Chapter 11

Nice Guys Finish Last?

THIS book so far has been about the processes of change and their causes, with an underlying evaluative bias which the reader could hardly have failed to detect. The bias has been the result of a preoccupation with the 'good society' question and has sprung from the belief that, and the desire to show that, the processes of marketization and financialization are a bad thing.

That is not by any means to say that I find—to concentrate on Japan, which I know more about—everything in that country wholesomely admirable. Habits of cooperation and social devices intended to avoid conflict and confrontation may do more than just keep the peace and spare people's feelings; they may help to achieve compromises between conflicting interests which all parties, even those with less bargaining power, can consider fair and reasonable. But, as our jokes about 'political correctness' acknowledge, they can also produce a lot of hypocrisy, dishonesty, and obfuscation. Japan could do with a bit more plain speaking. It would also be a better place if the corrupt use of political power for private purposes were reduced to, say, British levels (though I am not convinced that more democracy, British-style, with politicians having more and bureaucrats less power, would help very much to bring that about). It would indeed be an advantage if professional auditors had a more arm's-length relationship with the firms whose accounts they audit. Deregulation does sometimes justly attack the privileges of fat cats who might quite reasonably be expected to exert themselves more on behalf of consumers and expose themselves to competition from newcomers. The Japanese strategy of tolerating and containing bullies like the *sōkaiya* and the real estate thugs is not obviously better than going after them as enemies of society. The sense of belonging to a national community which sustains cooperation within industries, and makes possible inclusive, and redistributive, educational and

social welfare systems, almost by definition entails xenophobia, and that xenophobia, while quite harmlessly defensive on what is conventionally defined as the political left, can become nastily aggressive on the right.

So there are many things which could with advantage be changed. But not those changes central to the intentions of those whom I have called 'reformers' in Japan and Germany, which have a tendency to increase inequality, increase the ruthlessness of competition, destroy the patterns of cooperation on which social cohesion rests, and thus promise to degrade the quality of life. At least, they degrade the quality of life for anyone who, in addition to valuing individual freedom of choice, also values the right to live in societies with few public and no private policemen, societies in which social relations span a spectrum from intimacy to friendliness rather than to hostility and fear, and societies which possess the degree of equality and sense of citizenship which are necessary to make the institutions of democracy less like manipulated fictions and more like functioning reality.

But, going beyond sermon or jeremiad, this chapter confronts two final questions: the realistic prospect question and the efficiency question.

First the forecast. How is it likely to pan out? Probably—from my point of view—badly. Michel Albert's paradox—Rhenish capitalism seems so much superior to the Anglo-Saxon version, but it is the Germans who are trying to be like Americans not vice versa—remains true today. And outcomes are not just in the hands of elite decision-makers. The people are voting with their feet and their pocket books, in a way that makes the processes of financialization and marketization seem at present unstoppable. The latest issue of one of the major Japanese business magazines which arrived as I started this chapter carries the legend, splashed across its cover, 'Personal savings: the great migration' (i.e. from bank deposits to mutual funds).[1]

The reader may recall that in Chapter 2, I argued for the 'systemness' of the Japanese socioeconomic structure. The four features I singled out—the structure of the corporation, relational trading, inter-competitor cooperation, and a strong role for government—were said to be held together by (*a*) institutional interlock and (*b*) motivational consonance. But neither inhibits change, though they may slow it down. Institutional interlock means that change induced in one sphere is likely to spread to others: a change in the role of government

industrial policy has implications for the industry associations and inter-competitor sodalities; mutual feedback means that a shift in these can set off further changes in government. Similarly with motivational consonance. 'Dryness preference' can spread. Managers who are constrained—by, say, inductable, exogenous financial factors—to start treating their employees less considerately get 'hardened hearts' and find it easier to treat their subcontractors in the same way.

But if there seems, at the turn of the century, little doubt about what direction these mutual feedback effects are taking, one can also see the possibility that, just as the 1930s depression prompted the postwar attempts at the social regulation of capitalism, so, if the coming bursting of the Wall Street bubble is more cataclysmic than a 'correction' and real depression in the dominant economy gives enough backing to 'global capitalism in crisis' talk, things could change. There could, once again, with Japan and a German-led Europe in the vanguard, be various attempts to reassert the nation-state's power in the name of society, to 'embed' the economic activity within its borders in norms and social structures that amount to something more than mere monitoring of free and fair markets. Short of such an event, the financialization/marketization process will probably continue and bring, in the end, the flexible labour markets, the arm's-length trading patterns, and the bottom-line-ism in management which characterize the globally dominant society, the United States. In both Japan and Germany the transition will doubtless be long and painful, given the force of custom and habit, modal personality dispositions, and regulations entrenched by powerful interest coalitions (the institutional gridlock to which Olson[2] attributed the economic decline of nations). But, if the hiccups in the system are not greater than, say, those produced by the 1987 Black Monday stock market fall, in the long run vice will prevail over virtue.

