THE TRILATERAL COMMISSION

REPORT OF THE

TASK FORCE ON GLOBAL CAPITALISM IN TRANSITION

JUNE 2022

The Trilateral Commission is a global membership organization that brings together senior policymakers, business leaders, and representatives of media and academe to discuss and propose solutions to some of the world's toughest problems. Founded in 1973, the Commission has for decades served as an important venue to incubate ideas and build relationships across sectors and the geographies of North America, Europe, and Asia. The countries represented in the Commission and its individual members share common values and a commitment to the rule of law, open economies and societies, and democratic principles.

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EXECUTIVE SUMMARY

For the past year, the Trilateral Commission convened distinguished business leaders, scholars, and policymakers from around the world to participate in the Task Force on Global Capitalism in Transition.

The time was right for this effort. Despite capitalism's manifest positive impact on prosperity and well-being, many people are frustrated by its inability to handle some of the greatest challenges facing society. In particular, there are growing concerns about whether market-based economies will be able to adequately address climate change, the disruptions triggered by the digital revolution, and rising inequalities. Moving toward a more sustainable and inclusive capitalism is thus a defining challenge of our age.

The task force embodied a true Trilateral perspective. This report represents the culmination of over a year of research, dialogue, and reflection, involving more than 50 people from some 20 countries. Its recommendations reflect the diversity of the task force members' perspectives and represent the spirit of the debates that occurred during this effort, rather than perfect agreement on every recommendation or point of analysis. Participation in the task force by no means suggests endorsement of every element of this report.

Throughout their deliberations, task force members strove to find opportunities for collaboration, primarily among the liberal, democratic societies of the Trilateral Commission broadly defined. Such cooperation is vital as the world struggles to emerge from the COVID-19 pandemic and confronts renewed geopolitical conflict triggered by the Russian invasion of Ukraine, disrupted global supply chains, rising energy and food insecurity, and levels of inflation not seen in decades.

The task force members shared a commitment to stake out common ground upon which a new social compact for a more sustainable and inclusive capitalism could be built. This report does not offer one-size-fits-all solutions. Instead, it suggests an overall direction for how governments, businesses, and nonprofit institutions can work toward the goals laid out here as each capitalist or market-based system adapts to its unique context. Readers who delve into the full report, as well as the book-length background study prepared for the task force, *A New Spirit of Capitalism: Toward More Sustainable and Inclusive Economies*, will note strong similarities in approach and recommendations.

The task force hopes the entire effort, encapsulated by these documents, stimulates discussion, debate, and, ultimately, decision.

1. Capitalism's Fifth Stage

Capitalism stands unchallenged today as the world's dominant economic system. Its development has changed the arc of human history—bending upward trends in income, wealth, literacy, life expectancy, and other measures of prosperity and well-being.

That said, the world is struggling with many challenges that some believe capitalism does more to exacerbate than ameliorate. The task force identified three challenges meriting particular attention: first, climate change and how to accelerate the greening of our economies; second, the digital revolution and how to ensure individual and firm access to these technologies; and, third, inequalities, especially within countries, and how to ensure equality of opportunity.

Capitalism's development has never traveled in a straight line. Before 1600, Asian economies dominated the world's economic production. The emerging capitalist economies based in Europe and North America flipped the script in the following 300 years; by the 20th century, they dominated the global economy. In the past three decades, accelerating capitalist-led growth in Asia rebalanced the global economy once more.

Further defining these global trends were four stages in capitalism's development—first, there were 300 years of mercantile and then liberal industrial capitalisms. In the 20th century, managed and neoliberal capitalisms rose to the forefront. We are now in the midst of a transition to a new fifth stage of capitalism. How capitalism adapts to address the challenges of this century will determine how history remembers this age.

Capitalism's history highlights three broad sets of factors influencing its future trajectory:

Shared understanding and direction: Capitalism is not a machine governed by timeless laws. Instead, it is a cultural system shaped by prevailing beliefs about how the world works and what we value. These ideas define the art of the possible, inform priorities, shape institutions, and motivate action. They comprise the "spirit" of an age.

Investments: Investments in new technologies, infrastructure, and, often most important, new skills and ways of working fuel capitalism. These investments are generally made by firms, but are also made at the individual, sector, government, or even international levels.

Rules of the road: Formal and informal rules enable capitalism to operate and innovate. Such rules include property rights, rule of law, regulations, treaties, trade agreements, and also norms and management practices.

The recommendations of the three sections of the report are therefore divided into these categories. Each section concludes with a priority recommendation for collaboration and action by Trilateral countries and societies.

2. Getting to Net Zero

Climate change is perhaps the greatest challenge facing humanity in the 21st century. Today's climate crisis is primarily caused by the rise of fossil-fueled economies and related greenhouse gas emissions. The emissions started to increase more than two centuries ago during the first Industrial Revolution. They are now woven into the fabric of our economies and lifestyles down to the clothes we wear and the food we eat. Tragic evidence of climate change's impacts mounts each year from the environmental to the humanitarian to the economic and strategic.

Scientific understanding and public awareness of climate change has not yet been matched by a willingness to redesign how our economies and societies function. That should not come as a surprise given the nature of the problem itself. Climate change is, after all, deeply embedded in our economies, possesses an intimidating scale, has an uneven impact, faces several market failures, and encompasses changes to many different sectors.

Instead of being overwhelmed by this scale and complexity, however, achieving net zero should be thought of as solving a series of discrete problems rather than one massive Gordian knot. While working toward more effective global coordination, decentralized initiatives by nations, regions, cities, businesses, researchers, and nonprofits will help move us forward. The costs of the net-zero transition, moreover, should be reframed as investments to build a more advanced economy and better environmental future.

RECOMMENDATIONS TO ACHIEVE NET ZERO

Shared understanding and direction: Considering the level of climate change's threat, a central pillar of fifth stage capitalism should be: *every person should live and work in a net-zero world by 2050.*

Investments include: Establishing enduring national strategy forums; embedding "green" into businesses' DNA; supporting proactive workforce development; investing in green innovation; promoting innovation diffusion; and compensating the most vulnerable.

Rules of the road include: Accelerating green finance; building voluntary carbon markets; promoting green labeling; and integrating climate into corporate governance.

Trilateral recommendation*—Establish a "climate club" among advanced economies.*

Establishing a price on carbon is an obvious path toward solving the green transition challenge from an economics perspective. Setting a price incentivizes firms, entrepreneurs, and researchers to innovate.

Agreement on a global carbon pricing regime, however, remains aspirational ever since the Kyoto and Paris Accords emphasized voluntary commitments. Progress has been halting because carbon pricing runs headlong into the "tragedy of the commons" and "tragedy of the horizons," which together undercut collective action.

While governments should continue to seek a global pricing regime, the Trilateral countries should consider accelerating progress on both reducing emissions and incentivizing greater international cooperation by pursuing more limited "climate club" agreements among leading emitters.

The basic design involves a group of countries joining together to accept common carbon pricing policies and seeking to level tariffs on carbon-intensive items from countries without similar policies. This approach can limit "carbon leakage," whereby industries migrate from a country with a carbon pricing regime to a free rider without one.

The major advantages of such an approach are that it is voluntary, can be coordinated more rapidly and less formally among like-minded governments than forging a global consensus, and yet also includes real incentives for compliance and others to join. Countries outside the club will be incentivized to adopt new carbon policies and make investments in carbon reduction to be more competitive.

While such an approach is challenging, it offers the potential to sidestep some of the barriers that continue to stymie efforts to forge a global consensus on carbon pricing.

3. A Digital Future for All

The digital revolution epitomizes capitalism's immense power and potential for innovation and change. New digital tools, techniques, and ways of working have already delivered incredible material benefits, connected humanity as never before, and helped solve previously unsolvable problems—and they promise even more.

Yet, at the same time, digital advances generate tensions. Without access to a computer or the internet, or without the skills to use them, individuals are locked out of the knowledge economy, fueling inequality. The digital revolution has also created other risks, ranging from mental health impacts to the concentration of market power in a few large enterprises.

Digitalization and, more recently, the adoption of artificial intelligence (AI) has progressed unevenly across countries, sectors, firms, and business functions. The United States and China lead globally, and there remains huge potential to tap if the world can close the divides among digital haves, have-somes, and have-nots.

Capturing the digital revolution's full potential can be done by addressing different dimensions of access: access to connectivity, access to skills, access to scale, and access to data. And that will be the work of fifth stage capitalism. To the extent that access to the digital revolution remains uneven, it risks compounding other inequalities. Success in tackling the green transition and other challenges depends upon harnessing digital innovation too.

RECOMMENDATIONS TO ACHIEVE A DIGITAL FUTURE FOR ALL

Shared understanding and direction: Harnessing the digital revolution's potential is central to fifth stage capitalism. Without it, a more sustainable and inclusive economic system will remain out of reach. That's why one key element defining the spirit of this age should be: *every person should have access to the benefits of the digital revolution.*

Investments include: Establishing inclusive national digital strategies; closing the connectivity gaps; promoting universal digital literacy; empowering workers with digital tools; establishing hubs to disperse digital innovation; and transforming government operations.

Rules of the road include: Adapting antitrust for the digital age; and developing a plurilateral World Trade Organization framework for digital trade.

Trilateral recommendation*—Establish an alliance of "techno-democracies."*

The Trilateral countries lack a forum for collaboration across the spectrum of digital issues spanning from scientific and technical to economic and commercial to security, military, and law enforcement.

Like-minded democracies and technological leaders should establish an alliance to fill this gap. Such an alliance could help build a digital order that preserves and promotes open societies, combats the illiberal use of emerging digital technologies, and maximizes these innovations' economic potential. It could start small and informal, like the Financial Stability Board (FSB) established in the wake of the global financial crisis, and then develop over time.

Building upon recent progress among the G7, such an informal alliance could start by bringing together experts and officials to set common standards regarding digital technologies and definitions of cybercrime, discuss common approaches to antitrust rules, and develop a framework to address AI's most pressing ethical issues, while working to harmonize their policies concerning privacy and data ownership. Eventually, this forum could evolve to address more sensitive topics such as online propaganda, disinformation, and cyber threats. It could also help coordinate investments and share intelligence among the leading democratic digital countries to counter the misuse of digital technologies by autocratic regimes.

4. Toward a More Inclusive Future

Inequality is not new. The great temples, royal palaces, pyramids, and castles that tourists visit around the world today are typically enduring legacies of past inequality—the concentration of wealth in the hands of a privileged few. While inequality is not a uniform problem across all Trilateral geographies—for instance, Europe has lower inequality relative to North America and Asia—every society has people and places at risk of being left behind.

That said, the level of inequality today, as we transition to fifth stage capitalism, is concerning. A world where the top 1 percent have nearly 20 times the wealth of the bottom 50 percent inevitability raises questions about a system's legitimacy. And inequality has taken a different shape than in previous eras. Over the last 30 years, Asia's stellar economic performance has allowed once low-income countries to close the gap with advanced economies. Although the gap between nations is still substantial, only one-third of global inequality today is due to differences between countries. Two-thirds is due to inequality within them.

Tracing the path of a life journey from birth and home to education and then the labor market illustrates the obstacles that can impede equality of opportunity. Each country has its own challenges, its own places and people that get left behind. Each will need to tailor its solutions. Many obstacles are familiar—including location, family, class, ethnicity, race, gender, and other such factors—but that does not reduce their importance.

Looking toward solutions, fundamentally, markets should be designed to create fairer outcomes from the beginning of a life. To be sure, redistributive programs through taxation and disbursements will need to continue. That said, pre-distribution—interventions focused on leveling the playing field from birth—stresses the greater effectiveness of interventions designed to promote equal opportunity from the start, rather than trying to rectify inequalities later. Success in life and one's position in the income distribution is partly the result of luck, partly the result of innate talent, and partly—and more importantly—the result of the skills, experiences, and certifications a person accumulates during his or her life. A more equitable and inclusive opening of economic opportunities from the start reduces the need for redistribution through taxation and subsidies.

RECOMMENDATIONS TO ACHIEVE A MORE INCLUSIVE FUTURE

Shared understanding and direction: The new spirit of capitalism should have an explicit guiding goal to make capitalism more inclusive and equitable, namely: *every person should have the opportunity to achieve their potential.*

Investments include: Ensuring a fair start; attacking legacy barriers to opportunity; and tackling stagnating wages.

Rules of the road include: Modernizing credentialing; addressing market concentration; providing workers an equity stake; eliminating administrative burden; taxing consistently; and addressing large inheritances.

Trilateral recommendation*— Ensure quality lifelong learning is accessible to every person by the end of the decade.*

Previous stages of capitalism both fueled and were fueled by transformations in education—notably, the introduction of compulsory primary and secondary education in the 19th century and the post–World War II expansions of higher education in many countries.

Entering the fifth stage capitalism, the Trilateral countries should remake education on the scale of the reforms of the 19th and 20th centuries. These reforms should ensure every person access to quality lifelong learning by the end of this decade.

Such programs should be designed to fit an individual's personalized needs by role, experience and age, sector and industry, and geography. The public and private sectors will need to collaborate to leverage AI to mine insights from vast data sets available through social media, employment firms, and public sources. The programs should be delivered through multiple digital channels in an individual's language, relying again on AI-enabled multilanguage translations of content and interactive exercises. This can be achieved by applying digital innovations at scale.

This final Trilateral recommendation integrates the digital revolution's potential with the imperative of advancing equality of opportunity. Importantly, such a transformation in lifelong learning also contributes to achieving all the other goals in the broader transition to a more sustainable and equitable fifth stage capitalism.

5. Toward a New Spirit of Capitalism

This report calls for a "Social Compact with the Next Generations" to embody a new spirit for our era. Prioritizing equality of opportunity provides the compass bearing as we move into capitalism's fifth stage. We should be good stewards not just for today, but for the future of our children, grandchildren, and great-grandchildren. Today's decisions should be viewed through the lens of decades, not quarters. We should also recognize diversity across our countries while seeking to work together whenever possible.

The preceding sections propose three goals as the compact's main pillars:

- *Every person should live and work in a net-zero world by 2050.*
- *Every person should have access to the benefits of the digital revolution.*
- *Every person should have the opportunity to achieve their potential.*

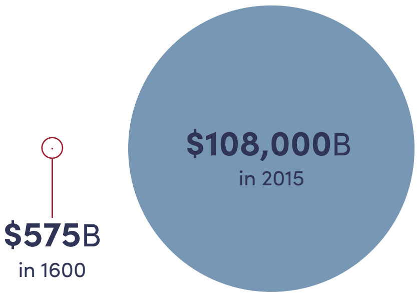
Together, these goals provide a starting point for discussion, debate, and decision. Others may be added, but these three are essential. They also share some fundamental characteristics. All three accord with moral intuitions across belief systems—most important, birth should not determine destiny. All three improve how capitalism works. And all three balance ambition with pragmatism.

It is easy to get lost in complexities or overwhelmed by the scale of the challenges ahead. But, as this report, and the efforts of the Trilateral Commission Task Force on Global Capitalism in Transition make clear, now is also a moment of promise and opportunity. The fruits that have been delivered by capitalism over the past decades cannot be ignored—nor can the challenges that have arisen at least in part as an outgrowth of capitalism's success. The new compact for the fifth stage of capitalism presented in this report, and the principles, steps, and recommendations contained within it, offer the liberal, democratic countries and societies of the Trilateral Commission and others a basis on which to move from this period of global testing to a stronger, more resilient, more prosperous future.

