A Crisis of Jealousy and Despair: A Theory of Rising Political Polarization and Why Managers and Business Schools Should Care About It

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Abstract

This article offers a novel theory of political and affective polarization in America and their impacts on business. Our theory pivots on the growing portion of Americans for whom the national social contract is broken. Many of these individuals experience strong emotional reactions to the broken social contract, including jealousy among some and despair among others. Political parties have strategically consolidated fundraising by stoking these emotions and essentially nationalizing elections. We maintain that the net result is rising political adjustment costs—a previously unexamined source of government failure—that prevents government from effectively restructuring the social contract. The result is a dynamic systems model that explains how businesses contribute to polarization and political adjustment costs, identifies five emerging challenges that they create for businesses, and explains why managers should work to address them. We develop an agenda for research and teaching about these issues in strategic management, both within the U.S. and in countries with different institutions.

Introduction

Rising polarization in the United States is creating new and striking strategic challenges for managers that are difficult to navigate, regardless of their individual political ideologies (Fiorina, 2017; Hare, 2022). Differences between the platforms of the country's two major political parties—Democrats on the political Left and Republicans on the political Right—continue to grow. The two parties now hold sharply different positions on many issues that are important to business, including the proper size and scope of corporate and individual tax rates, welfare spending, the minimum wage, and trade, healthcare, immigration, and environmental policy (Layman et al., 2006; Smidt, 2017). This political polarization is accompanied by growing affective polarization as well. Increasingly, individuals are likely to display in-group favoritism and affinity toward co-partisans, together with out-group animosity and mistrust toward the opposition (Diermeier & Li, 2019; Iyengar et al., 2019).

Recent events illustrate the emerging challenges of political and affective polarization for business and business leaders. For example, Democratic partisans recently pressured several large firms to denounce voting rights legislation in Georgia, but Republican partisans retaliated with negative ad campaigns against those firms for the positions they took (Associated Press, 2021; *Wall Street Journal*, 2021). Congressional hearings in which the CEOs of Facebook, Twitter, and Google faced competing pressures from both ends of the political spectrum over alleged fake news and anti-conservative bias on social media platforms illustrates another consequence of political polarization for firms (Room et al., 2020). Similarly, the divergence in the two parties' policy platform positions, and their growing unwillingness to compromise and cooperate when developing policy, is producing an unusual combination of policy gridlock and more frequent and extreme policy vacillations on several issues that are vital to business. The gridlock is evident in government's failure to address the ballooning national debt, for example, and the vacillation is evident in the sizeable shifts and reversals of healthcare and immigration policy between Presidents Obama and Trump, and similarly substantial shifts and reversals in energy and tax policies under President Biden. The ideological divides also are spilling over into the work environment, affecting employees' labor-market choices, conflict with coworkers, and subsequent stress, job satisfaction, and turnover (McConnell et al., 2018; Swigart, et al., 2020). Further, the polarization is affecting profitability and stock prices, as illustrated by recent controversies surrounding Anheuser-Busch and Target for products and promotions that some customers perceived as taking sides in culture wars (Escobar, 2023; Rivas, 2023).

Strategic management research rarely has focused on the possible causes or consequences of political and affective polarization. Instead, the research has focused mostly on the partisan ideologies of individual strategic leaders and their influence on individual firm behavior, such as corporate social responsibility (Gupta et al., 2017; Gupta et al., 2019), executive compensation (Chin & Semadeni, 2017; Gupta & Wowak, 2017), and social activism (Briscoe et al., 2014; Gupta & Briscoe, 2019). Despite the growing body of research on political ideology, strategic management has rarely explored the impacts of political and affective polarization on business beyond managers' individual political leanings, nor has it considered how firms might be contributing to such polarization.

In response, this article undertakes three interrelated goals. First, we develop a novel and dynamic system model that leverages history, evidence about the state of America's social contract, and the actions of managers to move beyond the literature in political science that offers a multitude of alterative explanation for polarization (Bonica, 2014; Crosson et al., 2020; Layman et al., 2006). This combination provides a model that explains the growth in political and affective polarization in the U.S. and provides a novel theoretical basis for understanding the new set of challenges faced by firms. A key feature in this model is the concept of a new a kind of government failure—what we term *political adjustment costs* that refer to the time, expense, and difficulty of transitioning from one set of equilibrium government policies to another—that have not been catalogued in prior literature.

Second, based on the model, we identify five negative consequences of these political adjustment costs for business and managers. These consequences include (1) policy gridlock and vacillation that hinder government effectiveness and creates uncertainty for business, (2) growth in firms' political spending coupled with increased uncertainty about the policy outcomes such spending will produce, (3) stakeholder relationships that are harder to manage due to emerging expectations on firms both to address social problems that historically fell within the purview of government policy and to take controversial political positions in an era of affective polarization. As a result, political adjustment costs also have (4) reduced firms' incentives and willingness to invest in long-term, co-specialized assets and capabilities that support value creation and capture over time and (5) increased executives' responsibilities and job demands. Ironically, firms themselves have contributed to these problems because they are major donors to the political parties, which has helped fuel the rise in political adjustment costs. Thus, we conclude that taking polarization seriously and working to reduce it are in firms' long-term best interests.

Third, we probe the role of business schools and especially the strategic management field in responding to the dilemma of polarization and the consequences of political adjustment costs for business and managers. The result is a call for strategic management scholars to engage in four kinds of research. First, scholars can explore the role of business in social contracts, institutional and economic factors that threaten the viability of social contracts, and how and when social contracts can be restructured. Second, research can help managers understand and address the challenges posed by deteriorating social contracts and high political adjustment costs. Third, scholars can enumerate and explore feasible mechanisms to lower political adjustments costs, which can increase economic efficiency. Fourth, research can explore conditions under which businesses are responsive and efficient at providing products and services that substitute for government. In each of these calls, we encourage research that can help managers navigate the political dynamics of not only the U.S., but also other countries.

The article proceeds as follows. First, we outline the national social contract, present evidence that it is fractured for many Americans, and explain the emotional impacts of this fracturing. Second, we explain how institutional changes, the broken social contract, and firm behavior have helped fuel the rising political adjustment costs, which gives rise to a dynamic system model that explains the growing political and affective polarization. Third, we examine five challenges that political adjustment costs are creating for business. Lastly, we explain the implications of our theory for strategic management research, teaching, and practice.

