This seminar, “When More is Not Better: Overcoming America’s Obsession with Economic Efficiency,” was given by Roger Martin on Wednesday, September 30, 2020 as part of M-RCBG’s Business & Government Seminar Series.

John Haigh:

I'm going to go ahead and start. I'm John Haigh and I am the co-director of the Mossavar-Rahmani Center for Business and Government. This is another seminar in our series and we are extremely fortunate today to have two individuals with us. The first who I will introduce is Dani Rodrik. I suspect many of you know Dani. He is the Ford Foundation Professor of International Political Economy at the Kennedy School. I will editorialize for a second. He's one of our superstars, in case you were wondering.

John Haigh:

He's published widely. I personally find his books incredibly useful. Economic Rules: The Rights and Wrongs of the Dismal Science; The Globalization Paradox: Democracy and the Future of the World Economy; One Economics, Many Recipes: Globalization, Institutions, and Economic Growth. He certainly has a broad perspective and for an economist, he brings a very broad perspective, considering the political economy widely. He's won many prizes. I won't go into those in detail, and he is president elect of the International Economic Association and the co-director of Economics for Inclusive Prosperity.

John Haigh:

And then we have also with us Roger Martin. Roger is a Professor Emeritus at the Rotman School of Management at the University of Toronto, and he served as the dean there from 1998 to 2013. He's the director now of the Martin Prosperity Institute, or was until 2019.

John Haigh:

The topic today, Roger has come out with a new book. It literally came out yesterday so you can go on... I'll do a little proselytizing for Roger. You can go on Amazon and order it. The book is titled When More Is Not Better: Overcoming America's Obsession with Economic Efficiency. A couple of housekeeping rules as we go through this. One is, if you have a question, there is a box at the bottom of your Zoom screen that says Q&A. You can click that and post your question in the Q&A box and we'll leave some time towards the end to have Dani and Roger take some of those questions. With that, I'm going to hand it over to Dani Rodrik to have a conversation with Roger.

Dani Rodrik:

Thank you. Thank you very much, John. It's really a great pleasure for me to host this conversation with Roger. Roger's an old friend of mine. We worked together as undergraduates at Harvard College. We graduated same year. I won't-

Roger Martin:

You won't tell them what year.

Dani Rodrik:

Won't tell them what year. We're old friends, but that doesn't mean we're old. And certainly, Roger has managed to keep young. He's had an illustrious career, has been a leading management thinker and business guru, always on the top of the list of various sort of leading management thinker lists throughout the years, has been global Dean of the Year during the time he was leading the Rotman School at the University of Toronto. He's advised CEOs of leading companies like Procter & Gamble, Lego and Ford, and also has managed to find the time to write 12 books, and the latest of which is the subject of today's conversation.

Dani Rodrik:

As John said, the book is titled When More Is Not Better: Overcoming America's Obsession with Economic Efficiency. As you will see, couldn't be more timely although it was written pre-COVID. As it is, as it turns out, the book was officially released just yesterday so it's hot off the press. I'm really looking forward to listening to Roger. I think what we'll do is Roger will speak for maybe 15, 20 minutes then we'll have a little bit of conversation back and forth and then we'll open it up to the Q&A. Roger, it's yours.

Roger Martin:

Thank you very much for that introduction. It is great to be doing something with you again, Dani. As you say, we go back a long way and I've watched your career and admired your prodigious work. When More Is Not Better: Overcoming Our Obsession with Economic Efficiency, that's the title. I want to go back in history a little bit and argue that we've been on a march for quite some time in America on the topic of efficiency. If anything, it started with Adam Smith who wrote the year of the founding of this great country, as it turns out, 1776, where he talked about efficiency, efficiency in a pin factory. If you divided labor and had some people making shafts of pins, others heads of pins and others putting them together, you'd be more efficient than if one person did it all. He was followed importantly by David Ricardo 40-ish years later, who argued that those Portuguese folks should, because they got great sun, should grow grapes, make wine, the Brits with their clouds and cooler weather should raise sheep, make wool and trade with one another because that would be more efficient.

Roger Martin:

This entered the world of management in the early 20th century with Frederick Winslow Taylor. Taylorism, scientific management where he said if you use time and motion studies, you could figure out how to be still evermore efficient in your operation. And the post-Second World War, W. Edwards Deming taught us how to think about a system and being able to make that system higher quality with less wastage and less inefficiency built into systems.