Capitalism by the Numbers

1

Capitalism's Fifth Stage



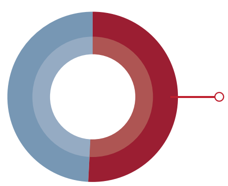
World GDP, *adjusted for inflation, 2011 constant dollars (WID)*

2.5x

increase in average life expectancy, *1800 to 2019 (WID)*

45x

per capita income increase *after China launched economic reforms in late 1970s (WID)*



56%

*agreed **"capitalism does more harm than good"** in 2020 survey (Edelman)*

2

Getting to Net Zero

18x

Increase in global atmospheric CO_2 *1900 to 2019 (WID)*

200+M

Potential jobs created to support green transition *(MGI)*

9 of 10

Warmest years on record *in past decade (NOAA)*

25M

Climate-related displacements *worldwide in 2020 (Red Cross)*

$5.0T

*Estimate of **energy-sector investments** per year by 2030 to get on path to net-zero (IEA)*

75%

*Singapore's goal for **public transit share** by 2030 (Singpaore)*

3

Digital Future for All

3,200+%

Increase in global corporate ***investment in AI,*** *2013-2021 (Stanford)*

10 of 20

Top firms for patent applications ***are US-based*** *(CSET)*

2.9B

People have ***never used the internet*** *(ITU)*

375M

estimate for potential number of workers ***affected by automation*** *by 2030 (MGI)*

40%

% increase in manufacturing volume per year *and* ***total reduction in greenhouse gas emissions*** *in "Sustainability Lighthouse" factory (WEF)*

4

Toward a More Inclusive Future

2/3

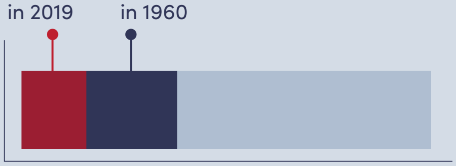
Global inequality *due to inequalities within countries (World Inequality)*

19x

Share of global wealth by top 1% *compared to bottom 50% in 2021 (World Inequality)*

15.8% in 2019

38% in 1960



Estimate of % ***unionization*** *(OECD)*

100M

Target number of students for ASU's ***new global management program*** *(ASU)*

INTRODUCTION BY TASK FORCE CO-CHAIRS

Carl Bildt, Kelly Grier, and Takeshi Niinami

In the spring of 2021, the Trilateral Commission leaders asked us to co-chair the Task Force on Global Capitalism in Transition. Our task was humbling: to convene a group of distinguished business leaders, scholars, and former policymakers from around the world to develop recommendations for a more sustainable and inclusive capitalism.

The time was right for this effort. Despite capitalism's manifest positive impact on prosperity and well-being, many people are frustrated by its role in some profound challenges. Foremost among these are capitalism's contributions to climate change, disruptions triggered by the digital revolution, and rising inequalities. In light of these issues, finding steps to move toward a more sustainable and inclusive capitalism represents a defining challenge of our time.

We are grateful to the leaders of the Trilateral Commission—Meghan O'Sullivan, Jean-Claude Trichet, Akihiko Tanaka, and Axel Weber—for the honor of chairing this task force. This report represents the culmination of over a year of research, dialogue, and reflection, involving more than 50 people from some 20 countries.

Our year of wide-ranging conversations reinforced the conviction that capitalism remains the most powerful economic system to advance prosperity and well-being. That said, the green transition, the digital revolution, and rising inequalities pose difficult trade-offs in terms of growth, efficiency, and stability. While seeking ways to tackle these common challenges together, each capitalist country will have its own solutions. After all, capitalism is not a machine governed by timeless mechanical laws. Capitalism is also about institutions and ideas. It is, first and foremost, a cultural system.[1] "We shape our buildings, and afterwards our buildings shape us," Winston Churchill said. So too does capitalism. Our ideas, beliefs, and values not only provide the architecture for how capitalism works, but also how capitalism then shapes our lives.

Throughout their deliberations, task force members strove to find opportunities for collaboration, primarily among the liberal, democratic societies of the Trilateral Commission broadly defined. Such cooperation is vital as the world struggles to emerge from the COVID-19 pandemic and confronts renewed geopolitical conflict triggered by the Russian invasion of Ukraine, disrupted global supply chains, rising energy and food insecurity, and levels of inflation not seen in decades.

Against this background, we start with a survey of capitalism's history to highlight the long-term factors driving capitalism's development. This history reminds us of not just capitalism's dynamism—the "creative destruction" identified by political economist Joseph Schumpeter—but also its adaptability. It has evolved through stages, and we are today living through another great transition in capitalism's history. The spirit of this "fifth stage" of capitalism will depend on how well it faces the challenges of this era.

To guide that response, this report calls for a new "Social Compact with the Next Generations." It challenges us to commit to not just our citizens of today, but to those of tomorrow. Its foundational premise is that each person should have an equal opportunity for a good life. In every decision—from the halls of government to the board room to the shop floor—we should ask ourselves: Will this decision make things better for the generations to come?

This new compact will require bold action. Such change needs to match the scale, scope, and pace that defined earlier transitions in capitalism's long history. We propose, therefore, three goals as a foundation:

- Every person should live and work in a net-zero world by 2050.
- Every person should have access to the benefits of the digital revolution.
- Every person should have the opportunity to achieve their potential.

The task force members share a commitment to stake out common ground upon which a new social compact can be built. The report does not offer one-size-fits-all solutions. Instead, it suggests an overall direction for how governments, business enterprises, and nonprofits can make progress toward these goals as each capitalist system adapts to its unique context.

The report's recommendations fall under three broad themes: how to build shared understanding and direction; what investments to prioritize; and what "rules of the road" will keep us heading in the right direction. To make this report accessible to the widest range of audiences, it focuses on high-level points of analysis and recommendations. Those readers interested in greater historical and analytical detail are encouraged to consult the sources used in this report, especially the longer background study prepared for the task force and published in book format, *A New Spirit of Capitalism: Toward More Sustainable and Inclusive Economies.* This task force report draws heavily upon material developed for that study.

The task force embodied a true Trilateral perspective—diverse, experienced, visionary, and practical. Its recommendations also reflect the diversity of the task force members' perspectives. Task force members did not agree on every point, and participation in the task force does not imply endorsement of each element in this report. We do, however, hope that this document will be a starting point for constructive discussion, debate, and, ultimately, decision.

On behalf of the Trilateral Commission, we would like to express our gratitude to those who invested their time, talent, and energy to make this project a success. We would like to thank the members of the task force who participated for over a year in this collaborative endeavor. We also want to acknowledge the unique contributions of the thought leaders from around the world who shared their perspectives during our virtual meetings. Together, the intellect and experience of this diverse group proved crucial to shaping this report. We also want to thank the entire Trilateral Commission team for their tireless commitment to organizing this task force and ensuring its successful completion.

CHAPTER 1

Capitalism's Fifth Stage

Capitalism has delivered unmatched benefits to humanity. It now stands unchallenged as the world's dominant economic system. Yet how capitalism operates is in transition, and its ability to adapt to today's major challenges will help define our future. Understanding capitalism's history helps us chart our course toward a more sustainable and inclusive capitalism.

Capitalism at a Transition Point

CAPITALISM HAS PROVEN ITSELF THE GREATEST enabler of prosperity and well-being in the history of humanity. People now live longer, better, and healthier lives. Today, many enjoy goods and services that were unimaginable even to elites just a generation or two ago. With only a few exceptions—namely a handful of isolated, command economies like North Korea and Cuba—capitalism now defines the economic world.

Yet there is a perceived negative side to capitalism's ledger, which has generated a sense of "crisis" among some.[2] Following the Cold War, the accelerating velocity of global flows of trade, finance, data, and people reshaped the economic order inside countries and internationally as well. New technologies disrupted how we worked. Some communities "won"; others "lost." The global financial meltdown of 2008–09 further exacerbated these dynamics. By the 2010s, prominent voices described capitalism in crisis.[3] According to a global public opinion poll released by the Edelman Foundation in 2020, 56 percent of those interviewed agreed that "capitalism does more harm than good" and 74 percent considered it an unjust system.[4]

Such skepticism helped fuel political shifts in many countries. Populist movements on both the right and left reshaped politics in places as diverse as Brazil, France, Great Britain, Hungary, Poland, and the United States. Since 2018, a majority of registered Democrats in the United States have rated "socialism" more favorably than "capitalism."[5] In Japan, Prime Minister Kishida Fumio called for a "new form of capitalism."[6] Even China—the largest beneficiary of global capitalism over the past 40 years—launched a campaign in 2021 to curb "the disorderly expansion of capital."[7]

Against this backdrop, the Trilateral Commission convened the Task Force on Global Capitalism in Transition to address questions about capitalism's future. This report represents the culmination of that effort, which spanned over a year and involved a diverse array of experts from across the world and across disciplines, coming together to debate and set a reform agenda. (*See appendices for the list of task force members, workshop topics, and invited speakers*.) The development of a longer, book-form study, *A New Spirit of Capitalism: Toward More Sustainable and Inclusive Economies*, also informed the task force's deliberations.[8]

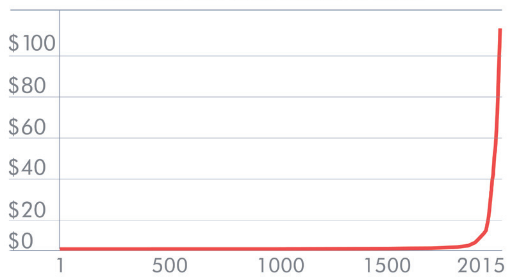
Global capitalism faces many challenges, but the task force identifies three that merit particular attention. First, the task force looks to climate change, specifically how to accelerate the greening of our economies. Second, it takes on the digital revolution, particularly how to ensure individual and corporate access to the the benefits of these technologies. And finally, it looks at inequalities, particularly within countries, and how to promote equality of opportunity.

All three are defining challenges for our era. If we "get them right," then our future and our children's future will be much brighter. If not, we risk global setbacks to not only our economies, but our societies and polities as well. Capitalism has played some role in creating these three challenges, yet it also offers a powerful means to address them.

Exhibit 1.1

Global wealth exploded in the last 200 years

Total output of the world economy; expressed in 2011 prices in trillions of dollars

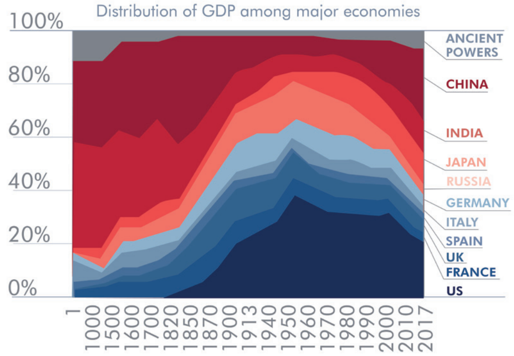


Source: Our World in Data based on World Bank & Maddison (2017), The Trilateral Commission

Exhibit 1.2

The rise of the West and the rebalance to Asia

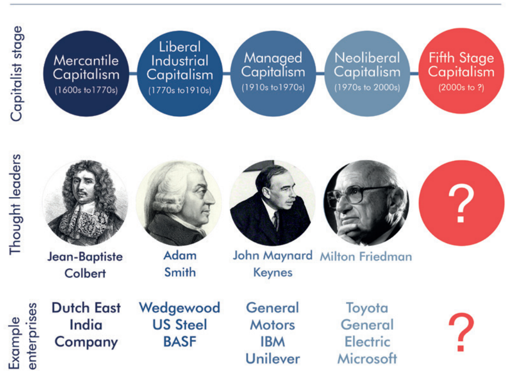
Distribution of GDP among major economies



Source: Maddison Database, The Trilateral Commission

Exhibit 1.3

Stages in capitalism's evolution



Source: The Trilateral Commission

Understanding Our Past to Chart Our Future

Capitalism's history helps us better understand where today's challenges came from and how they might be best addressed.

Some observers may take capitalism's dominance for granted, but they should not. Its triumph represents a radical departure from most of human history (*Exhibit 1.1*). For millennia, growth was slow and halting. Only with the first Industrial Revolution did parts of the world start to enjoy sustained growth. That economic development has been unmatched ever since, and it has touched almost everyone. Consider the most basic measure of well-being: life expectancy. It has risen everywhere in the world since capitalism's acceleration in the 1800s, doubling to now more than 70 years on average.[9]

Of course, capitalism's development and its impact have not been uniform; a simple graphic conveys the broad sweep of capitalism's history across regions during the past two millennia (*Exhibit 1.2*). Before the opening chapter of capitalism's history around 1600, Asian economies dominated the world's economic production. In the following 300 years, the leading capitalist economies based in Europe and North America flipped the script; by the 20th century, they dominated the global economy. In the past three decades, accelerating capitalist-led growth in Asia then rebalanced the global economy once more.

Four eras of capitalist practice drove these macro-level trends, each creating challenges the next model sought to solve.[10] We are now transitioning to the fifth stage of capitalism's development (*Exhibit 1.3*).

MERCANTILE CAPITALISM: 1600s–1770s

Struggles for power among European states defined capitalism's first era, from the 1600s to the 1770s. Mercantile capitalism placed the economy squarely in the service of the state. The economic reform program pursued by Jean-Baptiste Colbert, King Louis XIV of France's minister of state in the mid-1600s, epitomized these approaches. The French state tightly regulated economic activity by enacting tariffs, restricting skilled labor's mobility, protecting intellectual property, and chartering monopolies for industry and trade.

In this context, the Dutch innovated and accelerated mercantile capitalism. In 1602, they established the world's first publicly owned joint-stock company, the Dutch East India Company. Soon, the Dutch also pioneered the first stock exchanges, securities markets, and other modern banking practices.[11]

England followed the Dutch innovations and began to lay the foundations for the order that would eventually replace mercantile capitalism. Its "Glorious Revolution" of 1688 eventually established checks on state power, including protections of private property. London's financial markets blossomed, as did a culture of scientific inquiry and tinkering. England was also blessed with geological good luck—seemingly limitless accessible coal. By the middle of the 18th century, the first steam engines began to pump water out of England's mines.

LIBERAL INDUSTRIAL CAPITALISM: 1770s–1910s

The 1776 publication of Adam Smith's *An Inquiry into the Nature and Causes of the Wealth of Nations* marked a milestone.[12] Recognized as the first work in economics, Smith's metaphor of the "invisible hand," mentioned but once in his magnum opus, became an enduring legacy. Smith's ideas not only informed the creation of a new form of capitalism built around liberal or laissez-faire economic policy, but also stimulated 19th-century critiques such as those by John Stuart Mill and Karl Marx.

It is hard to convey the scale, scope, and pace of the next century's changes. Coal replaced muscle, wood, and wind, beginning humanity's addiction to fossil fuels. Then came oil. Transportation raced on land and sea. Communications approached instantaneous with the telegraph and then telephone and wireless radio. Manufacturing moved from mass labor-saving industries like cotton and textiles into capital-intensive and technically demanding industries like steel, chemicals, and machinery. Entrepreneurs innovated new forms of management, starting with factories, and ending with corporations and sprawling trusts.

The private economic sphere achieved relative independence in this era, but governments still shaped the economy. Governments adopted compulsory education of children—perhaps the most consequential investment ever. Literary and numeracy rose. The first modern universities were established. Technical education blossomed especially in Germany and the United States.

As the 20th century began and globalized commerce and communications flourished, the world had never been more connected. Different countries had evolved different varieties of capitalism—ranging from the more owner-based model in Great Britain to the more competitive American model to Germany's more cooperative model to the Japanese state-led model. Governments had begun to regulate some of industrial development's excesses and labor movements established themselves. Liberal industrial capitalism appeared enduring to many. Yet, very violently, the transition to capitalism's third stage came.

MANAGED CAPITALISM: 1910s–1970s

Liberal industrial capitalism fell as an early casualty of World War I. Managed capitalism stepped into the breach, at first more by necessity than by design.

