

SEPTEMBER 2015

---

# THE CHALLENGE OF SHARED PROSPERITY

Findings of Harvard Business School's  
2015 Survey on U.S. Competitiveness

Jan W. Rivkin  
Karen G. Mills  
Michael E. Porter

with contributions from  
Michael I. Norton and Mitchell B. Weiss



HARVARD | BUSINESS | SCHOOL

EXECUTIVE SUMMARY	1
PROSPERITY, BUT NOT SHARED PROSPERITY	2
THE U.S. BUSINESS ENVIRONMENT IN 2015	4
MIXED SIGNALS ON ENTREPRENEURSHIP	9
BUSINESS LEADERS' VIEWS ON SHARED PROSPERITY	15
RESTORING SHARED PROSPERITY	22
APPENDIX: METHODOLOGY AND RESPONDENT PROFILE	25

---

# EXECUTIVE SUMMARY

America's leading companies are thriving today, as are the individuals who run them and invest in them. Unfortunately, only a small portion of U.S. citizens are sharing in the resulting prosperity. Working- and middle-class Americans are struggling on average, as are many small businesses.

The 2015 survey of Harvard Business School (HBS) alumni on U.S. competitiveness sheds light on the economy's failure to generate shared prosperity, in three ways.

First, we confirm that in the eyes of HBS alumni, both the quality of America's business environment and the ability of U.S.-based companies to compete in global markets have improved markedly since our first survey in 2011. But prospects for U.S. workers are dimmer: survey respondents remain pessimistic on balance about the likelihood that firms will lift American living standards by paying higher wages and benefits in the near term. Shared prosperity is not around the corner.

Second, in light of the role that entrepreneurship has historically played in America—as a path to the middle class—we examine the health of entrepreneurship in America compared to the rest of the world. In doing so, we are motivated partly by a sign of trouble outside our survey: Census data show that the portion of U.S. firms and employment accounted for by startups has declined since the 1980s. Contrary to this troubling sign, however, our respondents paint a very positive picture of entrepreneurship in America:

- U.S. respondents report lower barriers to entrepreneurship than do their counterparts outside America, with the notable exception of health care costs.
- On balance, respondents feel that entrepreneurship is more accessible in America than it was a decade ago (though non-U.S. respondents report an even greater increase in accessibility).
- All elements of entrepreneurial ecosystems, from capital and talent to professional networks and office space, are reported to be more available in the U.S. than elsewhere.

We suggest a disturbing way to reconcile this positive picture with the troubling signs about startups in the economy as a whole: perhaps entrepreneurship has become more accessible to well-connected, educated individuals like our survey respondents but less available

to Americans in general. If so, then starting a business may have become less a path to the middle class and more a way that the advantaged become more prosperous. This suggests that it is a priority to make entrepreneurship more widely available, especially by improving access to capital and workforce skills.

The survey's third contribution is to examine whether business leaders *want* shared prosperity or feel that unshared prosperity is acceptable. We find strong evidence that most respondents, though not all, consider shared prosperity a high priority. For example:

- Respondents would like to see future gains in income spread *far* more evenly across the income distribution than recent gains have been spread.
- Two-thirds of respondents consider it a higher priority for American society to address rising inequality, middle-class stagnation, rising poverty, or limited economic mobility than to boost overall economic growth.
- Seventy-one percent of respondents say that rising inequality, middle-class stagnation, rising poverty, or limited economic mobility is *a problem for their businesses*, not just a social issue.

Respondents also tell us that under current policies and institutions, they expect inequality, poverty, and related economic outcomes to worsen in America. They do not expect these challenges to resolve themselves.

Two of the authors close the report by moving beyond the survey findings and considering what it might take to boost shared prosperity in America. We see important but limited roles for policies that redistribute economic gains; efforts to unleash overall economic growth, especially by reducing unnecessary costs of doing business in America; and initiatives to break political gridlock in Washington. But we see the greatest promise in local, cross-sector efforts to reinvest in “the commons”—the shared economic resources on which most Americans rely, such as education, workforce skills, infrastructure, basic R&D, and entrepreneurial supports. Many such efforts are already underway today in cities and towns across America, and many more are possible. We call on leaders, especially in business, to turn these possible paths to shared prosperity into realities.

# PROSPERITY, BUT NOT SHARED PROSPERITY

Jan W. Rivkin and Michael E. Porter

America's leading companies are thriving, but the prosperity they are producing is not being shared broadly among U.S. citizens. The resulting divergence between the growth of the U.S. economy and the stagnation of the average American's living standard was highlighted in our report on the prior HBS alumni survey on U.S. competitiveness, released in September 2014. Since then, America's failure to generate shared prosperity has become only clearer.

Shared prosperity is a hallmark of any truly competitive economy. In fact, it is embedded in the very definition of competitiveness that the HBS Project on U.S. Competitiveness adopted when the Project launched in 2011: The United States is competitive to the extent that firms operating here can (1) compete successfully in the global economy while also (2) supporting high and rising living standards for the average American. Competitiveness requires not just prosperity, but shared prosperity.

On the first half of the definition of competitiveness—the ability of U.S.-based firms to succeed in global markets—there is plenty of good news. Large companies in the United States recovered from the Great Recession faster and stronger than did their counterparts in other advanced economies. Both in terms of inflation-adjusted dollars and as a portion of GDP, U.S. corporate profits have been close to all-time highs in recent years. In the year between July 1, 2014, and July 1, 2015, the Dow Jones Industrial Average closed at record highs 33 times. In 2014, U.S. exports hit a record high for the fifth consecutive year.

## COMPETITIVENESS REQUIRES NOT JUST PROSPERITY, BUT SHARED PROSPERITY.

But on the second half of the definition—the living standards of the average American—the news is less encouraging. Consider just a few leading indicators:

- Shared prosperity in America requires strong job creation. Yet the long-run growth rate in the number of private-sector jobs in America dropped sharply after the year 2000 and remains near historic lows.

- Among working-age Americans, the labor force participation rate peaked in 1997 and has now fallen to levels not seen since the early 1980s. Much of the decline has occurred because discouraged would-be workers have dropped out of the workforce.
- If prosperity in America were being shared, we would expect the income of the median household to be rising in real terms. But inflation-adjusted median household income peaked in 1999 and, as of 2013, the latest year for which data are available, real median income was at a level first attained twenty-four years earlier.
- The stagnation of the median is echoed in other parts of the income distribution. Households at the 20th and 40th percentiles of the distribution have languished with virtually flat real incomes for decades. At the 95th percentile, gains stopped more than a decade ago.

Even on the first half of the definition of competitiveness, the ability of U.S.-based businesses to compete, the news is not altogether positive. While large firms in the U.S. are thriving, mounting evidence suggests the possibility of trouble among small and young firms in America. The rate of new firm entry has trended downward in the United States since the 1980s: firms in their first year of operations accounted for about 13% of all firms in the early 1980s but only 8% in recent years.<sup>1</sup> This decline in entrepreneurial activity was concentrated among Mom & Pop firms in the retail and service sectors during the 1980s and 1990s, but it appears to have spread to high-tech industries after 2000.<sup>2</sup> Historically in the United States, small business and entrepreneurship have given Americans ways to climb the economic ladder. Weakness in the ladder's rungs can only be bad news for shared prosperity.

Notably, all of the trends we have mentioned started before the Great Recession. They reflect structural challenges, not a cyclical downturn. In recent months, many observers of the U.S. economy have noted that labor markets are tightening for the first time since the recession, and they predict that wages will soon turn a corner. We agree that to some degree, an upturn in the business cycle will boost America's paychecks in the short run. But we see no reason to believe that a cyclical rebound will fix structural problems.

## 2015 Survey

To investigate the roots and potential remedies of such problems, HBS faculty have surveyed School alumni in 2011, 2012, 2013–14, and 2015. HBS alumni work on the front lines of all parts of the global economy and therefore can provide a unique perspective on U.S. competitiveness.

In the 2015 survey, as in previous surveys, we asked HBS alumni to assess the state and trajectory of U.S. competitiveness and to evaluate elements of America's business environment that prior research has shown to be drivers of national competitiveness. Posing the same battery of questions each year allows us to track how impressions of U.S. competitiveness have evolved. In particular, it enables us to capture perceptions of how the U.S. economy has performed, and likely will perform, on each half of the definition of competitiveness. In this year's findings, for example, respondents convey that the divergence between companies' competitive success and workers' stagnant living standards is likely to persist. In their view, shared prosperity is not around the corner.

In each survey, we have also taken deep dives into particular, timely topics. We chose to focus on two topics in 2015.

First, in light of potential troubles besetting small business and entrepreneurship, we compared the impressions of the U.S. business environment among alumni from small companies to those of alumni working in large firms. We also asked respondents to share their experiences with, and perceptions of, new business formation. We focused especially on the barriers to starting a business and the steps that local leaders do and might take to lower those barriers. The responses provide a rare look at how business leaders—both entrepreneurs and others—see the startup environment in America compared to elsewhere.

Second, we explored whether respondents see shared prosperity as important in America. As business leaders who tend to sit high up in the income distribution, are HBS alumni content with an economy in which large companies and a handful of citizens thrive, or do they see the lack of shared prosperity as a problem, for society and for their companies? Are they satisfied with an economy that is growing strongly in aggregate, or do they care as much or more about distributional outcomes such as economic equality, middle-class prosperity, poverty alleviation, and economic mobility? While prior research offers some insight into how people near the top of the income distribution think about inequality,<sup>3</sup> our survey is,

to our knowledge, the first in-depth effort to gauge the opinions of a large sample of business leaders on such questions.

An appendix describes the survey, our methodology, and the respondents in greater depth. The rest of this report presents our findings on the U.S. business environment, entrepreneurship, and attitudes toward shared prosperity. It concludes by considering possible steps toward shared prosperity.

Alumni respondents were solicited with the help of Abt SRBI, a leading survey research firm, via an e-mail message to alumni of Harvard Business School's MBA, doctoral, and longer executive education programs. We solicited a representative sample of all alumni—30,200 individuals in total. Of these, 2,716 (9.0%) completed the survey. All respondents were asked to complete the section on the U.S. business environment, while half were invited to respond to each of the other two sections, on entrepreneurship and on attitudes toward shared prosperity. Respondents weighed in from 45 U.S. states (69.8% of respondents with known locations) and 76 other countries (30.2%). They ranged in age from 26 to 101, and the 75.6% who currently work came from every sector of the economy, with heavy representation in the finance and insurance, manufacturing, and professional, scientific, and technical services sectors. Among the respondents who are currently working, 38% reported a title of chief executive, chair, president, founder, owner, managing director, managing partner, or a similar title at the very top of an organization.

# THE U.S. BUSINESS ENVIRONMENT IN 2015

Jan W. Rivkin and Michael E. Porter

## Toward a Positive Trajectory, at Least for Firms

The 2015 survey continued a trend we observed in 2012 and 2013–14: respondents have grown more confident in, or at least less pessimistic about, the future competitiveness of the American economy.

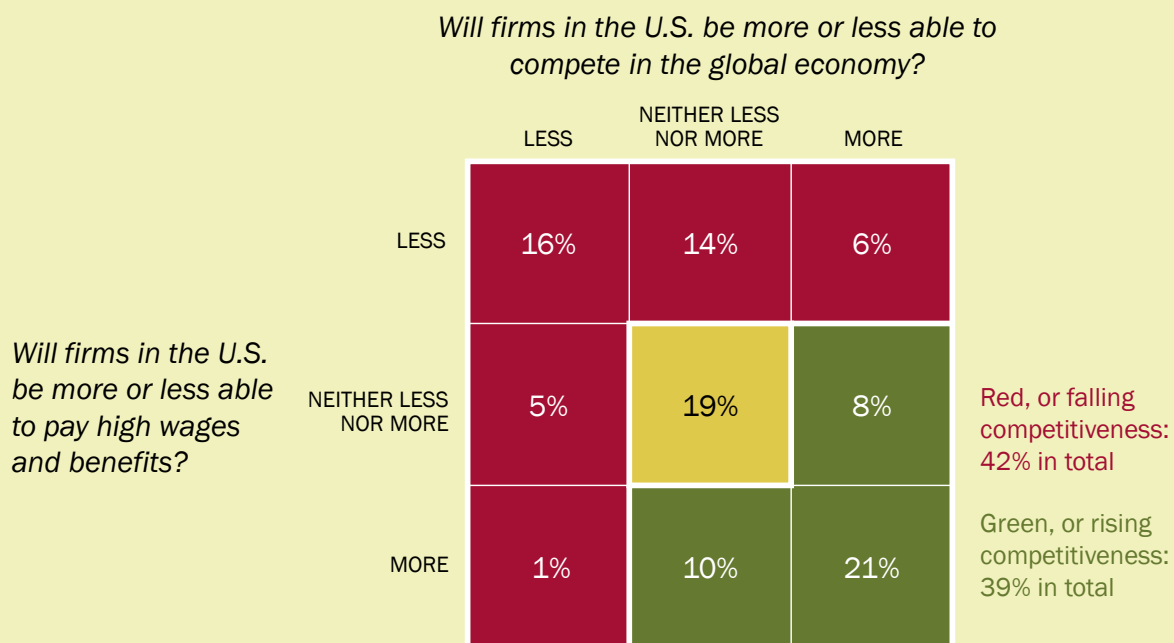
In 2015, as in past years, we gauged the overall trajectory of U.S. competitiveness by asking two questions that reflect the definition of competitiveness. In three years, will firms in the U.S. be more or less able to compete in the global economy? And in three years, will firms be more or less able to pay high wages and benefits?

Figure 1 reports the 2015 results: 42% of survey respondents expected U.S. competitiveness to deteriorate, with firms less able to compete, less able to pay well, or both (red boxes). Nearly the same portion, 39%, was optimistic, anticipating one or both dimensions of U.S. competitiveness to improve and neither to decline (green boxes). The remaining 19% were neutral, expecting no change from current conditions on either dimension (yellow box).

