Oh, the Modern World!

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It is easy to protest — easy to be concerned. Ours is a new world, one filled with more questions than answers, new unknowns, and disquieting problems. In this paper, I propose to raise a number of questions, suggest some causes, some tentative conclusions, and pose some challenges we need to consider and face — soon!

Those of us involved in corporate management are coping with what is termed “globalization.” As members of society, we worry along with other citizens about what may be happening to the American dream. We worry about what kind of world our children will live in. We are concerned with what is going on in the labor markets — with downsizing, new wage relationships, wage stagnation, new work relationships, and unemployment for the unprepared. We are seeing unemployment for many, many in Europe and increasingly for some in Japan.

What can be said? Is this a new, ruthless economy? What are the consequences for countries — and for individuals?

First, Where Are We Now?

We are living in a time of economic growth. Historically, this is new. Significant and sustained growth of per capita income for any meaningful number of people dates back only to the middle of the last century. After 150 years, about 1 billion people (mostly in western Europe, North America and Japan) — one-sixth of the world’s population — have come to enjoy the fruits of what we call developed economies. But double that number, at least a couple of billion people, live in societies that seek to join us. This is new. This is important — as are its implications.

In the process, we have learned a good deal about the antecedents and consequences of economic growth:

- Economic growth seems to require market economies.

John S. Reed is chairman of Citicorp, which is headquartered in New York.
• Economic growth seems to impose discipline and limits on governments.
• Economic growth clearly requires massive amounts of capital.
• It is not yet clear if economic growth is necessarily coupled to some degree of democracy.

We can understand a little about what is going on geo-economically by thinking about the interactions and the tensions between four markets:

• The information market, which seems almost perfectly free.
• The markets for goods and tradeable services — significantly liberalized but still characterized by a fair degree of protectionism.
• The market for labor, still compartmentalized by nation-state.
• The capital markets that are quite open but still function with some stickiness and discontinuities.

Capital markets are particularly instructive. If you divide the “stock of capital” that supports the population of people living in Japan, Europe and North America, you come up with a per capita number between $50,000 and $60,000. If you look at what it seems to be costing West Germany to bring ex-East Germany fully up to a comparable living standard, the number $50,000 per capita appears about right. This $50,000 per capita, then, is a reasonable measure of the capital required to bring an underdeveloped economy up to “developed country levels.” Extrapolating from this number implies that $60 trillion (three years of the world’s GNP) needs to be generated for China to be “developed.” The 375 million people in Southeast Asia would need $18 trillion, $15 trillion is required for the 300 million people in eastern Europe and Russian, $7 trillion for Brazil, and $500 billion for Cuba alone.

If this conversion from “underdeveloped” to “developed” is to occur, the capital must come from direct investments, capital flows, and local savings. But what does that imply? It means open markets for investments, and enough trade to justify both the investments and to generate the funds to service debt. It means constraints on governments. Social organization also is required to generate local savings.

In that environment, who wins and who waits? What are the rules? What does the failure to grow mean to a society and to the world at large? Can “no growth” in a region be sustained in a “global village,” that is, in a world of free information flows? Will the people tolerate it? Is the developed world, as a whole, sufficiently committed to economic growth (for all, or at least many) to support the openness required for global growth? Will the developed world be willing to do what West Germany did for East Germany?

At least the political debates about socialist, communist, or alternate paths to growth and social organization seem over or at least temporarily suspended.
Liberal markets at the level of the nation-state are increasingly the rule. At the same time, there are visible tensions pulling on the global system of trade arrangements: tensions for global capital, for investment flows and transfers, and for protection of intellectual property.

The world is interconnected in acting out a single agenda — the broad strokes of growth — but the Devil is in the details.

**The Consequences of Globality**

As business executives, we confront an increasingly used term: “globality.” But what does this mean? What are the implications?

