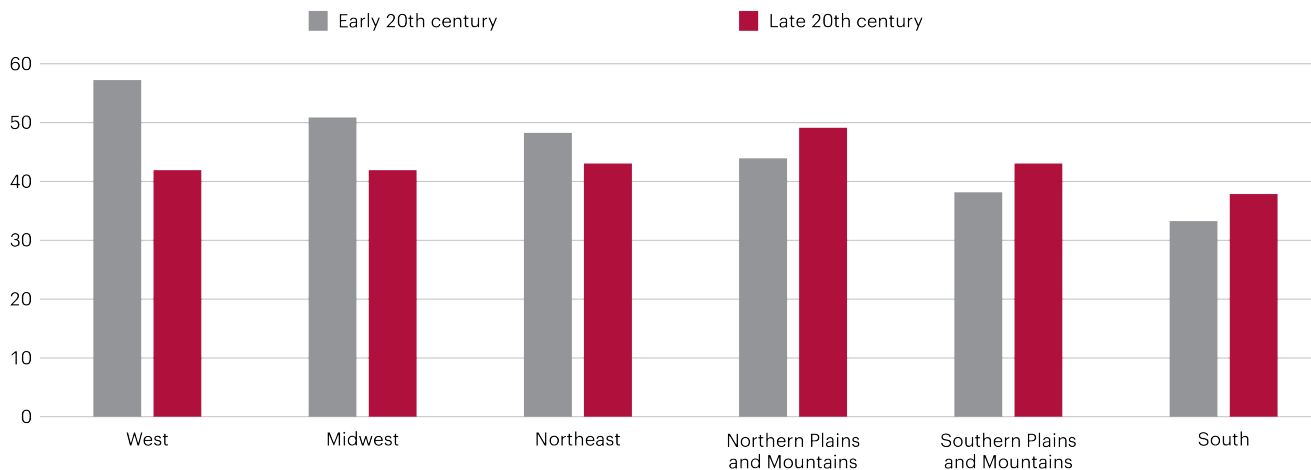
Average compensation growth for a typical CEO

11.2%

Average compensation growth for a typical worker

CHART 3. In most of the U.S., social mobility declined in the 20th century

Upward mobility for the bottom quartile of earners



Source: Connor and Storper (2020)

From this perspective, inequality represents a legitimate reward for talent, hard work, creativity, and entrepreneurship.¹⁵ In many instances, however, it can also result from the perpetuation of economic advantage. If factors outside the control of individuals—such as parental background, race, gender, and birthplace—determine one’s success in life, then the meritocracy is more apparent than real and income inequality becomes symptomatic of a broader lack of economic opportunity.

Drawing a clear line between merit-based and status-based inequality is challenging. Yet a growing body of empirical evidence points to an increasing role of the latter. In the United States, a child’s chance of out-earning his or her parents has fallen from almost 90% in the 1970s to 50% today.¹⁶ The

percentage of children who make more money than their parents has fallen substantially in all 50 states since the 1940s, with particularly sharp drops in the industrial Midwest.¹⁷

Within the bottom quartile of the income distribution, the probability of moving to a higher income rank also declined sharply between the early and late 20th century (chart 3), as did the probability of rising from the bottom to the top quintile of the income distribution.¹⁸ These gaps were particularly notable in the West and Midwest, as the great industries that powered America in the 20th century—processed food, retail commerce, aviation, cars, chemicals, steel, electronics, machinery, consumer durables—fell prey to successive waves of globalization, offshoring, and de-industrialization.

90%

A child’s chance of out-earning his or her parents in the 1970s

50%

That same child’s chance of out-earning his or her parents today

Family, Race, and Gender: Vectors of Divide

In his diary, de Tocqueville described the ease with which families rose and fell in the social hierarchy of early 19th century America, and contrasted the mobility he witnessed there with the rigidity of old Europe.¹⁹ Without a hereditary aristocracy, and thanks to the extraordinary fluidity of social relations, early Americans faced few constraints on their ability to shape their own lives—at least if they were white and male.

By the second half of the 20th century, however, social mobility in the country was already beginning to decline.²⁰ In the 18th century, geographic mobility had been the main path to economic advancement, as families moved west to make or seek their fortunes. Then, in the early 19th century, mass education, with an increased emphasis on practical, job-relevant skills, became the main equalizer.²¹ But as roles within society started to consolidate, these pathways became more crowded and less predictable.