Roger Martin:

All of this was designed to create an economy in America and elsewhere that had sort of the following core feature, which is it produced outcomes that looked something like this, a classic bell curve, normal distribution, Gaussian distribution if you want to use the technical terms. What this would feature would be a prosperous middle class, that big bulge in the middle, some richer people on that right tail, some poorer people on the left tail, and we had an economic system that said we would tax the right tail more heavily to make the lives of the left tail better and to provide the mobility for that left tail to move up if they work at it.

Roger Martin:

But most importantly, if we continued to be more efficient, that would lead to this kind of migration over time, which is if that distribution of income would move higher so that that median family would experience in... World is not perfect but in most years, an advance forward, the poorer would get less poor, the rich, of course, would get richer but not disproportionately so. That is basically the theory that operated in this country, I would argue, and I would argue that it's a theory that worked quite well for the first 200 years. Was it perfect? No. We had a couple of really long periods of downturns where this rightward motion didn't happen, a long depression in the late 1800s and of course the Great Depression in the late '20s through the '30s in the US.

Roger Martin:

But arguably, that median family tended to advance in virtually all the years in the first 200 years of this country's existence. This system worked pretty well and meanwhile, we fixed a bunch of things that were kind of wrong and unfair with the economy, or at least moved towards it. We had, toward the tail end of that period in particular in the '60s, '70s, we had good mobility so if you started in the lower tail, you had a better chance of improving your economic consequences.

Roger Martin:

But then kind of something happened. Something happened around the time of our bicentenary, sometime in the '70s, where things started to change and this no longer was the core story of American democratic capitalism. What we got was this kind of change in the distribution. The top one percent, top one-tenth of one percent, top .01 percent of the income distribution started to skyrocket in ways that had never happened before, and not even close in it getting more and more extreme every year. That wasn't something that we sort of foresaw in that system.

Roger Martin:

A great graph from a David Leonhardt article that showed as of 1980, if the US economy grew a dollar, the probability of it going to the poorest was the highest and the probability of it going to the richest was the lowest. That's that gray line. By 2014, it had gone in exactly the opposite direction and as you can see, with great extreme. When you had a dollar of income growth in the economy, we knew where that was going and it was not going in the direction that we had long seen it.

Roger Martin:

The question really is, what happened that changed the fundamental dynamics of the US economy, and what are the implications of that? To understand that, we've got to go to yet another economist. This is Vilfredo Pareto. He, in the late 1800s, observed that 20% of the families in Italy owned 80% of the land. From this, we get the Pareto distribution, which is, if you look at, again, frequency on the vertical axis and outcomes, that most people, most of those Italian families, the 80% who owned only 20%, are on the left end side of this chart and there's a super long tail out to the right-hand side. This is a Pareto or power law distribution.

Roger Martin:

What's happening in the economy is we're getting this kind of transition from what we believed that we could produce in this economy towards one that looks more like a Pareto distribution. Is it all the way there yet? No. Has the middle class disappeared? No. But in my view, there is an inexorable flow in that direction. Now, the good news is that complexity theorists have been studying the question of what causes a Gaussian distribution, that normal bell-shaped distribution, to head in this Pareto direction. It turns out that there are two features that tend to push it in that direction.

Roger Martin:

If you put increasing pressure on a Gaussian distribution and you decrease the cost of connection between the elements within a Gaussian distribution, what happens is it has a tendency to turn from Gaussian to Pareto. One of the key features of this is when you have a situation where effects become the cause of more of the given effect, that's what creates a Pareto distribution.

Roger Martin:

Adult male height is normally distributed. That's because if Dani is two inches taller than me, it's not because he took two inches from me and he's not going to be able to grow another two inches. Being two inches taller is not the cause of being two more inches taller, and his is independent completely of mine. If instead, and in that kind of distribution, actually, the tallest adult male in the world is less than twice as tall as the median adult male in the world, that's the nature of a Gaussian distribution.

Roger Martin:

If the cause is more the effect, it heads Pareto. Think of Instagram followers. The median person on Instagram has between a 100 and 150 followers, depending on who you believe. Last time I checked, Cristiano Ronaldo the soccer player had 216 million followers. He has a million times more followers than the median. That's that long, long, long tail. Why? It's because the effect, having followers, is the cause of more of that effect. When you go to Instagram, what is one feature that you look at to decide whether you're going to follow somebody? If they've got two followers, well they don't seem to be worth following. If they have 200 million followers, then you might say, "Well, lots of other people think it's worthwhile. I will, too."