Breaking of the National Social Contract (i.e., the American Dream)

The *national social contract* refers to financial and other forms of security that people expect in exchange for their skills and work over the course of their lives. Often referred to as the American Dream, America's social contract has long been premised on the promise of high wages in exchange for working hard, potentially leading to a middle-class life for those without secondary education, a middle- or upper-class life for those with higher or professional education, and a good chance of upward mobility for all. Similarly, individuals' expectations about retirement security and their beliefs that their children's generation will be better off than their own generation are common aspects of the American Dream.

America's social contract is maintained through government institutions and policies that foster and protect such expectations by influencing individuals' access to merit goods (e.g., education), working conditions (e.g., wages), healthcare, social insurance (e.g., Social Security and retirement savings), and physical security (e.g., response to crises and equal protection under the law) (Lind, 2012). More generally, governments are responsible for levying taxes, providing services, and establishing rules of the game that oversee economic activities and public resources to address society's changing needs (North, 1990; Ostrom, 1990). As a result, the public often holds government responsible for maintaining the social contract (Freedman & Lind, 2013).[1]

Unfortunately, many measures indicate that the national social contract is broken for most Americans. Even prior to the COVID-19 pandemic, about 70% of Americans had less than $1,000 in (liquid) savings and 45% had nothing saved (Vultaggio, 2019). Among older Americans (aged 55 and older), 48% had no retirement account, and 29% had no retirement savings or pension plans (Jeszeck, 2015). This evidence implies that most Americans lack financial and retirement security, which affects food, housing, and healthcare security, indicating declining confidence in the American Dream. Similarly, individuals across the socioeconomic spectrum, including not only the poor and working class (71%), but also the wealthier upper class (64%), no longer believe that their children's generation will be better off than they are (Dann, 2019). In short, confidence that America's prosperity has translated or will translate into security for all Americans is declining (see Kurz et al., 2018).

Advances in innovation and globalization since the mid-1990s have altered how firms do business in fundamental ways. In particular, they increased the ability to substitute technology for labor, reduced domestic demand for less skilled and experienced labor, and fueled the offshoring

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[1] In fact, some of the early Enlightenment thinkers argued that the establishment and maintenance of the social contract was one of the central reasons why the state exists in the first place (Hobbes, 1651; Locke, 1690).

of manufacturing jobs. Although these changes created significant wealth for the owners of capital, they also reduced the economic security of many Americans. Against this backdrop, several economic shocks that happened in rapid succession—including the recession and financial scandals that followed the dotcom bust, the wars that followed the 9-11 attacks on the World Trade Center, the 2008 Financial Crisis, recent surges in immigration and refugees, and the Covid-19 shutdown and its aftermath (e.g., shortages and inflation)—also produced sharp and unexpected economic shifts and social instability that have led many to question the American Dream. The direct costs of these shocks—in the form of lost tax revenue, economic stimulus bills, greater defense spending, and so on—also have created record government budget deficits and put pressure on America's Social Security and healthcare systems, especially considering its aging population (e.g., Kulik et al., 2014).

Although these conditions affect most Americans, we illustrate how the social contract became broken by focusing on the two archetypal demographics that, combined, make up about 50% of the U.S. adult population (*Statista*, 2022): the non-college-educated middle-age demographic (i.e., 45-64 years of age) and the younger generations demographic (i.e., 25-34 years of age).[2] Of course, variation exists within these two groups. However, the implications of the broken social contract for many people in these demographics illustrate its relevance to society as well as the strong emotional responses that it can elicit.

The first demographic is middle-aged non-college-educated Americans—often termed blue-collar workers—who believe that the promise of the American Dream was once available to them but has been taken away, leading to jealousy. Well-paid manufacturing jobs were once a key path to the America Dream for these individuals, but the loss of such jobs due to automation and

[2] Our focus on these two groups is illustrative and is not meant to imply that other groups should be ignored. Instead, these two groups present sufficient conditions to illustrate the mechanisms in our theory.

offshoring eliminated this path for millions. For example, factory jobs declined by about 30% between 2000 and 2013 (Houseman et al., 2014). Overall, the U.S. has lost 7.5 million manufacturing jobs since 1980, with 5.5 million lost between 2000 and 2017 (Hernandez, 2018). Simultaneously, many of the remaining manufacturing jobs have shifted from low-skill to high-skill, which require additional training and education often perceived as too difficult, time-consuming, or costly for many middle-aged blue-collar workers to obtain. This demographic also might experience jealousy due to the loss of financial security referenced above, especially with regard to retirement and health care as they approach advanced age.

The second demographic is college-educated young people who despair that they cannot earn enough to repay their student loans, afford housing and childcare, and generate enough savings to obtain financial security. For example, Millennials (25-39 years old) earn less than $36 thousand per year on average, but they owe an average of nearly $30 thousand in student loan debt, which many perceive to be crippling and unsurmountable.[3] Moreover, the average net worth of Millennials is just $8,000, which is the worst of any prior generation in U.S. history at that stage of their lives (Hoffower, 2019). This demographic also might experience despair due to the perceived lack of opportunities to achieve financial security in the future, especially given rising housing, healthcare, childcare costs, and the prospect of caring for aging parents.

Concomitant with these changes, the emergence of the 24-hour news cycle, smart phones, and social media gave new voice to those who believe that the social contract is broken, both by increasing the breadth and speed of information dissemination (including disinformation and mal-information) and by helping them share grievances, self-organize around common agendas, and

[3] The U.S. Supreme Court rejected the legality of President Biden's 2022 executive order to forgive portions of student loans, which affect individuals in this demographic disproportionately. However, the President quickly amended the executive order in response to the Court's ruling, setting the stage for more legal battles over this issue.

propose solutions more quickly and easily. Individuals who feel disaffected are more likely to leverage these tools and this newfound voice to advocate for change.

Thus, in combination, several factors have accelerated and highlighted the perception that the social contract is broken. As we explain below, changes in America's political institutions have enabled and incentivized the major political parties to leverage the emotional impact of the broken social contract to accumulate financial resources and consolidate power, which has led to polarized and polarizing solutions to the broken social contract.

