'Professor Dore has written a thoughtful and provocative book on how global capitalism may evolve. Whether or not you agree with him—and many economists and CEOs will not—if you are interested in the future of the world economy, you should read this book.'

Jeffrey E. Garten
Dean, Yale School of Management

Stock Market Capitalism: Welfare Capitalism

Japan and Germany versus the Anglo-Saxons

RONALD DORE

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Observed trends in behaviour 137
Enterprise groups 141

6. The Industry as Community: The Competition/Cooperation Balance among Competitors 143
Cooperation and conspiracy: public contracting 143
'My firm first' 146

7. The Role of Government in the Economy 156
The background to the deregulation drive 156
The arguments 159
Actual changes 162
The outlook for the active state 163

Part III. German Parallels

8. *Finanzplatz Deutschland* 171
German finance 172
Signs of change 176

9. The Co-determined Firm 182
Attack and defence 187
Evolutionary change: managerial strategy 191
Evolutionary change: industrial relations 195
What is at stake? 206

10. The Organized Community 207
Falling apart? 210

Part IV. Conclusion

11. Nice Guys Finish Last? 219
Efficient? Competitive? 225
Capital: patient or flighty? 227
The cyclical factors 228
Business strategy: monopoly power 229
Skills, cultures, and organizations 230
Where ideas and capital meet 233
Industrial policy? 237
Intellectual resources 238
Conclusion? 239

Notes 240
Index 253

Chapter 1

Introduction

THERE are two ways of reading this book. One is as a study of recent developments in Japan—to be read with a touch of ironic *Schadenfreude*, perhaps. Is this the same Dore, the reader might ask, who was explaining,[1] a decade ago, as the doctrine of labour market 'flexibility' was on the way to becoming the orthodoxy which British Prime Minister Tony Blair would subsequently preach to the rest of Europe, that Japan's rigidities could also have flexibility of a different kind? The Japanese were indeed—so went the argument—much less free not only to change jobs and hire and fire, but also to invest and disinvest, to switch from one supplier to another, to buy a company on Monday and sell it on Thursday. But, at the same time, the security and predictability they gained from accepting the constraints of these long-term commitments—'jobs for life' and all—meant that they had far more flexible cooperation, fewer changes thwarted by clashes of vested interests, and hence, in the long run, greater efficiency, faster innovation and, to boot, a more cohesive and egalitarian society.

And is this the same Dore who showed his incurable nostalgia for all those discredited 1970s things like incomes policies, industrial democracy, and corporatism by telling us that we should take Japan seriously[2] as a source of hints as to how we, in spite of our very different values and cultural preferences, might arrive at a less conflictual, less authoritarian, and more egalitarian way of managing our affairs?

So what, some readers might ask, has he got to say now that the 'Japan as model' bubble has been pricked and nobody wants to listen to sanctimonious nonsense about taking Japan seriously any more? Clearly he can't let go. While in Japan clear-minded reformers, under the sound and disinterested guidance of the US Treasury and the Tokyo army of American and British financial analysts, are bravely shedding their trammelling rigidities and joining the real world of tough competition in globally flexible markets, here, now, is a new

Jeremiah Dore. In the guise of an objective account of the changes in economic structure—and in ideas about economic structure—over the last decade, he offers, in effect, a lament. Here he is, mourning, in the company of his septuagenarian Japanese friends, the passing of 'their' Japan, trying desperately to believe that the country will once again become a byword for quality and innovation, and that when it does so it will still be something like the opaque, cartelized, crony-ridden, hugger-mugger Japan they once knew.

Doubtless I caricaturize potential caricaturists, but it is certainly true that the story I present here of Japan's recent troubles and soul-searching is considerably different from, for example, the American triumphalist thrust of Richard Katz's recent—and in the United States much acclaimed—*Japan: The System that Soured: The Rise and Fall of the Japanese Economic Miracle.*[3] Different, in the first instance, in focus. Most discussions—including discussions among Japanese—are about the meaning of recent changes, both evolutionary and engineered, for Japan's competitive strength in the neomercantilist competition among nations. That is the question I address in the last chapter of the book, but it will be evident that my main concern is with the impact of change on the quality of life, the quality of social relations, and the distribution of income and life chances. That difference in focus leads to differences in evaluation and in interpretation—in assertions and speculations as to what causes what. I hope nevertheless that my description of recent changes in economic practice and thought will also be of use to readers with a different focus of interest. And I also hope that I have by now had enough training in leaning over backwards to make it a reasonably fair description, so that even if I do make my prejudices clear by indulgence in the odd ironic aside, readers with different prejudices can find the information they need for counter-argument.