Roger Martin:

What you have is a situation where we have used efficiency, we have pushed efficiency so hard that we've put pressure on systems so that they've made effects the cause of more of the effects in a world where the cost of connection is decreasing and decreasing from the internet, from something that Dani writes lots about, globalization. We've opened up markets and we have this doctrine of more and more and more pressure is good for markets. We deregulate them, we open them up so that there's more pressure on them and we're accidentally getting Pareto distributions. We didn't ask for them, but we're getting them. That's why this inequality is rising to such an extent. And interestingly enough, inequality, the difference between the median, the 10th percentile, lowest 10th percentile person and the median hasn't changed very much. The difference between the 50th and the 99th has changed dramatically. That tail is lengthening as we have applied more and more extremes of pressure to the economy, pressure for more and more efficiency.

Roger Martin:

I would just say in closing, before I turn it over to the conversation, is we have designed a system to get Amazon when we should be thinking about the Amazon. We have taken a view of the economy as a machine. It's a machine that you can break into little pieces, use efficiency to optimize every piece of the puzzle and add it up, and we expect it to function the way we would like it to. We do this in economics where we have labor economists, trade economists, antitrust economists, et cetera, et cetera, and we think that each can take their specialty and optimize for it and make it the most efficient and we'll add it up to produce something good. We do it in business, too. We've got marketing, we've got sales, we've got operations, we've got HR. They all optimize, make their own piece of the puzzle efficient, and we add them up and think that we're going to get something that we want.

Roger Martin:

But instead of a machine, the economy is a complex adaptive system. You can't break it into chunks and hope to add it back up. It operates as an overall system, and we're taking that system and treating it as if it's on the left end side when it is what it is on the right-hand side. If we treated it more like a complex adaptive system, we would think about balancing efficiency and resilience. Because if you want a system to last, it's got to be resilient. You can be more efficient, and I wrote this book before. I've put it to bed before COVID but you can say, and there's lots of studies now coming out on this, that hospitals were getting rid of excess nurses to make sure they had absolutely the most efficient possible staffing, not buying PPEs because you didn't want it sitting around in storerooms taking up working capital so that we had no resilience and all efficiency.

Roger Martin:

That's what we're driving the economy to, all efficiency and very little resilience. What we've got to do instead is create a balance. That means balancing this desire for pressure. Some amount of pressure is good, but we also need some amount of friction. Excess PPE in your storerooms is a form of friction that gives you more resilience. Having all pressure and no friction is going to make an unresilient economy.

Roger Martin:

Balancing the desire for perfection... As if you can perfect a machine, perfect its operation with the idea that all you can do in a complex adaptive system is improve, tweak it, tweak it, tweak it and improve it... and balance the desire to connect everything together to lower the cost of connection, which is what we're doing with Internet of Things, the internet first, the Internet of Things, with the valuable separation. One of the things, again, Dani writes about this is we have decided that the maximum amount connection in trade is right. There's no limit to how connected we should be in trade. I would argue that will make us efficient in the short-term, but not resilient in the long-term. Some amount of connectedness balanced with some amount of separation is key.

Roger Martin:

If we have these three balances, if we can achieve these three balances, we'll have an economy that is both efficient and resilient and we won't have this continued push towards evermore Pareto outcomes. Why is that important and why do I write about democratic capitalism? It's because the Pareto curve is not consistent with the functioning of democratic capitalism. I repeat, the Pareto curve is not consistent with the functioning of democratic capitalism. But Gaussian distribution is. Why? It's because the 51st percentile family is the swing voter, and a swing voter has got to believe, believe that this economic system works for them or they will vote for something else. In the Great Depression, much of Europe voted for something else, socialism, fascism, communism. America in the Great Depression said, "We're going to move leftward politically, but still avowedly democratic capitalist."

Roger Martin:

I am worried that we are at a point now where, and this is what spurred my project starting in 2013, that people are going to question democratic capitalism. I worried about that in 2013. Now, you don't have to speculate. They are questioning democratic capitalism and it's because of this obsession with economic efficiency that is driving Pareto outcomes. That is the fundamental problem.

Roger Martin:

But with there, with 20 minutes, I will stop and look forward to having conversation and questions. And [Hez 00:22:19], I wonder if Dani has disappeared off the screen.

Hez:

I think we have lost Dani temporarily. I'm sure he's trying to get back on.

John Haigh:

While we're waiting for Dani-

Roger Martin:

John, thoughts? Questions?