Changing Political Institutions and Growing Polarization

The polarization in America has widened in the past three decades and continues to rise (Swigart et al., 2020).[4] The rising political polarization is evident not only in the growing divergence of the policy positions favored by the country's two major political parties, but also in the declining proportion of voters who express no partisan leanings (even if they are not party members) (Hare, 2022; Layman et al., 2006; Smidt, 2017). Concurrently, growing affective polarization is evident in the growing proportion of individuals who prefer to not support, work with, or interact with others who express different political positions (Diermeier & Li, 2019;

[4] Shifting political preferences are not unique to the America. Yet, because of the institutional structure of democracies differ in important ways, the effects of shifting political preferences are markedly different in European democracies. While like the U.S., the U.K. is a two-party political system, most European countries have elections that are contested by many political parties. France, for example, has five major parties and 37 lessor parties. A vital difference is that many of the parliamentary systems in European democracies have much shorter windows than the U.S. for political campaigns and hence expenditures. For example, the official campaign period in the U.K. is 25 working days and France's presidential campaign is limited to 90 days and is less for other offices. Compare these limits to unlimited campaign period, which in practice can exceed 600 hundred days for U.S. presidential campaigns. Political fundraising in Europe is either restricted or the way in which funds can be spent is limited. For example, political advertising on commercial television and radio in the U.K are banned, and France bans donations from foreign entities, corporations, trade unions, and anonymous donors. The net result of these institutional differences leads to a stark and striking comparison of campaign expenditures. Political campaign expenditures for U.K.'s 2017 general election involving all 632 positions totaled around $52 MM. French Presidential candidates are limited to about $18.5 MM in the first round of voting and $5.5 MM in the second round. By comparison, expenditures on the 2016 U.S. federal elections by parties, candidates, and interest groups spent about 6.5 B (Hillman & Keim, 1995; Persson, 2002). These differences in campaigning and campaign finance imply that political polarization and its consequences for business are likely to evolve differently in each country.

Iyengar et al., 2019; McConnell et al., 2018). In fact, the ideological divides among those who express partisan leanings toward either party are now at least twice as large as the gaps attributable to other demographic differences, such as race, religiosity, education, age, and gender (Laloggia, 2019; Pew Research Center, 2017, 2019). Why have these political and affective divisions become an increasingly salient aspect of American society?

A core reason for this shift derives from changes to America's political institutions over the past 50 years. First, campaign finance reforms have helped the two parties consolidate fundraising. The year 1974 is an inflection point because the candidates were the prominent actors in campaigning (as illustrated by the expression most associated with Tip O'Neill's well-known quote "All politics are local") before that year's Federal Election Campaign Act (FECA) Amendments. These FECA Amendments enabled political parties to raise money and supply campaign services (i.e., voter registration, polling, and advertising) on a national scale. In turn, each party was able to develop economies of scale, scope, and networks in fundraising, which provided advantages over other suppliers of these services. By the late 1980s, the parties had used their influence to convince the Federal Election Commission to rule that these expenditures were services and not campaign activities. With the growth of "soft money" contributions to the parties rather than specific candidates, this ruling created advantages for the parties' preferred candidates because the parties' expenditures do not "count" toward campaign contribution limits. Attempts to limit party power through the Bipartisan Campaign Reform Act (BCRA) of 2002 shifted the types of money the party received—for example, receipts from small donors increased—but it did not diminish the parties' substantial fundraising advantages.

Second, the courts have extended civil liberties to organizations, meaning that the parties can now solicit donations directly from corporations (Winkler, 2018). In this regard, another critical year is 2010. Two court cases, *Citizens United v. FEC* and *SpeechNow.org v. FEC*, allowed unlimited fundraising for independent expenditures (IEs), which include Super PACs that can accept donations from firms, unions, activist groups, and other organizations that seek political influence (Dwyer, 2020; Hansen & Rocca, 2019; Werner, 2017). IEs include spending for communication, such as political advertisements to support or oppose candidates (Federal Election Commission, 2023). Though IEs can support any candidate, most IE spending is initiated by the two major political parties. These donations have proven to reflect network effects: the more that wealthy donors make large donations to a national committee or connected Super PAC, the more likely other wealthy donors will contribute large donations too, further solidifying each party's fundraising advantages (Mann & Corrado, 2014). In turn, organizations with both conservative (Mayer, 2016) and liberal (Karpf, 2012) political agendas now face fewer restrictions on their ability to donate to political campaigns and influence election outcomes.

Concurrent with these changes in America's political institutions, the proliferation of communication technologies has increased the cost of political campaigns. With the advent of using television for political campaigning, which began in the 1950s, the cost of using communication channels for political advertising has risen steadily. More recent advances in digital options for political advertising have increased costs further. For example, the cost of the mean congressional campaign has risen 6-fold in inflation-adjusted dollars since 1974 (the year of the FECA Amendments cited above), reaching $1.7 million in 2018. Further, since 2010 (the year of the two court cases cited above), the mean campaign expenditures for winning candidates have increased 46% (in inflation-adjusted dollars) (Malbin & Glavin, 2020).

One result of these institutional changes, combined with a two-party political system that has dominated American politics for more than century, is an entrenched political duopoly (Gehl

& Porter, 2020). Though the two parties are competitors, this duopoly incentivizes each party to prevent the emergence of new parties that could challenge the duopoly. In fact, the two parties control essentially all electoral processes, which limits the emergence of other parties. For example, although voters registered as Independents are the largest political identity in the U.S. today, with only 55% of Americans identifying as either Democrats or Republicans (Gallup, 2022), over 99% of Congresspeople are in one of these two parties (House, 2022; Senate, 2022).

A second result of these institutional changes is that the two major political parties have nationalized politics. Parties can channel money from outside of voting districts to shape the voting behavior of local constituents, under the condition that supported politicians adhere to national party platforms. Consider a recent example. In the 2020 election cycle, campaign spending for two special elections in Georgia to fill vacancies in the U.S. Senate totaled $833 million. The elections were noteworthy because they determined which of the two parties would hold the majority in the Senate. About 40% of the money spent on these elections came from Super PACs and other groups located outside Georgia (Evers-Hillstrom, 2021).[5]

A third result is that the national parties choose polarizing wedge issues to create ideological differentiation, which capitalizes on emotional responses to the broken social contract to fuel fundraising efforts. Put simply, each party now solicits donations by preying on fears related to the broken social contract, offerings its own solutions to address the problem, and portraying the opposition's solutions as ineffective, counterproductive, potentially dangerous, and even morally inferior. In turn, the platforms of each of the two major political parties now face a strong fundraising pull to homogenized political extremes (Gooch & Huber, 2020).

[5] The physical locations of individual donors are difficult to track. However, assuming some of the individual donors did not live in Georgia either, it is likely that over half of the total funding came from entities outside Georgia.