In 2015, respondents were far more hopeful about the trajectory of U.S. competitiveness than they were in 2011 (Figure 2). Pessimists outnumbered optimists by more than 4-to-1 in 2011. By 2015, the two groups were of roughly equal sizes.

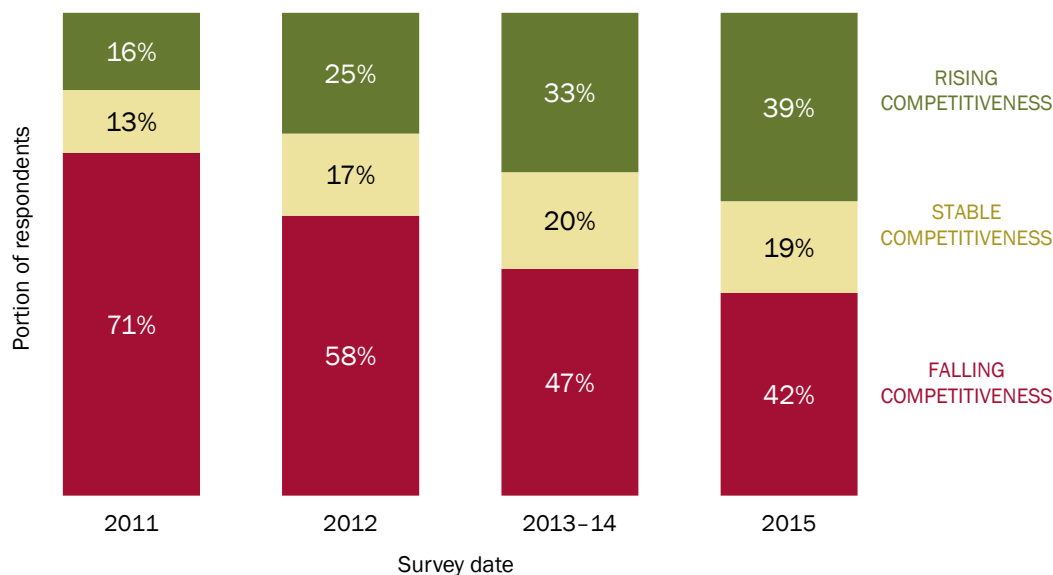
Respondents in 2015 were, however, much more optimistic about the competitive success of firms than about workers' wages and benefits. On the first half of the definition of competitiveness, 35% of respondents expected U.S.-based firms to be better able to compete in the global economy in three years, while only 23% expected them to be less able. (See the right-most and left-most columns of Figure 1. Percentages might not sum exactly due to rounding.) In contrast, with respect to the second half of the definition, 36% foresaw lower wages and benefits, and only 32% anticipated higher wages and benefits. (See the top and bottom rows.) Though pessimists outnumbered optimists on wages and benefits, the 2015 figures were less skewed toward pessimism than in past surveys.

**FIGURE 1: U.S. COMPETITIVENESS IN THREE YEARS, 2015 FINDINGS**



Percentages in boxes may not sum to total because of rounding.

**FIGURE 2: U.S. COMPETITIVENESS IN THREE YEARS, 2011–15 FINDINGS**



## A Stronger Environment for Business

Improving prospects for American business also appeared when we asked respondents to compare the overall U.S. business environment to that of other economies. Figure 3 (see page 6) contrasts responses in 2011 and 2015. In the eyes of the average respondent, the U.S. business environment has shifted from falling behind that of other advanced economies to pulling further ahead. This reflects, we believe, Europe's continuing struggle to revive the weaker portions of the Eurozone as well as the slow pace of structural reform in Japan. Perhaps most remarkable is the change in America's perceived trajectory compared to emerging economies. In 2011, eight respondents saw the U.S. business environment falling behind that of emerging economies for every respondent who saw it pulling ahead. By 2015, the ratio had shifted to 1-to-1. The swing, we believe, reflects the recent problems and slowdown in emerging economies as well as recognition of some rising advantages of doing business in America—for instance, improved access to low-cost energy; a declining wage differential once one adjusts for the high productivity of American workers; a growing awareness of the hidden costs of doing business in many emerging markets; and an increasing need to produce close to large consumer markets as product lifecycles shorten.

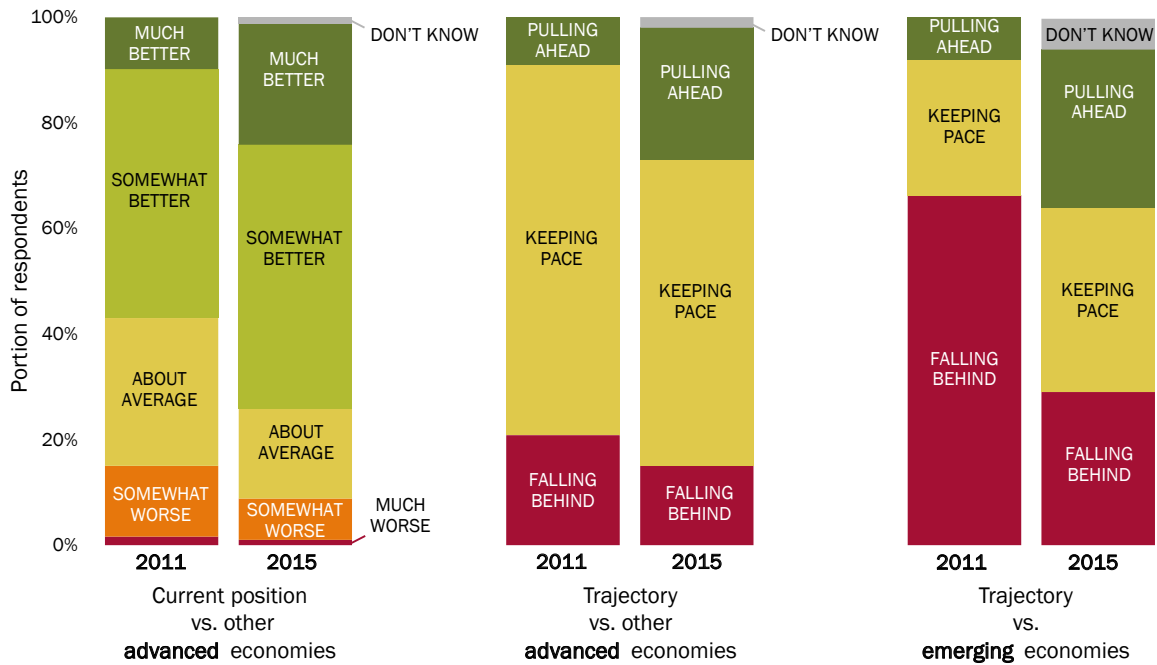
We also asked respondents to assess individual elements of the business environment that prior research has shown to be drivers of competitiveness. The box on

page 6 describes the elements we examined. Figure 4 (see page 7) summarizes the assessments in 2015. The horizontal axis captures the current position of each element: the portion of respondents assessing each element in the U.S. to be better than in other advanced economies, minus the portion assessing each to be worse. The vertical axis summarizes trajectory: the portion feeling that the U.S. is outpacing other advanced economies on each element, minus the portion saying that the U.S. is falling behind.

Figure 4 highlights perceived growing strengths in the U.S. that prior surveys also identified—for instance, strong entrepreneurship and innovation, world-class research universities, high-quality management, and vibrant capital markets. It also points out historical strengths seen to be declining, including logistics infrastructure and workforce skills, as well as perceived weaknesses felt to be worsening, including America's political system, tax code, K–12 education system, and health care system. Note a pattern: many of the elements that drive corporate performance—including access to innovation, capital, and management talent—are among America's perceived growing strengths. In contrast, many of the factors that determine workers' prosperity—including K–12 education, skills, and infrastructure—are among the nation's perceived weaknesses or declining strengths.

Almost every element of the U.S. business environment improved in the eyes of survey respondents from 2011 to 2015—that is, moved rightward and upward in

**FIGURE 3: ASSESSMENT OF THE OVERALL U.S. BUSINESS ENVIRONMENT, 2011 VS. 2015**



## ELEMENTS OF THE NATIONAL BUSINESS ENVIRONMENT

### MACRO ELEMENTS

**Macroeconomic policy:** soundness of government budgetary, interest rate, and monetary policies

**Effectiveness of the political system:** ability of the government to pass effective laws

**Protection of physical and intellectual property rights and lack of corruption**

**Efficiency of legal framework:** modest legal costs; swift adjudication

**Complexity of the national tax code**

**Education system through high school:** universal access to high-quality education; curricula that prepare students for productive work

### MICRO ELEMENTS

**Logistics infrastructure:** high-quality highways, railroads, ports, and air transport

**Communications infrastructure:** high-quality and widely available telephony, Internet, and data access

**High-quality universities** with strong linkages to the private sector

**Context for entrepreneurship:** availability of capital for high-quality ideas; ease of setting up new businesses; lack of stigma for failure

**Availability of skilled labor**

**Flexibility in hiring and firing of workers**

**Innovation infrastructure:** high-quality scientific research institutions; availability of scientists and engineers

**Regulation:** effective and predictable regulations without unnecessary burden on firms

**Strength of clusters:** geographic concentrations of related firms, suppliers, service providers, and supporting institutions with effective collaboration

**Quality of capital markets:** ease of firm access to appropriate capital; capital allocated to most profitable investments

**Sophistication of firm management and operations:** use of sophisticated strategies, operating practices, management structures, and analytical techniques

**Quality of health care relative to cost**



Figure 4. These shifts reflect multiple factors: genuine improvements in specific elements in America (e.g., a post-recession recovery in U.S. capital markets), deterioration in other advanced economies (e.g., a mounting sense of overregulation elsewhere), and a generalized sentiment that the U.S. has become a better place to do business. The only element that respondents shifted leftward and downward from 2011 to 2015 was America’s complex tax code, which has defied change despite persistent and widespread calls for reform.

In the shorter term, between the 2013–14 and 2015 surveys, respondents grew far more positive about America’s macroeconomic policies and much more negative about its logistics infrastructure. The positive swing in the macroeconomic assessment probably reflects the fact that, since December 2013, Congress has struck a number of relatively amicable budget deals after a tumultuous era of brinkmanship, government shutdown, and threats of federal default. Current events might have affected respondents’ assessments of logistics infrastructure: while the survey was in the field, Amtrak suffered a tragic derailment, and Congress scrambled to find stopgap funding for the Highway Trust Fund. Respondents might also have been influenced by the work of our colleague Rosabeth Moss Kanter. Her

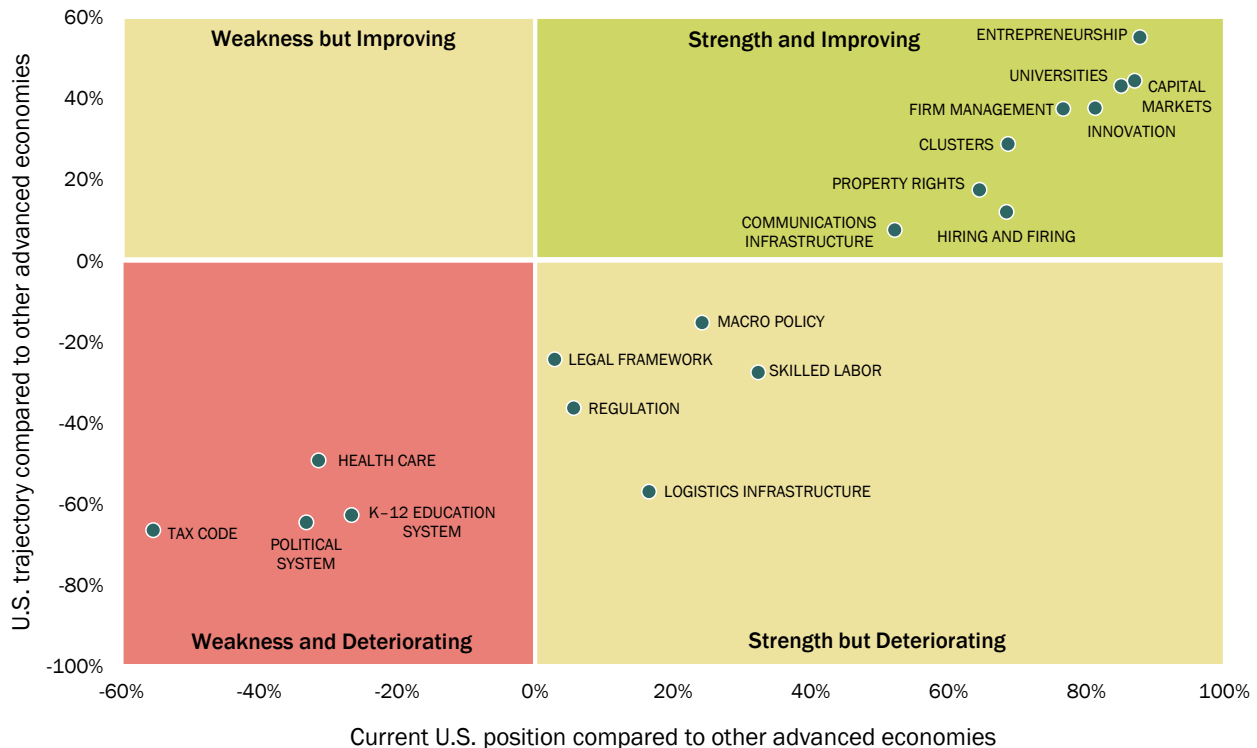
contribution to the 2013–14 survey report focused on the nation’s deteriorating transportation infrastructure, and her book on the subject appeared while the survey was in the field.