John Haigh:

Yeah, no, no, no. Well, first of all, I think this is an incredibly important topic at this point in time in particular, and so your book is both timely and incredibly important. There's some questions that have come in which I'll turn to, but I don't want to turn it too quickly to the COVID issue but I'd be interested in hearing your perspective on how COVID has potentially either accelerated what was an existing trend or creating a new trend around some of these issues. In particular, for example, Dani, in his work, talks about democracy, the economic system in capitalism and globalization and how you can't have all three. I'm simplifying that but basically, you can't have all three. You're kind of adding to that, but I'd be curious to hear your perspective on what you think the impact of COVID is on this efficiency-resilience trade-off and the movement towards a Pareto system.

Roger Martin:

Sure. Well, I do think, I mean, that in some sense, the book forecast this, which is with an excess of efficiency, we'll be less resilient, and we were not in a resilient position when COVID hit, either in terms of PPE or, as it turns out, emergency nursing staffing. I mean, our nurses did an awesome job, but there just weren't as many of them as needed because all the hospitals had been on a 20-year path to be evermore "efficient".

Roger Martin:

One part of COVID is it's an illustration of this problem, but I also think just any time where there's a giant crisis like that, whether it's the Great Depression, whether it's the global financial crisis, whether it's COVID, I think it does cause people to question, "Is the system kind of working? Is this a system that I should be fully supporting or should I be thinking of alternatives?" I do think that the American experience of COVID is causing people to question. I think it's doing that, for sure.

Roger Martin:

I think there are been some... Oh, welcome back. There are some additional specifics about it, the fact that it came from kind of China and it spread, in some sense, thanks to the degree to which the world is mobile and people are flying all around. It's given people pause about how much we've connected economies together. It's certainly given businesses lots to think about in terms of global supply chains. I guess I would say the jury's out on where that heads, but it's certainly got people thinking about a lot of the things that I think I bring up as challenges in the book.

John Haigh:

While Dani gets situated and sorted, just a follow-up. Obviously, some countries seems to have been more resilient than other countries in addressing this crisis. I don't know if you had a chance to think about that. It may be too premature. Why do you think some countries actually were more resilient, others, less resilient?

Roger Martin:

I guess I'm a bit of a statistical geek on these things and on that one, I'm fairly wary about declaring too soon. I don't think we've done multiple regression analysis to answer the question, what are the determinants of things like number of deaths per million population? I mean, you could probably tell from my accent I'm Canadian by birth. I live in the States now. You get a lot of crowing in Canada about how great Canada did on handling corona. I'd like to believe that's true, that it's just exemplary Canadian performance, but Canada is a vastly spread out country with hardly any people in it and only one major population center of any consequence. Montreal and Vancouver aren't even big cities. Sorry you guys up there, but it's true. There's only one and they're spread out kind of enormously. Toronto is, for those of you who haven't spent time there, feels more like Minneapolis than it feels like New York or Chicago. It's a spread out city that isn't dense.

Roger Martin:

There's a whole bunch of features that I think we're going to be able to look back retrospectively and say there might've been some policy responses, but a lot of them have to do with geography and density and we haven't unraveled them yet. I'm a little bit leery of making too many assumptions about that.

John Haigh:

I'm going to turn it back to Dani.

Dani Rodrik:

Can you see and hear me?

Roger Martin:

Yes.

Dani Rodrik:

Well, we had an electricity outage here so I apologize.

John Haigh:

Oh, no.

Roger Martin:

Oh.

Dani Rodrik:

And suddenly, this just dropped and now I'm on my iPhone. I'm sorry I missed, and we probably have to turn to the audience also soon, but I wonder if you have... You have very interesting ideas in the book about sort of how to move forward, both policy recommendations for governments, ideas for businesses, for ordinary people. If John hasn't already asked you about those and you haven't talked, can you give us a sort of a quick tour-

Roger Martin:

Sure, sure.

Dani Rodrik:

... of some of those ideas?

Roger Martin:

Sure. I tried to make this book different than many other books of this sort where half the book is recommendations, and the only way you could get to one of the 18 recommendations is if it's already being done somewhere successfully or has been done somewhere successfully so none of them are theoretical. But for public policy, since it's the Kennedy School, we start there, my number one recommendation for governments is to write required revisions into every single piece of legislation.

Roger Martin:

In a complex adaptive system, it is not possible to figure out what are going to be consequences of your steps in advance. American politics is one of bare-knuckle fighting in Congress to get something in place and then once it's in place, it's in place largely forever. I think Obamacare is a perfect case in point. The Republican Party ran for seven years on repeal and replace. It had a Republican president, a Republican Senate and a Republican House and it couldn't do anything. That's because we structure everything to be permanent in the US. I think that's just a dumb idea. I look on my home country Canada, its most important banking legislation is something called the Bank Act put in place in 1871. It was put in place with a requirement for the government to do a thorough formal review of it and revision of it every 10 years. That actually was shrunk to every five years in 1992. I think it is no surprise that Canada sailed through the global financial crisis without any bank crisis whatsoever because it has a constantly tweaked system rather than one that gets archaic.