As hopes for a quick war faded, the belligerent governments asserted greater control over their economies. And a new challenge arose: the Bolshevik Revolution in Russia raised the specter of radical alternatives to capitalism.

In the next two decades, wartime mobilization gave way to the Great Depression, during which governments accepted the need to prevent unrest by speeding economic recovery. New economic thought eventually prevailed: Keynesianism, developed by the English economist John Maynard Keynes. On the domestic policy front, ideas like his brought "the state back in" to tame the business cycle by managing demand and reducing economic insecurity.[13] Meanwhile, at the international level, the advanced democracies established an international architecture—the so-called Bretton Woods system and its cousins following World War II—to open markets and prevent economic disruptions leading to another depression.

As the welfare state emerged, modes of production changed too. Modern industrial enterprises, often with tens of thousands of employees and numerous divisions spread geographically, required new approaches to management. Organized labor grew and extended its influence.

Governments again invested in expanding educational opportunities, especially in higher education. In the era of Sputnik and the Space Race, scientific research and engineering talent mobilized to serve state ends, just as during World War II.

By the late 1960s, the combination of political unrest and the rigidity of the "managed" systems proved managed capitalism brittle. Stagflation, oil shocks, and end of the Bretton Woods monetary system were its undoing.

NEOLIBERAL CAPITALISM: 1970s–2000s

When government-managed economies reached their limits in the 1970s, critics of Keynesianism came to the forefront. Milton Friedman and his colleagues from the so-called "Chicago School" of economics shaped the intellectual foundations for a new "neoliberal" model of capitalism. Its pillars consisted of deregulation, market liberalization, privatization, globalization, and free trade. Explicit skepticism of the potential for constructive government action permeated its approach.

Market reforms under U.S. President Ronald Reagan and British Prime Minister Margaret Thatcher in the 1980s shifted state-market relations, challenged organized labor, and inspired market reforms in regions as diverse as Scandinavia, Russia, East and South Asia, and Latin America in the aftermath of the Cold War.

On the corporate front, new ideas attacked the foundations of managed capitalism too. Again, Friedman led the way. In a 1970 *New York Times* essay, he argued that corporate leaders' primary responsibility was to provide value to their shareholders, not other social benefits.[14] "Shareholder value" would dominate well into the 21st century, shaping corporate governance and strategy.[15] New financial products and the growth of investment banking "financialized" much of the global economy. Computing power and the internet transformed business practices and everyday life, and so-called "knowledge work" grew in importance. But this era was not completely "post-industrial," with manufacturing remaining a critical sector in many advanced economies like Germany and Japan and developing economies alike.

China's unprecedented rise proved to be the most significant development of the neoliberal era. Beijing seized opportunities presented by neoliberal-inspired reforms in other countries—such as open trade and pressure to outsource labor to low-cost countries—while preserving a high degree of state bureaucratic control. China's recipe delivered unprecedented economic growth and led to the historic rebalancing of global economic power. (*See the appendix for more on the question of whether China is a capitalist economy.*)

TOWARD THE "FIFTH STAGE" OF CAPITALISM

Besides managed capitalism, the arrival of which was accelerated by World War I, past transitions between eras of capitalism have unfolded over a few decades. And in every case, the shift followed a similar pattern. Capitalism drives innovation and growth. Organizations adapt. Tensions arise when second-order, unintended consequences present new challenges to be solved or erode confidence in the system's legitimacy. The existing model is challenged, new ideas explored, and reforms sought. The balance between the state and market adjusts. The new form of capitalism emerges.

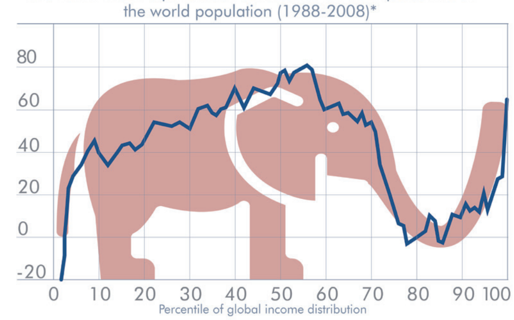
We are now living through another great transition.

If one chart can capture some of the tensions inherited from the neoliberal capitalist era animating this transition, it is the "Elephant Chart"[16] (*Exhibit 1.4*). Developed by Christoph Lakner and Branko Milanović at the World Bank, it shows how much a person's income grew between 1988 and 2008 based on their relative percentile income within the world's economy.

Exhibit 1.4

An elephant tells much of capitalism's recent story

Growth in mean equivalized real income for each percentile of the world population (1988-2008)*



*Vertical axis shows the change in real income (the difference between1988 and 2008 real income for each percentile as a percentage of 1988 real income) in constant international dollars

Source: Corlett (2016), based on data from Milanović and Lakner (2013), The Trilateral Commission

Three parts of the chart are worth note. The hump between the 50th and 70th percentiles of wealth was driven mainly by massive Chinese economic growth that lifted hundreds of millions of people out of poverty and dramatically expanded the middle class. The dip between the 75th and 95th percentiles represents income stagnation among workers in wealthier economies, like the United States. Lastly, the elephant's trunk shows how the world's wealthiest 1 percent got much richer, driving inequality within many countries, and revealing some of the foundations for doubts about today's capitalism.

Those doubts lead to a question: how can capitalism evolve to become more sustainable and inclusive, as well as address the major challenges of our era?

Toward a More Sustainable and Inclusive Capitalism

The decisions we make today will shape the stories our grandchildren will tell about this "fifth stage" of capitalism. We will get the capitalism we have the will and wherewithal to build.

The sweep of history highlights three broad categories of factors to consider when trying to shape capitalism's development:

- **Shared understanding and direction:** Keynes concluded: "Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually slaves of some defunct economist."[17] Consider the impact of Keynes himself, along with that of Smith and Friedman. Marx too. Capitalism is a cultural system shaped by prevailing beliefs about how the world works and what we value. These ideas define the art of the possible, inform priorities, shape institutions, and motivate action. They comprise the "spirit" of an age, a notion that famously attracted the pioneering sociologist Max Weber's attention more than a century ago.[18] *This report seeks to help define the core elements of a new "spirit" for the next era of capitalism.*

- **Investments:** Investments of time, creativity, and resources into new technologies, infrastructure, and, often most important, new skills and ways of working fuel capitalism. These investments are often made by firms, but are also made at the individual, sector, government, or even international levels. *This report seeks to identify priority investments needed to deliver on the promise of the new era of capitalism.*
- **Rules of the road:** Formal and informal rules enable capitalism to operate and innovate. Such rules include property rights, rule of law, regulations, treaties, trade agreements, and also norms and management practices. *This report seeks to identify the "rules of the road" that could help refashion capitalism for this new era.*

So what kind of capitalism should we aspire to build in its fifth stage? The task force offers initial principles to inform a new spirit of capitalism. These design principles provide a starting point, not an endpoint. They are rooted in the history of capitalism's development as well as the task force members' dialogue about future challenges and opportunities. First and most foundational: pursuing equal opportunity in practice, not just theory. The others include delivering high-quality growth, not just high-volume growth; prioritizing long-term impact over short-term financial results; protecting the interests of relevant stakeholders, not just shareholders; and appreciating diverse histories, cultures, and needs while pursuing cooperative solutions.

The following sections—focusing on climate change, the digital revolution, and inequality—put these principles into action. The next three sections share a consistent structure. After a brief survey of the topic's background and today's obstacles to overcome, each chapter proposes recommendations. These are structured around building shared understanding, investing in high impact priorities, and creating "rules of the road" to help fifth stage capitalism fulfill its promise. They each close with a signature Trilateral recommendation for how advanced democracies can collaborate to advance this agenda. This report then concludes by synthesizing insights into a proposed new spirit of capitalism.

CHAPTER 2

Getting to Net Zero

Climate change is a defining challenge of the 21st century. Although the challenge grows out of our capitalist-driven industrialization, finding ways to harness the power of the market represents a powerful way to address it.

The Climate Challenge—and Opportunity

CLIMATE CHANGE IS PERHAPS THE BIGGEST challenge facing humanity in the 21st century. It threatens not only to exacerbate inequalities between and within countries, but also to pit this generation against future ones. Its impacts will be unevenly spread, with some bearing the brunt more than others depending on where they live and how wealthy they are. Indeed, the costs will fall disproportionately on those least able to manage the stress.

Today's climate crisis is primarily caused by the rise of fossil-fueled economies and related greenhouse gas emissions (*Exhibit 2.1*).[19] The emissions started to increase more than two centuries ago during the first Industrial Revolution and have accelerated with the pace of economic development ever since, contributing to higher average global temperatures. Nine of the 10 warmest years on record occurred in the last decade alone.[20]

There is growing evidence that the steady rise in global surface temperatures is boosting the number, frequency, and duration of natural hazards.[21] In 2020, according to the Red Cross, there were already around 25 million climate-related displacements worldwide.[22] In sum, "the cumulative scientific evidence is unequivocal," the Intergovernmental Panel on Climate Change (IPCC) concluded. "Climate change is a threat to human well-being as well as planetary health."[23]

Scientists have set a target of keeping global warming below 1.5° Celsius above preindustrial levels to limit the coming damage. But even that scenario will come with danger, as IPCC modeling shows (*Exhibit 2.2*).

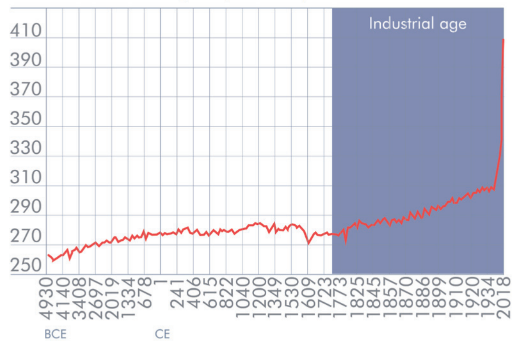
To meet the 1.5° goal, we can only emit another 400–500 gigatons of carbon.[24] That's equivalent to about 11 years of emissions at the 2019 level.[25] In other words, rapid and large-scale reductions in greenhouse gas emissions are necessary. According to IPCC estimates, the world must reach net-zero emissions by midcentury to keep the planet within its relatively small remaining carbon budget.[26]

Global capitalism thus confronts in climate change not only a singular challenge, but also the defining opportunity for its fifth stage. Although perhaps ironic to some, capitalism and its relentless pursuit of innovation offer the best hope to address climate change, which is largely a legacy of past capitalist development.

Exhibit 2.1

The jump

Global atmospheric CO2 concentration
(parts per million)

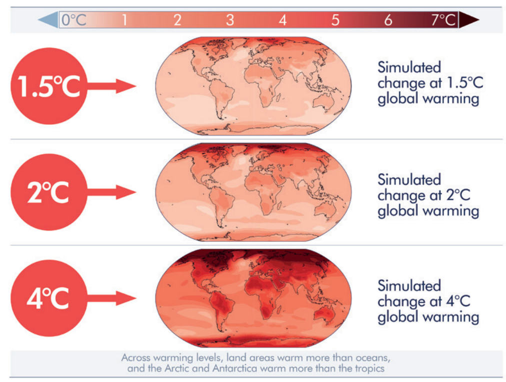


Source: Our World in Data, The Trilateral Commission

Exhibit 2.2

The cost of inaction

Annual mean temperature change (°C) relative to 1850-1900



Source: IPCC (2021), The Trilateral Commission

Obstacles to Overcome to Move to Net Zero

Scientific understanding and public awareness of climate change has not yet been matched by a willingness to reimagine the way our economies and societies function. While renewable energy is increasingly affordable, coal, oil, and natural gas still supply more than 80 percent of the world's primary energy.[27] But this inconsistent progress should not come as a surprise given the nature of the climate change problem itself. It is, after all, deeply embedded in our economies, possesses an intimidating scale, has an uneven impact, generates several market failures, and encompasses changes to many different sectors.[28]

First, achieving net zero involves nothing less than transforming how capitalist enterprises work and how we lead our lives. Today, heating, light, transportation, supply chains, goods, and agriculture all depend, one way or another, on fossil fuels.

Second, while the details of the numerous scenarios and models offering potential paths to net-zero economies by 2050 can be debated, they share one conclusion: massive change is imperative. In this transition, some industries will be disrupted, and others accelerated or created. The green transition could lead to the creation of over 200 million jobs and the loss of around 190 million jobs by 2050.[29] The total investments required are staggering—measured not in millions or billions, but in additional trillions of dollars each year.[30]

Third, although the green transition will touch the whole world, its costs and benefits will not be spread evenly across countries, with varied geographies, differing economic structures, and levels of economic development all playing a role (*Exhibit 2.3*). Relative to developed economies, developing economies tend to have higher exposure to more extreme physical risks, and their industries tend to be more exposed to the transition. Meanwhile, in general, environmental degradation increases in the early stages of economic growth, but the trend reverses at a certain level of income per capita. In advanced economies such as the United States, Europe, and Japan, carbon emissions per capita are already on a downward path. India and China, whose income per capita still lags advanced economies, are on an ascending path. As a result, developing nations argue that the most developed economies should take the lead in adjusting their economies and compensate for their past development.[31]

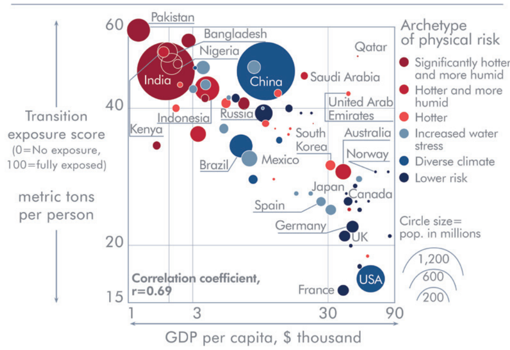
Fourth, the green transition will likely impose greater costs on low-income households, in advanced and developing economies alike. During the green transition, for example, the cost of electricity will likely rise substantially, by about 25 percent between 2020 and 2040.[32] This reality has political as well as economic implications.

Fifth are two market failures.[33] The first is the "tragedy of the commons." The atmosphere can be seen as a global common into which individuals, firms, and nations release pollution, creating a "public bad" affecting everyone, but without anyone taking individual responsibility. The second tragedy is the "tragedy of the horizons," whereby today's population reaps the benefits of releasing greenhouse gases, but the costs are incurred by future generations. Both inhibit action to solve the problem.

Exhibit 2.3

An uneven transition

Archetype of physical risk through exposure vs GDP per capita by country (logarithmic scale)

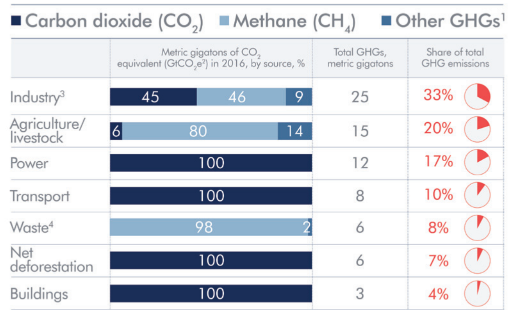


Source: McKinsey Global Institute, The Trilateral Commission

Exhibit 2.4

Different sectors, different challenges

Anthropogenic greenhouse-gas (GHG) emissions per sector and type of gas



[1]Includes emission from hydrofluorocarbons, perfluorocarbons,and sulfur hexafluoride. [2]Non-CO2 emissions converted into CO2e using 20-year global-warming-potential values from IPCC Assessment Report 5. [3]Includes cement, chemical production, iron and steel, mining, oil and gas, and low- to medium- temperature and high-temperature industries, among others. [4]Includes food waste, biological treatment of solid waste, incineration and open burning of waste, solid-waste disposal, and wastewater treatment and discharge.