## Concerns Among the Smallest Businesses

In 2015 as in 2013–14, respondents from the smallest firms were much more negative about U.S. competitiveness and America’s business environment than were their counterparts in large companies. Among those from the smallest firms, 47% expected U.S. competitiveness to decline in the next three years (vs. 42% in the entire sample), and only 34% anticipated rising competitiveness (vs. 39%).

Figure 5 (see page 8) gives a more granular view of the situation facing small businesses by looking at how respondents in each firm-size class assessed the current position of each element of the U.S. business environment, compared to all survey respondents. A red box appears when the respondents in a particular firm-size class judged an aspect of the business environment to be weaker than the corresponding aspect in 2015

**FIGURE 4: ASSESSMENTS OF ELEMENTS OF THE U.S. BUSINESS ENVIRONMENT IN 2015**



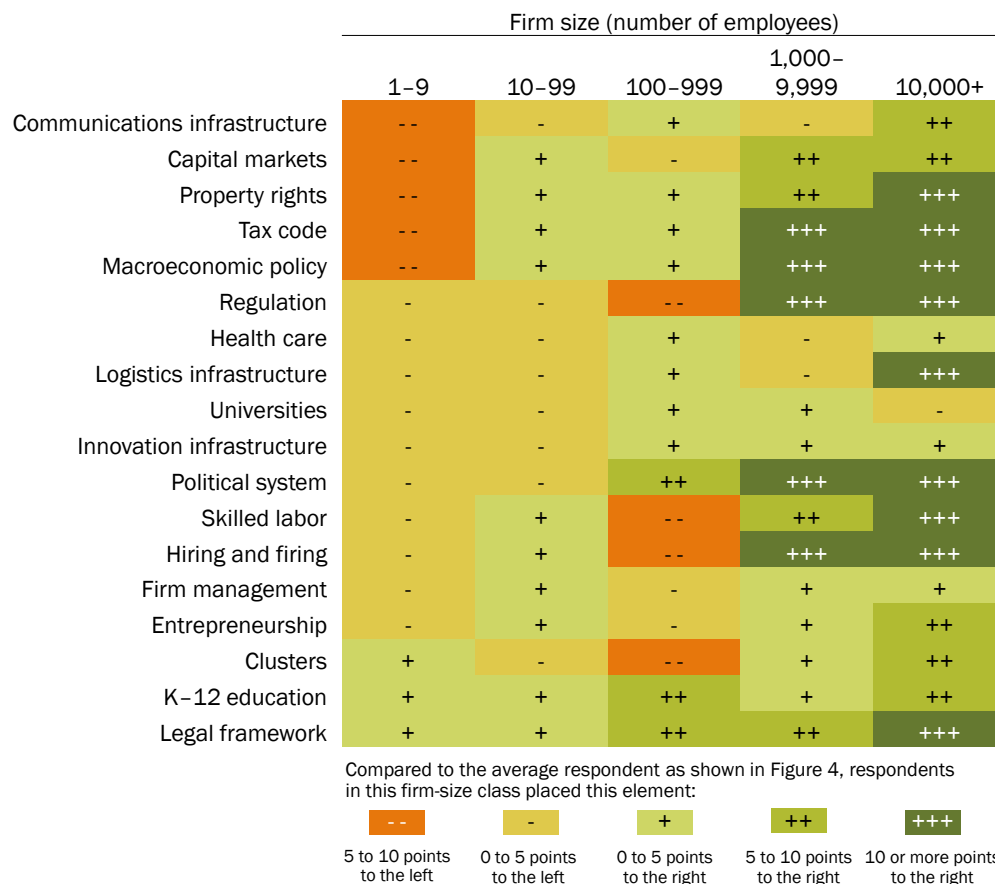
in Figure 4. For instance, respondents from midsized firms, with 100 to 999 employees, were more negative on America's regulatory context. At the other extreme, a green box appears when respondents in a firm-size class were unusually positive or far less negative on an element. For example, respondents from large firms, with 10,000 or more employees, were much more positive on the quality and availability of skilled labor in America than was the typical respondent.

Figure 5 shows that respondents in the smallest firms, with 1 to 9 employees, were more negative, or less positive, on 15 of the 18 elements of America's business environment. In contrast, respondents from the largest firms were more positive, or less negative, about all but one element. The biggest gaps between respondents from the smallest and largest firms appeared for America's regulatory context, macroeconomic policy, property rights, political system, skilled labor, and tax code. Broadly speaking, compared to those who work for very large firms, respondents from the smallest firms tended to

have almost equally positive views of America's strengths but more negative views of the country's weaknesses. We suspect this pattern arises because large firms find it easier than small ones to escape from, or compensate for, the shortcomings of America's business environment. A large, global firm, for example, is one tax inversion away from avoiding the problematic U.S. tax code. In contrast, a small firm has no similar escape route. Similarly, multinationals can tap global markets for skilled labor while small firms typically must make-do with talent that is locally available and often lose workers to larger companies after training them.

Overall, the survey findings depict an economy that has rallied from the Great Recession and has become quite attractive for big businesses as well as those who run and invest in large companies. But it also reveals an economy not poised to lift living standards broadly and one in which small businesses are disadvantaged.

**FIGURE 5: RELATIVE ASSESSMENTS OF ELEMENTS OF THE U.S. BUSINESS ENVIRONMENT, BY RESPONDENT'S FIRM SIZE**



Note: Data are for respondents who indicated that they work, compared to all respondents. Because the comparison is to all respondents, working or not, it is possible for the average respondents in every firm-size class to be more optimistic than the average of all respondents (e.g., for legal framework).

# MIXED SIGNALS ON ENTREPRENEURSHIP

Karen G. Mills

The skeptical view of the U.S. business environment among respondents from the smallest businesses seems inconsistent with another survey finding: alumni rated the context for entrepreneurship as the single strongest element of America’s business environment. (See figure 4 on page 7.) Given that entrepreneurs typically start small, how can an economy that places small businesses at a disadvantage also be a terrific environment for startups? This contrast echoes other mixed signals on the status of entrepreneurship in America. Data from the U.S. Census, mentioned earlier, indicate that startups have accounted for a declining portion of firms and employment since the early 1980s.<sup>4</sup> Yet high-tech startups appear to be booming in locations such as Silicon Valley, and the numbers of venture capital investments in U.S.-domiciled companies and VC-backed initial public offerings of such companies hit all-time records in 2014.<sup>5</sup>

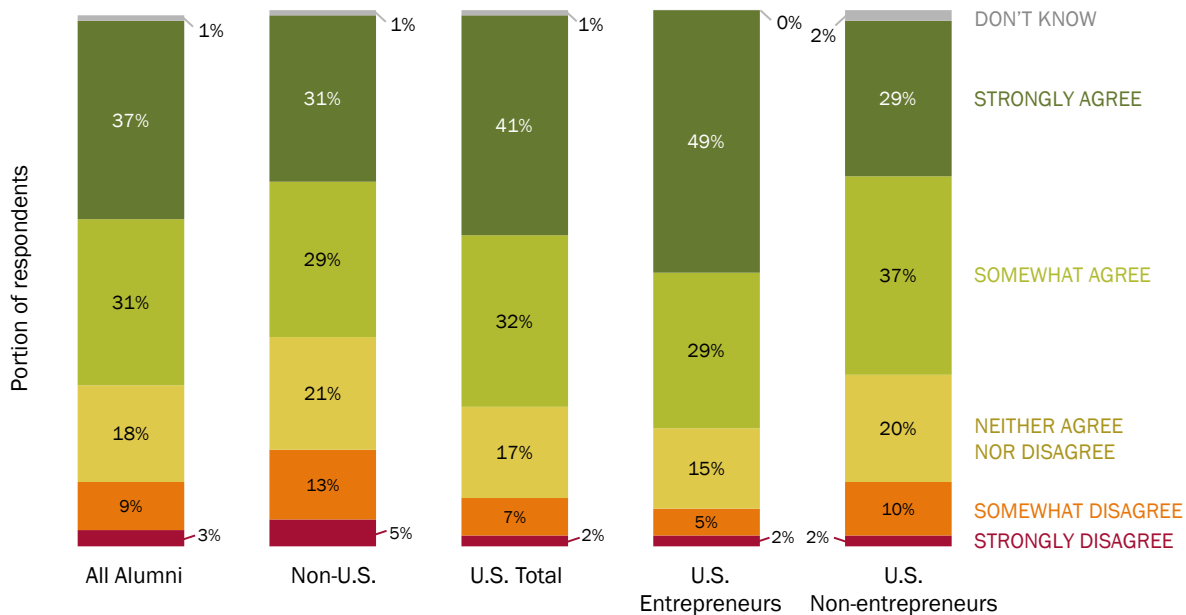
Such seeming contradictions led us to focus on new business formation in the 2015 survey. Specifically, we examined the components of the entrepreneurial

ecosystems that HBS alumni experience in countries around the world. HBS alumni are a revealing population to survey on the topic of entrepreneurship because they are very likely to have started or bought a business: nearly 60% of survey respondents reported having done so at least once during their careers. More than 80% of their firms remain in business today, with those that operate both in the U.S. and overseas even more successful.

A focus on entrepreneurship is also timely at a moment when prosperity is not widely shared because starting or owning a business has often been identified, in popular circles, as a path to achieving and maintaining a middle-class life. Indeed, 73% of U.S. respondents and 60% of non-U.S. respondents agreed that entrepreneurship is a viable path to the middle class (Figure 6). Among American respondents, 49% of entrepreneurs (that is, respondents who had started or bought their own businesses) *strongly* agreed that entrepreneurship was a path to a middle-class life, compared to only 29% of non-entrepreneurs (i.e., respondents who had never done so).

**FIGURE 6: ENTREPRENEURSHIP AS A PATH TO THE MIDDLE CLASS**

*Do you agree or disagree that starting or owning a business is a path for people to achieve and maintain a middle-class life?*



Percentages in this and subsequent figures may not sum to 100% due to rounding.

## A Favorable Climate for Entrepreneurship Today

Survey respondents reported four types of barriers to entrepreneurship in America today: lack of capital, especially early-stage and startup capital; regulatory and tax burdens; high operating costs, particularly related to health care; and a lack of managerial talent and skilled labor (Figure 7). In general, respondents were less concerned about other aspects of entrepreneurial ecosystems such as entrepreneurship networks, communications and transportation infrastructure, and supplier networks.

The survey results suggest that America’s entrepreneurial environment is much more favorable today than the environment found abroad. In nearly every category we measured, U.S. respondents assessed the barriers to entrepreneurship as lower than did non-U.S. respondents. In the view of HBS alumni, the U.S. offers entrepreneurs significantly better access to startup and growth capital; a more favorable regulatory environment, particularly with respect to obtaining permits; and better access to talent, infrastructure, and networks.

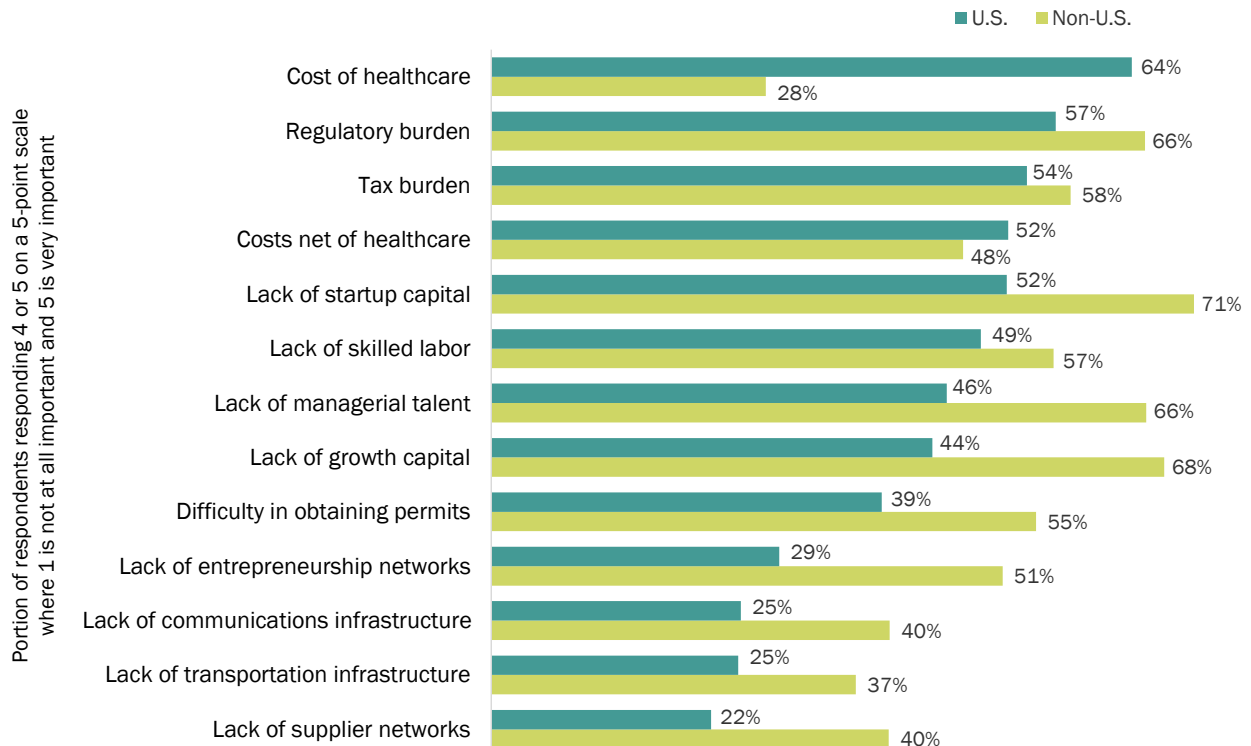
Only health care costs stood out as a major U.S. disadvantage: 64% of all U.S. respondents cited health care costs as a barrier to entrepreneurship, compared to 28% of non-U.S. respondents. This result presumably reflects the availability of government-sponsored health care in other countries. It supports the growing concern that America’s employer-based health care system has created “job lock” for some aspiring entrepreneurs, who hesitate to leave employers that provide health care coverage.