But, more importantly, the polemical thrust of this book is not simply about Japan.

Financialization

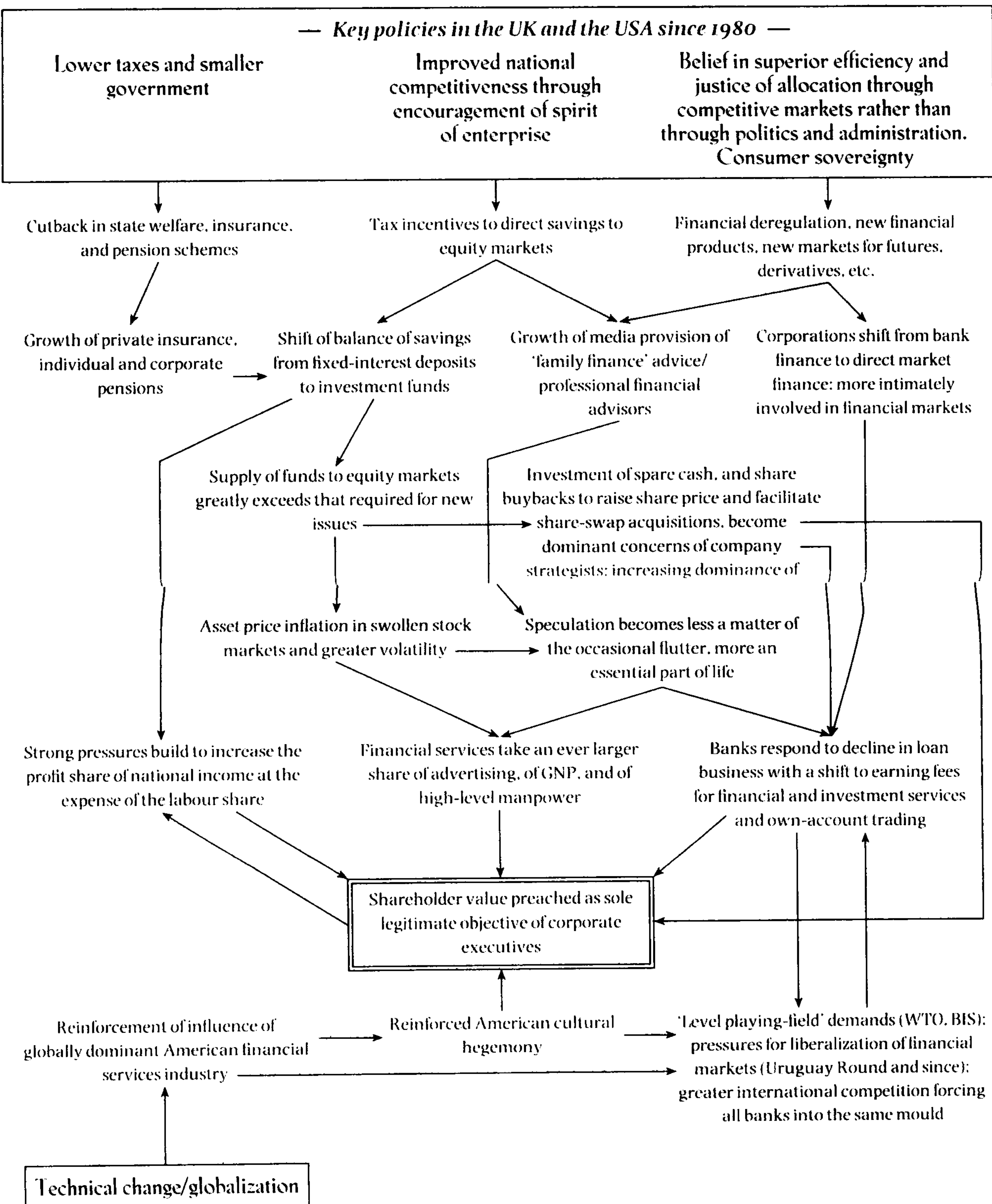
It is also—and this is the second and more important way of reading this book—about modern capitalism, about a pattern of gradual

change common to all the industrial societies. What is happening in Japan is a rerun of trends which have long since been apparent, and in the last two decades have been greatly accelerated, in the United States and Britain. Call it postindustrialism, call it neoliberalism, call it the consequence of affluent individualism and globalization, call it, if you are a Fukuyama fan, a part of the Great Disruption. It has many strands, but the label which perhaps best captures the dominant common element is—though I shall be as sparing as possible with ugly neologisms—'marketization plus financialization'.