At one level, globality means that we are living within an interconnected economy. We learned that from the oil shock of 1973. It impacted each and every economy, and although the individual responses were different they were clearly linked.

In the United States, the decision in 1979 to deal decisively with inflation, at first slowed, and then stopped the growth of world trade for the first time in the post-war period. It decisively changed the structure of interest rates. That threw a number of developing economies into a “debt crisis” which severely strained the private sector in each economy and threatened the world’s banking system.

Similarly, today’s “high-real-interest-rate, low-economic-growth” scenario that characterizes the OECD nations is a global condition impacting on pricing and competitive conditions, as well as on asset values, worldwide. For business people, particularly for bankers, globality means that you have to understand these effects. High interest rates and consequent low economic growth will impact business opportunities and the competitive situation for each individual player in the private sector.

I can remember when we were learning to live with inflation; now, it is the reverse. The old lessons aren’t very helpful with the new conditions.

If you were a manufacturer, say an automaker, in America in the 1980s, globality meant that suddenly you were competing with the Japanese and the Germans. Your competitive “frame” had changed. It had been General Motors versus Ford versus Chrysler. Now, quality meant Japanese quality — and costs meant the world’s lowest costs anywhere. Productivity became a global concept.

Today, just 15 years later, we accept that concept. Product design, quality, reliability, costs, the promise of a branded name and the development cycle that produces year-by-year improvements are all global concepts.

Business people know they must compete and find a place within the globally open marketplace. The competitor is not likely to be next door — more likely your competitor resides in the next continent.

But there is a positive side as well. Globality also means that each individual
firm has access to global markets. You can sell to people around the world—but you have to figure out how. You can benefit from the economies of scale and growth that comes from large markets, but you must learn to compete internationally. You can also source globally, benefiting from lower costs and different labor forces, but you must invest in the skills and structures to do so.

We are just beginning to see American business taking advantage of these opportunities. Exports are growing and becoming a more important part of the U.S. economy. Businesses are beginning to experiment (Ford most publicly) with organizational structures and processes that are truly global rather than simply the result of adding up geographic pieces.

My own company, Citicorp/Citibank, has eliminated geography as an organizational concept. The consumer branded product companies (Coke, Pepsi, Levi’s, Gillette and others) have probably been the first to recognize the opportunity represented by rapidly growing and increasingly Westernized developing countries.

But, access to global markets also means: diverse rules, diverse legal systems, different accounting, different standards and stockholders with different expectations. I love saying to my colleagues in Citicorp/Citibank, “The average country we need to think about is Turkey, use that as a standard—not the United States.”

Globality also means that management will be drawn from schools around the world. In Citicorp/Citibank this is already a reality. Our top 400 people come from 42 countries—only 165 of them come from the United States. Of our top 20 executives, 11 are from the United States. This means that the management workplace, management decision making and personal leadership style becomes global. It is different, it is challenging, but it is also a benefit. There is a lot of talent in the world!

**The Implications for Individuals**

As citizens, we see that our world is certainly changing. The interconnected world of professional investors, linked economic growth and, of course, rapidly changing and rapidly disseminated technology, leads to a constant quest for improved productivity, for competitiveness, and for “shareholder value.” All of this leads to change, accompanied by the attractiveness of continuous improve-
ment. But change has also come to mean downsizing and corporate layoffs.

Many young people seem to be taking jobs assuming that their careers will not be with a single company. It is not clear how workers are committed to the firm, nor how the firm is committed to its employees. And, it is not just at the bottom. Middle management, as well, has been tremendously affected by corporate downsizing. In fact, being appointed CEO is no assurance of a comfortable life and a well-planned retirement, either. Just read the newspapers.

We’re also told continually that U.S. wages for all but the top quartile are flat, in real terms. The differences between the top-quartile job holders and those in the middle and on the bottom are getting larger. Fortunately, mobility still seems to be “alive” within these broad groups — today’s bottom-quartile member may be in tomorrow’s middle or top quartile.