Given each party's fundraising advantages, candidates for elected offices have substantial financial incentives to promulgate their party's platform and utilize campaign services that the parties control. The parties' growing control over their respective candidates and elected officials also manifests in appointments to, or leadership positions on, influential congressional committees that can increase politicians' fundraising potential further, which reinforces the drift toward the ideological extremes (Fouirnaies, 2018). As a result, the policy platforms of the Republican Party and the Democratic Party are now sharply polarized on a variety of seemingly unrelated issues—from abortion to environmental protection—illustrating what some political scientists term conflict extension (Layman & Carsey, 2002; Layman et al., 2006).[6]

For example, the Republican Party often blames government and globalism-based policies—such as the North American Free Trade Agreement (NAFTA), expanded trade with China, and lax enforcement of immigration law—for facilitating the decline in American manufacturing jobs and creating labor market pressures for (real) wage reduction. Mistrustful of government on the grounds that it might restrict private firms' efforts to innovate, create good jobs, and advance social welfare, many in the Republican Party posit that government cannot solve big problems. In turn, the party's platform indicates that government should be reduced to unshackle capitalism and restore growth in high-wage jobs. Indeed, just 28% of Republicans believe that the government should do more to solve the country's problems, and only 22% of them have a negative view of big business (Pew Research Center, 2019). Increasingly, this platform has been embraced by many of the blue-collar workers referenced above.[7]

[6] Although not the focus of this article, political parties have shifted their platforms to attract the various demographics described in this article and stimulate donations from them.

[7] Groups that recently have emerged on the political Right contain a large portion of blue-collar workers—including the Tea Party in 2009 and radical alt-right groups thereafter—and often have called for an end to globalism-based policies, greater protectionism, and more immigration restrictions, ostensibly to protect American jobs and wages. Campaigning on these issues as a Republican, Donald Trump won the U.S. Presidency in 2016. Notably, he won the majority in several U.S. states with large portions of blue-collar workers (e.g., Michigan, Ohio, and Pennsylvania).

Conversely, the Democratic Party often blames business interests for facilitating income inequality, creating negative externalities (e.g., climate change), and exercising undue political influence in ways that helped break the social contract. Mistrustful of business as a result, its platform often advocates for increased government intervention, additional business regulations, and greater wealth transfers in the form of more redistributive tax policies and expanded government services (e.g., retirement and healthcare) to restore the social contract. Indeed, 78% of Democrats believe that the government should do more to solve the country's problems, and 64% of them have a negative view of big business (Pew Research Center, 2019). Many individuals in the younger demographic referenced above support this platform.[8]

Political Adjustment Costs

The parties' different viewpoints, disincentives to cooperate, and control over fundraising, elections, and politicians have given rise to what we term *political adjustment costs*, which hinder government from establishing and adapting policies to restructure the social contract to meet the country's changing needs.[9] At approximate electoral parity, each party is less willing to negotiate with the other party to enact bi-partisan legislation, reducing the potential "win sets" that can elicit support from both parties. Instead, each party opposes the other party's legislation, especially on wedge issues, because bipartisan collaboration threatens the legitimacy of each party's platform, fundraising potential, and future electoral prospects. Similarly, each party has incentives to prevent

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[8] Many young people conclude that America's social contract has failed them and, thus, are attracted to promises of free education, student loan forgiveness, redistributive taxation, universal healthcare, and other government services that offer larger wealth transfers. Relatedly, perhaps because they believe that climate change and the overconsumption of natural resources have damaged their future security (financial and otherwise) (Howard-Grenville et al., 2014; Marcus & Fremeth, 2009), many young people also support Democratic Party proposals for expanded government policies to protect the environment (Funk & Hefferon, 2019).

[9] We do not propose what a new social contract might look like. However, we believe that the prior social contract is no longer in equilibrium, implying that a new social contract is needed, which may require changes to institutions and perhaps new institutions. We refer to creating this new contract as a "restructuring" of the social contract.

the other party from achieving significant legislative victories that might strengthen its prospects in the next election.

The disincentive to negotiate with the other party has endogenously given rise to many formal and informal legislative rules that further discourage bipartisan cooperation and reinforce party unity. For example, the House Rules Committee controls which bills can reach the floor for a vote, which amendments to allow, and who can offer them. Often, it has used this authority to block the minority party's input on bills. Similarly, the Hastert Rule is an informal norm that excludes bills from reaching the floor for a vote unless they have majority support from the majority party. This rule has been used by both Republicans and Democrats to prevent votes on bills that could divide their own parties. Although these formal and informal rules have a long history, they have become more important in recent years, as increased transparency about legislators' voting records—which is due to electronic voting and the rise in digital media that expands access to information—have the potential to expose disunity within the parties.

We maintain that firms are reinforcing the political party polarization through their involvement in lobbying and political fundraising. Firms, their executives, and their industry associations are major political donors (Hillman & Hitt, 1999; Holmes et al., 2016). Often, they make campaign contributions for the stated purpose of affecting public policy and legislation, including discouraging legislators from enacting policies that they oppose or encouraging legislators to enact policies that they prefer (Hillman et al., 2004; Sutton et al., 2021). Increasingly, firms also must "compete" with opposing groups that advocate for different policies (Hadani et al., 2017; Holmes et al., 2023). Examples of organizations advocating for polar-opposite policies can be found in several issues related to the social contract, including healthcare (Castellblanch, 2003), financial services (Ban & You, 2019), environmental policy (Sutton et al., 2021), and the minimum wage (Cluverius, 2021) (see McKay & Yackee, 2007). The influence of narrow special interests reduces government's responsiveness to the changing needs of society at large (Holmes et al., 2023).

The major political parties' duopolistic competition for financial resources, together with the competing positions advocated by certain ideologically driven and well-funded interest groups, has greatly increased the amount of political spending aimed at influencing government policy, often in opposing directions. Such actions exacerbate the political adjustment costs that hinder government adaptation and that make restructuring the social contact more difficult.

In sum, having reformulated the challenge as one of rising political adjustment costs, we discover that duopolistic party competition and shifts in campaign finance laws have given rise to economies of scale, scope, and networks in fundraising, escalating campaign costs, and incentives for the parties to stoke and grow donations by fostering ideological divisions and discouraging bi-partisan cooperation on wedge issues. At the same time, these factors have contributed to the nationalization of Congressional elections, political polarization in government, affective polarization in the U.S. population, and government's failure to restructure the social contract. As we explain in the next section, the broken social contract and rising political adjustment costs also have major implications for the business environment, impacting firms' efforts to create and capture value, as well as the nature of managers' jobs.