Perhaps 'financialization' alone would do, but it is a process rather different from the financialization of capitalism that Hilferding talked about in his 1910 book *Das Finanzkapital*. It is anything but 'organized' capitalism, offering much less of a role for individual powerful financiers, and much more for market forces and a vast financial services industry. Some of the major strands of the transformation are set out in Figure 1. The enormous cheapening of communication and transport and the possibilities of globalization inherent in the vast leaps in technology of recent decades (bottom left-hand corner) have made financial services (and the large part of the information services industry devoted to finance) potentially the greatest of all export industries. They have replaced traditional branches of manufacturing as a major focus of international competitiveness (today you could buy the whole American steel industry with 5 per cent of the shares of America Online). But in my causal map, that *facilitating factor* is only one of four *root causes*, the other three (the three at the top) being—however much they themselves are deeply rooted in social and technical change—more directly the result of political will. They are the salient features of the neoliberal radicalism of Reagan and Thatcher: first, the decision largely to withdraw the state from the business of supporting the old; secondly, the preoccupation with 'competitiveness', i.e. staking the nation's pride and well-being on its position in the international-growth league tables; and, thirdly, adoption as a matter of universal principle of the Smithian notion that profit-seekers, competing with each other, will always be led by the invisible hand (supplemented by a raft of telecoms regulators, Financial Services Agencies, electricity regulators, etc.) to add more to the sum of human happiness than salaried public servants.

The trends which result and whose working out in Japan—and

Figure 1. Neoliberalism and the rising dominance of the finance industry



more briefly in Germany—are traced in subsequent chapters are clear:

- more economic action comes to be determined by market competition and less by regulation, or by custom and habit, or by trust in a trading partner's friendship-based sense of obligation;
- financial markets become the pace-setters of all markets as wealth effects, positive and negative, play an increasing role in economic cycles;
- financial assets become, for an increasing proportion of the population, as much of a concern as the market value of the house they own;
- and that concern with capital income comes to be treated by the media as being equal in importance to participation in labour income; the 'family finance' pages grow bigger than the 'jobs' pages;
- playing the stock market becomes a leisure pursuit (or a time-stolen-from-employer pursuit) rivalling casinos, lotteries, horse-racing, etc. as a form of gambling; Internet day-traders now make it possible for housewives in Dayton to join the forex trading game for a deposit of a mere $10,000;
- whether productive of play fun or of serious anxiety, gambling on uncertainties in financial markets becomes a condition of existence for those who expect to grow old and to have to live off pension savings;
- servicing that gambling with analysis, advice, appraisal, advertising, and commission-charging becomes a major growth industry, and one which, while shedding unskilled computer-replaceable labour more rapidly than most industries, absorbs more and more of the nation's resources of intelligence and eloquence and earns its exponents ever-larger shares of the nation's spending power.

Pensions and productivism

Let me give just one illustration of the way in which the financial services industry dominates the ideological airspace in spite of the warning notes that such events as Britain's pension misselling scandal should have sounded. (Of course finance interests have come to dominate, said an American friend, ever since American newspapers started paying their senior journalists with stock options.) Most discussions of pensions start off, as if stating an unassailable fact, from the notion that it is impossible to continue the traditional pay-as-you-go system of paying this year's pension largely out of this year's contributions, with only a small invested float if any at all. Pay-as-you-go is dead. Today, the argument typically runs, we have three-and-a-half people working for every pensioner. In 30 years' time it will be only two-and-a-half. It is unreasonable to expect those two-and-a-half to bear the tax and social security contributions to pay a whole person's pension. So people must be self-reliant and save for their old age themselves. What few people bother to ask is where the returns on those savings are going to come from. The savers have a choice. Either they send their savings to China or Brazil and build up claims to the production of future generations of Chinese and Brazilians—which could be quite risky given the volatility of exchange rates. And, as a *Financial Times* leader-writer suggested, 'the successful Asians' . . . readiness to pay for pensions in the West rests on a rosy Western perception of mutual interest that could yet be confounded by realpolitik'. Anyway the savings might be needed for economic growth at home. But if they do keep them at home, it is still the work of the same two-and-a-half producers that they will be depending on for their rentier income as pensioners. Will their collective market power to extract rent and interest and profits from those two-and-a-half workers be so much greater than their collective political power to persuade the two-and-a-half to pay the necessary sums in taxes or social security contributions? Market and state are simply two alternative mechanisms by which those of working age support those who can no longer work. And for a 25-year-old for whom the crunch will come in 40 years, no greater certainty attaches to the one than to the other.