## Shifts in the Climate for Entrepreneurship

We also asked respondents about recent and potential future shifts in the entrepreneurial environment. We began by asking whether business ownership and entrepreneurship have become more or less accessible in each respondent’s region during the past decade. In the U.S., 50% of respondents saw rising access, while only 24% perceived declining access (Figure 8). While this result points to an improving climate for entrepreneurship in America, it is notable that an even

**FIGURE 7: BARRIERS TO ENTREPRENEURSHIP IN THE U.S. AND ELSEWHERE**

*Please rate how important you think each of the following barriers is to starting and growing a small business in your region today.*



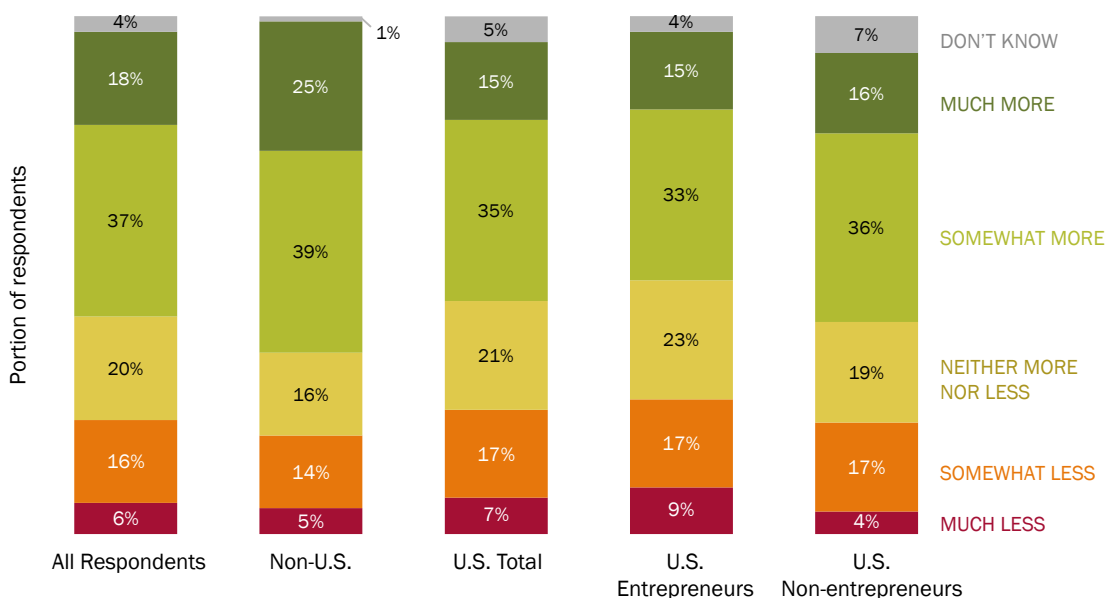
larger portion of non-U.S. respondents, 64%, reported rising access to entrepreneurship abroad, and only 19% perceived shrinking access there. America, then, might be losing some of its entrepreneurial edge over other countries. Moreover, U.S. entrepreneurs felt that the environment was tougher than U.S. non-entrepreneurs, with entrepreneurs being more likely to report that

accessibility has decreased (26%) than were non-entrepreneurs (21%).

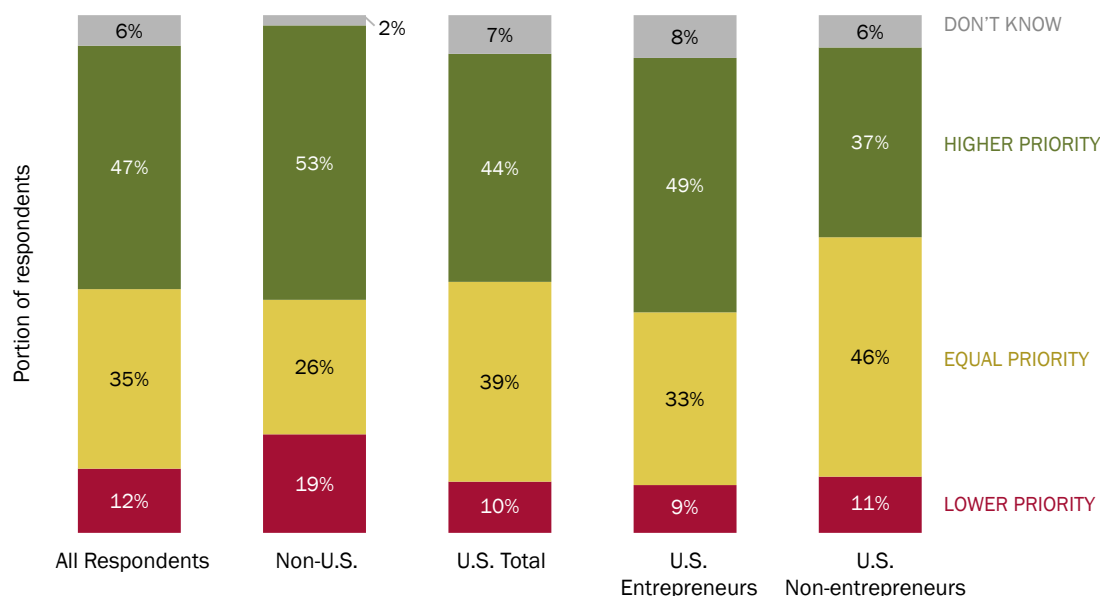
Alumni were divided on the importance of investments to bolster entrepreneurial ecosystems relative to other investments to improve regional economies (Figure 9.) Roughly half of U.S. entrepreneurs and overseas

**FIGURE 8: ACCESSIBILITY OF ENTREPRENEURSHIP**

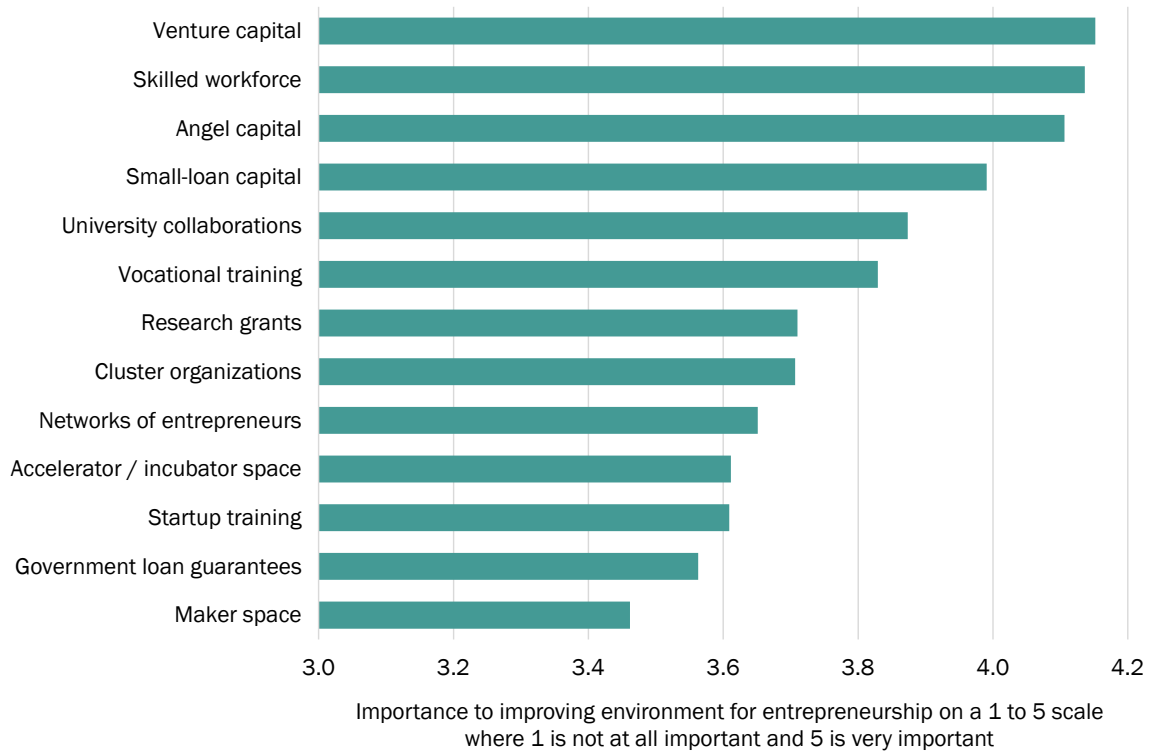
*In your view, are business ownership and entrepreneurship in your region more or less accessible today than 10 years ago?*



**FIGURE 9: PRIORITY OF INVESTMENTS IN ENTREPRENEURSHIP RELATIVE TO OTHER INVESTMENTS MADE TO IMPROVE THE ECONOMY OF RESPONDENT'S REGION**



**FIGURE 10: IMPORTANCE OF PARTICULAR INVESTMENTS TO IMPROVE ENTREPRENEURSHIP**



respondents saw entrepreneurship-related investments as a higher priority than other investments (49% and 53%, respectively), while just 37% of U.S. non-entrepreneurs saw them as a higher priority.

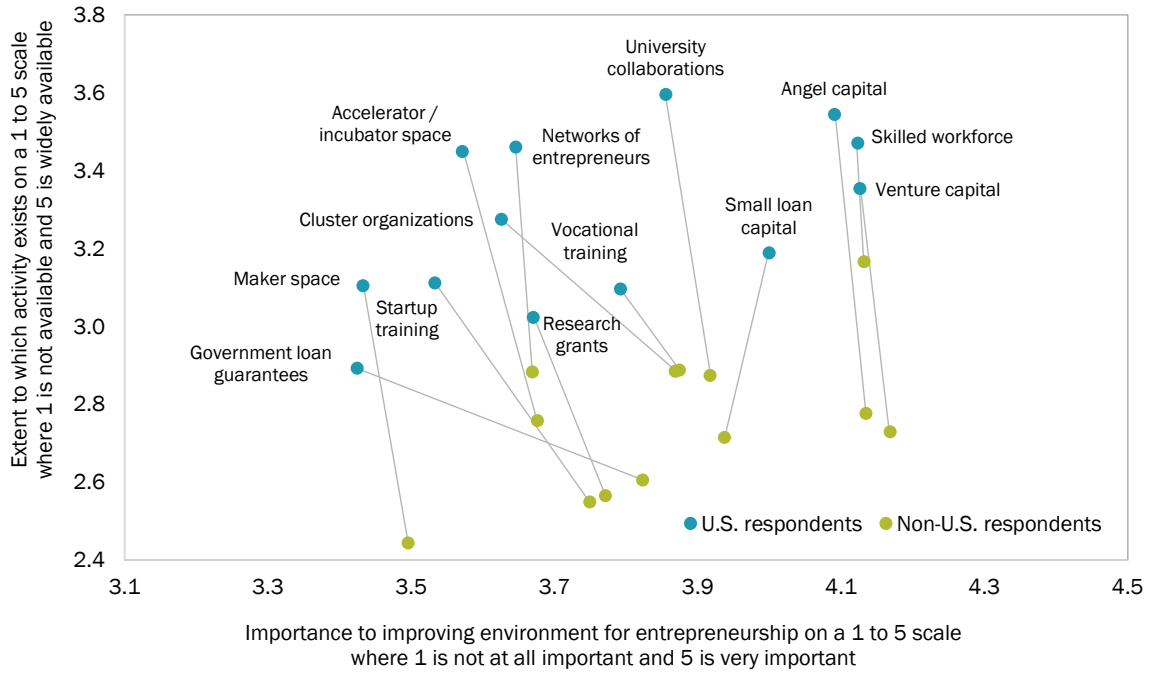
Two areas of investment to boost entrepreneurship stood out as priorities in our respondents' eyes: access to capital and workforce skills development (Figure 10). Activities that improve access to early-stage capital in the form of angel funding, venture capital, and small-dollar loans were considered the most important investments. Investments in skilled workers and vocational training were also rated as important, reflecting the increasing concerns among small companies as well as large that skilled workers are more and more difficult to find.<sup>6</sup>

Overseas and U.S. entrepreneurs agreed on the relative importance of the various components of entrepreneurial ecosystems and on which should be priorities for investments. However, U.S. respondents reported that U.S. ecosystems were significantly more developed than those outside the U.S. (Figure 11). The largest discrepancies between the ecosystems in the U.S. and those overseas were in access to early-stage capital, university collaborations focused on innovation, and the

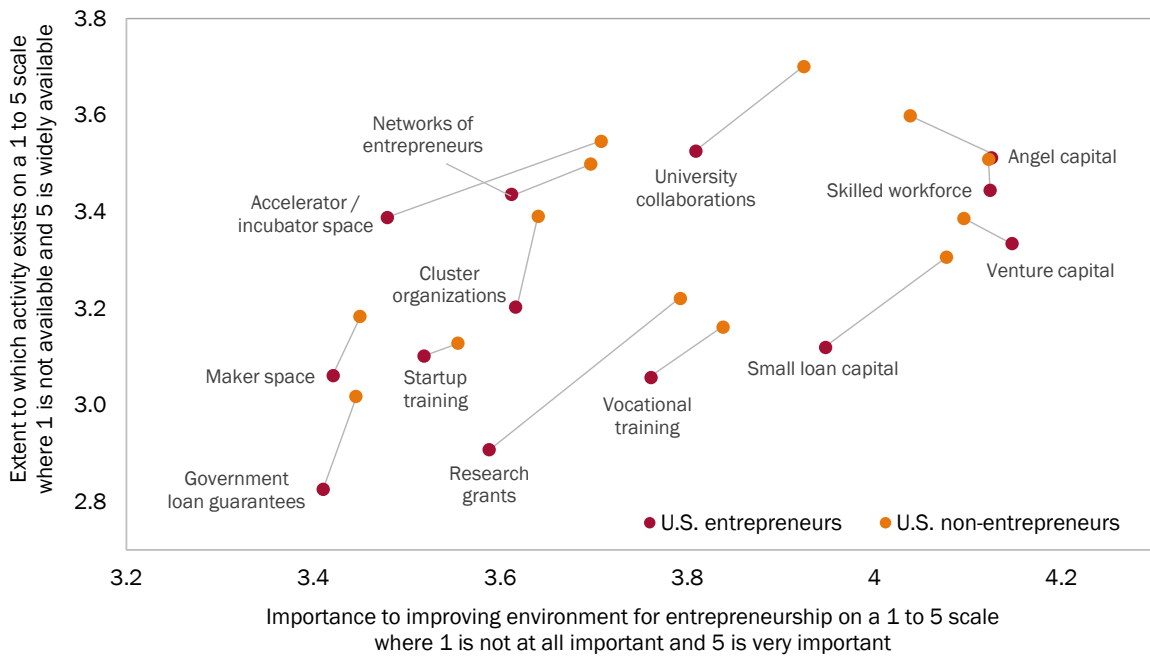
availability of space dedicated to entrepreneurial activity. The smallest gap was in the provision of vocational training programs.