Roger Martin:

Another thing I believe, and you would think support, is that we just got to take a different attitude towards trade. I mean, it just is not the unalloyed good. Surprise, surprise, Dani. I'm sure I'm telling you something you don't know already. No, just kidding, and I agree entirely with what you say about trade. It's a mixed blessing and there is a balance of connectedness and openness that we should be seeking.

Roger Martin:

I think we've got to dial up antitrust policy again. Uh-oh, Dani went. Dial up antitrust policy again. It is insane where we headed on that. Over the '80s and '90s, across Democratic and Republican administration, so it's not one or the other, we have adopted the efficiency defense for monopolization. Can you believe that? To me, it's just insanity. We put in place Sherman and Clayton to say, "I don't care if it's nice for you guys that you've now dominated an industry. It's bad for the customers and it's bad for things like long-term kind of innovation in the industry and so we're going to break you guys up or refuse to allow mergers," then a hundred years later we say, "No, no, no, no. It's okay if AT&T and Verizon could merge and take 20 billion dollars out of their cost structure and have 80% market share of cellular service in the US. No problem because it's efficient." Where on earth did this insanity come from? So get back to what was really kind of created the rationale for it which is this: long-term evolution of industries is better if they're not a monopoly.

Roger Martin:

Those are some of the things that I think public policymakers have to do. Businesses have to just stop trying to make slack public enemy one and reduce it to zero. They're doing it in the name of Edwards Deming, who would be rolling over in his grave watching that because he was a proponent of an optimal level of slack. The systems worked better when there's an optimal level, not a minimum level of slack. Companies have got to think more like systems rather than be reductionists and also pursue kind of multiple measurements, not just have one unitary goal as Milton Friedman told them to have in 1970, and Mike Jensen helped out later in the '70s, ensconcing the notion that you should have one, singular objective function. Nope, that is not how a complex adaptive system works. Does the Amazon have one objective function? I mean, Amazon does but the Amazon, no. Do you as a person?

Dani Rodrik:

Can I ask, Roger, before I get kicked out again and I might sort of... I mean, how would you address the following criticism that the way that you're presenting it is that we got the wrong model of the economy and so it was a... And then we made all these mistakes? That's almost like a very technocratic view of things. We actually wanted to do the right thing, but we had the wrong model and then we made all those things.

Dani Rodrik:

What about the alternative view that this is really much more about fundamental power struggle, about different groups who have very different objectives and values about what kind of society they want and what are acceptable means and not? So it's not really that technocratic problem of getting the right model of the economy, but it's really that we have a country very, very deeply divided in part because this accumulative process, in part because of the mistakes that we made along the way, but that right now, sort of going back is going to require something much more radical than simply getting the right technocratic fix.

Roger Martin:

Sure. Well for starters, I would say it is plain and simply both. There's a model that emerged that I do not think was inspired by a power struggle, but was picked up and used by a group to promote their side of the power struggle. It's a bit of both. For all I know of Milton Friedman, I don't think of him as having been dedicated to power dynamics. But, he had a theory of the world that said, "Here's how you should think about the world," that became compelling enough that it got credence and was picked up by people who said, "Hey, man. We can do something with this."

Roger Martin:

I guess I think you're right in the sense that there will always be power dynamics. I guess I'm trying to think about if that is the case, can we have a more productive model that won't be as usable by one side or the other to have that be a cudgel that beats the opponent over the head with? You didn't say it, but I could be accused of being naïve if I think that changing the model itself will solve the problem. I don't, but I think it's a step that we need to take in the right direction.

Roger Martin:

If we don't, I mean my view is that another political model kind of will take over. I don't think it's impossible that America could become a socialist country. I don't think that's at all impossible, and that there would just be massive expropriation of the wealth of the people in the tail. Do I want that to happen? No. I'd rather have us figure out how to fix democratic capitalism because I'm partial to it, but it's no longer an impossibility in my view. I don't know, what do you think? What do you think? You're more adept at the political side of [inaudible 00:38:10].

Dani Rodrik:

I would have thought that I will be really [inaudible 00:38:22] that the models and instruments for the exercise of [inaudible 00:38:26] certainly wasn't thinking about... Probably had this sort of view that he was advancing society's interest broadly. Certainly, I mean that market grew [inaudible 00:38:33] made the demands and policy [inaudible 00:38:43], which is-

Roger Martin:

Dani, you're breaking up [crosstalk 00:38:53].