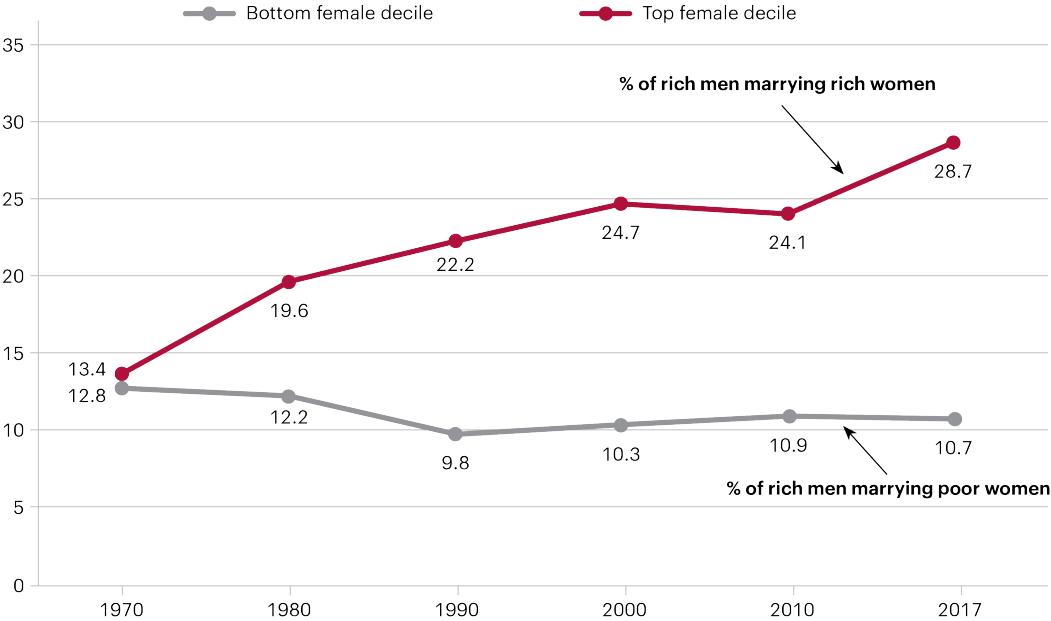
Evidence of this gradual calcification comes from the most basic foundation of American life: the family. As Chart 4 shows, Americans are increasingly marrying people who fall within their own socioeconomic strata, a phenomenon economists refer to as “assortative mating.”²² The children born into these unions then have an increased likelihood of replicating their parents’ status, with children from poorer households tending to do worse in school, and then having lower incomes to provide for their own children.²³

Meanwhile, the chances of attending college immediately after high school are also strongly related to household income.²⁴ Today, the most selective American universities have more students from the top 1% of the income distribution than from the entire bottom half.²⁵ And even among students who do enter college, children from the highest income quartile are four times more likely to complete their bachelor degrees than those from the lowest quartile.²⁶

These sources of inequality persist well into adulthood. Take innovators, for example: Children raised in top 1% income families are 10 times as likely to become inventors as those from below-median-income families, and kids from wealthier backgrounds are consistently more likely to launch their own businesses.²⁷ In many cases, understandably, family money provides the safety net that enables individuals to take any sort of economic risk.

CHART 4. Assortative mating is on the rise

Share of male top income decile paired with female top or bottom deciles, age group 20–35, in percent



Source: Milanovic (2019)

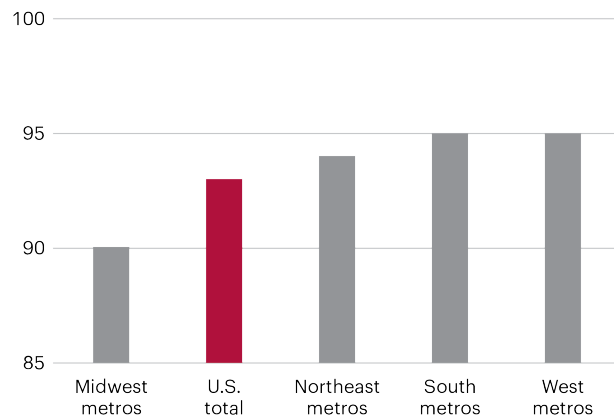
Geographical Divides: The Landscape of Inequality

In addition, the America population remains sharply divided along the lines of both race and gender. Although the gender-based wage gap has recently narrowed, men still consistently out-earn women, with median earnings for men around \$54,000 compared to \$44,000 for women.²⁸ Men also hold roughly 75% of corporate board seats in the United States, and 94% of chief executive positions.²⁹