The Impact of Political Adjustment Costs on Business

Although firms and their managers have helped facilitate the rise in political adjustment costs and the concomitant failure of government to restructure the social contract, political adjustment costs have five negative consequences for firms and managers.

Government Policy

Political adjustment costs hinder government effectiveness and contribute to policy stasis on some topics and vacillation on other topics. On the one hand, the parties' unwillingness to cooperate can produce gridlock that hinders the passage of meaningful and adaptive legislation (Layman et al., 2006), especially if the party leadership believes that (a) bipartisanship compromises the distinctiveness of the party's own platform and fundraising potential and (b) it can hold out until the next election in the expectation of gaining, maintaining, or growing the majority. Perhaps as a result, several government programs with implications for business—such as unfunded liabilities in Social Security and Medicare, a complicated tax code that is difficult to enforce, and burgeoning government deficits—have remained unresolved for decades, regardless of which party is in power. These and other factors create uncertainty for managers (and investors) about firms' future social welfare obligations, their future tax liabilities, and even the future solvency of government itself, all of which could impact future business costs.

On the other hand, a second consequence of political adjustment costs is policy vacillation. Policy vacillation refers to rapid and significant shifts in government policy from one election cycle to the next. Often, the controlling party implements policies without support from the other party, which in turn seeks to undermine, reverse, or replace those policies with similarly significant policy shifts when it wins control, creating political risk (Henisz, 2000). When holding the Presidency and sufficient majorities in both houses of Congress, a single party can pass legislation along party lines. After returning to power in future elections, the opposition party often seeks to undermine or overturn such legislation. For example, the Affordable Care Act had a major impact on business because it required firms with at least 50 employees to offer health insurance plans for full-time employees. It received only one Republican vote in Congress, and the erosion or reversal of this legislation was a focal point of the Republican agenda when that party obtained control of Congress and the Presidency in 2016. The vacillation of capital gains taxes—which decreased under President Bush, increased under President Obama, and decreased again under President Trump—offers another well-known illustration of policy vacillation that impacts business. Because U.S. congressional elections are held every two years (and Presidential elections every four years), such vacillation makes it difficult for managers to forecast what government might require of them, even in the short term.

Likewise, presidential fiat through executive orders—which require only the signature of the President—offers a unilateral way to implement or enforce new policies within the scope of the President's authority. Although executive orders allow presidents to bypass legislative gridlock, they have produced recurring patterns of policy reversals between consecutive administrations (Brockway & Hollibaugh, 2020; Thrower, 2017). For example, President Trump signed 220 executive orders while in office, many of which reversed President Obama's executive orders on issues like immigration reforms (Ishiwata & Munoz, 2018) and restrictions on fossil fuels (Aczel & Makuch, 2020) that clearly have important implications for business. Similarly, during his first week in office, President Biden signed several executive orders explicitly to reverse President Trump's executive orders on these same issues (Federal Register, 2022). Over time, these frequent, significant, and unilateral shifts in government policy reflect and help solidify party polarization, which can impact future gridlock and policy vacillation.

Firm Political Spending

As political adjustment costs have risen, so too have business expenditures aimed at influencing government. Changes in campaign finance, policy gridlock, and policy vacillation are correlated with firms' growing usage of lobbying, campaign contributions, and other forms of corporate political activity (CPA). U.S. corporations, their industry trade associations, and various interest groups now spend more than $3.5 billion per year to lobby government officials, and these expenditures have risen more than 180% (inflation adjusted) in the past two decades (OpenSecrets, 2021). These organizations and their managers also are major donors to the political parties, the 527 groups, and the Super PACs that finance political campaigns (Hansen & Rocca, 2019; Klein et al., 2022). The growing ubiquity of such political advocacy puts pressure on firms to allocate resources to CPA. For example, Lowery (2007) found that many firms engage in lobbying to counter the lobbying efforts of other firms. Similarly, regulated firms' operational dependence on particular states correlated positively with their campaign contributions in those states, especially when they were facing imminent regulatory changes or social backlash (Sutton et al., 2021). This allocation of corporate resources to CPA reduces resource allocation to other areas like production, marketing, distribution, and R&D, potentially increasing opportunity costs.

The CPA literature claims that such spending helps create a "political market" in which some groups "demand" certain government policies and allocate resources (e.g., via campaign donations) to urge public officials to "supply" those policies (Hillman et al., 2004; Holmes et al., 2016). Some firms use this political advocacy to secure economic rents (e.g., by erecting entry barriers), discourage unwanted regulations, or particularize regulatory enforcement (Dal Bó, 2006; Laffont & Tirole, 1991; Stigler, 1971). Consistent with this view, the top five issues on which lobbying was expended in the past two decades relate to issues important to business: appropriation, healthcare, defense, taxes, and transportation (OpenSecrets, 2021). Notably, the first two also relate directly to the broken social contract.

CPA, however, does not guarantee that firms will achieve the policy outcomes they desire, creating another source of uncertainty. Firms often face competition from other organizations that advocate for different policies, politicians accepting campaign contributions might not advocate for the policies firms desire (Hadani et al., 2017), and each political party typically faces opposition from the other party. Perhaps for these reasons, large corporations frequently donate and seek to influence both political parties, though the outcomes of these donations are difficult to forecast. For example, in the 2020 U.S. Presidential Election, Exxon (and its employees) donated more to Democratic nominee Joe Biden's campaign than to Republican nominee Donald Trump's campaign, but in the 2022 midterm elections, donated more to Republican candidates than to Democratic candidates. At the same time, environmental groups have donated millions to party candidates that promise to oppose Exxon's preferred policies. Despite spending more than $1.5 million on these two elections, and an additional $33 million lobbying members of Congress since 2020 (OpenSecrets, 2023), Exxon has faced tighter government restrictions on drilling, fracking, and carbon emissions since President Biden took office in 2021 (e.g., Newburger, 2021). These policies, while consistent with the Democratic Party platform, are not conducive to Exxon's current business model.

Relationship with Stakeholders

The growth in political adjustment costs and lack of meaningful, sustainable, and adaptive legislation to address the fracturing social contract also corresponds to ongoing changes in firms' relationships with their stakeholders. In particular, firms are under growing pressure to (a) shift resources and attention to corporate social responsibility (CSR) and similar initiatives to address the demands of stakeholders and other societal members for whom government has been insufficiently responsive (Aguinis & Glavas, 2012) and (b) to engage and take political stances on hot-button social issues that have become increasingly controversial due to the growing affective polarization in the country (Krause & Miller, 2020).