Source: McKinsey Global Institute, The Trilateral Commission

And finally, the green transition is not just one challenge. Rather, it requires a variety of transitions tailored to different economic sectors, each of which affects greenhouse gas emission levels in a different way (*Exhibit 2.4*). The technical, operational, and business challenges are very different, for example, in industry than in agriculture.[34]

To solve all these green transition conundrums, we need to turn the puzzle on its head. Instead of being overwhelmed by the scale and complexity, achieving net zero should be thought of as solving a series of discrete problems rather than one massive Gordian knot. While working toward more effective global coordination of climate change policies, decentralized initiatives by countries, regions, cities, businesses, researchers, and nonprofits will move us forward. The costs of the net-zero transition, moreover, should be reframed as investments in a more advanced economy and a better environmental future.[35]

Recommendations to Move to Net Zero

BUILDING SHARED UNDERSTANDING AND DIRECTION

Given its existential nature, one of the central pillars of capitalism's fifth stage should be addressing climate change. This report proposes that:

Every person should live and work in a net-zero world by 2050

Net zero is already a standard objective endorsed by many governments, international organizations, and businesses.[36] If we can achieve that benchmark by 2050, we might be able to limit average global temperature increases to 1.5° and avoid the worst climate scenarios.

While public understanding of climate change has increased, the net-zero challenge remains an abstraction to most. Leaders across all sectors will need to make the case for it and take tangible steps toward achieving it, even while acknowledging that they may be criticized for doing so.[37]

This net-zero goal not only helps set the agenda, but it also provides clarity to government and business leaders, as well as the public, to evaluate the impact of different investments and policies, track their progress, and stress urgency.

The goal also helps reinforce momentum across countries for tangible action. We will only achieve net zero by attacking discrete problems in parallel, and that will take all hands in all countries and industries helping in some way.

Finally, the goal helps us reframe the net-zero transition as a positive investment—not a cost—in delivering a stronger economy and better future.[38]

PRIORITIZING INVESTMENTS

Establish enduring national strategy forums

Every country and industry will need to formulate its own net-zero strategy, with its own risk assessment, prioritization, and implementation plans. Creating or adapting forums for ongoing dialogue among stakeholders is a starting point.

Government: Governments should lead in developing national net-zero strategies. These will be hotly contested. Nonetheless, there is no substitute for a broad political consensus. Establishing predictable policies reduces uncertainty for other stakeholders—especially for businesses as they plan investments.[39]

Public-private collaboration: Although governments will lead in developing policy, these strategies must be true "whole of society" efforts. Governments should thus also lead in convening a broad array of stakeholders. In many cases, though, other groups—industry associations, nonprofits, academia, and other research institutions—could also play an important role in establishing forums to engage stakeholders.[40]

Embed "green" into businesses' DNA

Businesses must become the net-zero engine of this era's capitalism. How we power and operate businesses accounts for a significant proportion of global greenhouse gases.

Government: Governments should engage with business throughout the transition process to identify potential statutory, regulatory, or other policy changes to accelerate the transition toward green business operations. Governments should also explore how to use their power as a major purchaser to incentivize firms to adopt green operations.

Business: Even from a relatively narrow shareholder value perspective, the case for integrating green goals into business management is compelling. Future competitiveness will depend on how firms anticipate and adjust to regulatory changes.

Support proactive workforce development

Millions of new jobs will be needed, and millions of workers will need upskilling and support during the green transition. Workforce development programs should be both "offensive" (e.g., adapting new standards before they are mandated) as well as "defensive" (e.g., managing displaced workers).

Government: Governments should assess workforce implications as part of their national strategy reviews, with an eye toward the redesign of workforce development programs as well as other educational and credentialing reforms.

Business: Businesses in the most affected sectors should begin developing their own workforce transition strategies. Throughout the transition, business leaders should engage with government counterparts to tailor programs for an orderly transition. Businesses should also engage with their local workforce development partners.

Invest in green innovation

We do not yet have all the technologies and other innovations necessary to achieve a net-zero economy by 2050. Investment will be needed to close the gap.

Government: Governments should explore options for investing in new innovations as part of their national green strategy processes. They have a range of potential tools—from direct funding of experimental programs run by businesses and research institutes to more indirect subsidies, tax incentives, trade policies, and procurement policies that promote research and development (R&D) and scaling of innovations.[41]

Governments should assess how regulatory changes can help accelerate green innovation. And they could consider establishing special green R&D or investment agencies to fund early stage high-risk, high-reward research to help companies overcome financial barriers to early commercialization of innovations.[42]

Business: Businesses will continue to provide a significant amount of investment in green innovation, guided by their corporate strategies. Businesses should engage with all stakeholders in their innovation "ecosystems"—including academic institutions, national academies, research institutes and national laboratories, venture capital firms, and other investors—to identify and support new technologies.

Promote innovation diffusion

The net-zero transition is a universal challenge. Every country is in the same metaphorical boat. Promoting diffusion of innovations within and across economies will be important for the net-zero transition.

Public-private collaboration: Building upon successes like the European Union's Strengthening International Cooperation on Climate Change Research (SINCERE), governments and international organizations should explore ways to develop and deliver programs to build green skills and help focus investment in high potential areas.[43]

Compensate the most vulnerable

The green transition's costs will be distributed unevenly. Electricity prices, as noted, are expected to rise initially during the transition period before declining as more net-zero power generation capacity comes online. Job disruptions could create additional harm.

Government: Governments should incorporate into their national strategies compensation programs for the most affected groups. Such programs could range from community assistance for economic development, to reskilling and unemployment support for affected workers, to direct assistance for affected households through cash transfers, tax credits, or other subsidies and support. Advanced economies should prioritize green transition support in their national and multilateral development assistance programs.[44]

ESTABLISHING NEW "RULES OF THE ROAD"

Accelerate green finance

The financial sector has a unique role in incentivizing and supporting firms through the green transition.

Government: Central banks should establish as standard practice regular and universal climate stress tests to assess climate risks across financial systems. The idea of central banks taking a more direct role in promoting green developments is controversial, especially among some central bankers who rightly caution against expanding beyond their traditional stability mandates.[45] Without prejudging the outcome, central bankers and their main stakeholders should have an open dialogue about whether central banks' mission should be expanded to include adopting green monetary policies, while avoiding undermining their market neutrality.

Business: Asset managers and creditors should ask companies to provide information consistent with the framework of the Task Force on Climate-related Financial Disclosures (TCFD). That way, the financial sector can prioritize investments in companies leading the green transition and those most prepared for overcoming emerging climate risks. To improve market transparency, stock exchanges should also develop common guidance on climate disclosures consistent with the TCFD recommendations.[46]

Build voluntary carbon markets

Many companies seek to purchase carbon credits not for compliance reasons, but to meet their own self-imposed net-zero targets. When well designed, these credits can, in turn, help fund climate projects. The Taskforce on Scaling Voluntary Carbon Markets, sponsored by the Institute of International Finance, estimates that demand for such credits could increase by a factor of 15 by 2030, with the market worth roughly $50 billion.[47]

Business: Businesses have already started to come together under the auspices of the Taskforce on Scaling Voluntary Carbon Markets, which released its first report in January 2021. Businesses should collaborate to identify and resolve any bottlenecks to the smooth functioning of these markets.

Promote green labeling

As awareness of climate change increases, more consumers want to be part of the solution by making "climate friendly" decisions in the marketplace. Green labels identifying a product or service's greenhouse gas footprint not only inform consumers, but also help communicate through everyday interactions the importance of broader net-zero commitments.

Government: Most governments have regulatory powers to set consumer information and safety standards for products and services. If industry-led solutions for green labels do not emerge, governments should explore formal regulatory requirements.

Business: Customer-facing businesses should explore approaches to standardize green labeling for their industries. Industry associations could provide the mechanism to establish voluntary standards. A variation upon this approach could be for firms or industries to collaborate on creating an independent certification nonprofit or for-profit organization analogous to UL (formerly known as Underwriters Laboratories).[48]

Integrate climate into corporate governance

Reliable information on how companies are planning to manage climate risk and opportunities is still "hard to find, inconsistent and fragmented."[49] Less than half of FTSE 100 companies set measurable environmental, social, and governance goals and targets, according to PricewaterhouseCoopers.[50] Boards and executives should be incentivized to make progress in managing the net-zero transition. Improved transparency on green risks would create market incentives to integrate green considerations into corporate governance, instead of relying on statutory or regulatory mandates.

Business: Following the Greenhouse Gas Protocol Corporate Standard, companies should clarify targets for direct and indirect emissions, including from their global value chains. Improved transparency will help investors assess and compare risk across potential investments. Investors should push companies to develop climate transition plans. Investors should also press rating agencies to encourage firms to adopt accounting standards for green transition factors and for boards to manage climate transition and mitigation risks. Climate concerns should be built into boards' regular risk and strategy reviews. Furthermore, boards should link, where appropriate, executive compensation to specific green transition targets.[51]

TRILATERAL RECOMMENDATION

Establish a "climate club" among advanced economies

From an economics standpoint, establishing a price on carbon to let markets work is an obvious path to solve the green transition challenge. By setting a price, firms, entrepreneurs, and researchers are incentivized to innovate. For instance, more than 3,600 economists, including over 25 Nobel laureates, have signed a statement saying carbon taxes are the most "cost-effective lever to reduce carbon emissions" by harnessing "the invisible hand of the marketplace," as they force polluters to internalize their negative externality by giving a price to carbon, encouraging firms to develop, invest in, and scale clean, low-carbon technologies.[52]

Agreement on a global carbon pricing regime, however, remains an aspiration ever since the Kyoto and Paris Accords emphasized voluntary commitments. Progress has been halting because carbon pricing runs headlong into the "tragedy of the commons" and "tragedy of the horizons." This means in practice, as William Nordhaus argued in his 2018 Nobel Prize acceptance address, "the present free rides, while the future pays."[53]

While governments should continue to seek a global pricing regime, the Trilateral countries should consider accelerating progress on both reducing emissions and incentivizing greater international cooperation through more limited agreements among leading emitters in a "climate club."[54]

The basic design could involve a group of countries joining together to accept common carbon pricing policies and agreeing to penalize imports from countries without the same policies. This prevents "carbon leakage," whereby industries might migrate from a country with a carbon pricing regime to a free rider without one.

The major advantages of such an approach are that it is voluntary, can be coordinated more rapidly and less formally among like-minded governments than forging a global consensus, and yet also includes real incentives for compliance and others to join. Countries outside the club, according to the concept, will be incentivized to adopt new carbon policies and make investments in carbon reduction to be more competitive. To help smooth the transition, the club's price floor could increase in a gradual and predictable way.[55]

A move toward a club does carry risks. To help manage the potential impacts of increased prices, the most vulnerable households should receive tax relief or "carbon dividends" from the revenues of this sort of approach. Furthermore, as many developing countries argue, revenues should also help accelerate investments in green technologies in their economies. Standards for carbon accounting will also be critical. Lastly, a club approach should be crafted to preserve its integrity and not become opportunistic protectionism under a green banner. Any club should be consistent with World Trade Organization (WTO) rules.

Membership in a climate club could be adaptable. The Trilateral mainstays such as Australia, the European Union, Japan, South Korea, and the United States are all potential candidates. China and India would make a significant impact as the largest emitters among developing economies if they were willing to join.

Practically speaking, the EU's carbon border adjustment mechanism (CBAM) could provide a starting point for conversations leading to a broader climate club. Another avenue to jumpstart a climate club approach could be to focus first on a sector-based approach rather than attempting to secure agreement covering entire economies. Given the urgency and limited progress to date on the global track, this sort of experimentation is warranted.

All these paths involve tough economic diplomacy. Catalyzing agreement among a smaller number of countries in a climate club promises to be easier than working only through existing multilateral forums to achieve a single global solution. Although difficult, a successful club would shift incentives for additional collaboration leading to broader multilateral agreements.

Singapore Shows How Cities Can Lead the Way

While national governments have a special role to play, cities are already on the frontlines of driving innovation in both climate change mitigation and reduction.

Cities will have a disproportionate impact on whether the global green transition succeeds because for the first time in human history, the majority of the world's population lives in urban areas. They are also the major centers of economic activity. Consequently, cities consume about two-thirds of global energy while generating three-quarters of global greenhouse gas emissions.[56]

In practice, cities will design and implement the innovations in new green approaches to living and working. An encouraging note is that greenhouse gas emissions in cities can be reduced by nearly 90 percent by 2050 using existing technologies.[57]

Already, cities are experimenting with different approaches to public and electric transportation, housing and building retrofitting, green spaces, renewable energy, and carbon capture, as well as taking steps to mitigate climate change impacts today.[58]

Singapore is at the forefront of cities formulating comprehensive strategies to manage climate change. In February 2021, Singapore released the Green Plan 2030, its latest initiative focused on achieving net-zero emissions, increasing sustainability, and building resilience to manage challenges exacerbated by climate change.[59]

Spearheaded by the Singaporean Ministries of Education, National Development, Transport, Sustainability and the Environment, and Trade and Industry, this strategy sets ambitious goals for 2030, including targeting 60,000 electric vehicle charging points, achieving 75 percent mass public transport modal share during peak periods, and limiting all new auto registrations to clean energy models.[60] Many of these efforts were underway in 2022, including the formulation of critical coastal protection plans. The government is also developing a coastal-inland flood model to enable it to game out the impact of extreme rainfall inland and weather events on the coast.[61]

This holistic effort builds on Singapore's track record of innovative ideas, from aquaculture to smart transportation. The Singapore Food Agency's Marine Aquaculture Center, for instance, plays a vital role in facilitating interdisciplinary R&D in aquaculture initiatives. This includes an effort to create the world's first vertical seafood production system designed to mitigate the effects of carbon-intensive shrimp farming.[62]

Singapore has also been lauded for its Intelligent Transport System (ITS). The ITS uses smart transportation technologies like GPS-enabled taxis, highly integrated public transportation infrastructure, and the world's first Electronic Road Pricing systems to ease traffic congestion and decrease greenhouse gas emissions.[63] Today, Singapore is one of the world's least congested major cities.[64]

Hu Chen/Unsplash

CHAPTER 3

A Digital Future for All

The digital revolution is helping us work together in ways previously unimaginable. But to develop more equitable and inclusive growth, capitalism will need to address the divides in digital access for individuals and organizations.

An Accelerating Revolution

THE DIGITAL REVOLUTION EPITOMIZES CAPITALISM'S immense power and potential for innovation and change. New digital tools, techniques, and ways of working have already delivered incredible material benefits, connected humanity as never before, and helped solve previously unsolvable problems—and they promise even more.

Yet, at the same time, digital advances generate tensions. Without access to a computer or the internet, or without the skills to use them, individuals are locked out of the knowledge economy. This can fuel inequality. The digital revolution has also created other risks, ranging from mental health impacts to the concentration of market power in a few large enterprises across the global economy.

By the 2010s, centers for digital innovation took root in different national contexts from Silicon Valley to Singapore to Stockholm, Tokyo to Tel Aviv, Bangalore to Beijing.[65] Digitalization had already touched virtually every person in some way, but its reach remained uneven across countries and within them.[66] The United States and China emerged as the clear leaders in the race, while much of Europe lagged behind. Europe's digital frontier firms, for instance, were only about 60 percent as digitized as comparable American firms. Within countries, some sectors made more use of the digital revolution than others. Not surprisingly, information and communications technology, media, finance, and services led the way. More fragmented sectors like construction, hospitality, and agriculture were largely untouched. Government and education sectors were particularly weak in digitalization too.