Black Americans begin, still, with significant material disadvantages, with the typical family possessing only one-eighth of the wealth of the average white family.³⁰ Black students enter college less frequently than their white counterparts and graduate, on average, with an additional \$25,000 of student debt.³¹ In 2021, there were just two Black Americans on the *Forbes* list of the 400 wealthiest Americans and Black directors accounted for just 6.2% of among the country's 3,000 board members.³²

CHART 5. Gender wage gaps across the United States

Gender earnings gap by percentage



Source: Pew (2022)

In the United States today, birth-related sources of inequality are further compounded by so-called clustering effects: the tendency of people with similar professional and socioeconomic backgrounds to concentrate in the same geographic area. Technology workers, for example, often migrate to Silicon Valley or Austin, Texas; financial professionals congregate in New York or Boston. On a case-by-case basis, all of these decisions make sense. Well-heeled professionals follow the jobs and careers that entice them. In the aggregate, however, they can serve to magnify both geographical and economic divides.

According to recent evidence, only one-third of the increase in income inequality in the United States is due to differences in earnings within the same firms—that is, between those with the most important managerial responsibilities and the rest of the staff.³³ The remaining two-thirds are due to differences between firms. In other words, rising inequality is only partly about the pay gap between a CEO and an accountant, or a software developer and a blue collar worker.³⁴ The gap in wages between companies matters even more.

Over time, the best-performing firms tend to pull away from the rest, recording high productivity growth that translates into generous salaries, benefits, and perks. High-wage employees with similar educational and professional backgrounds then tend to cluster in these high-wage firms, surrounded by other high-paid professionals, while non-core, low-value added activities are outsourced to lower-paying firms located outside the financial and technology hubs.³⁵

2

Number of Black Americans on *Forbes* list of 400 wealthiest Americans

6.2%

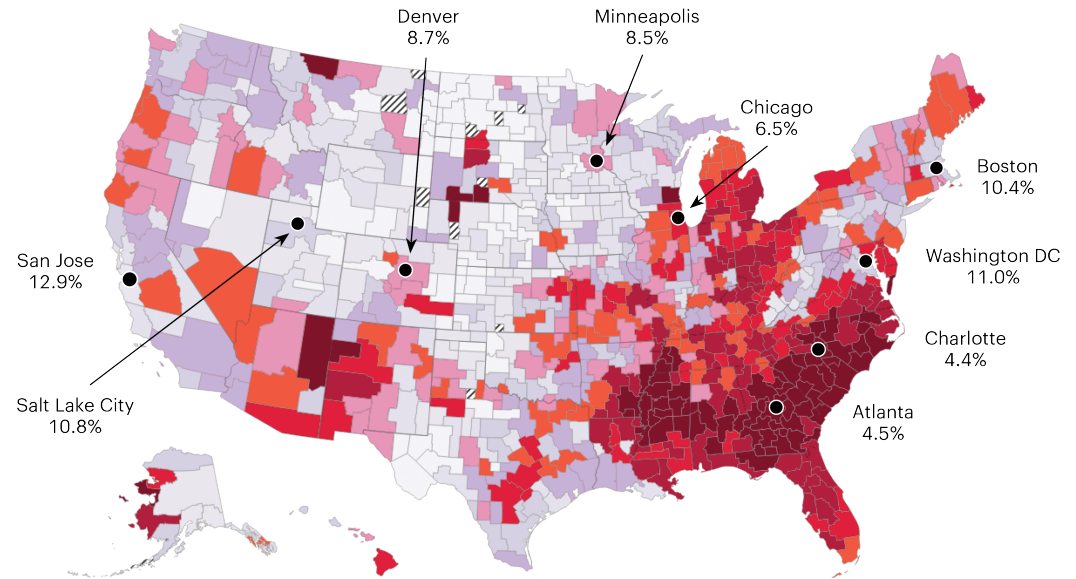
Portion of Black directors among the U.S.'s 3,000 board members

Inevitably, as some cities flourish through this process and attract the best-performing firms, other places lose economic relevance, generating clear hierarchies between a core and a periphery. These wealth disparities then exacerbate other forms of status-based inequalities. Poor children, for example, and particularly low-income boys, earn considerably lower wages over the course of their lifetimes simply by having been born and raised in certain low-income areas: Atlanta, the Bronx, Chicago, Los Angeles, Milwaukee, Orlando, Tampa, and the lowest-income parts of Manhattan. In one glaring example, economists Raj Chetty and Nathaniel Hendren show that every additional year spent in Baltimore “reduces a child’s earnings by 0.7% per year, generating a total earnings penalty of approximately 14% for children who grow up there from birth.” It is enough to drive one hour south of Baltimore to Fairfax, Virginia, where simply growing up for 18 years raises a typical low-income child’s household earnings by 11% by the time he reaches early adulthood.³⁶