And it is not only a matter of certainty. Deciding what is the best balance between these two alternative methods is indeed a fearsomely complex matter, far beyond the simplicities of 'self-reliance' and 'not being a burden on the young'. It involves considering, for example, the way that the respective capital and wage shares of GNP are determined by market forces and the way that institutional arrangements can shape and bend those market forces; the effects of different institutional arrangements on work ethics and work motivation, as well as on the incentive to save; the effects on income distribution; the relative strength of property rights arguments and community cohesion arguments as a means of legitimating redistribution, and the relative faith

that citizens have in promises embodied in the property system and the political system. But who cares about following through on such arguments when in Britain there is £60 million pounds a year to be made simply out of the advertising for Individual Savings Accounts, an amount which is doubtless peanuts compared with what is spent in the United States advertising the equivalent 401(k) plans?

Japan is one country where the pensions issue is a crucial one, likely to have considerable consequences for how far Japan goes down the financialization road. It is starting on that road 'further back', as it were, than Britain or the United States. On the one hand, its pattern of long-term commitments militates against arm's-length markets. On the other, what one might call its 'productivism' militates against financialization. One of Japan's Confucian legacies is a well-established 'productivism' vocabulary. Everybody understands the distinction between 'the culture of making things' and 'the culture of making money' (with 'things' and 'money' being conventionally put in the Japanese equivalent of quotes when the words are written). And those who use the distinction generally imply that the former—a culture geared to serving one's fellow-citizens by providing goods and services —is more worthy than, ethically superior to, a culture geared to 'mere' self-enrichment unlinked to any concern with the service or disservice one might be doing to one's fellow-citizens in the process. Which is not to say that there are no Japanese with the instincts and behaviour patterns of the Maxwells and the Rowlands, the Trumps and the Boeskys. Only that they just do not become celebrities and few people take them as role models.

I realize that in endorsing these productivist sentiments I risk putting myself in the company of Queen Victoria, who wrote, apropos of a peerage for Lord Rothschild, that 'she cannot think that one who owes his great wealth to contracts with Foreign Governments for Loans, or to successful speculations on the Stock Exchange can fairly claim a British Peerage . . . this seems to her not the less a species of gambling, because it is on a gigantic scale—& far removed from that legitimate trading which she *delights* to *honour*'.[4] (Since so many of her aristocratic favourites were equally the beneficiaries of speculation, it may be doubted whether she would have taken the same line had Rothschild not been a Jew.) The other doubtful association of productivism, particularly in the Confucian tradition, is with the agrarian fundamentalism whose Japanese exponents assassinated prime ministers and contributed to the collapse of civilian government in the 1930s—and which took a very similar form in Europe in the *Blut und Boden* element in Nazism.

Thus, that there are dangers in stiff-necked moralism about speculation, I recognize. Nevertheless, by my values there is an important distinction to be drawn between, say, running a betting shop—a service giving the punters a bit of fun—and what the Japanese call the 'money game' of hedge traders who make their money as often as not by destroying the hedges that prudent traders build, rather than tending and mending them.

Shareholder value

Speculation is a part of the story told in Figure 1, and pensions are an even more important part, but these are not the central focus of this book. That central focus is the centre also of the chart—the point of convergence of all the arrows: 'Shareholder value preached as sole legitimate objective of corporate executives'. And it is striking how rapidly, in the countries which are ahead in the financialization process, that objective is being achieved. A Goldman Sachs study of manufacturing value-added in the United States, Germany, and Europe in general, recently concluded that

> The share of gross value added going to wages and salaries has declined on trend in the US since the early 1980s. In fact, for the US, this appears to be an extension of a trend that has been in place since the early 1970s. . . . We believe that the pressures of competition for the returns on capital available in the emerging economies have forced US industry to produce higher returns on equity capital and that their response to this has been to reserve an increasingly large share of output for the owners of capital.[5]

One may cast doubt on the explanation (the subsequent collapse of the emerging markets seems not to have diminished the drive to increase capital's returns at the expense of labour), while accepting the paper's meticulous documentation of the fact.

