Divided We Stand

Is bitter U.S. discord shifting world views and economies?

Our global experts offer their insights.
“Now is the winter of our discontent,”

wrote William Shakespeare in “Richard III.” Had the Bard been penning his classic work in the U.S. today, he might have added “and spring, summer and fall as well.” Because there is indeed discontent in America, across every spectrum—political, cultural, economic—and the levels of discord, while not unprecedented, have reached epic, some say dangerous, proportions. Fueled by unparalleled political divide, cultural polarization and the very real specter of income inequality, the chasm in America is wide and deep and daunting.

It is a chasm that has its irony, given that society is now so intimately connected by technology, with the ubiquitous smartphone providing a 24/7 link to everyone and everything. Yet as this presidential campaign is so steadily showing, all that easy access to social media has only helped fuel more mean-spirited and angry debate, with caustic opinions exchanged digitally with the kind of unbridled passion once reserved for sports fans.

“If you thought that political polarization in America was bad, think again,” Bruce Stokes, director of global economic attitudes at the Pew Research Center, wrote recently. “Because it’s worse than you thought.” Surveys from Pew Research and others come to the same conclusion—that we are in a unique period of acrimony. A new Korn Ferry poll of business
leaders revealed that nearly nine out of 10 corporate executives in the U.S. were worried about “the most polarizing U.S. political environment” they had witnessed in their lifetime.

The loss of low-skilled jobs, the continuing fallout from the Great Recession, the Brexit vote to leave the E.U. and the uncertainty in global markets from Brazil to Russia to China, has added to the strife. In the U.S., the bailout of the big banks while blue-collar workers struggled, exacerbated the unease with the widening income gap. Frustrated citizens turned away from “establishment” politicians and embraced mavericks that they believed could bring about change.

But if all this division is creating angst inside the country, what is it doing to the rest of the world? Sure, America isn’t the only place with unrest; in the past year alone, elections in Brazil, Austria, Argentina, France, Denmark and many other nations have demonstrated deep divides within the electorate and a strong rebuke of establishment parties. But the U.S. has a unique hold on the world. It is home to the largest economy, and the leader in innovation and business muscle. Its currency is the oxygen of global markets and its political positions on trade can shift entire economies across continents.

“Every time I go back to Europe, I get the same questions from people in academia, business and politics,” said Dante Roscini, a professor of management theory at Harvard Business School. “The general feeling is one of great worry; that what is at stake here is the leadership of America for the rest of the world.”

Is there cause for alarm? For some, the divide in the U.S. raises eyebrows but doesn’t portend cataclysmic events. For others, there is reason to fret. To get a glimpse of the world view, we asked leading executives, academics and entrepreneurs to give us their take on the current environment. Are investments abroad retrenching or shifting? Is all the campaign talk of restricting trade creating fears? Is America still the global economic bellwether? Not surprisingly, the answers were wide-ranging and revealing.

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—Dante Roscini
Dante Roscini, who spent 20 years as an investment banker in Europe and now resides in the U.S., has a clear view: What happens here resonates loudly there, especially when it comes to global commerce and capital markets.

Roscini, who teaches management theory at the Harvard Business School, grew up in Italy, Switzerland and France, graduated from HBS and served as head of capital markets for the likes of Goldman Sachs, Merrill Lynch and Morgan Stanley. From his current base in Cambridge, Mass., Roscini maintains close ties throughout Europe while observing the current political situation in his new home with intense interest. He believes we are in uncharted territory.

The deep divide in the U.S. is born from the rising political tensions between the left and right, Roscini said, and though such political tensions exist in so many countries, Italy included, the fact that America is grappling with such polarization is strikingly different.

“American leadership, which has manifested itself in so many ways since World War II, is somewhat in question,” he said. “The malaise created by the financial crisis, which is still at the origin of the divide we see today, even nearly a decade after the crisis; that’s the big worry.”

Roscini makes it clear that the fact that the U.S. capital markets have led the world in innovation and success, a source of pride for Americans, is acknowledged and admired by people around the world.

“The concern I perceive is the danger of losing leadership at the level of institutional governance of the world,” he said. “Some of the presidential candidates are saying things that are at best irresponsible, and so far away from the calming and weighty and rational approach this country has shown in the past.”

Such rhetoric—suggesting unilateral high tariffs on various countries such as China, the end of free trade, the elimination of the IMF and the WTO—even as campaign talk, has been unnerving for the capital markets.

“There is a huge concern that this great country, the beacon of modern democracy, is now wavering on some of the basic principles,” Roscini said. He points to “near accidents” created by political brinksmanship in Congress in recent years, when issues like the debt ceiling, and the 2013 sequester that nearly shut down the government, set off volatility in world markets.