We also found intriguing differences between those who have started or bought their own businesses and those who have not. U.S. non-entrepreneurs believed that every component of the entrepreneurial ecosystem was more accessible than U.S. entrepreneurs believed it to be (Figure 12). It is unclear whether non-entrepreneurs were overestimating the resources available to entrepreneurs, entrepreneurs were understating those resources, or both.

**FIGURE 11: ASSESSMENT OF ECOSYSTEM ACTIVITIES BY U.S. AND NON-U.S. RESPONDENTS**



**FIGURE 12: ASSESSMENT OF ECOSYSTEM ACTIVITIES BY U.S. ENTREPRENEURS AND NON-ENTREPRENEURS**



## Why Are Startups Declining?

Overall, respondents depicted a favorable and improving environment for entrepreneurship in the United States, albeit with some barriers. How then do we explain the declining share of startups among U.S. firms? The decline has now been documented for all U.S. states and the vast majority of industries within each state.<sup>7</sup> The decline is especially puzzling at a time when the fixed costs of starting a business appear to have declined: rather than investing in infrastructure with large upfront costs, today an aspiring entrepreneur can rely on Facebook and YouTube for marketing, eBay for selling, Amazon for web services, Foxconn for manufacturing, Square for payment processing, FedEx for delivery, and so on.

ENTREPRENEURSHIP MIGHT BECOME  
A SOURCE OF PROSPERITY BUT  
NOT SHARED PROSPERITY IN THE  
UNITED STATES.

Economists are actively investigating the roots of the declining startup share. Many hypotheses have been put forward. Perhaps the consolidation of the banking industry and the decline of local banks make it harder for entrepreneurs to prove that they are worthy of the credit required to found a business. Maybe with the rise of the freelance economy, many would-be entrepreneurs are working solo rather than starting firms with employees. The U.S. population might have become less entrepreneurial, especially with limitations on immigration. (Immigrants are disproportionately likely to start their own businesses.) Demographic changes might also play a large role: startups effectively absorb increases in aggregate labor supply, so recent declines in the labor growth rate might translate into declines in startup rates.<sup>8</sup>

Another possibility, and a disturbing one, lies in the sample we have selected for our survey: HBS alumni. Perhaps entrepreneurship in America has become more accessible for educated, well-connected individuals such as HBS alumni but less accessible to the population as a whole. Declines in household wealth and home equity might have taken away the assets that many individuals used in the past to finance new businesses, and rising student debt might deter those individuals from taking on the risk of a startup.<sup>9</sup> If so, then starting or buying a business may become less a pathway to a middle-class life and more a way that the advantaged become more prosperous. Entrepreneurship might become a source of prosperity but not shared prosperity in the United States.

The 2015 survey confirms that entrepreneurship is one of America's greatest and deepest strengths. But it is not one we can take for granted. Rather, we must double down on fostering it and especially making it widely available. Toward that end, our respondents indicated that the most important areas for future investment are in activities related to access to capital and workforce skills development. Both policymakers and business executives can take the lead in promoting such activities, supporting the entrepreneurial ecosystems in their regions, and giving entrepreneurs a chance to grow their businesses and create opportunity.



# BUSINESS LEADERS' VIEWS ON SHARED PROSPERITY

Michael I. Norton, Jan W. Rivkin, and Mitchell B. Weiss

In the popular press, business leaders occasionally express concern about America's lack of shared prosperity. Billionaire investor Warren Buffett, for example, prominently complained that his office staff paid taxes at a higher rate than he did.<sup>10</sup> Starbucks CEO Howard Schultz has spoken about the importance of business investing in communities and has backed up his words with workforce training and tuition-support programs.<sup>11</sup> Are views like these common or exceptional among businesspeople? Our alumni survey provides an unusual opportunity to explore this question. Though HBS alumni are not universally successful in business or wealthy, they tend to be in leadership roles and to be well off.<sup>12</sup> We explored their views on shared prosperity in several ways.

## Who Will and Should Get Future Income Gains

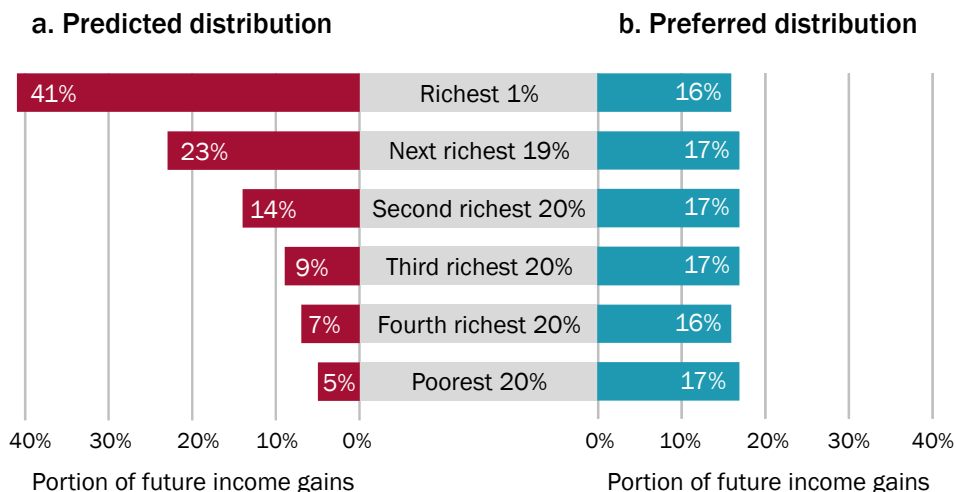
First, we examined how alumni would like future income gains to be shared across the income distribution.<sup>13</sup> Specifically, respondents were informed that, according to Congressional Budget Office estimates, the total income of all U.S. citizens in the United States will increase by \$9 trillion in the next decade. Respondents then answered two sets of questions. First, they estimated the

percentage of those gains they thought *will* go to the 1% who currently have the highest incomes, the next richest 19%, the second richest 20%, the third richest 20%, the fourth richest 20%, and the poorest 20%. Second, they indicated what percentage of the gains they believed *should* go to each tranche.

Figure 13a shows the predicted distribution of future gains. Respondents expected the top 1% to garner 41% of the gains and the bottom 40% to receive only 12%. That implies an income gain for each person in the top 1% that is 139 times larger than the gain of each person in the bottom 40%—more than \$1 million compared to less than \$8,000. Though these predicted gains may seem extremely skewed toward the top 1%, the alumni predictions are somewhat *less unequal* than the actual distribution of gains in recent years. Compared to the average alumni prediction of 41%, Berkeley's Emmanuel Saez calculates that those in the top 1% of the income distribution captured 55% of total real income growth in the period 1993–2014 and 58% of the gains during the 2009–14 economic recovery.<sup>14</sup>

Figure 13b shows the distribution of future gains that the average respondent *preferred*. The preferred distribution is strikingly more equal than the predicted distribution, with each of the six tranches receiving between 16.0%

FIGURE 13: DISTRIBUTION OF FUTURE INCOME GAINS



and 17.3% of the gains. Because the tranches have different sizes (e.g., the bottom quintile has twenty times more people in it than does the top 1%), the preferred distribution continues to have unequal gains: each person in the top 1% gains 20 times more than each person in the bottom 40% in terms of dollars. In terms of growth, the two groups have comparable gains: the average income among the top 1% rises by 74%, while the average income among the bottom 40% grows by 97%. In dollar terms, per-capita gains in the bottom 99% are virtually identical across those five tranches.

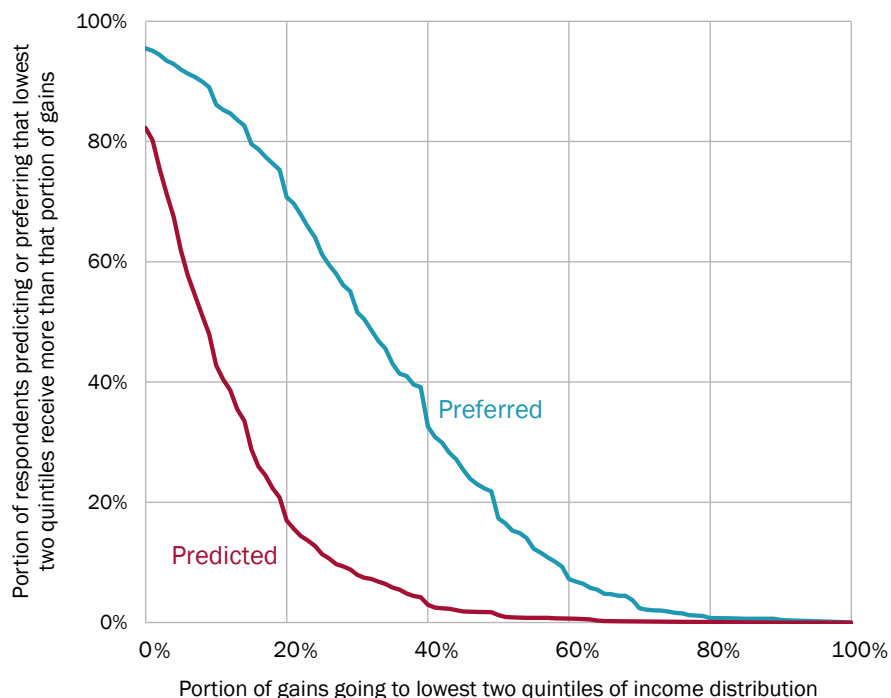
The averages shown in Figure 13b mask large differences across respondents. The two most common replies to the question, “What portion of the future gains should the top 1% receive?” were 10% and 0%—answers given by 12% and 9% of respondents, respectively—but some respondents preferred that the top percentile get as much as 90% of future gains. Figure 14 gives a sense of the range of answers. The blue line shows the fraction of respondents preferring that the bottom two quintiles of the population receive at least a given portion of the future gains; for instance, 71% of respondents would like to see the bottom two quintiles get at least 20% of the gains. The red line does the same for predicted gains; for example, only 17% of respondents predicted

that the bottom two quintiles will garner at least 20% of the gains. On both preferences and predictions, there was a wide range of replies. Respondents predicting the most unequal distributions of future gains were disproportionately women, younger alums, and respondents working in professional service firms. Respondents preferring the most equal distributions were especially likely to be female.

Our findings replicate and confirm prior research findings that people wish inequality to be less extreme than they believe it to be.<sup>15</sup> Our survey is the first to assess predictions and preferences for future gains and is a rare study to do so for respondents who, on average, sit near the top of the income distribution.<sup>16</sup> Overall, respondents appear to have a strikingly strong preference for greater equality.

**RESPONDENTS EXPRESS A STRONG PREFERENCE FOR GREATER EQUALITY.**

**FIGURE 14: RANGES OF RESPONDENTS’ DISTRIBUTIONS OF FUTURE INCOME GAINS**



## Priorities among Economic Outcomes

Our first questions revealed a desire for greater equality but did not assess respondents' priorities across different economic outcomes. It is possible, for instance, that respondents would prefer greater equality but—far more—would prefer faster economic growth. Put differently, they may sacrifice equality if necessary to obtain growth or some other economic objective.

To understand how respondents prioritize different economic outcomes, we first presented five outcomes and shared a fact suggesting recent problems with each outcome:

- **Slower overall economic growth:** Long-run economic growth rates in the United States have declined in recent decades. For instance, the U.S. Federal Reserve reports that real GDP grew at an average annual rate of 4.2% from 1950 to 1970, 3.3% from 1970 to 2000, and 1.9% from 2000 to 2015.
- **Rising inequality:** Income and wealth inequality in the United States have risen since about 1980. For example, the World Top Incomes Database reports that the portion of pretax income earned by the 1% of Americans with the highest incomes increased from 8.2% in 1980 to 17.5% in 2013.
- **Middle-class stagnation:** Incomes in America's middle class have stopped growing steadily. For instance, the U.S. Census Bureau reports that in

2013, real median household income in America was down 9% from its 1999 peak and slightly lower than it was in 1989.