And today, multiple voices are urging Japanese managers to go in the same direction. The transformation on the agenda may be variously described—from employee sovereignty to shareholder sovereignty; from the employee-favouring firm to the shareholder-favouring

firm: from pseudo-capitalism to genuine capitalism. They all mean the same thing: the transformation of firms run primarily for the benefit of their employees into firms run primarily, even exclusively, for the benefit of their shareholders. And for the whole economy—and this is what the stock market capitalism/welfare capitalism contrast of my title is intended to convey—it means an economy centred on the stock market as the measure of corporate success and on the stock market index as a measure of national well-being, as opposed to an economy which has other, better, more pluralistic criteria of human welfare for measuring progress towards the good society.

Once upon a time the business schools of America and Britain debated the relative merits of the property or shareholder-value-as-maximand view of the firm (the one which has become the dominant Anglo-Saxon doctrine) and what was called in contrast the 'stakeholder' view. Unfortunately, in Britain, soon after a speech by Tony Blair in Singapore some five years ago when he seemed to be talking about just that, the term 'stakeholder' was appropriated for various foggy features of the new Third Way, such as a new system of pensions and profit-sharing in industry—both of which involve marginal rearrangements of property rights, but no qualification whatever of the assumed supremacy of property rights over other rights.

It is in this sense that the Japanese and German systems are distinctly different from the Anglo-Saxon system. The rights of owners in Japan and Germany are seen to be very properly circumscribed by the rights of other stakeholders—employees, customers, suppliers and subcontractors, creditors, local communities, etc. There is a difference between the two societies. In Japan, hitherto, there has been little doubt that employees come a clear first. To be sure, Japanese firms are indeed more prone than those in Anglo-Saxon economies to treat their suppliers as having a stake in trading relationships of long standing which should be respected. When they talk of giving good service to their customers, it is indeed the case that the ratio of earnest honesty to cynical manipulation is quite high. But the stakeholder which is of overwhelming importance to a Japanese manager is the community of *sha-in*, the 'members of the enterprise community': the firm's regular employees who, like himself, joined the firm, mostly at a very early age, in the expectation of making a career in it. In fact, the concern for suppliers and customers also springs in large part from that concern for the enterprise community. Decent treatment of customers and suppliers affects the reputation of the firm in the society at large: hence it affects the 'standing' which the manager himself has when he goes to seminars and meetings of his business federation, as somebody who is identified with, and identifies himself with, his firm.

In Germany, though the sense of the firm as a public institution with major responsibilities towards society as a whole is relatively stronger compared with Japan, it is still the employees who have hitherto been considered as the most important stakeholders, rather than the owners of shares.

In the 1960s, the golden age of managerial capitalism, Britain and America had a lot of businessmen with some sort of 'stakeholder' notion of their responsibilities at the top of some of the major enterprises and banks. True, the lifetime-employment pattern which dominated in the civil service and the police and armed forces was extended in private industry only to the managerial ranks of some of the larger firms like Unilever, BP, Kodak, IBM, and the major banks. The Anglo-Saxon societies always were more mobile than Japan has in recent decades (only in recent decades) become. Top managers may have been a good deal more flamboyant and domineering than top civil servants, but, like civil servants, they got their income predominantly from their salaries, and, like top civil servants, they owed their job partly to 'character', their ability to handle people and impress their fellows in the bureaucratic organization in which they spent their lives, but in large part, also, to the thoroughness with which they knew the business of the firm they ran—its products, its technology and the way it could be developed, its markets, its sources of supply, its employees.

That similarity, or cultural affinity, between the bureaucratic corporate manager and the civil servant was, indeed, one of the elements which inspired such 1960s predictions of a benign evolution towards a social democratic form of capitalism as those of Galbraith[6] or Shonfield.[7] These were the managers Burnham had in mind when, 20 years earlier, he wrote of *The Managerial Revolution*[8] as something that was transforming our notions of capitalism. Marx wrote about Capital and how it treated Labour in an England in which the family firm predominated. The paradigm capitalist was the owner-manager. Now, he was replaced by the technically competent salaried manager and organization-builder, notionally responsible to a fragmented mass of stockholders, but in effect, as Berle and Means pointed out,[9] with a

wide range of discretionary autonomy, and (Robin Marris[10]) with a tendency to be more concerned about organization growth than about maximizing profits.