And, it can be argued, it will not be just a matter of admiring imitation of the powerful. I have only to re-read what I wrote in Chapter 3 about the processes of individuation and the erosion of egalitarian sentiment in Japan to be reminded of the arguments of those who have written of the 'depleting moral legacy' and the 'cultural contradictions' of capitalism. Fred Hirsch argued two decades ago that capitalism was founded on trust, yet has an inevitable tendency to erode trust; Daniel Bell that it was founded on what I have labelled 'productivism', but can only work by promoting consumerism.[3] This

book, then, is like one of those fairy stories about the search for an elixir of life—an expression of nostalgia for what was, after all, a passing evolutionary phase in the history of two societies which just happened to start their industrialization with more fully evolved communitarian institutions than the others, and to preserve some of that legacy to more advanced stages of economic growth. No more, in short, than another example of cultural lag.

Of the two societies, Japan is the one which has the greater chance of resisting incorporation into American-led global capitalism and preserving its own distinctness. First and foremost, because (except for a tiny minority of children living overseas who have spent extended periods at foreign schools) Japanese have a much stronger sense of their country's cultural, and racial, distinctness (only cultural in Beijing, where their faces merge with the crowd's; in London or Berlin cultural distinctness gets a racial tinge). That *this* is Japanese and *that* American can become an argument for preserving the 'this' far more potent than similar arguments in Germany. Anyone arguing in a committee in Germany that such and such should be defended because it is part of a valued and specifically *German* heritage is liable to be devastated by an opponent who jeers, 'Yes, we know. As Kaiser Wilhelm said, "Am deutschen Wesen soll die Welt genesen!" ' (German ways will heal the world). As those who have analysed the way the two societies have dealt with war guilt have frequently pointed out, Germans have much more willingly disowned their national history than the Japanese, and in doing so eroded one major source of their sense of Germanness.

In a recent Japanese best-selling novel based on Japan Airlines,[4] the chairman of a textile company is finally and very reluctantly persuaded by the Prime Minister to take over the ailing enterprise. He had been called up as a student but kept in Japan as a military trainer while his class-mates went off and got killed in China. After refusing twice to take the job he is again put under heavy pressure. He can think of all sorts of sensible reasons for refusing, but, 'As the only one in his class who had not gone to the war, had survived, he had a debt to pay. How could he refuse? "All right. My second call-up I suppose you could call it." ' And he goes on to clean up the airline by the power of his saintly honesty and dedication to the public good. Hardly a typical modern Japanese, but it is clear that readers of younger generations are expected to read this with sympathy and understanding. There is not the slightest trace of irony.

Such a marrying of survivor's guilt and patriotism might just be found in a few officer-class families in Germany, but the rejection of the last war as a morally acceptable experience has been far more complete. And it is not only the war which is disowned. It is also the searing experience under the Nazis of the conformity-demanding aspects of community in a much more coercive and bloody form than the Japanese experienced in the 1930s. (Japan, after all, had only a handful of political prisoners, no concentration camps.) Germany may have had the legal-rational bureaucratic traditions which enabled it to 'constitutionalize' social obligations, but if they are not rooted, at the informal level, in some kind of 'spirit' of community, they can more easily be deconstitutionalized.

A second (intricately interlinked) factor which makes Japan more likely to resist global capitalism is that its 'corporatism', to use the term loosely, has been more 'holistic'. That is to say, it has depended more on all compromising parties sharing some sense that they have to 'think for the nation', and less on a simple horse-traded class compromise between opposing interests in a zero-sum game. I once examined closely the arguments used in the 1973 Spring Offensive wage-bargaining round—at a time when unions still had a powerful strike weapon available and were accustomed to use it.[5] Before, that is, the post-oil-shock stiffening of employer resistance prompted the unions to restrain and then to lose their bargaining clout. It was remarkable to what extent union arguments too were framed in terms of what would happen to the macroeconomy and why the wages they were asking for were not just a matter of justice, but the best thing for growth of the national economy as a whole. In Germany, by contrast, the attempt at true concertation of the kind that worked and still works in the Netherlands and Austria failed. Inflation control depended on the way that the *Tarif-autonomous* unions and employers accepted the discipline of unilateral action, and the threat of unilateral action, by the Bundesbank. Schröder's present problems with his Alliance for Jobs spring in large measure from the unions' unwillingness to move beyond their self-defined mission to maximize the interests of their members, rather than to 'think for the nation'. A case in point is their refusal to discuss plans to use the energy tax to encourage low-

wage employment by reducing payroll taxes selectively—much more drastically for low-paid workers. They want across-the-board cuts. Anything else, they say, will compromise Germany's position as a high-wage economy.