The continued expansion of computing power, explosion of data, and refinement of algorithms set the stage for another wave of digital innovation centered around artificial intelligence (AI) in the 2010s. AI is a broad concept that, as IBM notes, combines "computer science and robust datasets, to enable problem-solving."[67] AI is not a single technology, but a set of technologies and approaches that can knit together and accelerate a variety of other innovations. Practically speaking, the use cases for AI range from voice recognition, natural language learning and translation, and visual perception to robotics, autonomous vehicles, algorithmic prediction, and even some forms of creativity.[68]

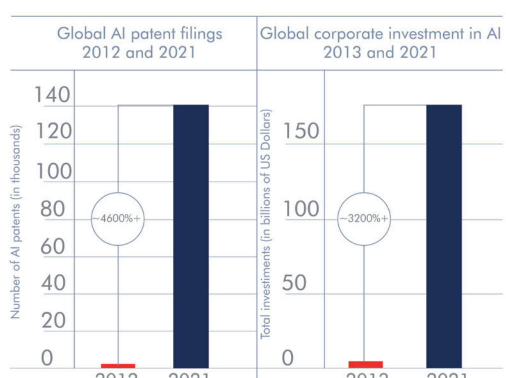
AI research and investment is accelerating. Journal articles, conference presentations, and patents filed and granted all show explosive growth. In the decade leading to 2021, global patent filings increased over 47 percent per year from 2,949 to 141,241 (*Exhibit 3.1*). Global corporate investment in AI followed in lockstep, also growing roughly 47 percent per year between 2013 and 2021.[69] Between 2020 and 2021, private investment grew over 100 percent to $93.5 billion.[70]

As with earlier digitalization, AI's spread is uneven. For example, a Stanford assessment of countries' overall AI "vibrancy," based on measures of research and development as well as distribution of AI capabilities, puts the United States, China, and India ahead of the pack (*Exhibit 3.2*).[71] Corporate innovation highlights the United States and China as leaders. Of the top 20 firms for AI patent applications, 10 are American and five are Chinese. So, too, for private investments. In 2021, the United States secured over $52.9 billion in private AI investment, China $17.2 billion, and, lagging behind both, the EU countries only $6.4 billion.[72] Following overall patterns of digitalization, AI adoption varies across not only firms but also business functions within companies.[73]

As the range and application of digital technologies continue to expand, they are "doing to human brainpower what the steam engine and related technologies did to human muscle power during the Industrial Revolution," argues MIT professor Andrew McAfee.[74] AI and other digital-enabled improvements are building on each other to shape and accelerate the "Second Machine Age" and "the Fourth Industrial Revolution."[75] For the economy, the upsides abound. Yet the deeper the digital revolution is embedded in our lives, cultures, and political and economic systems, the greater the danger if not everyone can take part.

Exhibit 3.1

Trends in AI patents and investment



Source: Stanford Institute for Human-Centered Artificial Intelligence, Center for Security and Emerging Technologies, NetBase Quid, The Trilateral Commission

Obstacles to Overcome to Close the Digital Divides

It is hard to imagine fifth stage capitalism prioritizing equal opportunity and yet not addressing multiple digital divides. To the extent that access to the digital revolution remains uneven, it risks compounding other inequalities. And every person and firm left behind represents lost economic and social potential. Furthermore, success in tackling the green transition and other challenges depends upon harnessing digital power.

Capturing the digital revolution's potential can be done by addressing different dimensions of access: access to connectivity, access to skills, access to scale, and access to data.

First, at the highest level, digital access is correlated with overall economic development (*Exhibit 3.3*). The United Nations estimates that almost half the world's population—3.7 billion people, the majority of them women, and mostly in developing countries—is still offline.[76] About 2.9 billion have never even used the internet at all.[77] Although connectivity is weaker in developing countries because of underdeveloped infrastructure, significant numbers of people in developed economies remain excluded from digital life as well.[78] This is sometimes a function of the "last mile problem," especially for those living in rural and remote areas where it may not be profitable to extend a network. Across countries, affordability is a recurring challenge as well.[79]

Second, after access to digital connectivity comes the question of how to ensure access to the skills needed for an individual to thrive in our increasingly digitized economies. The digital transition to the "Second Machine Age," as coined by Eric Brynjolfsson and Andrew McAfee, is a "skills-biased technical change," one that "favors people with more education, training, and experience."[80] Workers with lower skills may fear automation taking their livelihoods. Data confirms their jobs are precarious: since the 1980s, the labor share of gross domestic product has declined in most countries as firms decided to invest in new technologies, rather than labor, to drive efficiencies.[81]

From a global perspective, the scope and scale of these labor market changes are significant. While less than 5 percent of occupations appear to be fully automatable, about 60 percent of occupations could have at least 30 percent of their tasks automated.[82] According to some scenarios, up to 375 million workers will need to adapt, build new skills, and change occupations by 2030. These impacts would not be spread evenly across countries.[83]

Third, from a firm perspective, scale matters to how well any company can adopt and use new digital capabilities. Larger firms can invest in computing power, data storage, and advanced AI, and they also have advantages in recruiting talent. Consequently, the larger the firm, the easier it is to establish a virtuous, self-reinforcing cycle whereby adopting AI approaches provides better analytic insights that lead to better business results that generate more and richer data. Conversely, small- and medium-sized businesses—which are typically engines of employment and growth—have a harder time digitizing and thus competing.[84] Since AI advantages scale, market concentration may reach a tipping point where dominant firms could "lock in" their market position, thus distorting the market over the long run.

Exhibit 3.2

Global AI Vibrancy Ranking, 2021

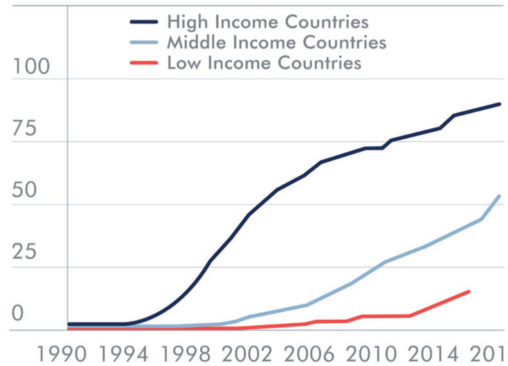
Weighted index scores in research & development and economy

Source: Stanford Institute for Human-Centered Artificial Intelligence, The Trilateral Commission

Exhibit 3.3

A wide access divide

Percentage of the population using internet



Source: World Bank, The Trilateral Commission

The major digital platforms thus pose a fundamental "paradox" to antitrust authorities in fifth stage capitalism.[85] Regulators could try to open the field to competitors, but, in the process, they would reduce economies of scale and possibly undermine the very services that consumers seek. They could alternatively let the market dictate outcomes, in which case key companies might enjoy semi-monopolistic positions until new entrants disrupt them, if ever. Market competition's power should not be underestimated, as demonstrated by firms like TikTok that have disrupted digital markets and incumbents with innovative products.

Fourth, there is data ownership. Countries differ in how far they have advanced in data and privacy protections. Different varieties of capitalism tend to answer the question of who controls digital data differently. To simplify, democratic types of capitalism tend to grant the ownership of data either primarily to firms (liberal democratic capitalism) or citizens (social democratic capitalism), whereas authoritarian capitalisms' view data as, ultimately, an asset of the state. Compare the United States' demurral on national regulations to the EU's General Data Protection Regulation, known as GDPR, which sets a standard for access to data focused on protection and personalized control.[86]

In this context, cooperation to develop consistent approaches to the digital domain, including data policies, has proved challenging among the advanced democracies. There are some movements signaling potential for increased collaboration. For instance, the G7 has placed digital collaboration on its agenda.[87] Starting in 2021, the European Union and the United States announced the establishment of a U.S.-EU Trade and Technology Council (TTC). As outlined in its inaugural joint statement, the TTC's purpose is to "coordinate approaches to key global technology, economic, and trade issues."[88] In March 2022, the United States and EU announced a new Trans-Atlantic Data Privacy Framework to address concerns raised by the Court of Justice of the European Union and help open the door to greater collaboration in the TTC.[89] More such collaboration will be needed to ensure a secure and innovative digital environment.

Recommendations to Move to a Digital Future for All

BUILDING SHARED UNDERSTANDING AND DIRECTION

Harnessing the digital revolution's potential is central to the new spirit of capitalism. Without it, a more sustainable and inclusive economic system will remain out of reach. This report therefore proposes that:

Every person should have access to the benefits of the digital revolution

Like the other goals in this report, this one emphasizes equal opportunity. A world divided permanently between digital haves and have-nots is inherently inequitable. Access to digital infrastructure is akin to indoor plumbing and electricity. But access alone is insufficient. It must be combined with digital literacy and data and privacy protections. To make the most of the digital revolution, meanwhile, innovation must be sustained and shared, not slowed by market concentration.

Although bold, this goal is realistic. People across the political spectrum appreciate the necessity of basic infrastructure and skills for success in the digital age. The goal is likewise affordable. Market incentives push businesses to extend access to as broad a population as possible. Many digital innovations will dramatically lower the costs of education and some business operations.

PRIORITIZING INVESTMENTS

Establish inclusive national digital strategies

Achieving access for all will require clear national strategies. These should champion smart growth that targets limited public resources in the most effective fashion and enables private sector innovation.

Government: While national digital strategies will share many common features, each country should tailor its own to its level of development, existing infrastructure, industry composition, and the balance between state and market in delivering public goods. But first and foremost, such strategies should promote inclusive access across all of society.

Public-private collaboration: For each country's strategy, the mix will vary, but all such efforts will engage the public, private, and nonprofit sectors. Business models and financing will also vary. Some strategies will rely more heavily on direct state investment in digital infrastructure, whereas others will rely more on regulatory and tax incentives to encourage private sector investment.

Close the connectivity gaps

Connectivity is a prerequisite for equality of opportunity in this era. Billions of people still do not have easy or affordable access to essential digital services.

Government: In addition to helping design, and sometimes fund, programs to close the connectivity gaps, governments should consider leveraging their regulatory powers to require providers to offer access to all citizens as a public good. Some governments may also invest directly in acquiring and managing free, open internet networks.

Public-private collaboration: Each country's approach will involve varying degrees of public-private collaboration, depending on the country's ownership structure for communications. Funding and delivery models will likewise vary from direct funding to consumers, to incentives to providers, to state grants to close remaining "last mile" gaps.

Promote universal digital literacy

Digital literacy is essential for success in today's economy. Promoting it today is analogous in importance to the mass education reforms of the 19th century, which drove a step change in literacy and numeracy in many countries and, in turn, accelerated growth.

Government: Education should be revamped to support true lifelong learning for all, as described in the next section. Governments should ensure universal digital literacy as a core to any curriculum. Digital technologies are foundational to such reforms, as they can reach virtually unlimited populations without the physical constraints of traditional schools.

Public-private collaboration: Governments, businesses, higher education institutions, and nonprofits should develop free digital literacy training in all major languages and formats to make it accessible to all audiences.

Empower employees with digital tools

Like education for younger people, lifelong learning and skill building in the digital domain should be accessible to all workers. This will help them succeed in their current roles and be more agile as industries change.

Government: The digital revolution is already reshaping work and skill requirements. Governments should include analyses of the potential for digital disruption across industries in their national strategies. Government policy can influence the timing and demand for worker training arising from these transitions.

Business: Businesses should play an important role in the design and delivery of digital training for their workforces. Special attention should be paid to "portable" certifications with recognized standards for basic digital skills.[90]

Establish hubs to disperse digital innovation

All firms will need to harness digital capabilities to improve their business models and operations. Modeled after successful examples of government-business collaboration, leading firms can help others reimagine their business operations through cooperative hubs or centers to develop and share best practices.[91]

Government: Governments should support the creation of such hubs and the dispersal of industrial best practices through research, data sharing, convening, and financial support ranging from grants to tax incentives.

Business: In addition to collaborating with governments to establish hubs, business, trade, and industry associations should combine financial and technical resources to support physical or virtual technology centers to spread new digital best practices.

Public-private collaboration: Different organizations can take the lead in convening and structuring collaborations to identify and share best practices within and across industries. Their orientation can range from applied research to skill building. An alternative approach is for nonprofits to serve as neutral conveners to accelerate these efforts.

Transform government operations

Government remains one of the least digitalized sectors in most countries. Improving state capacity is critical for the success of capitalism. A more capable democratic state provides more effective and efficient services, ranging from policy design to business licensing to taxation to social services.

Government: Governments should prioritize modernizing their internal operations and service delivery. This will require multiyear investment strategies, which, in turn, will require sustained engagement with legislators and other stakeholders. Like other sectors, AI-based approaches can help automate many government operations, enabling civil servants to focus on more complex and impactful work. Governments should also enhance the role of data and analytics in the design, delivery, and management of policies and services. Expanding "open data" initiatives will also be an important part of such reforms.[92]

Often lacking the digital talent to design and implement such transformations, governments should tap private sector expertise. The UK's Government Digital Service, launched in 2011, and its success in transforming digital services has inspired other efforts like the United States Digital Service, the Canadian Digital Service, and the DigitalService4Germany.[93]

ESTABLISHING NEW "RULES OF THE ROAD"

Adapt antitrust for the digital age

The scale, scope, and market concentration of some digital enterprises pose risks. Inherited approaches to antitrust do not always work in an industry where customers receive "free" products and services in exchange for access to their data.

Government: Governments should invest in the institutional capacities of their regulatory agencies to ensure they possess the analytic capabilities to evaluate complex digital market dynamics and develop methods for promoting competition. Regulatory agencies should explore the potential for "sandboxes" that allow businesses to try out new services or products in a different regulatory environment to assess potential options in a more data-driven manner.[94] Some countries may conclude that statutory updates are needed to match the special features of digital technologies and their markets. Other potential regulatory options could include requirements for social media platforms to share more information about their algorithms and impact with the government and independent researchers; customer data ownership rights covering privacy, portability, and interoperability across platforms; and separation of platforms operating in adjacent lines of business.

Develop a plurilateral WTO framework on digital trade

Digital trade is rapidly growing. The WTO is the quintessential 20th-century organization struggling to remain effective in the 21st.

International: In December 2017, a group of WTO member countries began discussions for international rules to govern e-commerce. While progress has been slow and halting, in December 2021 WTO ministers set a goal of reaching agreement on most issues by the end of 2022. Meanwhile, bilateral and regional digital agreements have proliferated among WTO member states. This proliferation creates uncertainty in international trade. Despite its challenges, the WTO plays a unique role in sustaining a level playing field in trade. Governments should commit to work with the WTO to find a shared path forward.[95]

TRILATERAL RECOMMENDATION

Establish an alliance of "techno-democracies"

Many of the international institutions inherited from the 20th century are not adapted to the digital age. At the same time, no advanced democratic capitalist country has avoided the downside risks of this era, which range from state-sponsored disinformation campaigns to cybercrimes. The war in Ukraine and the resulting exit from the Russian market of most Western technology and social media firms marks a new chapter in the digital world—one more fragmented and dangerous.

Today, the Trilateral countries lack a forum for collaboration across the range of digital issues—spanning from scientific and technical to economic and commercial to security, military, and law enforcement.

Like-minded democracies and technological leaders should, therefore, establish an alliance to fill this gap. Such an alliance could help ensure a digital order that preserves and promotes open societies, combats the illiberal use of emerging digital technologies, and maximizes the economic potential of these innovations.

The Financial Stability Board (FSB) provides a potential analogue for the type of organization or network to consider on the digital front. The world's major economies established the FSB in 2009 in response to the 2008–09 global financial crisis. The FSB was designed to fix vulnerabilities in global finance while promoting more coherent policymaking. Under the auspices of the G20, the FSB matured until it evolved into an independent nonprofit organization based in Switzerland.[96]

A similar forum should be established for the digital economy.[97] While there are a range of potential models, the most productive path likely starts with a more informal, bureaucratically "light" group and then evolves through practice and results, as the FSB has.[98] A less structured approach would afford flexibility to support dialogue, coordination, and working groups including government, business, academic, and nonprofit organizations.