The capitalist-manager's counter-revolution

What we have been witnessing in recent decades, especially the last two, is the capitalist-managerial counter-revolution. The fat cats of British boardrooms are favourite topics for the financial press as well as for the tabloids. But it is not so much the size of their packages as the way they are calculated that is the nub of the counter-revolution. Increasingly the big rewards come, not from salaries, but sometimes from performance bonuses, linked to some measure of profits, and much more commonly from stock options. The fact that the value of the option depends on the share price is seen as incentive enough effectively to align the interests of managers with those of the owners to whom they are—exclusively, in modern doctrine—responsible. In the 200 largest American companies 'shares and share options still "live" in incentive schemes at the end of 1998 amounted to 13.2% of corporate equity', and American companies as a whole spent $220bn in that year buying back shares so that their employees could exercise their options.[11] Since in most cases the granting of options appears nowhere in the company's accounts as a cost, some people are beginning to wonder whether the cost to shareholders of aligning managers' interests with their own is more than it is worth—a point to which we will return in the last chapter when considering system efficiency.

This transformation in managers' financial incentives and in their perceptions of their responsibilities is the effect of many factors, some of which are hinted at in my chart. One is the concentration of ownership in insurance companies, pension funds, and mutuals, the direct influence of their representatives on Boards, and above all their decisive influence in takeovers. To that should be added the increasing incidence of takeovers as the investment banks' ability to mobilize large sums of money to facilitate them grows. Another factor is that prompting some firm to make a bid for another and earning vast commissions from managing their takeover battle strategy has become a major part of investment bank business. (In Europe, celebrates the *New York Herald Tribune*, 'a generation of young, talented and ambitious

Europeans [who were] educated and trained in the United States, [and] have embraced the concept of shareholder value and American financial techniques' are now dominant in the European offices of the 'two hottest firms in corporate finance', Goldman Sachs and Morgan Stanley. 'They are using their local knowledge and contacts to sell European companies on the merits of takeovers, leveraged buyouts, innovative debt and equity offerings and other restructuring tactics.'[12]) The increase in takeovers, and the increasing equation of 'corporate strategy' and 'corporate restructuring' with the buying and selling of companies and bits of companies, has led to the replacement of engineering by financial expertise at the top of corporations, which has provided feedback reinforcement for the trend which caused it. All of these evolutionary changes have had the effect of reversing the Berle and Means trend towards fragmented, powerless ownership. Shareholders have in reality become more powerful, and at the same time some spectacular boardroom scandals (the RJR Nabisco story, for example) have reinforced the popularity and legitimacy of shareholder activism.

Thence the urge towards greater shareholder power. The means have been provided by true-believer economists, working within what is known as principal–agent game theory to devise ever more ingenious uses of stock option and other remuneration devices, reinforced by the business school professors/managerial consultants who dominate the business press, vying with their MVAs and EVAs, their EBITDAs and their FCFs to produce *the* ultimate accounting measure of the extent to which a managerial team actually enhances shareholder value.

These exemplars of Davos Man, members of the new capitalist-manager class, are, to be sure, not quite the same as the robber-barons of old. Wherever they sit in the system they are constrained by the rules they have worked out for fair play among themselves—stock exchange disclosure rules, takeover bid rules, the Financial Services Authority in and out of which they rotate. And they are constrained by their investors. Their investors, however, are, effectively, other capitalist-managers—the managers of pension funds, merchant banks, insurance companies, and investment funds. They in their turn are paid by the same criteria, and at similarly generous levels to the people they supposedly control. They have the same constellation of interests and are fully cognizant of the community of interests which bind them

to support of the system and of the financialization process which is consolidating it.

Come off it. Relax!

Some take a relaxed view of the financialization process and see it as possibly good for democracy. The so-called employee-favouring firms of Japan and Germany, this argument goes, may take care of their workers, not only paying them premium wages and fringe benefits above what would be their market-clearing price, but keeping them redundantly on the books at the expense of potential profits. This both lowers the efficiency of the whole system and also makes their employees a pampered labour aristocracy, at the expense of those who work in the less protected sectors of the economy. Much better to give efficient managers free rein to maximize the returns on the scarce capital they employ, to hire as much labour as they need at the price the market dictates, and to give as much of their revenue to shareholders as possible. That way the total cake is bigger. And if a bigger share thereby goes to the shareholder, well, aren't we all shareholders now? As shareholders via our pension funds we have—potentially at least—power in the system. We can make our fund trustees invest ethically; make them steer clear of firms making landmines or genetically modified foods. It's all—potentially—a wonderful process of 'empowerment'.