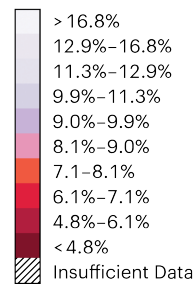
Map 1 summarizes these findings for the country, showing the chances that a child born in the bottom fifth of the income distribution in a specific metropolitan area will reach the top fifth later in life.

MAP 1. The geography of upward mobility

Chances of Reaching the Top Fifth Starting from the Bottom Fifth by Metro Area



Note: Lighter Color = More Upward Mobility



Source: Chetty and Hendren (2018)

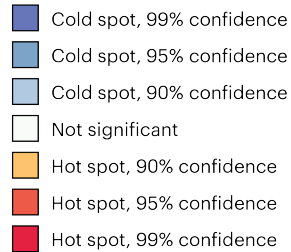
Growing up in Fairfax, VA instead of Baltimore, MD raises a typical low-income child’s household earnings by 11%.

Part of what drives these divides, of course, is the persistent gap between rural and urban America. As large fractions of the population move to metropolitan areas in search of better prospects, rural areas suffer from their loss. Rural America today tends to be older than its metropolitan counterpart, with shrinking populations and a disproportionately low number of college degrees.³⁷ Between 2010 and 2016, 68% of rural counties declined in population, and the rural job market shrank by roughly 5% in the aftermath of the 2008 financial crisis.³⁸

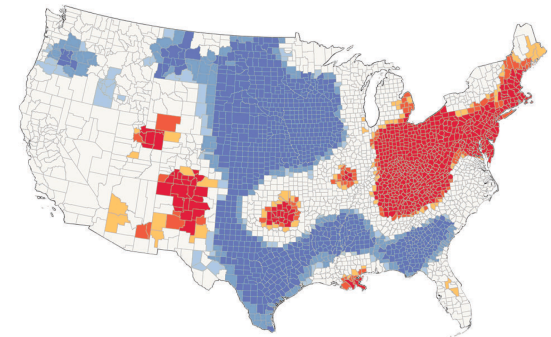
Tragically, the impoverishment of rural areas has also coincided with marked increases in what economists Anne Case and Angus Deaton have labeled “deaths of despair”—premature fatalities due to drug poisoning, suicide, and alcohol.³⁹ Their incidence varies substantially across the country, but deaths due to opioids are especially pronounced in the Midwest and Appalachian regions.

The rural job market shrank by 5% after the 2008 financial crisis.

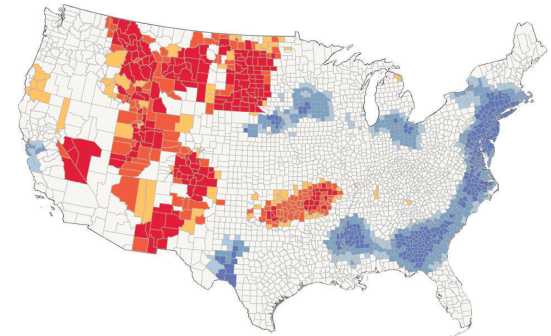
MAP 2. Deaths of despair



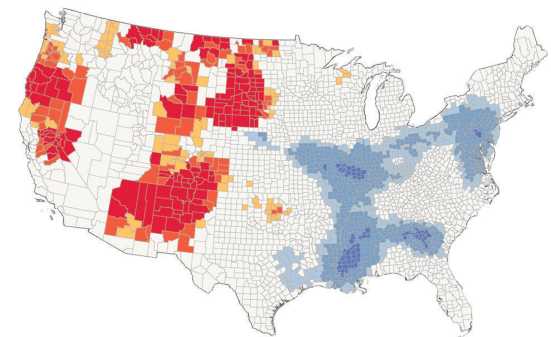
A Drug poisoning death rates



B Suicide death rates



C Alcohol-induced death rates



Source: Shiels et al. (2020)⁴⁰

Political Polarization

Finally, over the past three decades or so, American society has also witnessed a massive increase in political polarization, and a push—on both the left and right—to embrace more radical, once-fringe positions. Although there are certainly many factors behind this phenomenon, most commentators (again on both the left and right) have attributed at least some of this political shift to economic forces, and in particular to rising levels of inequality and stalled social mobility, both of which serve to widen the gap between society’s perceived winners and losers.