This is simply to repeat the point made earlier that German co-determination does not spring from an original communitarian character of enterprises. It is a class compromise, quite deliberately arrived at in order to avoid a repetition of the class conflict of the 1920s and early 1930s, and enshrined in powerful legislation which sets limits to that conflict on the assumption that, in what realistically had to be considered a zero-sum game, it would not go away.

One does not, then, have to go back to medieval feudal traditions to explain the difference between the two countries in the propensity for 'holistic' corporatist thinking, even if such deeper roots are not to be ruled out. It is enough to hark back to the 1920s. Japan, too, had its militant unions. They had to face, not only employers, but also the police and the violence of hired thugs. People were killed. But the violence was on nothing like the scale that Germany saw—or even America, for that matter. Nor was the shaping of the postwar institutions as influenced as it was on the union side in Germany by returned exiles with vivid memories of that violence. The tiny number of returned exiles from China and Russia were vastly outnumbered in the postwar Japanese unions by people who had earlier made their compromises in the Patriotic Labour Front within which the prewar unions had been incorporated.

That history still counts. It means that there is greater scope in Japan for propagating the notion that there is a national and not just a class interest in preserving established institutions and protecting them against the pressures of global markets, global firms, America-dominated global institutions.

A third reason why Japan might put up stiffer resistance is because of its neighbours. There are great similarities between Japan and Korea, on the one hand in employment institutions, business practices, and views of the state's role in the economy, on the other in the debates currently under way over the extent to which 'Americanization' should be allowed to go. China's state-owned enterprises, for all their diminishing contribution to GNP, are still norm-setters, and their employee-favouring orientation is not in doubt. Neither is China's nationalistic propensity to resist American 'corruption' of its Confucian socialist soul (its 'market socialism with Chinese characteristics'). Both Korea and China are still some way from Japan's industrial maturity, still growing at a fast rate. Another decade or two and the weight of East Asia in the whole world economy could seriously eclipse that of the United States and of Europe. And that could have profound consequences. At present the Japanese are in no mood to think of preserving their institutions because of some valued quality of Asianness. For the vast majority of Japanese, Asianness is backwardness, contrasting with American modernity. That may not always be so.

Efficient? Competitive?

And so to the second, and the main, question for this chapter. Suppose that something more catastrophic did happen to the global system and there were to emerge a general consensus in either Japan or Germany that, in the interest of maintaining the quality of social and political life, marketization and financialization should be resisted. It would require calling a halt to some of the processes of globalization, and there would have to be a reworking of the commitments to the IMF, the BIS and the Basle Committee, and the WTO. Germany could not do that without agreement with its European partners—agreement which might come from France and Italy, but hardly from Britain. However, just suppose for the moment that the political will to do those things could be mobilized, even over the dead bodies of a few bankers and the bulk of the economics profession.

If that did happen, one condition for sustaining such a course would surely be that these 'good societies' should also be not so much less efficient—competitive—than the other more marketized, more financialized societies. If the result were that Japan and Europe continued over a long period to have average growth rates of 1 per cent while the Anglo-Saxon economies had a trend growth rate of 2–3 per cent, it is unlikely—given the intensification of nationalism and the enhanced preoccupation with competitiveness which are paradoxically (unlike free trade) one of the irreversible consequences of globalization—that this consensus could long survive.

Hence, 'good society' questions apart, it is important also to ask the question which is the central question of (usually the only question considered in) much of the 'hard-nosed' literature which this book

has drawn on. Would the 'Japanese model' and the 'Modell Deutschland', if they were preserved, be able in the future to make Japan and Germany as competitive with the Anglo-Saxon economies as they manifestly were in the 1980s?

The complexities of this question are often obscured by the simplified stylizations that it has bred over the last decade—for instance, a distinction between a 'high road' to competitiveness involving high skills, high product quality, and high wages, and a 'low road' of low skills, low wages, and price competition. Or the attribution of success to a more rapid forward-looking shift from mindless 'Fordist' mass production to 'flexible specialization' or 'diversified quality production', characterizations often liberally tinged with romantic nostalgia for the *Gemeinde* of the cooperative industrial district and the productivist ethic embodied in the small entrepreneurial firm. It is true that it is primarily in one-off or job-lot production systems of machine tools and precision engineering that the competitive advantage of both Japanese and German manufacturing has seemed most marked. But they have also done well in the mass-production industries of automobiles and consumer electronics.

It is worth remembering just how much growth in Japan and German has depended on productivity growth rather than on growth in labour inputs. The figures in Table 1 are for the period 1972 to 1992.