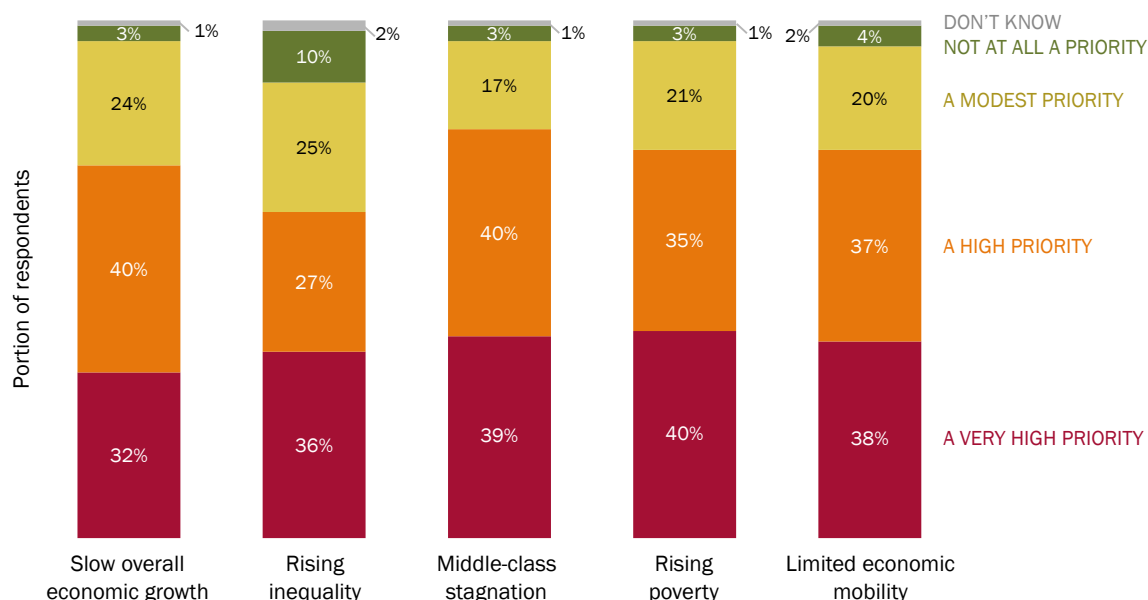
- **Rising poverty:** According to the U.S. Census Bureau, the portion of Americans living below the federal poverty line fell to a low of 11.3% in 2000, but rose to 15.0% in 2012 and stood at 14.5% when last measured (in 2013).
- **Limited economic mobility:** Americans born with low incomes have limited ability to improve their economic well-being. For example, the Pew Charitable Trust reports that among children born in the lowest quintile of the income distribution, 43% are still in the lowest quintile as adults and only 4% rise to the top quintile.

Note that overall economic growth is primarily about total prosperity while inequality, middle-class stagnation, poverty, and limited mobility are about different aspects of (lack of) shared prosperity.

We then asked respondents whether it was an important priority for American society to change each outcome. In doing so, we encouraged respondents to consider altering each outcome in isolation.

Figure 15 reports the findings: alumni considered it important to change all five outcomes. The portion of respondents describing change as a high or very high priority ranged from 63% for rising inequality to 79% for middle-class stagnation.

**FIGURE 15: LEVEL OF PRIORITY PLACED ON CHANGING EACH ECONOMIC OUTCOME**



**66% OF RESPONDENTS FELT IT WAS MORE IMPORTANT TO ADDRESS INEQUALITY, MIDDLE-CLASS STAGNATION, POVERTY, OR ECONOMIC MOBILITY THAN TO BOOST OVERALL ECONOMIC GROWTH.**

Inequality stood out as the outcome evoking the most diverse views. While 36% of respondents considered it a very high priority to address rising inequality, 10% considered it not at all a priority—a far higher portion than for any other outcome.

Clear correlations arose in the sets of outcomes that concerned the respondents. For example, respondents who placed higher priority on addressing poverty also tended to be very concerned about rising inequality and limited economic mobility. Those who considered it a higher priority to boost overall economic growth tended to be *less* concerned about inequality and poverty.

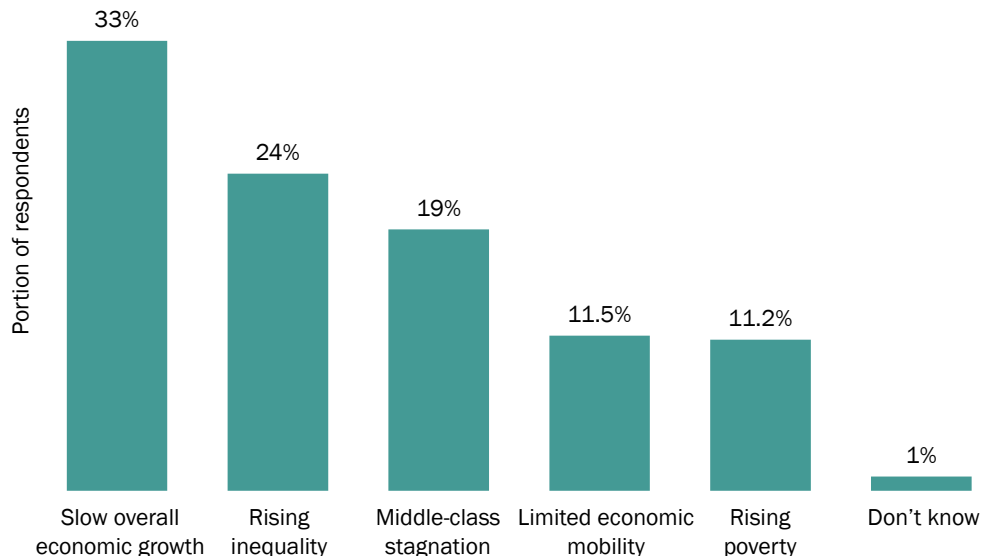
As a result of these patterns, respondents tended to cluster into three segments: one very concerned about slow growth and not worried about inequality; one focused mostly on inequality and not at all on growth; and one concerned about several outcomes, including middle-class stagnation, rising poverty, and limited mobility.<sup>17</sup> Our interpretation is that the first segment

was concerned primarily with total prosperity while the second and third segments were more concerned with different aspects of shared prosperity.

The questions described so far forced no tradeoffs: a respondent could say that he or she considered it a very high priority to change all five outcomes. In a follow-up question, we required each respondent to choose one of the five as a top priority.<sup>18</sup> Figure 16 shows the results. Interestingly, though slow economic growth and rising inequality were the outcomes least likely to be named a very high priority in Figure 15, those two outcomes were the *most* likely to be picked as a top priority in Figure 16. The segmentation we described helps to explain why: slow economic growth had a segment of respondents who were focused much more strongly on it than on other outcomes (the first segment), as did rising inequality (the second segment). The other outcomes were named as very high priorities by respondents who also saw other outcomes as very high priorities, leading to “split votes” when respondents were forced to name a top priority. It is also possible that when forced to choose a top priority, respondents favored growth because they reasoned that stronger growth would also improve other outcomes (e.g., alleviate poverty and lift the middle class).<sup>19</sup>

*Overall, a total of 66% of respondents felt it was more important to address inequality, middle-class stagnation, poverty, or economic mobility than to boost overall economic growth. We interpret this as evidence that a meaningful portion of business leaders value shared prosperity, not only total prosperity.*

**FIGURE 16: TOP PRIORITY FOR CHANGE**



**FIGURE 17: MOST COMMONLY CITED CAUSES AND REMEDIES OF EACH ECONOMIC OUTCOME**

**Causes (percent of all coded comments for each outcome)**

	SLOW OVERALL ECONOMIC GROWTH	RISING INEQUALITY	MIDDLE-CLASS STAGNATION	RISING POVERTY	LIMITED ECONOMIC MOBILITY
Education	9%	20	16	29	55
Globalization / technological change	11	8	23	6	2
Taxes	15	14	8	3	0
Politics	15	10	7	4	2
Regulation	19	0	2	0	1
All other causes	31	48	44	58	40

**Remedies (percent of all coded comments for each outcome)**

	SLOW OVERALL ECONOMIC GROWTH	RISING INEQUALITY	MIDDLE-CLASS STAGNATION	RISING POVERTY	LIMITED ECONOMIC MOBILITY
Changes in education	13%	26	21	39	54
Tax reforms	26	22	18	9	9
Changes in regulation	14	0	6	1	3
Investments in skills	3	5	8	9	9
Changes in politics	7	6	4	2	2
All other remedies	37	41	43	40	23

Opinions about top priorities differed across demographic and industry lines. Women and younger alums were far more likely than men and older alums to identify limited economic mobility as their top priority and far less likely to name overall economic growth. Compared to respondents working in other sectors, alums in finance were more concerned about middle-class stagnation and limited economic mobility but less focused on inequality.

In open-ended questions, we asked each respondent to identify the most important *causes* of the outcome that he or she deemed most important, as well as *remedies* that leaders could apply to ameliorate the undesirable outcome. Responses from the 1,367 alumni who completed these questions were coded into common categories (Figure 17). Respondents who named slow economic growth as the top priority for change pointed to regulation as the most common cause (19%) and to tax reforms as the best remedy (26%). For the other four priorities for change, in contrast, education was consistently listed as the first or second most common cause *and* the first or second most common remedy. For limited economic mobility in particular, 55% of respondents felt that education was a key cause, and 54% felt that education was a primary solution. With regard to rising inequality, taxes were named as the second most common cause, and tax reforms were suggested as the second most common remedy.

## Poor Economic Outcomes as Business Issues

Our next set of questions asked each working respondent to shift from a societal view to a company perspective and to assess, from the perspective of his or her firm, whether each of the five economic outcomes was a business problem, a business opportunity, neither, or both. As Figure 18 shows, slow overall economic growth was the standout business problem, cited by 70% of respondents. Perhaps more surprisingly, 39% and 45% saw rising inequality and growing poverty, respectively, as *business problems*, not simply social issues. Rising inequality—respondents explained in open-ended replies—reduces demand for the products of companies that cater to the working- and middle-class, creates a backlash against successful companies, undermines social stability, and makes it hard for individuals to invest in skills that companies need. Growing poverty, respondents said,

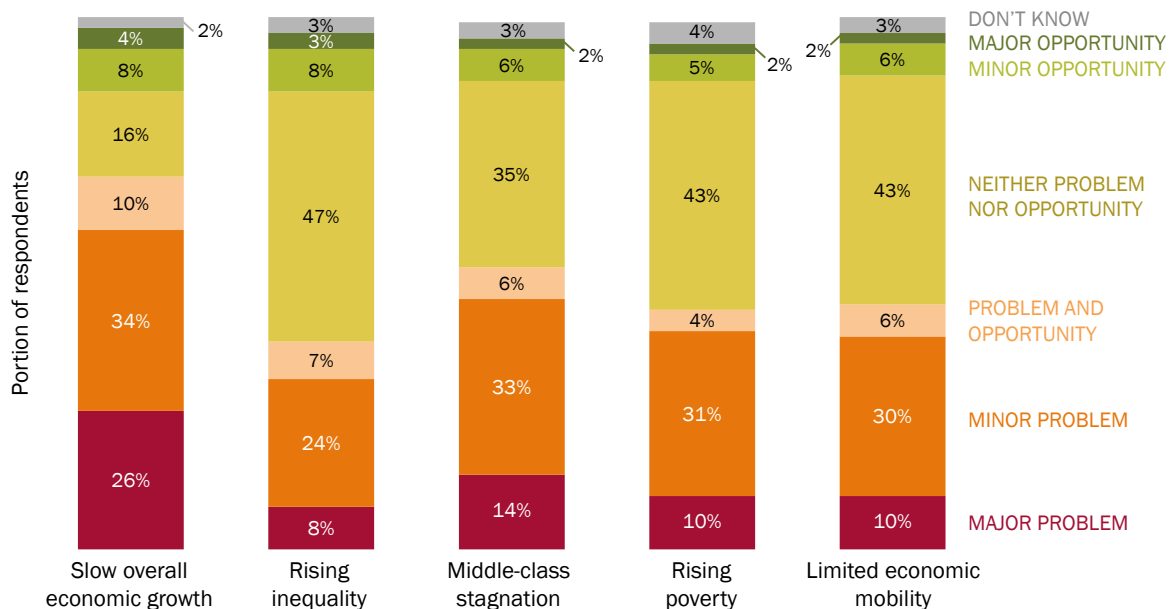
has similar effects and also leads to greater government assistance and higher taxes on businesses. In total, 71% of respondents saw at least one of the outcomes other than slow growth—that is, rising inequality, middle-class stagnation, growing poverty, or limited mobility—as a business problem.

To a lesser degree, respondents saw the troubling economic outcomes as opportunities for their businesses. Respondents told us, for instance, how middle-class stagnation creates openings for companies with low-cost products; how rising inequality helps the makers of luxury goods; how limited mobility in the economy as a whole allows those firms that offer genuine economic opportunity to attract great talent; and how rising poverty creates a pool of trainable personnel loyal to employers that offer good wages.