Such an informal alliance could start by bringing together experts and officials to set common standards regarding digital technologies and definitions of cybercrime, discuss common approaches to antitrust rules, and develop a framework to address AI's most pressing ethical issues, while working to harmonize their policies concerning privacy and data ownership. Interoperability and common rules about data portability and transfer are critical to achieving economies of scale and enabling connectivity. Eventually, this forum could evolve to address more sensitive topics such as online propaganda, disinformation, and cyber threats. It could also help coordinate investments and share intelligence among the leading democratic digital countries to counter the misuse of digital technologies by autocratic regimes.

The G7 governments' recent progress on digital coordination could provide a seed for this effort.[99] Members could include other like-minded democratic countries that possess disproportionate influence in the digital space. Given their digital depth, some logical candidates include Australia and South Korea from the Asia-Pacific region, Finland and Sweden from Europe, and Israel from the Mediterranean region. Including India, another global leader in AI, in the alliance would strengthen its development of "rules of the road" aligned with democratic capitalist values and interests.[100] The membership could be open to all like-minded countries as the alliance builds momentum.

Clayton Cardinalli/Unsplash

A Fourth Industrial Revolution "Sustainability Lighthouse" Shines in Malaysia

Starting in 2018, the World Economic Forum (WEF) established its Global Lighthouse Network (GLN) to showcase businesses pioneering "Fourth Industrial Revolution" manufacturing that delivers superior business impact and sustainability.[101]

The GLN serves as a platform for sharing best practices, learning, facilitating collaboration, scaling innovations, setting benchmarks, and celebrating success. By early 2022, over 100 facilities around the world had earned a "lighthouse" designation—meaning they serve as examples to guide others—including six "sustainability lighthouses" that demonstrated how new industrial operations can contribute to the green transition. "Lighthouses are," as the WEF notes, "defying the conventional wisdom that environmental responsibility is inherently at odds with productivity and, by extension, profitability."[102]

Western Digital, the American hard disk drive and data storage company, has earned several lighthouse designations. Its factory in Penang, Malaysia, earned a "sustainability lighthouse" designation in 2022.[103]

This smart factory had expanded its volume over 40 percent per year over four years, and simultaneously delivered dramatic improvements in its sustainability. The facility reduced its energy consumption by over 40 percent, its water use by 45 percent, and its waste by 16 percent. Overall, the Penang facility lowered its greenhouse gas emissions around 40 percent.

Western Digital achieved these combined business and sustainability results by integrating the best of the digital revolution into its operations. At the heart of the change lies a network of more than 1,000 industrial internet of things (IIoT) sensors monitoring some 500 pieces of equipment and 15 utility systems, all then linked to an advanced analytics plant monitoring system. Automation improved by machine learning helps deliver greater efficiencies.[104]

The Western Digital "sustainability lighthouse" in Penang, and other lighthouses around the world, help illuminate paths for businesses to follow to deliver sustainable impact and profitability.

CHAPTER 4

Toward a More Inclusive Future

Inequalities emerge from the workings of capitalism, but children's postal codes should not determine their destiny. Addressing inequality is fundamental to redefining capitalism in the 21st century.

Approaching Historic Inequality

INEQUALITY IS NOTHING NEW. The great temples, royal palaces, pyramids, and castles that tourists visit around the world are typically enduring legacies of inequality—the concentration of wealth in the hands of a privileged few.

That said, the level of inequality neoliberal capitalism has bequeathed us in the 21st century is concerning. And it has taken a different shape than in previous eras. Over the last 30 years, Asia's stellar economic performance has allowed once low-income countries to close the gap with advanced economies. Although the gap between nations is still substantial—the average income of someone living in North America, for example, is 16 times higher than that of a person in sub-Saharan Africa—only one-third of global inequality today is due to differences *between* countries.[105] Two-thirds is due to inequality *within* them[106] (*Exhibit 4.1*).

The origins of today's inequality are found in the workings of capitalism itself. In the cycle of "creative destruction" highlighted by the economist Joseph Schumpeter, the relentless pursuit of profits leads entrepreneurs and firms to innovate and take risks.[107] Some bet big and lose, others win. The winners reap outsized rewards for their risk-taking. Thus, capitalism begets inequality of outcomes. But these advantages—in truly competitive markets—should not become entrenched. Eventually, other firms adopt the innovations, their performance improves, and inequality starts declining.

Similarly, at an individual level, factors such as talent, skills, drive, and tolerance for risk are not evenly distributed. The market rewards individuals with them, but, in a perfectly functioning capitalist system, those inequalities should be linked to the individual, not generational, as new people with new skills are born.[108]

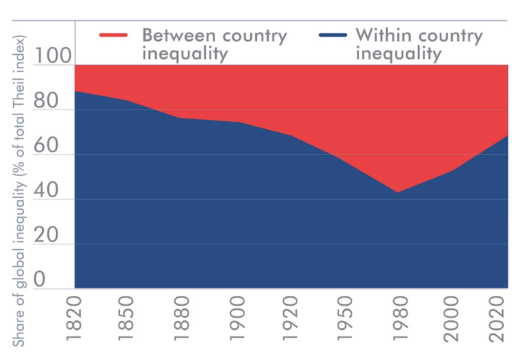
But the world we live and work in is messy. In practice, a complex interplay of factors works to entrench inequality. At the international level, globalization enables the division of production across complex global value chains, often designed in pursuit of the lowest cost labor possible, which puts downward pressure on wages in many markets. At the national level, a country's level of development and industry structure, its prevailing model of capitalism (*see Analytic Appendix for more*), and other local, sometimes unique contextual factors can affect inequality. At the sector level, "skills-biased" technological progress tends to boost the productivity and demand for higher skilled workers, particularly those at cutting-edge firms, while contributing less for those at the bottom of the skills distribution.[109] Lessening worker power in the marketplace—symbolized by a 50-year decline in overall unionization rates among Organisation for Economic Co-operation and Development (OECD) countries—has also contributed to wage stagnation in some places.[110] And at the individual and community levels, discrimination along racial, ethnic, national, gender, religious, and other social lines erects barriers to equal opportunity in the market.

While inequality is not a uniform problem across all Trilateral geographies—for instance, Europe has lower inequality relative to North America and Asia—every society, no matter how prosperous, has people and places that are left behind. And in every country, we see inequalities entrench and persist. Too often, a child's fate—regardless of her talent—is decided by the postal code where she lives. And that kind of inequality—where the world's top 1 percent have nearly 20 times the wealth

Exhibit 4.1

Rising domestic inequality

Global income inequality, 1820-2020: Theil index

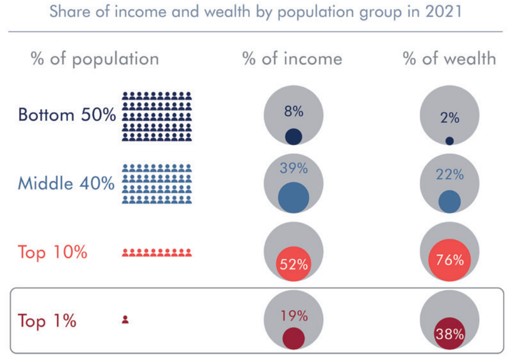


Source: Chancel and Piketty (2021), The Trilateral Commission

Exhibit 4.2

Global income and wealth inequality

Share of income and wealth by population group in 2021



Source: World Inequality Database, The Trilateral Commission of the bottom 50 percent—inevitably raises questions about the legitimacy of the system that produces it (*Exhibit 4.2*).

Tackling inequality is therefore critical to capitalism's success and legitimacy in the 21st century.

Obstacles to Overcome to Move to a More Inclusive Future

Tracing the path of a life journey from birth and home to education and then the labor market and work illustrates the barriers that can impede equality of opportunity. Each country has its own challenges—and its own places and people that get left behind. Each will need to tailor its solutions. But this survey highlights common categories of obstacles, including location, family, class, ethnicity, race, gender, and other factors.

The English philosopher Bertrand Russell once joked "choose your parents wisely." Some people, he intuited, are born ahead. Luck of who their parents are, not their individual skills or work ethic, means children face "diverging destinies."[111] In fact, inherited wealth remains the most direct mechanism for perpetuating inequality. A child's health, stability, and household dynamics in the first few years of life matter greatly. Disadvantaged children have a higher probability of doing poorly in school, often abandoning it early on, and subsequently have lower incomes to provide for their own children.[112] Different birth-related dimensions of inequality (e.g., family backgrounds, race, gender, etc.) are further exacerbated by clustering effects as people with similar professional and socioeconomic backgrounds tend to concentrate in the same area. Empirical evidence shows lower income children do better when they grow up in some locations rather than in others.[113]

Education may be one of the greatest methods for reducing inequality; data from various countries shows that government-supported education can reduce the importance of family background on future success.[114] Privileged access to education and high-status credentials, however, can reinforce inequality.[115] In part, that's because potential employers often use academic degrees as screening mechanisms—even if those degrees are not really necessary for a specific job. As a result, people with the right skills and experience can be screened out of the selection process, missing opportunities that would be mutually beneficial for both employer and employee. This so-called degree gap may be worsening.[116]

The sources of inequality that influence childhood and education tend to continue into one's working adulthood. Discrimination by race, ethnicity, caste, country of origin, gender, and a host of other factors affect career opportunities and progress. Overlaid on these dynamics are policy or cultural factors that compound existing inequality. Even when workers possess the right academic credentials and can get good jobs, salary differentials within a firm might not always reflect genuine differences in responsibility or talent. One striking trend in the last four decades is the steep increase in executive compensation that has been combined with the wage stagnation of average workers in most advanced economies.[117]

Differences between firms also matter. Two-thirds of the increase in income inequality in the United States is due to differences between them.[118] The best-performing firms pull away from the rest, recording high productivity growth that allows them to pay generous salaries to their workers. High-wage employees tend to cluster in high-wage firms.[119] Poor wage setting rules can also affect firm-level inequality. In general, labor market reforms that increase workers' negotiating power through legal protections can help reduce inequality without harming growth. Examples include rules about minimum wages, employment protections, trade unions, and wage coordination.[120]

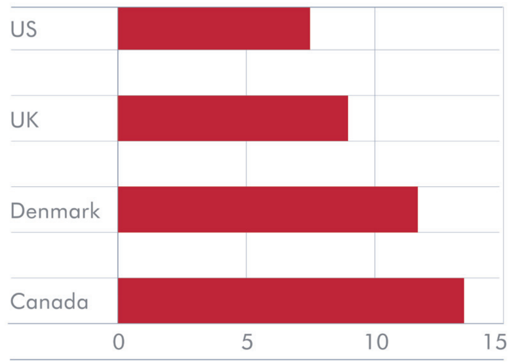
Together, these dynamics contribute to stalled social mobility in many economies (*Exhibit 4.3*).

Looking toward solutions, fundamentally, markets should be designed to create fairer outcomes from the beginning of a life.[121] To be sure, redistributive programs through taxation and disbursements will need to continue. That said, pre-distribution—interventions focused on leveling the playing field from birth—stresses

Exhibit 4.3

Stalled social mobility

Probability of a child moving from bottom to top income quintile (%)



Source: Reeves and Krause (2018), The Trilateral Commission the greater effectiveness of interventions designed to promote equal opportunity from the start, rather than trying to rectify inequalities later on, mainly through redistribution. Success in life and one's position in the income distribution is partly the result of luck, partly the result of innate talent, and partly—and more importantly—the result of the skills, experiences, and certifications a person accumulates during his, her, or their life. A more equitable and inclusive opening of economic opportunities from the start reduces the need for redistribution through taxation and subsidies.

Recommendations to Move to a More Inclusive Future

BUILDING SHARED UNDERSTANDING AND DIRECTION

The preceding analysis affirms that the new spirit of capitalism should have a bold goal to make capitalism more inclusive and equitable. The task force proposes:

Every person should have the opportunity to achieve their potential.

These 10 words explicitly focus on equality of opportunity. They embrace the varieties of human experience. The goal does not imply one concept of the "good life," nor the desirability of identical outcomes. Some people will focus on individual achievement while others on their community's. But no person should face permanent inequalities—or the "locking in" of privilege that prevents his, her, or their advance.

This goal is intuitively attractive from a normative perspective, but it also leads to sound policy. Capitalism succeeds in proportion to the talent and creativity it taps. We all suffer when a talented child cannot grow to contribute. Focusing on the beginning of opportunity—with policies emphasizing pre-distributive investments and removing legacy barriers—is more efficient and effective than redistribution after inequality is already locked in.

This goal is also pragmatic. It is aligned with the effective functioning of markets and capitalism. Investments in human capital, better functioning labor markets, and the breaking down of barriers erected to protect special interests all make capitalism stronger. Lastly, a commitment to foundational equality gives people a stake in the system.

PRIORITIZING INVESTMENTS

Ensure a fair start

Equality of opportunity begins before birth and continues into childhood. Early investment in a child's life is therefore critical to promoting greater equity.

Government: Governments should play an important role in supporting equality of opportunity from the start. Approaches range from prenatal education and healthcare, to basic nutritional support, to initiatives for early childhood intellectual development. The precise mechanism for the support includes everything from state-subsidized early childcare programs and cash payments to qualified families in more social democratic countries, to indirect financial support through tax policies such as earned income tax credits in the United States.

In planning infrastructure, governments should prioritize investments in affordable mixed-use housing, mass transit, parks and recreation areas, and digital access. Such investments help families have a fair start by lowering the costs of living and freeing time for parents to spend with their children.

Business: Businesses should also contribute to a "fair start" through benefits such as paid leave policies and other assistance like onsite daycare.

Public-private collaboration: Governments should work with nonprofits to design and deliver "fair start" programs, potentially backed by state funding.

International: Today, governments can learn from one another's policy interventions through the sharing of best practices.[122] Systematic, comparative analyses of the advantages and disadvantages of different policies—such as universal basic income experiments—could provide areas for collaboration.

Attack legacy barriers to opportunity

Despite much progress, a range of legacy barriers continue to slow or stop individuals from achieving their potential. These barriers vary by country, level of economic development, and sometimes culture. Overcoming them will require focused effort.

Government: As just one example, decades of research validate the effectiveness of programs targeting women's literacy and health. These programs disproportionately affect not only the women's lives, but also broader economic development in their communities.[123] Financial education is especially important for helping women achieve better business results and more equality and empowerment. Similar efforts could expand to empower other marginalized communities and groups.

Business: There is a strong business case for improving the diversity of leadership in the private sector. Diversity improves business performance.[124] Women and racial minorities, however, are still underrepresented in senior leadership roles, including on boards of directors. A root cause is that fewer people in these categories are promoted to manager. That means the first rung in the career ladder is broken, which has far-reaching consequences.[125] Addressing these challenges requires businesses to invest time, resources, and visible senior leadership commitment to recruiting and mentoring talent.

Tackle stagnating wages

Well-paying jobs are important for addressing inequality. In the past 30 years, however, corporate valuations and profitability have increased in tandem with slow wage growth for most workers and increasing income inequality.

Government: Governments should support minimum living wage requirements, which will, in turn, affect labor rates across the market. While a rapid re-unionization is unlikely in many economies, governments can reaffirm trade unions' role as an effective partner with management.

Business: Business leaders should embrace more "people-focused" management, including providing living wages to employees.[126] Unions, too, need to modernize to attract new members, for instance, by offering new skill building and job services to their members or by helping provide cooperative insurance and benefits to "gig" workers.