First, the rise in political adjustment costs and government's failure to restructure the social contract is producing new demands on firms to address a variety of social problems that historically were considered outside the scope of responsibility for profit-driven firms. For example, the signatories of the Business Roundtable Statement on the Purpose of the Corporation (2019) committed to serve the interests of multiple stakeholders, not merely shareholders. Notably, the 181 signatories served as CEOs in some of America's largest corporations. Such actions and rhetoric imply a broader interpretation of the shareholder primacy legal standard established more than a century ago in the landmark *Dodge v. Ford Motor Co.* (1919) decision.

Often, these corporate efforts represent substantive or symbolic attempts to address many of the social problems—such as degradation of the natural environmental and reduced access to affordable education, housing, and healthcare—that are symptoms of the broken social contract. Such corporate expenditures can be viewed as responses to government failure or as substitutes for ineffective government policy. In effect, stakeholders who are dissatisfied with the lack of government adaptations now advocate that firms should allocate resources and provide certain goods and services (Hitt et al., 2021; Luo & Kaul, 2019; Scherer & Palazzo, 2011) that had been in the domain of government policy for more than a century.

These initiatives are a growing source of business costs, but their financial impact is uncertain. On the one hand, some scholars maintain that CSR and related initiatives redirect resources from other potential investments that might generate higher financial returns (McWilliams & Siegel, 2001; Sundaram & Inkpen, 2004). Likewise, some activist investors may "treat CSR as a signal that managers have wasteful intentions and capabilities, which prevent firms from maximizing shareholder value in the short term" (DesJardine, Marti, & Durand, 2020: 851). On the other hand, other research indicates that addressing social concerns is in firms' long-term interests. According to this view, responding proactively to stakeholders' concerns can increase a firm's legitimacy and can improve their access to resources that stakeholders control (Freeman & Phillips, 2002; Heinsz, 2016). This tension between short-term financial returns and long-term stakeholder value is creating new challenges and uncertainty for managers that are difficult to navigate (Holmes et al., 2022; Wang et al., in press).

Second, the emotional responses to the broken social contract, and ongoing disagreements and ideological divisions about how to restructure it, are emerging sources of affective polarization among stakeholders that affects firms. Such polarization represents a new source of tension that helps to explain why firms increasingly find it difficult to placate certain ideologically driven stakeholder groups without alienating other equally powerful groups with opposing views (Neureiter & Bhattacharya, 2021). Customers, shareholders, employees, and other stakeholders increasingly expect firms to take stances on controversial sociopolitical (especially political wedge) issues, often factoring such stances into their purchasing, investing, and employment decisions. Whereas sociopolitical stances can increase support from stakeholders with similar ideological views, they can alienate and cause firms to lose the support of stakeholders with different views (Hambrick & Wowak, 2021; Krause & Miller, 2020; Noguchi, 2018). For example, evidence indicates that employees who believe that their political ideologies differ from those of co-workers, supervisors, or firm executives (e.g., conservatives working in more liberal firms, or vice/versa) perceive lower levels of fit with their employers, which can lead to higher stress, lower job satisfaction, and higher turnover (Swigart et al., 2020).

Whether firms and their managers have a moral responsibility to address social problems, engage in social activism, or shape government actions, is a longstanding debate (Krause & Miller, 2020; Margolis & Walsh, 2003; Waldman & Siegel, 2008). Though taking a position on this debate is beyond our scope, corporate political spending and activism only address symptoms of the broken social contract and growing polarization. And they have done little to address the rising political adjustment costs that are the causes of government failure and that are fueling the affective polarization in the first place. If corporate responses create the impression that firms are taking social welfare and the social contract seriously, they also can reduce the pressure on government to adapt and decrease political adjustment costs. Moreover, we note that the emotion-laden disagreements about how to restructure the social contract are a potential source of divisions that can cause firms to lose the support of specific stakeholders.

Long-term Investment in Co-Specialized Assets and Capabilities

The sections above illuminate that political adjustment costs are creating new sources of uncertainty for managers about government policy, political advocacy, and stakeholder management. Taken together, these issues may affect managers' incentives and abilities to fund investments that lead to long-term increases in corporate value (and perhaps shareholder returns).

A firm's strategy can be characterized by investments in a profile of durable and co-specialized assets and capabilities that allow firms to create and capture value over the long run (Teece, 1986; Williamson, 1985). Co-specialization produces complementarities and isolating mechanisms that enable competitive advantage and increase economic performance over the long term (Mahoney & Pandian, 1992; Peteraf, 1993). However, such assets and capabilities "provide value only through the combined efforts of two or more parties" (Lepak & Snell, 1999: 41) and often "have little or no value" if those parties exit the relationship (Blair & Stout, 1999: 272). This investment profile creates incentives for firms to manage future risks or avoid them.

We submit that the new and increased risks that managers are facing can reduce their willingness to fund long-term investments in co-specialized assets and capabilities. For example, policy vacillation produces political risk, which undermines *ex ante* incentives for such investments by making government policy more difficult to predict. Similarly, Semadeni, Chin, and Krause (2022) recently argued that CEOs perceive the political environment to be a threat when their party affiliation differs from the party that controls the U.S. Congress or Presidency. The firms led by such CEOs engaged in less risk taking and R&D, especially when the CEOs held more stock options, faced more uncertainty, and had more discretion in their jobs. In addition, firms may be less willing to invest in co-specialization if managers lack confidence that they can maintain the support and commitment of the stakeholders needed to realize the benefits of co-specialization over the long term (Bolton et al., 1994; Klein et al., 2012). Thus, the growing affective polarization among employees and other stakeholders also might discourage firms from investing in co-specialized assets and capabilities.

On an economy-wide scale, the growing uncertainties about public policy and stakeholder management can reduce investment and economic growth over time (Baker et al., 2016; Barro, 1991; Levine & Renelt, 1992), which can further erode the social contract by diminishing the economic surplus available to advance social welfare in the future.

Executive Job Demands and Security

The widespread impacts of political adjustment costs are also affecting executives' job demands and perhaps their employment security. For example, failure to maintain or grow the firm's return on investment by investing in co-specialization can harm executive compensation, call into question affiliated duties of care and loyalty, and increase their risk of termination (Eisenberg, 1999; Hartzell & Starks, 2003; Huson et al., 2001).

The strategic leadership literature has highlighted the importance of job demands, which refer to difficulties and challenges that increase the strain and stress of executive positions.