As shown in chart 6, voters in 1994 were relatively mixed in their allegiances, but then began, slowly but surely, to diverge.⁴¹ By 2017, the divide had significantly shifted toward the two extremes of the liberal-conservative spectrum.

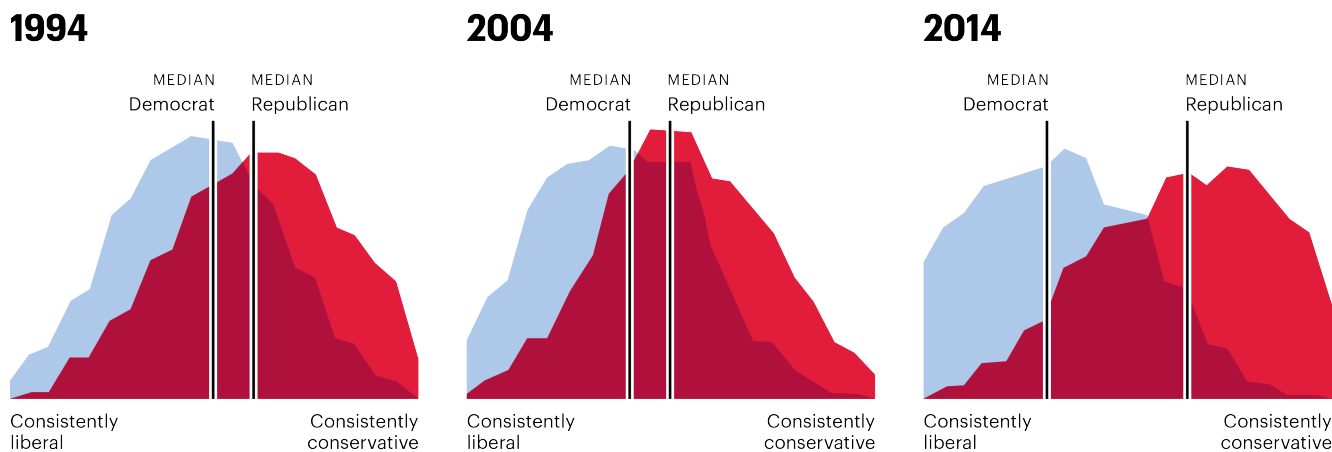
This ideological polarization is also strongly evident in today’s Congress, where both parties have moved toward their ideological extremes. Currently, there are only around 25 moderate Democrats and Republicans left on Capitol Hill, compared to more than 160 in 1971–72.⁴² The geographic and demographic composition of both congressional parties has also changed dramatically. Almost half of House Republicans now come from Southern states, while nearly half of House Democrats are Black, Hispanic, or Asian/Pacific Islander.

As a result of these growing divides, Congress often appears to be paralyzed.⁴³ Among the indicators of legislative dysfunction, scholars have highlighted declining legislative output, an appropriations process that increasingly fails to conclude prior to the beginning of the fiscal year, and increasing delays in the confirmation process.

**160 vs.
25**
Number of moderate Democrats and Republicans in 1971–72 compared to today

CHART 6. Widening ideological divide

Democrats and Republicans More Ideologically Divided than in the Past
Distribution of Democrats and Republicans on a 10-item scale of political values



Source: Pew Research

The Road Ahead?

In *A Theory of Justice*, philosopher John Rawls introduced the concept of a “veil of ignorance” to describe a situation in which an individual is given the opportunity to redesign society from scratch, freely deciding how to distribute power and wealth, but without knowing in advance where he or she will sit in the social hierarchy.⁴⁴ Will they be born rich or poor, man or woman, smart or ungifted, Black, brown, or white?

Given the impossibility of knowing these markers in advance, Rawls argued that the most rational choice is to opt for a society that assigns the same rights and liberties to all. It is this principle of fairness—of true equality of opportunity for all—that has long defined and inspired the American ideal. But creating such a system has typically involved the exercise of governmental power, of some authority that actively ensures equity among individuals and prevents legitimate rewards from becoming unfair and self-perpetuating.

In the modern era, governments have historically shouldered this task, either by redistributing economic advantages through taxes and transfer payments, or by enacting policies—such as universal education, infrastructure development, credit allocation, or job creation—that seek to smooth the market’s rough edges and foster more inclusive growth.