Like most arguments employing the word 'empowerment', the emotion is not in doubt, but the logic is faulty. First, it's just not going to happen. If ever there was a principal–agent problem never likely to be resolved it is that between the ordinary joe prospective pensioner and the hot-shot pension fund manager trying desperately to beat the index. And in any case the ordinary joe does want returns, not ethics nor—as several American efforts to use union influence on pension funds for other than revenue-maximizing purposes have shown—advancement of working-class solidarity. Secondly—my principal objection—for every person empowered and enriched, several are depowered and made, relatively if not absolutely, poorer. Those who work in employee-favouring firms may be a labour aristocracy, and a system of pensions (like the German one) which is based on final salaries may mirror existing inequalities, but paying for social security by pay-as-you-earn contributions to a central fund out of labour income *can* include a redistributive pooling of risks more egalitarian than a system which redistributes capital income through pensions and endowment policies. Private insurance and private pensions do more than reflect the inequality of the incomes out of which the contributions and premiums are paid; they greatly amplify them.

There is a third comment to be made on the 'relax!' argument. 'Give managers a free hand to manage the scarce capital they employ,' it says. This, a major premise of the argument, reveals one of the founding assumptions of modern capitalism—that it is indeed capital that is the scarce resource; that 'labour' will normally be in fairly abundant supply. It is amazing that anyone can seriously sustain this view in a world awash with so much liquidity that its movement from one country to another keeps exchange rates in perpetual motion. Or that it can be sustained in a world of skill shortages, in which the steadily increasing complexity of the technology we use, and the consequent steady increase in the learning time required to master it, and in the premium placed on scarce learning ability (i.e. brains), makes the human capital that can walk out of any manager's door at will a far more crucial factor of production.

The dominance of the free trade ideology at this millennium-end is nearly absolute, and Yergin and Stanislaw have traced in a fascinating and convincing manner how it has become so.[13] The rampant protectionist behaviour of governments is always excused as temporary weakness of the flesh compromising the spirit's willingness to do right. If only nobody sins, the free-traders urge, any sacrifice we make, any social disruption and painful loss to minority private interests in the short term, will eventually be rewarded with much greater prosperity for all; by definition we all have comparative advantage in something and even the rioters in Seattle streets will eventually find out what it is.

I have explained elsewhere my own view of where compromises ought to be drawn—and drawn explicitly and with confidence, not half-heartedly and apologetically—between free trade principles and conflicting values.[14] The debates about banking and corporate governance which I describe later in this book suggest another illustration of the position which I would want to advocate. It goes as follows. International institutions which seek to achieve genuine 'international public goods', such as confidence in the international banking system, are indeed highly desirable. But those institutions can be, and are in case of the BIS as in that of the WTO, shaped not merely by such

public goods considerations—in the case of banking, for example, the prudential regulations—but also by the stronger players' appeal to 'level playing-field' arguments for rules which minimize all restraints on international competition to the clear and disproportionate advantage of their own national firms.

The banking crisis in Japan offered an illustration. The authority carried by the Basle committee rules enforcing criteria for the capital adequacy of internationally trading banks is nowhere greater than in Japan, a country whose determination to be internationally a 'good neighbour' cannot be in doubt. Short-term economic policy in the spring of 1998 and 1999 was constrained—there is dispute about how much—by the government's desire to ensure that the Japanese stock market achieved a price level that would allow Japan's internationally operating banks to value the shares they owned at a price which allowed them to reach their 8 per cent capital reserve requirement. Now, the *prudential raison d'être* of those rules was already fulfilled, one would have thought quite adequately, by the limited-term (until April 2001) guarantee the Japanese government had given for all deposits in Japanese banks, overseas as well as at home. Nevertheless the possibility of flouting, or asking for a temporary suspension of, the Basle committee rules was never canvassed. The prospect of retaliatory reactions on *level playing-field* rather than *prudential* grounds was doubtless too daunting for anyone to float the idea.

At the risk of belabouring the point, let us imagine what arguments a Japanese government might have deployed. They are not dissimilar to the arguments which the French or the Canadians deployed in refusing to accept free trade in films and television.