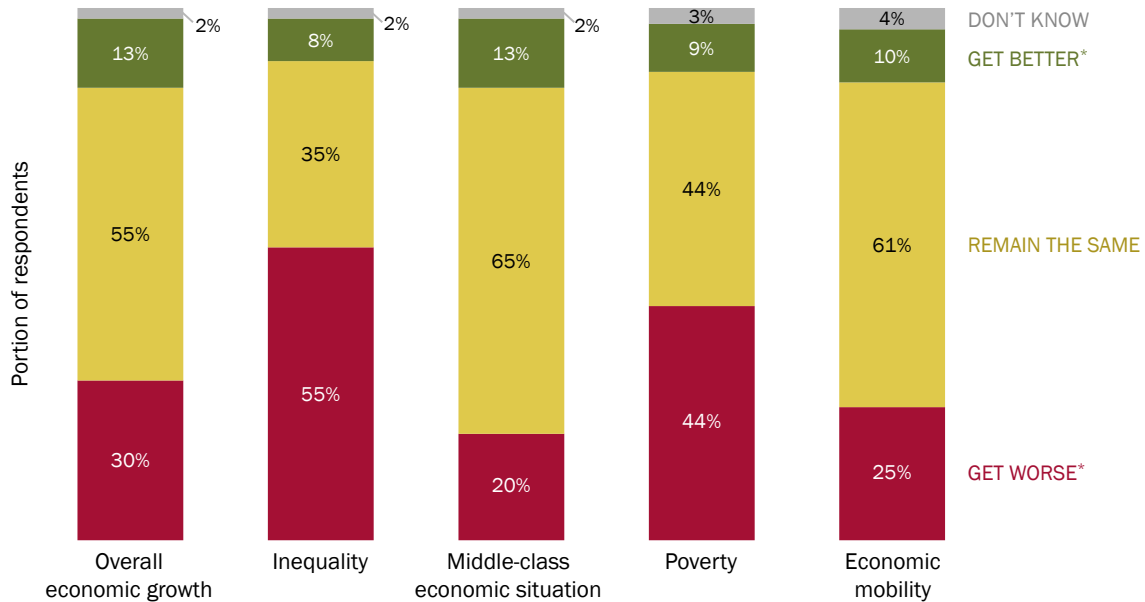
In fact, good wages have been the promise offered prominently by a number of companies in recent months. Aetna, Gap, Wal-Mart, and Starbucks, among others, have announced wage increases for their lowest-paid workers, motivated partly by factors other than a shortage of such workers. We asked respondents whether their own companies were likely to implement similar wage increases for the lowest-paid workers in the coming year. Of the 74% of respondents whose companies employ low-wage workers, 12% said that their companies had already raised pay for low-wage workers. Another 21% reported that their companies were likely or very likely to

MANY RESPONDENTS SEE LACK OF SHARED PROSPERITY AS A *PROBLEM FOR THEIR BUSINESS*, NOT SIMPLY A SOCIAL ISSUE.

FIGURE 18: ECONOMIC OUTCOMES AS BUSINESS PROBLEMS OR OPPORTUNITIES



**FIGURE 19: EXPECTED FUTURE TRENDS IN ECONOMIC OUTCOMES**



\*Questions were not asked with valanced language such as "get better" or "get worse." Rather, they were asked with neutral language such as "do you expect the portion of Americans living below the poverty line to rise over the next decade, remain roughly the same, or fall over the next decade?" We use "get better" and "get worse" in this figure in order to compile and report results across the five outcomes conveniently.

do so in the next year. In total among respondents whose companies have low-wage workers, one-third had already raised the pay of low-wage workers or were prone to do so soon.

Figure 18 offers our strongest evidence that business leaders see an interest in boosting shared prosperity. Unlike our earlier results on the distribution of future income gains and priorities among economic outcomes – which may be influenced by survey respondents’ tendency to say what is socially acceptable – it is less likely that respondents would see it as socially desirable to report that these economic outcomes are problems for their businesses.

## No Change, No Relief

Respondents expected the troubling economic outcomes only to worsen if current policies and economic institutions remain in place. We asked respondents to predict the state of each outcome one decade in the future. For instance, “with current policies and economic institutions, do you expect the portion of Americans living below the poverty line to rise over the next decade, remain roughly the same, or fall over the next decade?”

Figure 19 reports the results. Clearly, respondents do not expect America’s economic problems to “solve themselves.” Inequality and poverty are especially widely expected to intensify.

Overall, the business leaders we surveyed prefer future income gains to be spread far more evenly than they expect those gains to be spread—and than recent gains have been distributed. These leaders want to see improvements in economic outcomes such as inequality, middle-class stagnation, poverty, and economic immobility. Indeed, most of them prioritize such changes over faster economic growth. Many business leaders see lack of shared prosperity as a *business* problem, not just a social issue. Finally, most believe that without changes in policy and economic institutions, America’s lack of shared prosperity will only intensify.



# RESTORING SHARED PROSPERITY

Michael E. Porter and Jan W. Rivkin

Since Harvard Business School launched its Project on U.S. Competitiveness in 2011, it has become increasingly clear to us that finding a path to shared prosperity is America's greatest economic, political, and social challenge. What might it take to restore shared prosperity in the United States? There are no easy answers, and many, very different solutions have been proposed in recent years. Here we step beyond the survey findings and discuss which proposals will help and which may make the problem worse.

## Why Has Shared Prosperity Eroded?

To restore shared prosperity, we must first understand the structural changes in the U.S. that have undermined it in recent decades.

The foundation of an economy with shared prosperity is a strong commons—a set of communal assets and institutions that an economy and companies rely on to be productive.<sup>20</sup> Every company needs an educated workforce, pools of skilled labor in areas important to its business, vibrant networks of suppliers, strong physical infrastructure, a core of basic research that can be commercialized, and so on.

Historically, America pioneered new ways to strengthen the commons: universal public education, land-grant universities, the interstate highway system, federal and philanthropic funding of university research, and many others. Government and business collaborated in this work, especially in the period after World War II. America's business environment was the envy of the world, and Americans across the economic spectrum thrived.

Over the last several decades, however, the rate of investment in the parts of the commons on which the average American depends slowed down markedly. There have been multiple causes.<sup>21</sup> Starting around 1980, shifts in technology, geopolitics, and governance made it possible to do business from anywhere to anywhere, and large firms became globally mobile. With new forms of automation, companies could do more with fewer, more-skilled workers. The ensuing globalization and technological progress benefited American firms and consumers. But longer term, they had three other consequences.

- First, they weakened the connections between companies and their communities that had encouraged business to support the commons. Less dependent on a local workforce, for instance, companies felt less compelled to invest in nearby schools and skills.
- Second, workers in the middle of the skills spectrum found themselves competing for jobs against both workers around the world and fast-improving technology. U.S. workers lost bargaining power, as wages stagnated and private-sector unions went into secular decline.
- Third, individuals with unique skills—including chief executives, entrepreneurs, and investors—could now sell their services on a global scale. Inequality soared.

At the same time, America's historical economic lead obscured increases in costs of doing business, in areas like health care, compliance with regulation, and compliance with a complex tax code. Meanwhile, other countries, especially emerging economies, improved their business environments to the point where the U.S. lead narrowed or disappeared.

As the middle class began to stagnate, the U.S. collectively made a series of bad choices. Rather than redouble our investment in the commons and equip our middle class to compete, we made unsustainable promises to maintain the illusion of shared prosperity: extending credit that many could not repay, expanding entitlements, increasing public-sector employment and benefits, and cutting taxes across the board.

Such promises left the federal government and many state governments overextended. Public spending shifted from investing for the future toward paying for the past, with infrastructure, basic research, and education suffering as a result.

A fiscal squeeze, rising inequality, and an influx of private money into politics contributed to political polarization and paralysis. This blocked seemingly “no-brainer” policy changes that would improve the U.S. business environment—tax reform, immigration reform, and infrastructure investment, for example. In a vicious cycle, the lack of shared prosperity pushed voters to political extremes and reinforced paralysis.



The erosion of shared prosperity in America, then, has multiple root causes:

- The **forces of globalization and technological change** have exerted new, intense competitive pressures on U.S. workers.
- Coupled with these competitive pressures, institutional changes such as the decline of unions and changes in the tax code have shifted the **distribution of economic gains** away from working- and middle-class Americans.
- The **overall economic growth** that might push middle-class wages upward has been restrained by the structural problems described above, including a layering-on of unnecessary costs of doing business.
- **Political paralysis** has prevented the nation from dealing with its problems.
- **Systematic underinvestment in the commons**, especially the parts that support working- and middle-class Americans, has left many workers undereducated, inadequately skilled, and unprepared for global competition. Figure 4 on page 7 makes this vivid: elements of the commons that determine workers' prosperity—including K–12 education, skills, and logistics infrastructure—are among the nation's perceived weaknesses or declining strengths.

## What Might Be Done?

These multiple causes are reflected in today's vigorous debates about how to restore shared prosperity. The possible remedies correspond to the root causes.

### **Slow down globalization and technological change.**

Some have suggested that America try to slow down or even reverse the forces of globalization and technological change. For instance, policymakers could forego trade agreements that open markets, set policies to slow down innovations that displace workers or threaten traditional industries, or attempt to prevent American companies from moving jobs abroad.

We believe that such efforts are stopgap measures at best and are likely to do more harm than good. Yes, policymakers should ensure that new trade agreements genuinely open markets rather than place American companies and workers at a structural disadvantage. Likewise, business leaders should understand the often-hidden costs of offshoring or automation before moving activities abroad or replacing workers with new

SINCE SHARED PROSPERITY IS IMPOSSIBLE WITHOUT PROSPERITY, IT SURELY MAKES SENSE FOR AMERICA TO PURSUE FASTER GROWTH... BUT THE U.S. MUST GO BEYOND MACROECONOMIC STIMULUS.

technology. But ultimately, if the U.S. attempts to retreat from global markets and technological advances while the rest of the world embraces them, U.S. productivity, prosperity, and wages will suffer in the long run.

**Redistribute the gains.** Many proposals floated today aim to improve the incomes of working- and middle-class citizens by shifting gains, directly or indirectly, from Americans with the highest incomes. Among these proposals are a more progressive tax system; higher minimum wages; higher rates for estate taxes; a change in the tax treatment of carried interest; a tax on wealth; an increase in earned income tax credits; shifts in corporate compensation models to give ordinary workers a greater share of profits; and laws and governance practices that give workers greater voice and bargaining power.

Such steps deserve serious public consideration: they can play a valuable role in boosting the incomes of working- and middle-class citizens, generating greater tax revenues to support investment, and restoring a sense of fairness to economic growth. Business is taking some of these steps voluntarily. Yet it is probably unrealistic to hope that shifting income from one group to another alone will put most American incomes on a positive long-term trajectory. Redistribution via taxes is famously known as a “leaky bucket”: some prosperity is lost as it is moved from one pool of the population to another, especially because taxes distort incentives. Moreover, in any redistribution effort, some individuals lose income, and that makes such efforts politically difficult and slow.

**Boost overall economic growth.** Many believe that the key to shared prosperity is faster economic growth. Growth will create more jobs, force firms to compete for workers, and push wages upward. Many of our survey respondents seem to subscribe to this view, that a rising tide is the best way to lift all boats.

Since shared prosperity is impossible without prosperity, it surely makes sense for America to pursue faster growth. To do so, the U.S. must go beyond macroeconomic stimulus, the federal government's leading implicit “strategy” since the Great Recession, to improve the

costs of doing business in America—for example, by removing unnecessary regulation or simplifying the tax code. High costs of doing business are often, paradoxically, borne by workers, not by businesses. When a multinational avoids the United States because of its high and complicated corporate taxes, the burden falls on American workers, not the company or its shareholders. Conversely, lower (non-wage) costs of doing business in America would benefit workers in part.

Yet recent experience shows that overall economic growth is not enough: prosperity has not produced shared prosperity. So long as the U.S. has significant underutilized capacity of workers without competitive education and skills, a great deal of growth can occur without wages rising rapidly.

**Address the political paralysis.** Since the launch of HBS' U.S. Competitiveness Project in 2011, we have heard from many who argue that America must “fix Washington first.” If political paralysis persists in the federal government, they say, other efforts to restore shared prosperity will fail.

We agree that action in Washington is essential, and we continue to share our views there.<sup>22</sup> But many sensible policies that we and others advocate continue to languish in Washington even as the need for those policies grows more and more urgent. Progress in changing decision-making at the federal level is painfully slow, and the stakes are too high to wait for Washington.

**Reinvest in the commons.** The most promising path to restoring shared prosperity, we believe, is to repair the commons, especially the parts of the commons on which most Americans rely. We must equip American workers to compete and win in global labor markets. This requires preparing citizens with strong basic education, training them on the workforce skills in demand, providing efficient infrastructure, and in other ways improving the productivity of the U.S. business environment to allow workers to command good wages even in the face of global competition.

Investments in the commons, and the public policies that enable investment and productivity, are win-win. When workers are more skilled, in ways that better match the needs of employers, then workers and employers are better off. Greater and smarter investment in infrastructure makes both workers and businesses more productive. Consequently, leaders with very different political stances—Democrats and Republicans, management and labor—can agree that shared resources such as education, workforce skills, infrastructure, and entrepreneurial supports are winning investments.

Improving the commons is not only government's job but also a crucial agenda for business. Business can play a major role in training workers, upgrading local suppliers, encouraging innovation, and fostering entrepreneurship, for instance.<sup>23</sup>

Finally, restoring the commons needs to take place at every level of geography. Cities, metros, and states all have a role, and progress can be much faster than at the federal level. Some of the most exciting improvements in the commons are taking place at these levels.

## Signs of Progress

The work of restoring the commons is already underway in America. Innovative cities and states are making rapid progress, and business is pitching in.<sup>24</sup>

Much of this work is taking the form of innovative cross-sector collaborations. In cities and towns across America, local policymakers, businesspeople, educators, nonprofit leaders, union leaders, and others are coming together across sectors to improve schools, build skills, restore infrastructure, and foster entrepreneurship, for instance. To mention just a few examples, we see:

- community colleges working with companies to train the graduates that employers want to hire;
- elected officials partnering with universities to speed the deployment of research into new businesses;
- educators working with businesses and nonprofits to reinvent high schools; and
- coalitions of leaders from government, business, and labor coming together to restore critical infrastructure.

Such local, cross-sector collaborations to rebuild the commons are the most promising moves we see today toward shared prosperity and greater U.S. competitiveness. We urge America's leaders—in business, government, education, and nonprofits—to seize these opportunities.

# APPENDIX: METHODOLOGY AND RESPONDENT PROFILE

The 2015 HBS survey on U.S. competitiveness was designed and conducted by HBS faculty and researchers in conjunction with Abt SRBI, a leading survey research firm. A copy of the survey instrument and a full report on methodology are available at <http://www.hbs.edu/competitiveness/survey>.

The 2015 survey was based on a sample of the total HBS alumni population. HBS alumni are defined as former students holding MBA and doctoral degrees as well as those who have completed comprehensive executive education courses such as the Advanced Management Program. The alumni contact information came from an internal HBS alumni list, which is based on original matriculation and graduation records and is actively managed and regularly updated.