“Granted, people discount much of what is said because they know it is campaign rhetoric,” Roscini said. “But when you hear a presidential candidate suggesting that the U.S. shouldn’t repay its treasury bonds, it’s like throwing a nuclear bomb, not just a stone, in the lake. These are fundamental tenets of the capitalist system upon which countries calculate their risk.”

Today, he said, Europeans are a little bemused to see what feels so familiar happening in the U.S. They have always been suspicious of America’s strata of income inequality and the general lack of the kind of social safety net most European nations have. But America has long held a deep allure as a place where talented people go and find success, innovation, creativity.

“I am an optimist,” Roscini said. “America still is at the forefront of a technology revolution that is only just beginning. There are smart, connected devices, the Internet of Things, all the result of thought leadership in the U.S. I believe productivity and efficiency will go up over time and there will be fundamental structural changes that will make the economy very powerful.” ★
ately, David W. Brady, an expert on the American Congress and the party system in the U.S., has been studying the correlation between globalization and political instability. Though he feels some sense of alarm at the current political divide, he is neither surprised nor deeply worried.

The U.S. Congress, Brady observed, has been polarized throughout much of American history. Except for a three-decade period following World War II, when there was sustained growth of the middle class and a lot of cross-pollination in politics—conservatives in the Democratic Party and liberals in the Republican Party—the Congress has often been a cauldron of discord. Brady, who teaches political science, isn’t convinced that the American people are as divided as some suggest.

“Sometimes I think it is a bit overblown how polarized it is,” he said. “Most Americans still just want Congress and the president to work together and get stuff done.”

Brady pointed out that the political instability in the U.S. from the 1870s to 1900 was roughly the same as it is now, with a massive shift in the economy, the disappearance of jobs, and the advent of the industrial revolution wreaking havoc on national harmony. The “first great transformation of the world economy” between 1850 and 1890, from an agrarian and servant workforce to an industrial workforce, came with its own brand of upheaval. Jobs changed, a way of life shifted dramatically and new political forces, like the Progressive Party, emerged to shake up the status quo. Workers flocked to the cities where the manufacturing plants were located; then the Great Depression spawned global turmoil, the emergence of dangerous demagogues and dashed hopes for tens of millions across America. Only the onset of World War II and its aftermath put the nation onto a path to prosperity.

By 1950, Brady said, the industrial workers had middle-class wages, pensions, unemployment compensation and health insurance, and this vast middle class, almost entirely white, was feeling good about their lot in life. Flash-forward to today and globalization, the second great transformation of the world economy, is far bigger than the first, and is causing greater upheaval. Those industrial jobs are mostly gone. Income inequality is a flashpoint election issue and our two main political parties have had to find ways to put majorities together. The ethos of the “Establishment” is suspect and factions, such as the Tea Party and the Occupy Movement, have altered the dynamics of status quo politics. Trust is shattered and polls show that approval of Congress is at record lows.

“This is not just a U.S. phenomenon,” Brady stated. Political instability is on the rise in Western democracies and shows no sign of abating, he said. The rise of globalization in Europe and the U.S. has created great wealth for some, but as the economy shifts and inequality rises, “the influx of outsiders generates controversy.” Immigration politics worldwide has driven the anger and violence, and according to Brady, “Those countries able to keep unemployment and inequality within bounds will be more stable. The greater the levels of inequality and unemployment, the greater the political instability and the smaller the chance of achieving stable economic growth.”

Though history is replete with eras of great discord, Brady does acknowledge that the current animosity is rippling around the world. On a recent trip to Rome and Paris to speak at conferences on globalization and instability, Brady noted, “The Europeans are very afraid, particularly of Trump. Even though they’ve criticized the U.S. in the past, it has always been stable on most of these issues. They are worried about what he means to U.S. foreign policy, monetary policy and economic policy.” ★
In an election year as volatile as this one, the historical data suggest that politics will have a dramatic and negative impact on business.

In national election years, investment expenditures declined by an average 4.8 percent compared with non-election years.

Since 1928, Standard & Poor’s stock index gained 16.9 percent in the two years following an election when one party controls the White House and both houses of Congress.

Since 1928, the Standard & Poor’s Index has dropped an average of 2.8 percent during election years in which the incumbent is not seeking re-election.

When the House and Senate are divided, the index gained just 5.5 percent.
n the decades following World War II, few nations admired and emulated the United States more than Germany. According to Dr. Werner Weidenfeld, director of the Center for Applied Policy Research at the University of Munich, older Germans would have almost certainly described the U.S. “as a magnet of future hopes.” The image of the American way of life was the model most wanted to follow across Europe, especially in Germany.