> Financial services are indeed an internationalized industry, and since it is one built on confidence, and since with such a density of interbank dealings lack of confidence can be highly contagious, there is a need for prudential rules. We accept a duty of good-neighbourliness and will ensure that all our internationally dealing banks reach an acceptable standard of prudence, though we insist that the rules should be drawn such that alternative means of maintaining confidence—capital requirements or government guarantees—should be explicitly recognized in those rules.
>
> As for competitiveness, we recognize no similar good neighbour obligation to achieve what is called a 'level playing-field' because it cannot in practice be attained. A genuine levelling would require other countries to receive compensating advantages to balance America's superior assets, such as its vast natural resources, the sheer size of its internal market, its great migration inflow (all those clever Chinese now, all those Jews given refuge from Europe in the 1930s and 1940s), and—another of its important assets—a trading ethic which allows banks to drop unprofitable customers overnight, even after 50 years of collaborative trading. What you seem to mean by 'level playing-field' is that we should conform to you. But how can we, and why should we? On the one hand, getting the natural resources or the immigrants is impossible. On the other, adopting a trading ethic of single-minded concentration on profits means accepting your view that our concern with collective goods is discredited socialism, and our concern with maintaining patterns of mutually considerate social relations is despicable 'cronyism'. We are not prepared to accept that. We value our way of life. If you assert that our collectivism and our willingness to guarantee our banks' depositors give us a competitive advantage, you may well be right. It might, in some measure, compensate for all your resource/size/immigration advantages. But whether it does or whether it does not, that is not an argument that will persuade us to change our way of life. The playing-field analogy is a false one. We are not a team which has decided to enter for a sporting cup. We are a society which is happy to trade with whoever finds it rewarding to trade with us.

'An outmoded nostalgia for the nation-state', the gung-ho globalizers will say, and, as this book will document, the globalizers have already won over enough of the Tokyo and the Frankfurt banking communities to make the effective deployment of such arguments—for the moment, at least—unlikely.

The Goldilocks economy as the model for Japan

All very well in theory, the sceptical reader might say, but it works. Look at the American miracle. Sustained returns on equity of 20 per cent (a Japanese firm considers itself to be doing well if it returns 8 per cent) have driven the American stock market boom. The wealth effects of that, plus various other lucky conjunctures such as low oil prices, have helped to sustain buoyant consumer expenditure and maintain the exchange value of the dollar, thus attracting to its safe haven ever more of the world's liquidity to compensate for the growing balance of

payments deficit and accumulating consumer debt. It has even produced the trickle-down effect of low unemployment and a slight rise in bottom-of-the-heap wages.

And if that is what works in America, then that is what we must do in Japan. Never mind if the up-sizing of profits is usually accompanied by the downsizing of employment and wages. Economic dynamism takes care of that in no time. Among the many arguments which, as the following chapters record, are used by those promoting a re-run of the capitalist-managerial counter-revolution in Japan, that is currently one of the most powerful. Whether the United States will still be providing the same glittering model of success when these words are read remains to be seen.

. . . and Germany

There is another society where there is a widespread belief that (to reverse Mrs Thatcher's classic expression of individualism) there *is* such a thing as society. Germans, too, tend to see the firm as something of a community of the people working in it, if also as a public institution with public responsibilities. Their firms, too, have traditionally been on the employee-favouring, rather than shareholder-favouring side of the divide. Germans, too, balance a concern to prevent abuse of monopolies with a belief that there *is* such a thing as excessive competition and that the state can usefully intervene to regulate and to promote cooperation. Germany, too, shares Japan's 'productivist' leanings and retains a strong manufacturing sector. It is also, like Japan, a relatively egalitarian society, with a generous welfare state playing an important role in maintaining compressed income differentials.

And Germany, too, is subject to all the pressures—and all the seductive temptations—which are promoting the 'Anglo-Saxonizing' processes of marketization and financialization in Japan. If anything, the debate over how far those pressures and temptations should be yielded to is more overt and more openly contested in Germany. But at any rate, a comparison between recent trends in the two countries with their similar concerns but rather different institutional backgrounds can illuminate the debate, and clarify the interconnections of institutions, for both countries. And that might, in turn, prove of some

interest to those in other countries subject to similar pressures and faced with similar choices.

So, after Part I, which characterizes 'the Japanese model' in its heyday, and the more detailed survey of recent developments in Japan in Part II, Part III consists of a briefer account of developments in Germany with the comparisons with Japan explicitly drawn. All leading up to a final section which is a mixture of forecast, prophecy (in the Old Testament sense), and hope.