ESTABLISHING NEW "RULES OF THE ROAD"

Modernize credentialing

Access to a good job is critical to equality of opportunity. Capitalism works best for the individual and as a system when the labor market has insight into a person's real skills, experience, and potential. Too often, people with the skills and potential are excluded from opportunities because of inflated credential requirements.

Government: As an important part of the broader educational transformation, governments should promote alternative career paths, the adoption of microcertifications, and different learning models. While preserving essential continuing education requirements for professions such as physicians, engineers, and other high risk or technical fields, they should explore professional certification and licensing reforms that improve workforce mobility and reduce artificial barriers to entry in some careers.[127] As major employers themselves, governments should also reevaluate their hiring criteria and, where appropriate, move job requirements toward skills and away from educational credentials.[128]

Business: Businesses have a central role in shaping labor markets. Across industries, accelerating credentialing reforms is ultimately in businesses' self-interest, since doing so expands the pool of potential candidates. But they will need to develop new approaches to assess candidates' full range of skills and capabilities. Businesses should also commit to reviewing job requirements for all positions to ensure that they do not include unnecessary and exclusionary requirements.

Address market concentration

Concentration of market power is always a potential threat to capitalism and democratic governance. Concentrated power can "lock in" inequalities, including those shaping labor markets and constraining wage growth.

Government: Governments should sufficiently resource their agencies to monitor market concentration across industries and take regulatory action to ensure competitive markets. Data shows, for example, market concentration has increased in many sectors of the American economy, not just in high tech.[129] (For additional perspectives on antitrust, see the digital chapter above).

Provide workers an equity stake

Extending equity ownership to workers would increase perceived fairness and workers' stake in their companies. While history shows capital income tends to grow faster than labor earnings, such proposals aim to increase workers' engagement in their jobs—and thus their productivity—while helping lengthen their company's strategic horizon.[130]

Public-private collaboration: There is no single ideal way to design worker ownerships plans. Workers can own stocks in their companies through profit-sharing or pension plans, or through schemes to share ownership. In some countries, the government will take the lead; in other cases, firms will.[131]

Eliminate administrative burden

Administrative burden is a tax on the poor. Whether to validate eligibility for public benefits or register a business, cumbersome bureaucratic requirements can slow or prevent citizens from receiving the services they deserve, as well as create barriers that favor incumbent businesses or special interests. Such burdens also offer opportunities for petty public corruption.[132]

Government: Governments should commit to continuous improvement in eliminating administrative burden and redouble efforts to make it as easy as possible for citizens to be informed about and receive benefits. They should undertake regular reviews of how they engage with citizens—from regulation to taxation to provision of social services. They should seek any required regulatory and/or statutory changes to streamline burdensome processes.

Tax consistently

Regardless of the absolute value of taxes at stake, consistent application of tax policies reinforces confidence in the system's fairness.

Governments: Closing loopholes in the tax system would not necessarily require taxing wealthier people more but ensuring they pay their share of taxes. Better structured capital income taxes will not be enough to address the deepest sources of inequality without being complemented by some form of wealth taxation.[133]

Cross-government cooperation: Governments should intensify their international tax coordination, including standard setting, information sharing, and enforcement. In a globalized financial system, one country's public policies may be undermined by tax competition with another country. Most simply, the wealthy can move their fortunes to a more favorable tax jurisdiction.

Recent progress in international efforts to introduce a 15 percent minimum global corporate tax signals both the difficulties and potential of greater cross-border tax coordination.[134]

Address large inheritances

Regulating inheritance necessarily involves balancing individual freedoms with social good. How states manage the issue sends a strong message on the value placed on equality of opportunity.

Government: Taxing inheritances is often more a matter of symbolism than a significant route toward increasing tax revenues, due in part to the diversity of inheritance tax frameworks globally. Many recent provisions across OECD countries, for example, have narrowed inheritance tax bases. Trends in wealth concentration and inheritance values, however, suggest inheritance taxes may become more important in the years ahead. While careful design, tailored to specific country context would be needed, governments should explore the potential to increase both equity and revenue while minimizing administrative complexities through inheritance taxation reform. Policies to reduce inheritances can also signal a broader social commitment to equality of opportunity. Some countries might go a step further to direct revenues from such a tax to helping lower income families invest in their children and, thereby, help increase intergenerational economic mobility.[135]

TRILATERAL RECOMMENDATION

Ensure quality lifelong learning is accessible to every person by the end of the decade

Previous stages of capitalism both fueled and were fueled by transformations in education—notably, the introduction of compulsory primary education in the 19th century and the post–World War II expansions of higher education in many countries.

Entering the fifth stage of capitalism, the Trilateral countries have the opportunity to launch a "moonshot" initiative to remake education on the scale of the reforms of the 19th and 20th centuries. Its objective: ensuring every person can access high-quality lifelong learning by the end of this decade. Such training will be designed to fit an individual's personalized needs by role, experience, age, sector, industry, and geography.

To develop education with this granularity, the public and private sectors alike will have to rely on AI to mine insights from vast data sets available through social media, employment firms, and public sources. The programs will be delivered through multiple digital channels in an individual's language, relying again on AI-enabled multilanguage translation, as well as graded and interactive exercises. We already see this potential in initiatives like Arizona State University's plans to reach 100 million more students this decade through the innovative use of AI technologies (*See "Art of the Possible – Addressing Inequalities"*). All this will only be achieved through applying at scale a series of digital innovations.

Like the Apollo program announced by U.S. President John F. Kennedy 60 years ago, in announcing such a bold goal, the Trilateral countries would not yet have in hand all the design and technical capabilities to achieve their goal.[136] Like in the 1960s, though, most of the required infrastructure and digital capabilities already exist or will soon exist. And like in the Apollo era, the bold goal will help focus a set of potentially divergent efforts and innovations toward a singular historic objective.

Unlike the moonshot of the 1960s, however, such an effort will not involve a single engineering project led and funded by one government. Rather, it will be more like an "initiative of initiatives," one that knits together a number of recommendations from across this report. And success will emerge from diverse networks involving private enterprises, educational institutions, governments, nonprofits, and entrepreneurs.

Alongside publicly funded education, businesses must play a central role because a significant portion of lifetime learning occurs at work rather than inside traditional academic institutions. Part of this lifelong learning, therefore, will be more "real time" training, tailored to specific work or career requirements. Before the COVID pandemic, the global workplace training industry was estimated to be over $370 billion per year.[137] Looking forward, such investment will be even more important.

A purpose-built, international nonprofit enterprise could provide coherence to such an effort. Its core functions would include catalyzing research and program priorities across networks; convening leaders, experts, innovators, and other stakeholders to learn, motivate, and mobilize; coordinating informally across networks and institutions to help the division of labor to address major gaps in access; and communicating and serving as a clearinghouse of best practices, programs, innovations, and lessons learned. Ideally, such an enterprise would combine public and private resources with an independent international management team.

This concluding Trilateral recommendation integrates the digital revolution's potential with the imperative of advancing equality of opportunity. Importantly, such a transformation in lifelong learning also contributes to achieving all the other goals and the broader transition to a more sustainable and equitable fifth state capitalism.

Avi Waxman/Unsplash

Arizona State University’s 100 Million Learners Initiative

Arizona State University (ASU) has become one of the most innovative higher education institutions in the world under the leadership of President Michael Crow.[138]

In 2022, ASU challenged the art of the possible when it launched one of the most ambitious innovations in global higher education—the Francis and Dionne Najafi 100 Million Learners Global Initiative.[139]

The initiative plans to reach 100 million students worldwide by 2030.

In collaboration with the Thunderbird School of Global Management, the initiative will offer five management online courses, each of which awards a microcertification badge upon completion. Upon completing all five courses, a student is awarded 15 credit hours, which can count toward a degree at Thunderbird, ASU, or other universities.

The program is designed with three tracks for lifetime learners of all types: for learners without a high school diploma, at the undergraduate level, and at the graduate level. The courses will be accessible online through computers or smartphones.

The program is free and open to all. ASU hopes 70 percent of the participants will eventually be women. Behind this model is a collaboration between ASU—a public higher education institution—and private philanthropy.

The initiative can achieve its unique combination of reach and affordability because it relies upon an innovative mix of ASU professors supported by AI and machine learning capabilities to help teach and grade the courses. Furthermore, working with Google, the program will use a purpose-built translation engine to deliver the courses in 40 languages, from Arabic to Zulu, within four years.

The program began in 2022 with a 54-hour “Global Entrepreneurship and Innovation Bootcamp” with no prerequisite certificates or credentials.[140]

The 100 Million Learners Initiative presages the power of the digital revolution to transform education for true lifelong learning, affordably, across cultures, and on a global scale.

CHAPTER 5

Toward a New Spirit of Capitalism

CAPITALISM SHAPES OUR WORLD. Its impact is far-reaching, extending over centuries. Its long history was never a straight line. But capitalism has delivered unprecedented prosperity and helped improve countless lives in ways unimaginable just decades ago.

Yet, today, many feel frustrated. The capitalist system and institutions inherited from the 20th century no longer work as they once did. For many families, prosperity and security are harder to find.[141]

Even before the outbreak of the COVID-19 pandemic, global surveys found that most people felt their countries were already on the "wrong track."[142] There are a host of factors behind such feelings—and many of them are not linked to capitalism directly. That said, plenty of them are. Efforts to respond to climate change have proved inconsistent. Digital technologies have changed people's lives—and not always in positive ways. Many families in advanced economies face stagnating incomes while unmatched wealth is accrued by the few. In turn, trust in established institutions has continued to erode. Now, with the pandemic in its third year, uncertainties about the future linger and are only heightened by Russia's invasion of Ukraine, further disruptions to the global economy, and rising inflation.

Such feelings are understandable. And whether or not we act to shape the future of capitalism, therefore, is a defining question of our time.

The Trilateral Commission Task Force on Global Capitalism in Transition emerged unified in this conviction: capitalism remains the most powerful engine of prosperity and well-being. Yet its success is not preordained. We can see outlines of a future defined by inaction. A hotter planet creating a cascade of economic, social, humanitarian, and political consequences. Lost opportunities for digital transformation. A more unequal world, defined more by people and places "left behind" than by social mobility. However, by tackling these challenges, we open new opportunities not only to increase our collective material wealth, but also to raise the overall well-being of billions of people around the world.

A complex interplay of factors has shaped—and will continue to shape—capitalism's development. Capitalism is a complex cultural system. It shapes and is shaped by billions of independent, decentralized decisions every day. These range from mundane individual choices to multibillion dollar investment decisions by companies and governments. What technologies we develop and spread matters. Where we invest matters. How we educate matters. How we work together matters. Where we place factories and supply chains matters. Whether we cooperate or compete to define "rules of the road" matters.

And which ideas and values move us matter too. This was the great sociologist Max Weber's core insight more than a century ago as he contemplated the rise of capitalism.[143] We cannot understand capitalism, he concluded, without understanding its foundations. And these foundations are found in the mind and heart more than material and machines. These foundations include our values and aspirations for the future. They inform the individual decisions and actions that ultimately make capitalism work. These ideas together become the animating "spirit" of an era's capitalism.

Considering capitalism's development and our era's challenges highlights cross-cutting themes. Together, these themes help guide our perspective on what must be done.

- *We should act early but always with a long view.* Better to address the root cause of an issue today then attempt to redistribute resources later. Attacking problems early usually delivers the greatest, most efficient impact.
- *People provide the most important source of capitalism's power.* Their creativity, dedication, innovation, entrepreneurship, and management provide the fuel for capitalism's engine. The most important investments are in their opportunities and skills.
- *Business enterprises remain the main engine of capitalism.* If people provide the energy, how they design and run business enterprises will create the engines that propel capitalism forward. How businesses operate—from research to the design of products to the management of the shop floor to corporate governance—are critically important. None of this era's challenges can be addressed without thoughtful business leadership.
- *Balance among stakeholders improves capitalism.* When workers and consumers are more empowered, the results tend to be more equitable and, ultimately, more enduring. By adopting a broader perspective on their potential impact, business leaders can then play the fulcrum in finding a constructive balance.
- *Healthy competition leads to healthy capitalism.* About 250 years ago, Adam Smith spoke against the distorting influence of monopolies. The risks of market concentration endure. Targeted reforms and incentives can improve competition and keep capitalism's innovation flywheel spinning.
- *The state remains a vital partner.* Across the different varieties of capitalism, the state will continue to play a critical role. In democracies, strengthening

essential state capacity—improving government's basic capacities for policy design and delivery—serves all stakeholders. Even a limited state should be a highly competent one.

- *Hang together or hang separately.* Many of the challenges and opportunities of this age require cooperation. Finding common ground amid the diversity of interests and country histories is, as an understatement, difficult. Nonetheless, political and business leaders alike must remain engaged and search for creative solutions. Some solutions will be forged among allies, some with rivals, and some with both. That said, the world's democracies should work together to ensure this era's rules, standards, and norms reinforce not just shared interests, but also common values. This is an age for statesmen and stateswomen.

Informed by these considerations, this task force report calls for a new "Social Compact with the Next Generations" to embody a spirit for our era. Such a compact should influence capitalism's evolution by prioritizing equality of opportunity. We need to commit ourselves to ensuring a better future for our children, grandchildren, and great-grandchildren. The quality of their lives matters as much as ours today. We should view today's decisions through the lens of decades, not quarters. In doing so, we recognize our diversity while seeking to work together whenever possible.

The compact can become tangible as we address the three defining challenges of our era—namely, how to fight climate change, manage the digital revolution, and reduce inequality. Tackling these challenges will produce mutually reinforcing benefits: green innovations and harnessing the digital revolution's potential can lead to better lives and reduced inequalities.

The preceding sections proposed three goals as the compact's main pillars:

- *Every person should live and work in a net-zero world by 2050.*
- *Every person should have access to the benefits of the digital revolution.*
- *Every person should have the opportunity to achieve their potential.*

Together, these goals provide a starting point for engagement—discussion, debate, decision. Others may be added, but these three are essential. And they share some fundamental characteristics.

- All three are *right* because they accord with moral intuitions across belief systems. Above all, birth should not be destiny.
- All three are *wise* because they improve how capitalism works. Our prosperity depends upon expanding opportunities, investing in all our people, making our institutions work, countering risks, and removing barriers to innovation and competition.
- All three are *smart* because they balance ambition with pragmatism. The basic ideas can appeal to the aspirations of diverse peoples and across the political spectrum. These changes will involve a hard journey over decades—just as in past transitions in capitalism's history.

This report suggests initial recommendations to advance these goals. They are not comprehensive, of course, but they point in a common direction. They are also flexible and can be adapted to different varieties of capitalism. We must accept different rates of progress and different approaches in different countries. A shared direction of action, though, makes a difference.

This report also recognizes the unique power of collaboration among the advanced democracies of the world. Collaboration among the Trilateral Commission countries to advance common interests and values could never be more impactful—especially in this time of uncertainty marked by rising geopolitical tensions, fragmenting global supply chains and data flows, and the return of inflation to levels not experienced in decades. The three recommendations for collaboration among advanced democracies stand out:

- *For the green transition: Establish a "climate club" among advanced economies.*
- *For the digital revolution: Establish an alliance of "techno-democracies."*
- *For reducing inequality: Ensure quality lifelong learning is accessible to every person by the end of the decade.*

From its outset, this task force aimed to contribute to a positive change in global capitalism in four ways: by building understanding and shared direction of where capitalism should evolve in its fifth stage; by suggesting ways of working to achieve those goals; by identifying needed investments in skills and capabilities; and, lastly, by sharing select examples that show change is possible.