In Europe and Japan, you hear less about wages; their problem is high unemployment.

Not all the forces for change are clearly understood yet. But we do know several things:

• The structure of wages has changed. Education is worth more and experience is worth less (especially if it means that 20 years of experience is really only one year learned 20 times.) The data on the financial rewards for education versus experience are unambiguous: When age and experience are equal, level of education increasingly determines income. We do not yet know all of the reasons for this, nor if it will continue to be so pronounced a factor.
• Since 1961, Americans have spent more on services than goods (a typical spending pattern as a society gets older and wealthier). Today, of 123 million jobs, 97 million are in the service sector. These jobs are different and they require different skills. And, contrary to popular belief, service-sector jobs do not necessarily pay less.
• Studies say that technology itself is more important in these changes than forces like foreign competition. Other studies make it clear that a high school education, as delivered today, is less relevant to job requirements than it has previously been. If technology – that is a fundamental shift to a new kind of production function – is at the core of these changes, we may be facing even more disruption, because it is clear we are just beginning to experience the impact of the “information society.”
• Other changes have affected wage dislocations. These last 15 years have been a time where, as a society, we have attacked inflation. This was done through monetary policy (i.e. interest rates). Indeed, the G-5 Central Bankers have had more to do with the shape of our economies than have the central governments which certainly seem to be doing little more than coping with
fiscal policy. In any case, inflation has been subdued, and as business people, we live in a world of little price flexibility, largely because wages have been tight and demand restrained.

Under these conditions, a shift in relative wages would not be unexpected. Almost by definition, the great mass of purchasing power (75 percent of workers) must be restrained if we are to "win" against inflation.

What, then, underlies today’s changed wage circumstance? Is it a reflection of the global economy? Is it a reflection of technological change? Is it caused by a shift to the service sector? Is it the result of new emphasis on productivity, a new organizational and operational paradigm learned from the experience of global competition? Is it poor schools? Perhaps it is all of the above — felt within the context of little inflation and subdued demand.

We can’t wait for all the answers to become obvious. Even if they are not fully explainable, as business people our required response to this circumstance seems straightforward.

It does not make sense to try to slow the process of change. History clearly shows that does not work — and changes postponed are more disruptive than changes embraced. Growth of productivity and competitiveness is clearly of value.

At the same time, we live in a society in which the availability of jobs and the quality of wages define the kind of society we will be. In addition, society will define the demand for our products and services. With “upward mobility” central to our way of life, we certainly do not want opportunity and income to be defined only by “capacity to learn” (IQ) which ultimately is an unattractive distribution. We need to work to have opportunity defined by the learning itself—and the capability to perform.

During the 1980s, the shock to the American business system came from Japan. Its competitive strength has generally been thought to have come from the quality and dedication of its labor force and of its bonding to the firm. We can learn from that success.

I believe that individual firms have far more control over the nature of jobs, their requirements and how they all nest together than is commonly thought. There is a world of learning we can draw from. But we need to think through a number of questions. Who do we hire, who does the hiring and what kind of career job progression can we create? How can we encourage that Japanese-style bonding to work, to establish new work practices, training and linkages to schools?

Fully engaged employees ultimately are our greatest asset. In the beginning, as we cope with change and challenge, we tend to do so within the existing set of conditions.

But as we continue to grapple with the reality that we live in a world where significant parts of the population are dedicating themselves to economic growth
and improvement — as we embrace globality — the conditions are vastly changed. I believe that what we will eventually find to be central and rewarding will be to rethink the role of work. What commitments can be made to employees at all levels? What will be their attachments to the firm?

Answers to these questions are, as yet, only in the formative stage. The winners in this modern world of globality will be those leaders who find better answers to these questions and harness the incredibly powerful force of knowledgeable workers. Global flows of capital and of products and services will undoubtedly work themselves out efficiently. But people always have and always will make the difference — locally and globally. ☺