Dani Rodrik:

... corporations [inaudible 00:38:53] financial institutions are the plutocrats, much more [inaudible 00:39:00].

John Haigh:

Dani, we're having a really hard time just hearing your thoughts.

Dani Rodrik:

Yeah, I probably will, but we probably should pass on to questions so I'll...

John Haigh:

Dani, I'm happy to pick up. We have a number of questions that have come in and I'll try to work through those. I'll paraphrase a bit so the people that have submitted questions, don't be too offended with me if I don't get it exactly right. The first question that came up was really from I think what sounds like a former Kennedy School student. He raises the question of economic growth, and that he had asked a professor a long time ago when he was a student why economic growth was good and didn't get a very compelling answer. The question is, could you say something about how economists might answer that question today? Is the focus more on just [inaudible 00:39:54] within the economy and is growth in general... How should we focus on growth?

Roger Martin:

Sure. Well, I guess I've always thought of growth as [inaudible 00:40:05]. If you don't have growth... And I watched this in the business world as well. If you don't have growth, the gears grind and it's harder for the machine to work and for good things to happen. I think with more growth, I think you have more chance of mobility. You have more kind of flexibility. Everybody can move ahead together. I like growth for that reason, and I think it's just part of human nature. You want to be making progress from year one to year two.

Roger Martin:

Now, that having been said, the measures of growth, GDP, all the... They're all flawed in many ways and so what proxy you use to measure growth is a tricky one. But I think a big part of the problem that we have is that in the decades leading up to 1976, the median income was growing at 2.4% a year real, which meant you doubled your income of the median in one generation, 30 years. Since then, it's been .6 of 1%. That means doubling in a hundred years and that just feels to the people in it like, "This is not really working for me. I'm trying to advance and I'm having a hard time advancing. It's more zero-sum game. If I advance, somebody else goes backward." Unfortunately, in this environment, the reason why is that the economy's growing but the vast majority of the growth ends up in the pockets of the tail, tail, tail of the distribution.

John Haigh:

I'm going to turn to a question that is more almost global, international relations question related to what you're working on. It says, "One of the benefits of an interconnected global economy is it provides a strong incentive for peace among nations. How can we balance separation and incentives for peace between countries?" basically questioning whether more or less interconnectedness is a good or a bad notion.

Roger Martin:

Well, if you read the book, what you'll see throughout the book is balance, balance, balance, balance, balance, balance. I would say to this question if we went back to a pre-World War II level of economic integration, we'll have more nations thinking, "I can go it alone and attack this other country because I don't have supply chains that are shared with it and other countries. Other countries won't boycott my part of the supply chain and starve my economy," et cetera. I think there's just balance required, which is some amount of global integration is a good thing, but we can't take it as a religion that more of it is still better. And then after you do that, more of it is still better and after you do that, more of it is still better, which is what we've done.

Roger Martin:

What is the role of [GATT 00:43:45]? More. It hasn't said, "We're done. We're done now." It starts to live its own life and it's like, "What can we open up next? What barriers can we get rid of next?" I don't want that presumption. I want the presumption being there's a level that makes sense. Here's where Dani and others' work on what opening of trade really does is super important for us to face up and say it's not quite the unalloyed good that we thought it was. However, close down also bad because that's not balance.

John Haigh:

Dani, I don't know if you want to try to comment on...

Dani Rodrik:

Roger, you said explicitly, I think, in your book that no more trade agreements. Is that right?

Roger Martin:

I would just take a pause on it. I said more explicitly, "Let's just take a pause on this. I'd be happy to pause for 10 years."

Dani Rodrik:

Would you say Canada should not have signed, for example, CETA with the European Union, the Comprehensive Economic and Trade Agreement?

Roger Martin:

The book was about the US so I'm not explicitly saying that for everybody. There are some countries that are probably at the too closed stage that should be opening more. Now Canada, I probably wouldn't count in that category. It's pretty open already. To be honest, Dani, because I was looking at the US and not Canada, I don't know enough about that particular deal to be able to opine on it. But if you made me opine on it, I'd say I don't think that's a priority for most countries. For most OECD-type countries, they're open enough. Focus on other stuff other than trying to make your economy more efficient by opening it more.