All living alumni with email addresses—a total of 60,063—were eligible for inclusion in the sample. From this population, an initial sample of 15,100 alumni was extracted based on three strata: new HBS alumni who graduated in 2014 and 2015; respondents who had responded to either the 2012 survey or the 2013–14 survey; and previous nonrespondents, who had not responded to either the 2012 survey or the 2013–14 survey. In each of the three categories, alumni were further stratified by gender, age, location, and alumni type (MBA, doctoral, or executive education).

After cognitive testing of the survey instrument, the survey was opened on April 23, 2015. While the initial sections of the survey instrument were administered to the full sample, the topical sections on entrepreneurship and attitudes toward shared prosperity were administered to a split sample. To ensure that there were sufficient responses for robust analysis of these topical sections, the sample size was doubled on April 28, 2015.

The survey was thus fielded to a total of 30,200 alumni and remained open until May 26, 2015. During this period, two email reminders were sent to alumni to encourage them to respond. In all, 2,716 alumni completed the survey, a response rate of 9.0% (or 9.8% if one weights for the probability of selection across the strata). The response rate was lower than in previous years, perhaps reflecting the fact that this year's survey was longer than previous years'. The median time to complete the survey in 2015 was about 19 minutes, compared to about 13 minutes for the 2013–14 survey.

**Instrument.** The 2015 survey instrument was designed and vetted by HBS faculty in collaboration with survey methodologists. The survey is designed to capture longitudinal data, so the questions in the first three sections of the instrument remain the same from year to year. These sections gather background information on respondents, ask alumni to

assess elements of the U.S. business environment, and pose questions on the overall competitiveness of the U.S.

Each year, HBS faculty members customize the second half of the survey to examine topics relevant to the ongoing research of the U.S. Competitiveness Project. In 2012, for example, the survey asked respondents to register their approval or disapproval of possible federal policies and to identify the actions businesses were taking that may affect U.S. competitiveness. The 2013–14 survey asked detailed questions on three specific elements of the U.S. business environment: the education system through high school, the skills base of the workforce, and the nation's transportation infrastructure.

In 2015, half the sample was asked questions on entrepreneurship and half the sample, questions on attitudes toward shared prosperity. The sample was split in order to reduce the time spent on the survey and encourage more respondents to complete the survey. In the questions on shared prosperity, the order of questions served was randomized.

**Weighting.** Weighting took place in three steps: design weights were assigned that adjusted for stratum-level probability of selection, nonresponse weights that adjusted for nonresponse from the selected sample were calculated, and post-stratification weights were assigned that adjusted completed responses to the age, gender, alumni type (degree and Executive Education), and location (U.S. and overseas) of all HBS alumni.

**Precision of estimates.** As a sample survey, estimates from the 2015 competitiveness survey are subject to sampling error i.e., variations from the extent to which responses to a survey may be expected to differ from those of the population from which the survey sample was drawn due to the sampling process. Due to the design of the survey as well as weighting adjustment for nonresponse, estimates from the 2015 competitiveness survey will have higher sampling error than would a simple random sample. The design effect was estimated at 1.49. Given the 2,716 completed surveys, the effective sample size would be  $n=1,823$ . Based on this effective sample size, the 95% confidence intervals for proportion of 50% would be  $\pm 2.3\%$ . Analyses based on a subset of cases will have wider confidence intervals, while percentages above or below 50% will have narrower confidence intervals. The specific confidence intervals for any item may deviate from these estimates.

Nonresponse error is addressed in this survey by weighting the sample to the known characteristics of HBS alumni with respect to age, sex, location, and stratum.

# Respondent Profile

## RESPONDENT LOCATION

IN THE UNITED STATES	
New York	694
California	283
Massachusetts	163
Texas	73
Florida	59
New Jersey	49
Connecticut	45
Georgia	45
Illinois	42
Virginia	37
35 other states, plus D.C., territories, and U.S. armed forces overseas	342
<b>Subtotal</b>	<b>1,832</b>
OUTSIDE THE UNITED STATES	
Canada	69
United Kingdom	68
Japan	65
Australia	49
Brazil	40
Switzerland	40
Germany	34
France	27
Mexico	27
Hong Kong SAR	24
66 other countries and territories	351
<b>Subtotal</b>	<b>794</b>
<b>UNKNOWN LOCATION</b>	<b>90</b>
<b>TOTAL</b>	<b>2,716</b>

## RESPONDENT AGE

	NUMBER	PERCENT
Under 30	54	2.0%
30-39	355	13.1%
40-49	339	12.5%
50-59	512	18.9%
60-69	550	20.3%
70 and older	574	21.1%
Unknown	332	12.2%
<b>Total</b>	<b>2,716</b>	<b>100%</b>

## RESPONDENT SECTOR OF EMPLOYMENT\*

	NUMBER	PERCENT
Finance and Insurance	656	24.2%
Manufacturing	508	18.7%
<i>Computer, Electrical, and Appliance</i>	95	3.5%
<i>Metal and Machinery</i>	89	3.3%
<i>Petroleum, Chemicals, and Plastics</i>	76	2.8%
<i>Food and Beverage</i>	62	2.3%
<i>Textile and Apparel</i>	25	0.9%
<i>Wood, Paper, and Printing</i>	25	0.0%
<i>Other Manufacturing</i>	136	5.0%
Professional, Scientific, and Technical	461	17.0%
Wholesale and Retail Trade	158	5.8%
Construction and Real Estate	151	5.6%
Information: Media, Telecom, and Data Processing	150	5.5%
Education Services	147	5.4%
Health Care and Social Assistance	125	4.6%
Other Services	124	4.6%
Transportation and Logistics	59	2.2%
Mining and Oil & Gas Extraction	52	1.9%
Utilities	33	1.2%
Agriculture, Forestry, and Fishing	26	1.0%
Public Administration	21	0.8%
Accommodation and Food Services	20	0.7%
Arts, Entertainment, and Recreation	20	0.7%
<b>Subtotal</b>	<b>2,711</b>	<b>99.8%*</b>
Never worked	1	<0.1%
Gave no response	4	0.1%
<b>Total</b>	<b>2,716</b>	<b>100%*</b>

\*Includes working and nonworking respondents. Working respondents were asked, "In what sector do you work?" Nonworking respondents were asked, "In what sector did you work?"

# ENDNOTES

- <sup>1</sup> Benjamin Pugsley and Ayşegül Şahin, “Grown-Up Business Cycles,” Federal Reserve Bank of New York Staff Reports, Number 707, December 2014, Figure 1. See also Ryan Decker, John Haltiwanger, Ron S. Jarmin, and Javier Miranda, “The Role of Entrepreneurship in U.S. Job Creation and Economic Dynamism,” *Journal of Economic Perspectives*, 2014, 28: 3–24.
- <sup>2</sup> Ryan Decker, John Haltiwanger, Ron S. Jarmin, and Javier Miranda, “The Secular Decline in Business Dynamism in the U.S.,” June 2014. Ian Hathaway and Robert E. Litan, “What’s Driving the Decline in the Firm Formation Rate? A Partial Explanation,” Economic Studies at Brookings, November 2014.
- <sup>3</sup> For example, see “Wealth Inequality: A Harvard Take,” *Harvard Magazine*, November–December 2011, <http://harvardmagazine.com/2011/11/michael-norton-wealth-inequality-survey-results>.
- <sup>4</sup> Ryan Decker, John Haltiwanger, Ron S. Jarmin, and Javier Miranda, “The Role of Entrepreneurship in U.S. Job Creation and Economic Dynamism,” *Journal of Economic Perspectives*, 2014, 28: 3–24. Benjamin Pugsley and Ayşegül Şahin, “Grown-Up Business Cycles,” Federal Reserve Bank of New York Staff Reports, Number 707, December 2014, Figure 1.
- <sup>5</sup> Venture Deals Data, Preqin, [www.preqin.com](http://www.preqin.com), accessed August 2015.
- <sup>6</sup> For example, see “The Shocking Truth About the Skills Gap,” CareerBuilder, 2014, and ManpowerGroup Talent Shortage Survey, 2013 and 2015.
- <sup>7</sup> Ian Hathaway and Robert E. Litan, “Declining Business Dynamism in the United States: A Look at States and Metros,” Brookings Institution, 2014. Benjamin Pugsley and Ayşegül Şahin, “Grown-Up Business Cycles,” Federal Reserve Bank of New York Staff Reports, Number 707, December 2014.
- <sup>8</sup> Fatih Karahan, Benjamin Pugsley, and Ayşegül Şahin, “Understanding the 30-year Decline in the Startup Rate: A General Equilibrium Approach,” Federal Reserve Bank of New York, mimeo, May 2015. Benjamin Pugsley and Ayşegül Şahin, “Grown-Up Business Cycles,” Federal Reserve Bank of New York Staff Reports, Number 707, December 2014.
- <sup>9</sup> Brent W. Ambrose, Larry Cordell, and Shuwei Ma, “The Impact of Student Loan Debt on Small Business Formation,” Working Paper no. 15–26, Federal Reserve Bank of Philadelphia, July 2015.
- <sup>10</sup> Warren E. Buffett, “Stop Coddling the Super-rich,” *New York Times*, August 14, 2011.
- <sup>11</sup> Howard Schultz, “Invest in Communities to Advance Capitalism,” *Harvard Business Review Online*, October 17, 2011.
- <sup>12</sup> For example, the median MBA respondent to our survey graduated from Harvard Business School about 25 years ago. Other alumni research reveals that the typical total annual compensation of such an individual is roughly \$340,000, which would place him or her in the top 2% of U.S. households. In addition, as noted on page 3, 38% of our working respondents reported a title of chief executive, chair, president, founder, owner, managing director, managing partner, or a similar title at the very top of an organization.
- <sup>13</sup> We posed the following questions to half of the respondents before the questions on economic outcomes and to the other half of the respondents after those questions. We did so to determine whether being exposed to facts and questions about economic outcomes would influence the replies to the following questions. In fact, the placement of the questions had no impact on responses.
- <sup>14</sup> Emmanuel Saez, University of California Berkeley, “Striking it Richer: The Evolution of Top Incomes in the United States (updated with 2014 preliminary estimates),” mimeo, June 25, 2015, Table 1.
- <sup>15</sup> Sorapop Kiatpongsan and Michael I. Norton, “How Much (More) Should CEOs Make? A Universal Desire for More Equal Pay,” *Perspectives on Psychological Science*, 2014, 9: 587–593. Michael I. Norton and Daniel Ariely, “Building a Better America – One Wealth Quintile at a Time,” *Perspectives on Psychological Science*, 2011, 6: 9–12.
- <sup>16</sup> For a prior survey on inequality involving respondents who are well-off on average, see “Wealth Inequality: A Harvard Take,” *Harvard Magazine*, November–December 2011, <http://harvardmagazine.com/2011/11/michael-norton-wealth-inequality-survey-results>.
- <sup>17</sup> As often happens with cluster analysis, the precise clustering was not stable across runs of the statistical analysis. The existence of three segments as described here, however, was robust.
- <sup>18</sup> Specifically, if a respondent identified one outcome as a higher priority than all others in the previous question, we took that outcome as his or her highest priority. If in the prior question the respondent named two or more outcomes as equally high and higher than all the rest, we asked the respondent to identify his or her highest priority among those outcomes.
- <sup>19</sup> To some degree, the popularity of slow growth and rising inequality as top priorities may be an artifact of the survey design. Slow growth and rising inequality were listed before the other three economic outcomes. It is possible that when faced with a difficult prioritization task, respondents simply chose an option that was listed early.

- <sup>20</sup> Gary Pisano and Willy Shih, "Restoring American Competitiveness," *Harvard Business Review*, July-August 2009. Gary Pisano and Willy Shih, *Producing Prosperity: Why America Needs a Manufacturing Renaissance*, Boston: Harvard Business Review Press, 2012.
- <sup>21</sup> Michael E. Porter and Jan W. Rivkin, "The Looming Challenge to U.S. Competitiveness," *Harvard Business Review*, March 2012.
- <sup>22</sup> Michael E. Porter and Jan W. Rivkin, "What Washington Must Do Now," special issue on The World in 2013, *The Economist*, November 21, 2012.
- <sup>23</sup> Michael E. Porter and Jan W. Rivkin, "What Business Should Do to Restore U.S. Competitiveness," *Fortune*, October 29, 2012.
- <sup>24</sup> For more information on actions that businesses are taking to support U.S. competitiveness, see the reports on the 2012 and 2013-14 HBS alumni surveys on U.S. competitiveness.

**Jan W. Rivkin** is the Bruce V. Rauner Professor at Harvard Business School and the Senior Associate Dean for Research. **Karen G. Mills** is a Senior Fellow at Harvard Business School and Harvard Kennedy School and a former Administrator of the U.S. Small Business Administration. **Michael E. Porter** is the Bishop William Lawrence University Professor, based at Harvard Business School. **Michael I. Norton** is the Harold M. Brierley Professor of Business Administration and **Mitchell B. Weiss** is the MBA Class of 1961 Senior Lecturer of Business Administration at Harvard Business School.

**Manjari Raman**, Program Director and Senior Researcher of the U.S. Competitiveness Project at Harvard Business School, was instrumental in designing this survey, executing it, and reporting the findings.

The authors extend a special thanks to the HBS alumni who completed the U.S. competitiveness survey.

The authors would like to acknowledge the crucial contributions of Abt SRBI vice president **Benjamin Phillips** and HBS Research Associates **Gabriel Ellsworth, Ilyes Kamoun, and Marie Mekosh**.

Please direct inquiries to Manjari Raman (mraman@hbs.edu).

For more information on Harvard Business School's U.S. Competitiveness Project, please visit <http://www.hbs.edu/competitiveness/>

Report design: Terberg Design, LLC.