“It was a melting pot, a big, integrated society with people coming from all countries and being accepted and integrated,” said Weidenfeld, who was Germany’s federal government coordinator for German-American cooperation from 1987 to 1999. “It was a country full of hope, where a dishwasher had the opportunity to become a millionaire.”

As Germany eventually built itself into a global economic powerhouse, the U.S. offered a model, a new frontier with societal consensus. To Germans, who were used to political discord, the American political system was stable and powerful.

“It was almost impossible for Germans to see real deep differences between Republicans and Democrats,” Weidenfeld said. “For the Germans, America was the big partner who guaranteed freedom, peace and security, the leading power in creating a new world political architecture.”

In the past couple of years, however, the perception in Germany and across Europe has undergone a significant change, he said. There has been a deeper, disturbing view of change in the United States, and it has resonated across the continent.

“There is no longer the feeling that the U.S. is the leader in creating a global political architecture,” he explained. For Germans, for example, the revelations of the NSA spy case, in which it was revealed that the U.S. tapped the phones of German leaders like Angela Merkel, set off deep concern.

“Why do you need to spy on your friends?” Weidenfeld asked. “This created feelings of ambivalence and mutual distrust. The basic impression of America now, especially in the current election cycle, is that of a country full of conflict and tension; of regular people on the street against the Washington establishment, poor people against rich people and much tension against immigrants.”

Weidenfeld noted that Trump’s declaration of his intent to build a wall across the Mexican border spurred deep, psychological emotions. “Europeans have a deeper psychological impression of walls because a wall divided Europe for decades,” he said.

Despite the political tension, Weidenfeld said that the short-term impact on global business will be negligible. German automakers, for example, are unlikely to stop selling cars in the U.S. The American marketplace remains the de facto standard for companies in global business enterprises.

“But it is no longer self-evident that if I want to create a big future-oriented initiative in my business that I would look to the U.S.,” he said. “Because you don’t want to be surrounded by these conflicts and tensions.”

Inevitably, the perception that the U.S. is a simmering stew of political and civil unrest, whether overstated or not, leaves a deep impression on Europeans, especially Germans, according to Weidenfeld. People keenly observe what is going on in America and wonder what strategic perspective will emerge in America.

“The lack of a strategic perspective is a problem in Europe today, but to me, it is far bigger in the U.S.,” Weidenfeld said. “The future depends on who is taking the lead. So much depends on the quality of the top political leadership.” ★
For Jean-Marc Laouchez, “Plus ça change, plus c’est la même chose,” or to put it in English, “the more things change, the more they stay the same.”

Laouchez, who was born in Paris, raised in Martinique, worked as a CEO in Brazil and lives in New York, is somewhat sanguine about the great divide in the U.S. Having consulted for more than 20 years with boards, CEOs and global business leaders about strategy and organizational design, Laouchez tends to believe that upheaval often leads to fewer cataclysmic changes than people anticipate.

“I don’t see such a big divide in America,” he stated. “In France, the left and right is much more divided and clear-cut than in the U.S. My core belief is the underlying situation in America was already there.”

For Laouchez, Barack Obama’s victory in 2008 unearthed latent feelings that long simmered just beneath the surface. He believes that the election of an African-American president set off extremists who vocally proclaimed the need to push back against what they perceived as unacceptable, to express feelings that they’d always had but hadn’t spoken out loud. That, coupled with deep-seated anger and feelings of being disenfranchised by the elites in Washington, triggered a wave of protest in the form of new factions, such as the Tea Party and Occupy Wall Street. Add to that the power of social media and the omnipresence of smartphones with cameras shooting video of every violent encounter, and there is the sense that life is a reality TV show, and the presidential candidates simply the key actors.

A radicalism that was familiar to him in Europe emerged in the U.S. after 9/11, coupled with a deeper focus on immigrant groups such as Hispanics and Muslims as a flashpoint for a population worried about jobs, terrorism and a sense that “their” America was deserting them. The rise of the millennials, young Americans who believe in diversity but face the challenge of a slow economy, added to the tension. “There are lots of emotions,” Laouchez said. “The politicians are playing on that.”

There are new wrinkles, Laouchez acknowledges. With the post-9/11 sense of vulnerability and uncertainty, the rise of ISIS and the global financial crisis, there is a feeling that “the omnipotent U.S. is not as untouchable and as forceful as it used to be,” he said. “This is completely new.”

More than a divide, Laouchez said he sees a battle for trust. Transparency is demanded, and people are saying, “We need more trust,” he said. “I’d support you if you tell me something I don’t like, but I can trust you are telling the truth.” As a result, there is a search, on both the left and the right, for a “strong and authentic” anchor, he added.