Dani Rodrik:

I agree with you, Roger. I would add one more point that reinforces what you're saying which is that historically, countries have been more welcoming of foreign trade and investment when they have sold their domestic, economic and social [inaudible 00:46:08]. That is, that stable economies where the gains are being distributed widely with social peace and stability are much more likely to be globally integrated. That was lesson of the four decades after the Second World War. Of course, the collapse of trade in the interwar period, which you said we should not have, was because of domestic economic crisis. In that sense, I think prioritizing the kinds of things that you said we should prioritize is not inimical to trade. It's actually, in the [inaudible 00:46:43] term, it works to expand trade and investment.

Roger Martin:

Yes. And by the way, here... This is just an adjunct of this. I think there's a thing about trade policy that I don't get and maybe you get it, Dani, then I'm not seeing something I should be seeing. But in merchandise service trade, the core philosophy is reciprocity. You let my stuff in, I'll let your stuff in. That's the core organizing principle behind it. Then you go to FDI and it's a completely different framework. Is it net good for us to have your company come buy our company, a Chinese company come buy our US or Canadian company? Why? If reciprocity is good for merchandise and service, why isn't reciprocity the standard for that?

Roger Martin:

Here's where I think it's insane. It's insane that America lets foreign companies buy our companies when that country wouldn't let the opposite happen. That's adherence to this sort of openness that I think is completely unhelpful. Why? Why is that a different standard?

Dani Rodrik:

It's a very radical thought, Roger. I mean, I think economists would say that the reciprocity... I mean, David Ricardo, his point was that of course you don't need reciprocity, that it would be in the interest of every country to open up unilaterally. But it clearly, as you say... I mean, the ideas here are really changing fundamentally. Maybe we should take more questions.

Roger Martin:

Yes, yes, and I get into other obscure theory.

John Haigh:

There's a question that's come in and I think you've answered this for the most part, but I want to give you an opportunity to answer it potentially in a slightly different framed way. On the point that the Pareto distribution is not good for democracy, can you describe two or three ways that the American capitalist ethos... And I think that's different framing here... can be sated while advancing a Gaussian curve? You've answered it with some extent to Dani's question, but if there's anything you want to add to it in that context.

Roger Martin:

Yeah no, I think it can. I guess I think that what we've done is, in some sense, perverted capitalism with these theories of there has to be one, singular goal. This is the accomplishment of Milton Friedman and Mike Jensen, that there has to be one, singular, unitary goal or it won't work. It's just false. It's not the way the world works and super highly successful companies kind of think otherwise.

Roger Martin:

Southwest Airlines says, "We would like to be the lowest cost airline in America and highest customer satisfaction, highest employee satisfaction and most profitable." Now, Milton Friedman would say, "Well, that's insane." Mike Jensen would say, "That's insane. You can't do that. You can't organize and... How could you ever make a decision when you're trying to balance all of those things?" Well, they are, after 50 years of doing it, the lowest cost, the most profitable, the highest customer satisfaction, the highest employee satisfaction airline in America. Duh. How do you do that? Well, you do it by acting like you're real. Do you walk around, John, and say you have a singular goal in life that enables you to make decisions and otherwise, you can't possibly make a decision? No, you have to balance decisions and think about the broader, longer term perspective.

Roger Martin:

I think we've just perverted a side of capitalism to these insane laws... Not laws. It's sort of kind of rules of thumb in our head. What I've described to do is harder. It's harder for somebody to come up with a clever way of doing what Southwest did, but it's not undoable. Costco does something similar. Four Seasons does something similar. There's lots of companies that do it, but the refuge of scoundrels is, "Oh, it has to be a single, unitary thing otherwise life as we know it will end, cats and dogs will be sleeping together and it's all over." That's childish.

John Haigh:

As a natural extension of that, you talked about the perspective of the system as a whole and the need for systems thinking and complex adaptive systems. The question that came in is, are the principles and ideas that you've laid out applicable specifically to companies basically in the [inaudible 00:51:51]?

Roger Martin:

Absolutely. Companies are just little complex adaptive systems living within bigger complex adaptive systems. It is utterly doable. It is not taught. That is not taught across the river from you, even though that's my alma mater and I love a whole bunch of the people over there. Business education does not teach how to manage in a complex adaptive system, flat out full stop. It does a bit at MIT, thanks to Jay Forrester and John Sterman, their legacy there, but business education doesn't and that's why companies don't because they're all full of people who've been educated to believe in a single, unitary objective function and to breaking things into individual silos and adding them up, a machine view of the economy, et cetera, et cetera. But it just doesn't have to be that way, and there are fantastically performing companies dotted across the economy that simply just reject that out of hand and are wildly successful because of it.