Conditions that create uncertainty, increase the amount and complexity of executives' tasks and decisions, and generate obstacles to achieving their performance targets are among the major sources of executive job demands. Executives experiencing higher job demands might put more pressure on employees, make more erratic strategic decisions, and be more likely to exit their firms (Hambrick, 2007; Hambrick, et al., 2005).

Building on this literature, we maintain that the impact of political adjustment costs on firms' institutional and stakeholder environments is increasing executive job demands. Growing policy stasis and vacillation have increased the amount and complexity of decisions and generated more obstacles for executives because future regulations are more difficult to predict, as are enforcement, taxes, and other issues (e.g., resource availability) that can affect their firms. Relatedly, the political advocacy of competitors, social movements, and well-funded special interests is a growing threat for many organizations. For example, relationships with lobbyists and politicians, political strategies and public relations campaigns, and monitoring groups that can impact public policy (e.g., environmental groups) are perceived as growing imperatives in many firms (Sutton et al., 2021). The potential for rapid policy shifts and reversals also requires executives to anticipate and be prepared to adjust strategies, structures, and operations as their institutional environments change (e.g., Dobbin & Sutton, 1998).

Political adjustment costs, and government's concomitant failure to restructure the social contract, also has affected stakeholder management. Executives now face pressures to engage on social and sociopolitical issues that are outside the historical scope of executive job descriptions. For example, firms' workforces and boards increasingly include CSR, diversity, equity, and inclusion (DEI), and public policy experts, and major institutional investors such as Blackrock now use environmental, social, and governance (ESG) metrics as investment criteria, suggesting that executives' jobs have become much more complex. Likewise, the visibility and voice provided by social media has enabled ideologically driven groups and even employees to put at low cost to themselves, public pressure on managers to respond to their demands. Considering the growing affective polarization, engaging on some issues can be divisive, can alienate stakeholders and public officials who hold different ideological positions, and is increasing executive job demands (Krause & Miller, 2020; Neely et al., 2020).

Consider one of the more recent and high-profile illustrations of affective polarization and its consequences. The Walt Disney Company faced walkouts from disaffected employees when it failed to take a stance on Florida's HB 1557 (the so-called 'Don't Say Gay' bill) in 2022. When Disney's CEO acquiesced and opposed the bill publicly, the Florida government revoked Disney's privileged tax and regulatory status in the state. The CEO was ousted later that year, and the controversy may have longer-term implications for Disney, given its large investments in parks, resorts, and other fixed assets in the state (Hitt et al., 2023). Some of the controversies we mentioned earlier—the various responses to voting rights legislation in Georgia, polarized congressional hearings involving the CEOs of social media firms, and product promotions at Anheuser-Busch and Target—suggest that Disney's situation is not an isolated incident. Further, to the extent that partisan sorting is affecting migration patterns and deepening political and affective divisions between Left-leaning and Right-leaning U.S. states (Liu et al., 2019; *The Economist*, 2022), managers might face more of these challenges in the future. Put simply, executives job demands have increased because political adjustment costs have complicated the institutional and stakeholder environments that impact firms.

A Role for Business Schools and the Field of Strategic Management

In summary, political adjustment costs have not only hindered government adaptiveness to the broken social contract, but also can impact business negatively in multiple ways, including the growth in policy gridlock, vacillation, and uncertainty, demands on firms to address symptoms of the broken social contact, and affective polarization among stakeholders. These challenges, and the many sources of uncertainty they produce, also may reduce firms' long-term investments in co-specialized assets and capabilities, while increasing executive job demands. Ironically, firms' efforts to influence government can increase political adjustment costs and may have made restructuring the social contract more difficult. Thus, we maintain that taking political adjustment costs and the social contract seriously is in managers' best interests. This state of affairs implies several opportunities for business schools and the strategic management field.

Firms now face a dilemma. On the one hand, influencing government to lower political adjustment costs and encouraging it to restructure the social contract are in firms' long-term best interests. On the other hand, firms' short-term self-interests, responsiveness to stakeholder demands, and efforts to substitute for government failures have made government adaptations to the social contract less likely or seemingly less urgent. This dilemma calls for resolution and falls squarely within the domain of strategic management. Firms have contributed to this problem, and the actions they take to resolve these issues affect managers' long-term goals and decisions, as well as the investments and performance of their firms. Therefore, we ask, what is the role of business schools and especially the strategic management field in responding to this dilemma?

We offer four responses. First, we need research on social contracts, the institutional and economic conditions that place them under duress, and how and when they can be restructured. Research on the loss of the American Dream, the state of social contracts in other countries, institutional responses to the failure of social contracts, and proactive policies to protect against such failures as socioeconomic and political conditions change, are rarely found either in the academic research of business schools or in the content of business school curricula. For example, while a search of JSTOR for “national social contract” yields 229,467 results, a review of the top 100 entries by relevance produces only one business journal article on the topic. In this article, Palmer (2001) argued that business should conform to a social contract, but he does not consider business’s role in supporting effective government institutions to protect or restructure the social contract. The country-specific institutions and the role of firms in shaping political responses to the dilemma of broken social contracts, such as the manifestation of political adjustment costs in the U.S., are rarely found in business school research and teaching.

Second, research in strategic management can help managers understand how deteriorating social contracts and high political adjustment costs create challenges for firms, managers, and long-term profitability. As we have maintained, these challenges include less effective and unpredictable government policy, greater demand for CPA coupled with opposition from well-funded interest groups that resist firms’ preferred government policies, and pressures to address various social problems and take political positions that can alienate stakeholders and government officials with opposing views. The resulting political risks and affective polarization also can discourage certain long-term investments and complicate executives’ jobs considerably. For example, how do the growing ideological divisions impact foreign firms’ entry decisions? How do such divisions affect firms’ location choices, stakeholder strategies, and efforts to integrate workforces and operations across geographic boundaries. And what are the long-term impacts of such divisions on firms’ legitimacy, survival, profits, and shareholder returns?

Third, the exploration of feasible mechanisms to lower political adjustments costs is equally important. Only recently have firms taken steps that might reduce political adjustment costs. In a stunning reversal, several industry trade associations and major corporations—including more than a quarter of the Fortune 100 firms—issued statements in January 2021, after an insurrection at the U.S. Capitol, indicating their intent to reassess or halt (at least temporarily) their political contributions (Gangitano, 2021). These statements can be viewed as responses to concerns that party platform polarization, affective polarization, and political adjustment costs are increasing to a point at which the foundational institutions of America may fail to function properly, which could undermine practically all businesses. Similarly, in response to shareholder proposals and investor activism, several firms now must disclose their political donations (Werner, 2017), which again indicates growing concerns about political adjustment costs. Nonetheless, firms that reduce or halt political donations may face a prisoner's dilemma because the firms that continue or increase such donations might have more self-serving influence with government officials.