Laouchez acknowledged that people around the world are shocked at some of the comments made by presidential candidate Donald Trump. “But you have politicians similar to Trump everywhere, they are just not as colorful as he is,” Laouchez said.

“In Brazil, when Lula (Luiz Inacio Lula da Silva) was elected president in 2002, the world was going to disappear, it was like an earthquake, terrible, terrible,” said Laouchez. A strident union organizer who ran as a member of the worker’s party, Lula’s victory terrified Brazilian economists, businessmen and the banks. The Brazil risk index along with value of the dollar against the Brazilian real “went through the roof. And six months later, it was quiet. The world didn’t come to an end,” Laouchez said.

“The basic fabric and values of the U.S. are not very different from what they have always been,” he concluded. “There is always a core fundamental belief in capitalism. Even Bernie Sanders believes that.”

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JEAN-MARC LAOUCHEZ
KORN FERRY SENIOR PARTNER AND GLOBAL SOLUTIONS LEADER
Iqbal Quadir has a unique view of the current American divide.

Having emigrated to the U.S. in 1976 from his impoverished native Bangladesh, the ambitious Quadir earned multiple academic degrees and became fascinated by the power of technology to change the world. In 1993, when cellphones were far from a ubiquitous fixture in developed nations, Quadir decided to bring the technology to the 120 million people of Bangladesh. Using the innovative model of the Grameen Bank, created by his fellow countryman Muhammad Yunus, Quadir launched Grameenphone with a simple but effective belief: that “connectivity is productivity, whether it is in a modern office or an undeveloped village.”

In a short time, Grameenphone put cellphones into the hands of millions of Bangladeshis and set off the early days of an economic upsurge in what was once a war-torn, ravaged nation. Through his efforts, Quadir realized how powerful capitalism could be if it created opportunity for the many, not just the privileged few.

Quadir later founded the Legatum Center for Development and Entrepreneurship at MIT, where he promoted young entrepreneurs intent on creating innovative startups in developing countries. In his travels, he gained a vivid sense of what made America so alluring to young, and the words of Jefferson, Madison and Hamilton. The framers of the Constitution purposely modeled the new nation after Rome, a republic, rather than Greece, a democracy, because they believed the Greek model of unorchestrated “rule by the people” was unstable and prone to mob rule and to the rise of demagogues in the guise of skilled orators making impossible promises.

What is happening in the current election cycle worries Quadir. In the past 18 months, he has observed in his travels in Asia that people “do not look up to America as they used to,” he said. “They express a wide range of emotions. At one extreme, they tend to laugh at the dramas of the current election cycle, as if they are some kind of TV

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reality show. At the other extreme, they are horrified."

In addition, as globalization has had an impact on opening opportunities in their native countries, Quadir has noted that students and professionals in Asia are "not as eager to come to the U.S. as they used to be two decades ago." Many are opting to head to Singapore, Australia and New Zealand instead of coming to America, he pointed out. This is in addition to the usual deterrent of the high cost of education in the U.S.

While he is still seeing thriving business efforts by Asians in the U.S. markets, "I sense now they put more effort into pursuing things in Asia," he added. "Asia is expanding and it is nearby. And the emerging attitudes in America discourage these people from seeking opportunities here."

As a fervent believer in the value of technology, Quadir suggests that the hyper-connectedness enabled by the Internet and social media is actually fostering much of the vitriol and divisiveness. "Today, technologies like Twitter and Facebook allow candidates to amalgamate a great mass of people, either through fear-mongering or simplistic solutions, without any scrutinizing filter." Ultimately, Quadir believes, the negativity is being overplayed and scaring people. There are many problems to be fixed, but "it doesn't mean we are in a doomsday scenario."

### United Kingdom: 52 Percent
**Voted ‘Leave’**

The impact from Brexit mellowed in recent months, but the full effects won't be known until well into 2017.

### Brazil: 55 to 22
**Impeachment Tally**

Brazilian President Dilma Rousseff was forced from office last spring when Brazil's Senate voted to impeach her. A severe recession amid charges of corruption triggered the impeachment, and there appears to be little hope of an economic revival anytime soon.

### Austria: 31,000 Victory Margin

Austria voters narrowly rebuffed far right-wing Freedom Party candidate Norbert Hofer by less than one percentage point. The vote illustrated Austria's deep political divisions and the rise of right-wing parties around Europe.

### Finland: 38 Seats Won

The populist, anti-immigrant Finns Party won the second-largest number of seats in Finland's parliamentary elections in 2015.

Political turmoil is hardly relegated to the United States. Divided nations abound around the globe, and the impact of these political chasms will be profound in both the near- and long-term future. Here is a sampling: