BOOK REVIEWS

Stakeholder Capitalism: A Global Economy that Works for Progress, People and Planet (Klaus Schwab with Peter Vanham)

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Is there an alternative to the current shareholder capitalism model of economic development? The book Stakeholder Capitalism: A Global Economy that Works for Progress, People and Planet, authored by Klaus Schwab, the founder of the World Economic Forum (WEF), published in 2021 compellingly argues that there is an alternative. Not only is the alternative necessary but an emergency that ought to characterize the global economic world in order to protect and assure the sustainability of development and the welfare of future generations. He calls this stakeholder capitalism.

In order to understand Schwab, it is necessary to outline the factors that have led him to propose a new model of economic development. He starts by acknowledging the unparalleled development that has occurred across the world since the end of the second world war (WWII). As WWII came to an end Germany lay in ruins, millions of historic buildings and homes wiped. Germany economy was a wasteland. The impact of the war was felt around the world. Only the Americas, led by the United States, had come through the war largely unscathed.

After WWII, the USA wanted to revive the European economies that lay within its sphere of influence. It wanted to promote trade, integration and political cooperation. Through the Marshall plan, the US helped Western European countries purchase American goods and rebuild industrial Europe. It also encouraged trade by setting up European markets for coal, steel and other commodities, leading to the ultimate creation of the European Coal and Steel Community, the predecessor of the current European Union.

These efforts led to a surge in global development in the last 75 years, leading to many people to live long and mostly health lives. This development has also been characterized by advances in technology, abundances in energy and global trade. This development has not just been in Europe and America but Asia as well, led by the emergence of China and India, lifting millions of people out of poverty.

A weakness in Schwab’s tracing of the global development in the last 75 years is that it pays little attention to Africa. Apart from the occasional isolated examples drawn from Africa,
there is no systematic treatment of the development path of Africa. To this extent, there is no way of understanding how Africa fits both in the past development model and how it would fit in the stakeholder model Schwab later proposes in the book.

Schwab criticizes the development model of the last 75 years as it has inherent weaknesses leading to income inequality and dangerous levels of unsustainability. To substantiate this, he elaborates three clusters of weaknesses, based on the views of Simon Kuznet, the Russian-born American economist. These are the declining gross domestic product (GDP), income inequality and environmental degradation.

With regard to GDP, Schwab starts by first noting that in developing the GDP as a measure of economic development, Kuznet was aware of its inadequacy and had warned that it was a poor tool for economic policymaking: “the welfare of a nation can scarcely be inferred from a measure of national income.” This is because the GDP tells about the consumption of products but does not tell about the well-being of human beings. The global economic growth had been at an average of 6 per cent from the end of the WWII to the 1970s, then averaged at about 4 percent until about 2008 when it fell to 3 per cent or lower levels. The global growth is not predicted to improve beyond 3 per cent in about a decade. This problem of slow growth is compounded by rising debt (public, corporate and household, which stood at more than $258 trillion globally in 2020), low interest rates and low inflation, and declining productivity growth.

Second, Schwab highlights the fact that the blind pursuit of GDP growth has led to income inequality, even within developed countries. He argues that although global inequality has declined over the last 30 years, income inequality has worsened within nations. For example, in 2019, 56 per cent of US equities was held by the top 1 per cent of the richest families (amounting to $21.4 trillion).

The third concern is the integrity of the environment. The consumerism that developed concomitantly with the global economic growth has led to exploitation and destruction of natural resources to unsustainable levels. This is evident in the pollution and contamination of water, the dumping of plastics in the oceans and threatening aquatic life, and the pollution of air.

Taking these factors into account, Schwab argues that the time is ripe for another development path. The development model he proposes is stakeholder capitalism. Unlike shareholder capitalism which simply focuses on growth and profit making, Schwab proposes a development model that deliberately takes into account the interests of all the stakeholders, including the future generations. At the heart of this model is the survival and health of the planet and the well-being of the people who live on it. As Schwab asserts: “Wherever you are in the world, there is thus an increased consensus that the well-being of people—wherever they live—and the planet as a whole matter to all of us.”

To help bring about the effective implementation of this approach, Schwab identifies four cardinal stakeholders who need to collaborate. These are the governments, civil society, companies, and the international community. He explains the rationale for the four stakeholders as follows:

Governments, notably, focus on creating the greatest possibly prosperity for the greatest number of people. Civil society exists to advance the interests of its constituents and to give a meaning or purpose to its members. Companies obviously aim to generate an
economic surplus, measurable in profits. And the overarching goal for the international community is to preserve peace.

These stakeholders are interconnected as one cannot succeed without the other.

There is no doubt that the model Schwab proposes is compelling and well argued. However, as alluded to above, the book pays scant attention to the African context. This makes it difficult to relate the findings and the proposed solution to the African context. For example, while bemoaning the slow global economic growth that has been at less than 3 per cent, he acknowledges that Sub-Saharan Africa has, however been growing at an average of more than 5 per cent. He, however, explains this away by referring to the high rate of population growth in Africa, which makes it insufficient to support a rapid per capita income growth. Further, it is not clear how distinct the stakeholder model is from the various forms of socialism adopted by many African countries in the aftermath of independence as the development model, which emphasized humanism and de-emphasized profit making and exploitation of the workers. This gap in information in the book, however should not detract from the seriousness of the issues identified in the global economic order. If anything, it brings to the core the need for African locally generated knowledge to articulate concerns in a contextually relevant manner, propose viable solutions to common continental problems and place the continent on a footing of participating in the global economy from a perspective of well informed discourse about the nature of its problems and the possible remedies to those challenges.