Understanding how firms affect political adjustment costs can help managers navigate the political dynamics of not only the U.S., but also other countries. Critical issues in the U.S. include duopolistic competition between two parties with similar resources and influence, their control over election and legislative procedures, lobbying, and campaign finance laws that increase the role of money in politics, the frequency and duration of political campaigning, and the ability to raise campaign funds from outside of a district. These factors make it easier for firms to solicit rents and obtain other favors by expending financial resources to distort government policies (Hillman & Keim, 1995). However, the institutional structures of different countries represent heterogeneous boundary conditions that can affect the social contract and the functioning of government. For example, in contrast to the U.S. context, countries with parliamentary regimes tend to have larger governments, and countries with proportional (as opposed to majoritarian) legislative representation tend to spend more on social security and welfare as a percentage of GDP (Persson, 2002). Likewise, individual laws that limit campaign duration, campaign spending, or political advertising reduce the scale and impact of political fundraising (Anderson, 2019; EuroPAM, 2023). Consequently, ample opportunities exist for future research about how firms and governments affect political adjustment costs and social contracts, including the strategies available to firms in countries with different institutional structures.

Fourth, an institutional efficiency question emerges from our theory. Under what conditions are businesses efficient at providing services that substitute for government? If on the margin, government is less adaptive at restructuring the social contract, then calls for businesses to substitute for government are likely to increase or have greater veracity. If businesses can adapt faster to the changing circumstances of time and place, then society may gain from firms' efforts to address symptoms of the broken social contract. Yet, firms responding autonomously and in their narrow self-interest may incur inefficiencies or create negative externalities that amount to a social welfare loss over the long run. For example, Kaul and Luo (2018) and Luo and Kaul (2019) argued that for-profit firms are a suboptimal solution for addressing some social issues, especially when they lack a short-term profit incentive to address those issues, when they lack the expertise to do so, and when information asymmetry allows them to pursue their self-interests opportunistically. Likewise, Lazzarini and Nickerson (2020), proposing criteria for "the just corporation" examined whether firms should vertically integrate or outsource activities to care for vulnerable stakeholders. When specialized investments are needed, substantial economies of scale and scope are available, or coordination gains are great, government may provide a more efficient institution for supporting the most vulnerable. Inefficient organization of activities to restructure the social contract can, in turn, greatly diminish the economic surplus available to restructure it. Thus, counter to many views, stakeholder demands on firms to respond to the symptoms of the failing social contract might, in the long-run, work against revising, renovating, or replacing the social contract.

Summary and Conclusion

To understand how rising polarization might impact businesses, and how business leaders can respond, academic research must first understand the institutional root causes—in essence, the dynamic system that produces the symptoms—and the extent to which businesses may be contributing to the phenomena. Understanding underpinning mechanisms can lead to new questions about if and how businesses can take steps to influence the institutional environment to reduce the political adjustment costs that hinder government effectiveness. Therefore, this article provides a theory of institutional mechanisms related to businesses that drive political and affective polarization and shape its consequences for business and society. It also examines businesses and business schools' potential responses, with a focus on the field of strategic management. We offer Figure 1 as a pictorial representation of this system.

Our theory development began by noting that many Americans perceive that the country's social contract—the American Dream—is broken, due in part to a changing global economy and rapid succession of economic shocks over the past 30 years, which are depicted by the blue (solid) rectangles in Figure 1. The broken social contract, coupled with changing communication technologies, campaign finance laws, and a duopolistic political system with approximate party parity, has created a powerful financial incentive for the major political parties to germinate, grow, and tie together emotionally charged wedge issue positions to drive party-controlled fundraising.

The net result is that Congressional races have been nationalized and polarized, which are depicted by green (dotted) rectangles in Figure 1. Without the financial support of a major political party, which requires compliance with the party's platform, few politicians can be elected or re-elected.

The net result of this dynamic system is rising political adjustment costs that preclude the government from restructuring the social contract, encourages policy gridlock and vacillation, leads to demands for business to substitute for government, and contributes to affective polarization among stakeholders, which has facilitated a crisis of jealousy and despair for a growing majority of Americans. These factors are depicted by red (vertical lined) rectangles in Figure 1. This article posits that the rising political adjustment costs, and the corresponding jealousy and despair associated with the broken social contract, can explain both the shift in preference for small government and anti-globalism policies among many middle-aged blue-collar workers, and the growing preferences for greater redistributive policies and services, especially among the young. The conditions described in this article also help explain other symptoms of the broken social contract, such as the rise of populism (Devinney & Hartwell, 2020), party platform polarization (Swigart et al., 2020), affective polarization (Iyengar et al., 2019), and the rise in CSR (Holmes et al., 2022).

From a business perspective, we examined why managers should care about social contracts and firms' impact on political adjustment costs. In essence, managers and firms face increased complexity and investment uncertainty because of the growth of political risk, political influence of rivals and special interests, and stakeholder pressures to substitute for government's failure to restructure the broken social contract and to engage on controversial sociopolitical issues, which are depicted in purple (horizontal lined) rectangles in Figure 1. Together, these factors deter long-term investments and can reallocate firm resources away from commercial activities, which ultimately can reduce the resources available to repair the social contract.

Based on these insights, this article calls for business schools and scholars in strategic management to research and teach about these topics, not just in reference to the U.S., but also with respect to other countries because different institutional features inform each country's situation. We maintain that strategic management is the appropriate home for not only engaging in this kind research, but also for conveying the resulting knowledge to managers and students because the field historically has led the academic conversation on strategic leadership and stakeholder theory. Our inquiry indicates that a consideration of executives' responsibilities to their investors and other stakeholders may be appropriately located in the broader frames of the social contract, political adjustment costs, and government's ability to adapt policies to the changing circumstances of time and place. If the broken social contract is not addressed and if the trend of increasing political adjustment costs is not reversed, the resulting social and economic instability can undermine and potentially destroy America's capitalist system.

Thus, we call for business schools to expand the domain of research and teaching on strategy and public policy. Strategic management scholars should explore the many research questions that emerge from this dynamic model of social contracts, political adjustment costs, their impact on business, and the strategies that firms can initiate in response to these problems.

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Figure 1. A Crisis of Jealousy and Despair