Above all, the task force report hopes to help inform an agenda during the transition to the fifth stage of capitalism. Especially in times of such uncertainty, taking the long view can provide a compass bearing into the future. By understanding capitalism and its evolution, we can better see how to bend the curve of its development.

The proposed compact helps focus on fundamentals. It is easy to get lost in complexities or overwhelmed by the scale of the challenges ahead. In many ways, we may now feel more divided than only a few years ago.[144] But, as this report and the efforts of the Trilateral Commission Task for on Global Capitalism in Transition make clear, now is also a moment of promise and opportunity. The fruits that have been delivered by capitalism cannot be ignored, nor can the challenges that have arisen at least in part as an outgrowth of capitalism's dynamism. The power of this compact lies in its ability to cut through complexity with a simple question: Will this decision make things better for the generations to come?

That is a question everyone—regardless of country, industry, or position—can ask themselves. And if we make this a habit, we will be on a path to a more sustainable, more inclusive capitalism and a stronger, more resilient, more prosperous future.

ANALYTIC APPENDIX

Capitalism and Its Varieties

What is Capitalism?

We define today's capitalism as having five main features.[145] First, profit seeking is the goal of private investors. The search for profit propels innovation, for example, through the pursuit of economies of scale and scope, division of labor, market expansion, new organizational and management models, and so on. Second, markets are the main mechanism through which resources are "commodified" and allocated. Those resources include labor, legally free to earn wages. Third, capital, mostly private, is deployed with the expectation of future return. Fourth, decision-making is largely decentralized and coordination among private entrepreneurs and firms occurs in largely autonomous ways, often enabled by a predictable legal regime. Finally, modern capitalism is forward looking, with "a psychological orientation toward the pursuit of future wealth and prosperity," as the historian Thomas McCraw wrote in the introduction to *Creating Modern Capitalism*.[146] Capitalism is ultimately grounded in faith in the future.

What are the Varieties of Capitalism?[147]

Among the economies that count as capitalist under this rubric, there is a great deal of diversity. Indeed, as a "cultural system" as well as an economic one, to use historian Joyce Appleby's term, capitalism is always embedded in and shaped by a nation's specific context.[148] Political systems matter, as do prevailing economic ideas, industrial composition, and level of development, institutions, and culture.

Market economies, therefore, come in many varieties. At the highest level, what differentiates the types of capitalism is the extent and intent of the role played by the state—i.e., whether they are democratic or authoritarian. This approach moves beyond traditional classifications used by some academics who tend to focus on the degree of market regulation or the features of a social welfare safety net, thereby downgrading the role of the state itself as an economic player.[149]

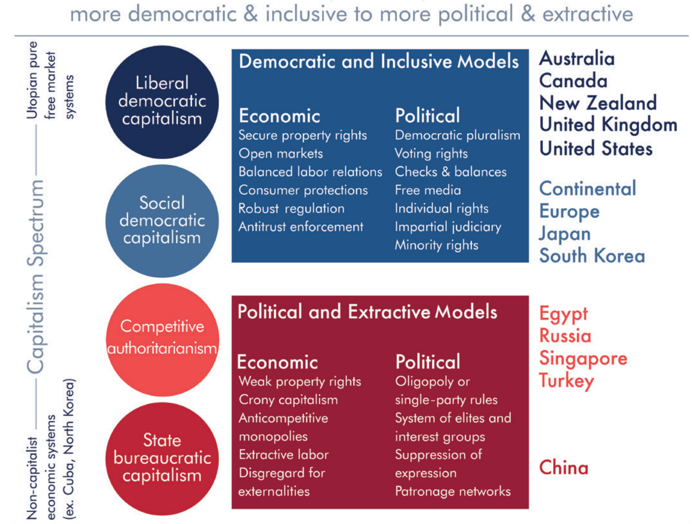
In this project, we found it helpful to distinguish among four systems as archetypes for the varieties of capitalism today (*Exhibit A.1*).[150]

- *Liberal democratic capitalism:* Through an emphasis on individualism and healthy competition, this system is characterized by limited state engagement in the market and deference to private owner and shareholder interests. These systems often have higher concentrations of power and higher inequalities, but also greater innovation, entrepreneurship, and social mobility.[151] The United States, the United Kingdom, and other Anglophone countries epitomize this archetype.
- *Social democratic capitalism:* In this system, the state attempts to manage the social contract between markets and communities more deliberately than in liberal democratic systems. State policies aim to mitigate the market's more severe impacts through extensive social welfare safety nets and more intrusive regulation, with the state making itself responsible for protecting not only civil liberties but also social cohesion and equity.[152] Social democratic capitalism can be seen in continental Europe, parts of South America, and across Asia including India, Japan, and South Korea.
- *Competitive authoritarian capitalism:* Competitive authoritarian states formally allow competitive elections but take measures necessary to ensure that the competition is only nominal.[153] When it comes to the economy, the state leverages its institutions (often a dominant political party) and ideology (often nationalism), combined with other restrictions on civil liberties, to control its market. This type of capitalism, which is extremely heterogeneous both in terms

Exhibit A.1

The capitalism spectrum today

Varieties of capitalism span from more democratic & inclusive to more political & extractive



Source: Buzan and Lawson (2014), Acemoglu and Robinson (2012), Henderson (2020), The Trilateral Commission of political settings and economic performance, is present in countries as diverse as Iran, Kenya, Malaysia, Pakistan, Russia, Singapore, Tanzania, Turkey, and Venezuela.

- *State bureaucratic capitalism:* This archetype is at the outer boundaries of capitalism, with the system sitting at the intersection of state socialism and capitalism. In this form, political and economic boundaries are almost indistinguishable. The state, controlled by a ruling party, maintains a high degree of control over the economy often through direct ownership of strategic industries, especially finance, and a willingness to intervene. While allowing entrepreneurs and large corporations to develop specific markets, like the high-technology sector, the state retains ultimate influence through tight regulation and ability to set policies without the checks and balances of transparency, secure property rights, and divided government power. China's state-led development from the late 1970s into the 21st century is the leading example of this model.

The more authoritarian approaches—competitive authoritarian and state bureaucratic—also demonstrate the weak link between democracy and capitalism. Even though the market expansion of the last 30 years has taken place alongside a rapid process of democratization, democracy is not a prerequisite for capitalism to flourish. The principles of the two do not necessarily reinforce one another. Where capitalism allows for inequality, democracy is supposed to be egalitarian in principle.[154]

At the moment, capitalist economies roughly outnumber democracies by a two to one ratio. That figure could be even higher if one took out of consideration those illiberal democracies where elections remain in theory free and competitive, but civil rights are violated in practice on a regular basis.[155] Democracy usually coexists with capitalism, but the opposite is not always true.

The practical upshot of all this variety is that, even facing the same challenges, each country will chart its own course as its national governments, firms, and consumers interact. The transition in global capitalism will not be uniform, and no single approach will be perfect. Starting points will differ, and so will the endpoints.

Is China Really Capitalist?

The Chinese economy defies easy classifications. The very idea of a socialist-market system—a concept which Beijing coined in 1992 on the occasion of the 14th Congress of the Chinese Communist Party (CCP)—looks like a contradiction. The original aspiration was to combine the perceived superiority of socialism with the practical flexibility and performance of a market economy.

China famously launched major economic reforms under Deng Xiaoping in the late 1970s, including embracing many capitalist-market principles. Deng's "crossing the river by feeling the stones" approach to reform led to historic growth into the 21st century. Despite a top-down, state-centric mode of governance, the market component of China's system gained increasing prominence. Recently, most capital ownership was in private hands and nearly all prices for consumer goods were set by market supply and demand. Even with all its peculiarities, the Chinese economy arguably meets the criteria for a capitalist system, at least in key sectors of its economy, including production largely organized for profit; market-based allocations, and wage-based labor; largely privately owned capital; and a significant decentralization of decision-making among entrepreneurs and firms.[156] Furthermore, the Chinese economy is integrated into the globalized capitalist system.

For these reasons, this study considers China as defining the "state-bureaucratic" end of the spectrum of capitalist systems. This study also acknowledges that applying "capitalism" to today's China is increasingly debatable.

To be sure, there are indications that the Chinese state has begun to "strike back" and move the economy further away from capitalism.[157] Since the rise of President Xi Jinping, Beijing moved to retrench to greater state direction to the detriment of more market-based reforms. In January 2021, Xi declared that "China has entered a new stage of development," the goal of which is to build China into a "modern socialist power." By the summer of 2021, CCP authorities were committed to working to curb "the disorderly expansion of capital." The sum impact of this sort of retrenchment is that China may once again move off the end of the capitalist spectrum.[158]

What are the Patterns of Inequality in Authoritarian and Democratic Capitalisms?

The type of political regime and state capacity influence the balance of power within countries. Different regimes affect the level of inequality. A study of 47 democracies and 61 autocracies revealed authoritarian regimes tend to have higher degrees of inequality, as measured through Gini coefficients, than democratic ones (*See Exhibit A.2*).[159]

This distribution also shows that the level of inequality varies substantially from country to country of the same basic regime type. Autocrats may be threatened by rivals within their political party or elite class (horizontal pressures), as well as by popular unrest (vertical pressures). Authoritarian rulers employ a mixture of repression and redistribution to keep both kinds of challengers at bay.[160] Redistributive policies to counter or reduce pressures created by horizontal accountability tend to produce greater inequality, while policies aimed at vertical pressures tend toward lower inequality.

For example, autocrats may gain the loyalty of the political elite by allowing rents, offering state resources, appointing them to important posts in the party or government, defending their wealth from redistributive claims, and so on. China's inequality, for example, is partly due to decision makers' control over access to business opportunities.[161] Bank loans go disproportionately to politically connected firms. This encourages their unconnected competitors to borrow from shadow banks at higher rates. The side effect is rising inequality, with corrupt officials and entrepreneurs both taking advantage of the system to increase their wealth.

Russia provides another example of deep inequality in an oligarchic and kleptocratic society.[162] After the fall of communism, Moscow privatized all public assets in a short time span, offering large blocks of stocks on generous terms to selected and well-connected individuals, especially in the energy sector. Recent studies show that the top decile's share of total income, which was just over 25 percent in 1990, rose to 45–50 percent 20 years ago and remained there ever since. The top 1 percent now controls 25 percent of national income, up from 5 percent in 1990.[163]

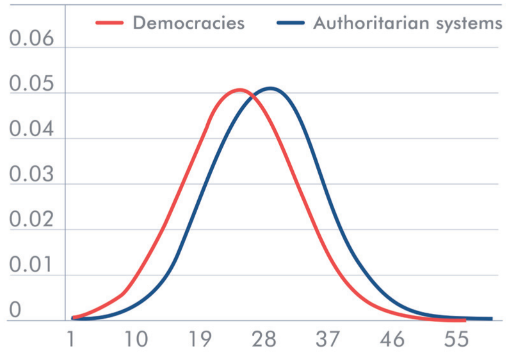
Alternatively, authoritarian rulers may win the acquiescence of the masses by distributing resources through subsidies or the provision of other public goods. Saudi Arabia, for example, has traditionally used its oil revenues to fund generous welfare programs to preserve domestic consensus and political stability. Despite such efforts, Saudi Arabia is still one of the most unequal societies in the world.

Exhibit A.2 shows similar variations in the distribution of the Gini coefficients across democracies too. From a purely theoretical point of view, it is somewhat puzzling to find high levels of inequality within democracies because democratic institutions are expected to better empower those who stand to benefit more from redistribution.[164] However, a large literature, including work by scholar Jonathan Hanson, has shown that "electoral systems, governmental forms, and different geographical distributions of the poor all affect the extent of redistributive spending. Proportional representation systems deliver higher levels of social spending compared with majoritarian systems" because smaller interest groups manage to be represented within the parliament.[165] Likewise, parliamentary systems are linked to greater social spending than presidential systems, since the executive does not derive its democratic legitimacy from the legislature and so it may feel less pressure coming from smaller interest groups.

Exhibit A.2

Inequality across political regimes

Distribution of Gini coefficients (0-100)



Source: Gallagher and Hanson (2009), The Trilateral Commission

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Note: This task force report is not a consensus document. Task Force members may disagree on some statements.

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TASK FORCE MEETINGS AND INVITED SPEAKERS

- 25 May 2021, “Setting the agenda,” with Branko Milanović, Senior Scholar at the Stone Center on Socio-economic Inequality and author of *Capitalism, Alone*
- 10 June 2021, “Getting to Net Zero,” with Henry M. Paulson, Jr., current Executive Chairman of TPG Climate Rise Fund, former U.S. Secretary of the Treasury, and former Chair and CEO of Goldman Sachs
- 14 July 2014, “Levelling the Digital Playing Field,” with Eric Schmidt, co-founder of Schmidt Futures and former CEO and Executive Chairman of Google/Alphabet; and Marietje Schaake, International Policy Director of the Stanford Cyber Policy Center, former Member of the European Parliament from the Netherlands, and columnist at *Financial Times*
- 20 October 2021, “Sharing the Pie More Fairly,” with Keyu Jin, Associate Professor of Economics at the London School of Economics
- 3–5 November 2021: Virtual Global Meeting on Capitalism in Transition [with entire Trilateral Commission]
    - 3 November 2021, “Is Capitalism in Crisis?” with Jacob Wallenberg, Chairman of Investor AB; and Raghuram Rajan, the Katherine Dusak Miller Distinguished Service Professor of Finance at the University of Chicago’s Booth School of Business
    - 3 November 2021, “Toward Net Zero,” with Arunabha Ghosh, Founder-CEO of Council on Energy, Environment, and Water; Joseph Stiglitz, University Professor at Columbia University; and Laurence Tubiana, CEO of the European Climate Foundation
    - 4 November 2021, “Sharing the Pie More Fairly,” with Ngozi Okonjo-Iweala, Director General of the World Trade Organization; Keyu Jin, Associate Professor of Economics at the London School of Economics; and Yasuyuki Sawada, Professor at the Faculty of Economics at the University of Tokyo and former Chief Economist of the Asian Development Bank
    - 5 November 2021, “Levelling the Digital Playing Field,” with Eric Schmidt, co-founder of Schmidt Futures and former CEO and Executive Chairman of Google/Alphabet; Maria Chiara Carrozza, President of the National Research Council, Italy; Mike Froman, Deputy Chairman of MasterCard; and Rohini Srivathsa, National Technology Officer of Microsoft India
- 29 November 2021, “The State vs the Market,” with Luigi Zingales, Robert C. McCormack Distinguished Service Professor of Entrepreneurship and Finance and George G. Rinder Faculty Fellow at the University of Chicago; and Susan Thornton, Senior Fellow and Visiting Lecturer at Yale Law School and former acting Assistant Secretary of State for East Asian and Pacific Affairs
- 14 December 2021, “The Role of Corporations in Driving Sustainable Growth,” with Rebecca Henderson, John and Natty McArthur University Professor at Harvard University and author of *Reimagining Capitalism in a World on Fire;* and Dambisa Moyo, Economist and best-selling author of *How Boards Work*
- 12 January 2022, “A New International Architecture,” with Mariana Mazzucato, Professor in the Economics of Innovation and Public Value at University College London and author of *Mission Economy*; and Anne-Marie Slaughter, CEO of New America and Bert G. Kerstetter ‘66 University Professor Emerita of Politics and International Affairs at Princeton University
- 4 April 2022, “Discussion of Draft Report”

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Note on Sources

This report's sources and additional reference material are available in a separate PDF document available at the Trilateral Commission's website at: www.trilateral.org/capitalism.

Readers interested in more detailed historical context and analyses of the themes discussed in this report should consult the research study provided to the task force entitled *A New Spirit of Capitalism: Toward More Sustainable and Inclusive Economies* (London: Hurst Publishers, 2022).

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