All of these programs remain possible in a divided America today. Yet, as inequality continues to grow and political polarization rises, many in society are looking to business to address these gaps as well. In particular, given that firms (private and publicly held) account for roughly 85% of all jobs in the United States today, and that nearly all job *growth* comes from the private sector, groups across America are calling upon business to use its market power to create not only a more prosperous nation, but a more inclusive one as well. Simply put, people are starting to ask business to restore the American dream.

But what, exactly, might business do?

Clearly, there is no cookie cutter answer to such a complex series of problems. Yet a number of companies have started to experiment with various ways of approaching inequality and of tackling it within the admittedly limited contours of their own business operations.

To begin with, in the wake of George Floyd’s murder in 2020, many firms have embraced the goal of racial diversity—and tried to align their behavior accordingly. Some boards of directors, including those at Nike, Starbucks, and Uber, have already partly tied executive compensation to diversity goals.⁴⁵ Others have joined the OneTen Initiative, a coalition of firms with shared commitment to hiring 1 million Black individuals without college degrees over the next 10 years and advancing them into family-sustaining careers.⁴⁶ In the Midwestern region, the Midwest Investors Diversity Initiative is a coalition of institutional investors dedicated to increasing racial, ethnic, and gender diversity on corporate boards of companies headquartered in Midwestern states.⁴⁷ And in Cincinnati, Nehemiah Manufacturing has launched its Second Chance program, giving applicants who have been in jail or prison a chance to start over. Formerly incarcerated people now account for 80% of its workforce.⁴⁸

Other firms are using their overall compensation strategies to affect income inequality, focusing in particular on the lower-wage workers they employ. Over the past several years, companies such as Walmart, CVS, and Target (who together employ over 3 million people) have increased their minimum wages, assuming that the costs of higher compensation would be outweighed in the medium term by higher productivity and stronger motivation.⁴⁹ In a similar vein, a group of large private-equity firms has recently decided to extend stock ownership in its portfolio companies to all workers in those companies, assigning them shares through

Many Americans are calling upon business to use their market power to create not only a more prosperous nation, but a more inclusive one as well.

a nonprofit organization known as Ownership Works.⁵⁰ Others concerned about economic inclusion are reexamining their supply chains, trying to harness their (often considerable) purchasing power to drive prosperity in more equitable ways. Hewlett Packard, for example, uses its Supplier Diversity Program to engage with and mentor businesses owned by women, minorities, veterans, and other diverse individuals.⁵¹

Some companies are also developing new ways in which to select prospective job candidates, trying to steer away from the traditional credential requirements that often benefit people from wealthier backgrounds. Google, for example, treats professional certificates as the equivalent of a four-year degree for certain roles, while the Business Roundtable supports a Multiple Pathways Initiative designed to place emphasis on skills during hiring rather than on academic degrees.⁵²

Finally, pledging resources toward the development of a firm's local community can be a powerful way to address income disparities, develop human capital, and make a city or region more attractive for both firms and workers. In 2017, for instance, 3M donated \$26 million to fund STEM initiatives at the University of Minnesota; Microsoft, Amazon, and Salesforce have all made significant contributions to their local school districts and affordable housing nonprofits.⁵³

* * * * *

Admittedly, there is a certain irony in looking to business to create a more a more equitable system. First, because capitalism has always relied on an inherent imbalance between labor and capital, and second, because capitalism is being blamed for many of society's ills at precisely the same time it is being asked to help cure them. Yet this is the world we live in today—a world marked by increasing divides and ever-louder demands for business as usual to be perhaps something else. It is too early to know whether these demands will become a more permanent feature of the societal landscape, or whether even a handful of firms can eventually find ways of combining profitable ventures with other, more community-minded goals. Recent evidence suggests, however, that many firms are eager to reexamine what capitalism might be.⁵⁴ Their leaders want to live in a more equitable society. Their customers want to buy products and services of which they are proud. Their investors want to be part of an enterprise that creates both profits and purpose. And their employees want to be part of a community that matters, a community that cares about them, and helps them imagine a better future for themselves and their children.

Both business and society in the United States have evolved dramatically since the days when Alexis de Tocqueville first stood in awe of the evolving nation. We have won wars, fought plagues, and conjured vast industries into being. Many of the poorest Americans today enjoy standards of living that would have been inconceivable during de Tocqueville's time.

So can some of our corporate ingenuity be harnessed now toward a different end? Should it be?

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