John Haigh:

Dani, I want to make sure that if you have a comment, you want to weigh in, just let me know.

Dani Rodrik:

I keep coming in and out so I miss... I'll can take maybe one more question.

John Haigh:

As a natural extension of that last question which extends a little bit, somebody wrote in, there's a lot of debate in the business world around stakeholder capitalism and reforming capitalism to make it more democratic. Given the political climate right now, do you think businesses can take the initiative to reform capitalism to make it more democratic? At least personally, I find this a very interesting question around the relative roles of government and business, and I know Dani, you've written about, as opposed to stakeholder capitalism, I would frame that as very strong, clear government structure and framework of the relationship between business and government. It's a regulatory structure. It's a broader structure than simply stakeholder capitalism, but I'd be curious to hear both your reactions to that.

Roger Martin:

I do think the government created institutional structure for business matters, and I talk a bunch in the book about things about that that I don't like and can be fixed. That having been said, there is enormous room within whatever system we've got right now for companies to do a better job and they need to. I think the Business Roundtable, the statement you're referring to which was a year and now a couple months old, I think, in some sense, strategically was important because they had to stop acting like their head was stuck deep, deep, deep in the sand, and they were going to get obliterated by kind of negativity from the other constituents in the economy.

Roger Martin:

That having been said, I've been very critical of that which is, in the [inaudible 00:55:07] sense, it's all well and good to have kind of a aspirational statement, but hope is not a strategy. You have to have a way of doing it, and the way to do things is to have tools. The way humans work is that even if they want to do something, if they have no tool for it, they just won't. In business, there weren't many options traded before Fischer Black and Myron Scholes came up with the Black-Scholes option pricing theorem because traders didn't know how to think about what the value of these things are, so how can you trade something you don't know the value of? Really hard. After that, boom. Now there's more options being traded a day than the size of the global economy.

Roger Martin:

Same with online advertising. There wasn't a lot of online advertising until Google came up with a tool for you, if you're the Kennedy School, being able to say, "Was it worth spending a thousand dollars online? Yes. I can measure the number of clicks you got." Now, it's one of the biggest markets in the world and that's why Google's a trillion-dollar company, because they provided a tool for doing something that people wanted to do.

Roger Martin:

The members of the BRT are not going to embrace in action stakeholder [inaudible 00:56:31] capitalism until they have tools for doing so. The Business Roundtable should be working on both developing and sponsoring and endorsing tools. One that's near dear to my heart... I know it's near and dear to Dani's heart because Professor Ton, Zeynep, is a friend of Dani's and a friend of mine... She's got a tool at the Good Jobs Institute for how you treat labor better and make more money while it's doing it. They should be endorsing that and say, "The Good Jobs Institute has a toolbox. You should use the toolbox."

Roger Martin:

It can't make anybody, but it can endorse things. It might want to endorse B Lab, the B Corp certification. It may want to endorse series for environmental stuff. They better darn well get to tools because they're already getting lots of criticism for a hollow promise. "Yeah. Yeah, yeah, yeah, yeah, yeah you said all that nice stuff, but you ain't doing a damn thing," is the criticism that they're opening themselves to if they don't get their act together.

John Haigh:

Dani, you get the last word if you want it. We're at the witching hour for everybody. For those of you who I didn't get to your questions, I apologize. There's a long string of questions. I know there's one about, does this apply to the developing world as well as to the developed world? We can be here another day answering. I apologize for that. But Dani, it's all yours.

Dani Rodrik:

I'm afraid we have to stop here. I just want to thank Roger for being with us and I really would like to recommend everybody in the audience to take a look at the book because lots of great ideas. I think if this is the future of the business community and the ideas that frame their behavior, I think there is something to be optimistic about. Thanks very much, Roger, for really broadening our thinking on these dimensions. Thank you.

Roger Martin:

Wow. Thank you, Dani. Thank you, John. Thank you to the center and the Kennedy School. I really appreciate the hospitality. I was telling John that Kennedy School was taking shape, it was a hole in the ground and it was being built while I was there so I always have these warm feelings about the Kennedy School because I walked by it back and forth as it was growing up. I really appreciate you having me.

John Haigh:

Let me add my appreciation to both of you. I thought it was just terrific. It actually informed and changed my thinking a bit on some of these issues and that's always nice when you feel like you've learned something. With that, thank you, Dani, and in particular, thank you, Roger. Like Dani said, go buy the book. It's a good book. It's an interesting book. You'll enjoy it. Thanks, everybody, and enjoy the rest of the day. Thanks for joining us.

Roger Martin:

Thank you. Take care.