Table 1. Sources of economic growth, 1972–1992

Country	Growth in:			
	Real GDP (US at purchasing power parity (PPP))	Employed persons	Working time per person (1992 hours)	Productivity per hour (1992 output per hour, $PPP)
Germany	1.625	1.100	0.851 (1.618)	1.735 (20.1)
Japan	2.192	1.256	0.882 (1.965)	1.980 (14.9)
USA	1.552	1.387	0.957 (1.825)	1.169 (20.9)

Sources: I owe these calculations to Gregory Jackson. They are based on OECD, *Employment Outlook*, various years and data provided by the Institut für Arbeitsmaktforschung, Bundesanstalt für Arbeit, and US Bureau of Labor Statistics. US employment data have been corrected for multiple-job-holders based on BLS estimates.

Capital: patient or flighty?

One view of the sources of competitive strength emphasizes the role of corporate finance. Competitive strength depends increasingly on the power to innovate. Innovation is risky and takes a long time; it requires the sort of organizational learning which only stable organizations can provide. Organizations which are capable of such innovation need patient capital, not flighty capital; commitment not liquidity. A hard core of stable shareholders and an absence of hostile takeovers conduce to innovation; pressure from shareholders solely interested in short-to-mid-term results, backed (via the effect on share price and market valuation) by the threat of takeovers if they do not get them, is an innovation-inhibitor.[6]

An alternative view is that one needs to distinguish between different kinds of innovation. The above argument applies to intra-paradigm incremental innovation. In that, indeed, the patient-capital, long-term commitment model excels. But it does not apply equally to innovation which implies a paradigm shift. Take this analysis of the Lufthansa turnaround in the early 1990s:

> Consensus decision-making and secure employment prospects for managers appear to provide an advantage for adjusting to an industry environment of continuous change that can be dealt with effectively by accumulating technical skills . . . and by equitably splitting the economic gains of programmable productivity increases . . . However, in an environment requiring a radical change in the company's set of skills, in the power structure, and in the company's capacity to make rapid decisions involving risk and uncertainty about the mode and success of implementation, a system of consensus top-level decision-making and of lifetime employment for managers may prove disadvantageous.[7]

Have aeroplanes really changed that much?

What has brought radical change, the need for a paradigm shift, is, according to a common view—a view more or less accepted in the Bertelsmann–Hans-Böckler report discussed in a previous chapter—the emergence, in the shape of electronic computing, of a new generic technology comparable to steam power in the early nineteenth century and electricity in the twentieth in heralding a new 'long-swing'

cycle. At such moments—look at the flood of resources into Internet stocks—it is, indeed, so the argument goes, the fluidity of resources which counts. A market-oriented form of capitalism 'is better able to respond to the changes in relative prices of all resources that occur more significantly and frequently when new technologies are being adopted rapidly, and when global independence is accelerating and competition is intensifying world-wide'.[8] However, goes one twist to the story, while the Anglo-Saxon model may show superior results in the turbulent short term, as the pace of innovation changes in the maturity phase the German/Japanese model will come into its own again.

As one who has always been sceptical of Kondratieff-type cycle theories, always found the distinction between fundamental and incremental innovation protean, and always been impressed by the consistent incremental gradualism of such steady, evolutionary upward trends as the percentage of GDP devoted to research and development, or the shortening of product lifecycles, I find such predictions less than convincing.

But let us grant to the above arguments at least the truth of the proposition that the 'competitiveness' which determines long-run relative growth rates has a great deal to do with the capacity of corporations to innovate—to get, and to acquire a reputation for getting, a stream of new products rapidly on to the market at favourable quality/price ratios.

The cyclical factors

Such capacity is not unaffected by cyclical—or what hitherto we have thought of as cyclical—swings in the macroeconomic climate. It may well be that the brains required to do the inventing, or to see the possibility of using the inventions of others, or to imitate and improve on others' use of inventions, are available, properly equipped, and efficiently managed. It may be, too, that the organization to translate the ideas they generate rapidly into products works smoothly, and that the resources to finance that translation are easily available. But the will to commit those resources can well be affected by (*a*) the best rational expectations of future market developments and (*b*) the general 'mood', the diffuse optimism–pessimism, confidence–anxiety

balance which those expectations breed. There is no better illustration of this than the contrast over the last eight whole years between a gloomy Japan, with falling asset prices and a savings–investment imbalance which has led it to send large quantities of capital into reserves or abroad, and a gung-ho United States, with buoyant asset prices, which has compensated for a negative savings–investment balance and a rapidly deteriorating balance of payments by sucking in a large proportion of the world's liquidity (thus maintaining an invigorating level of consumer demand).

The unpredictable nature of these swings is such that there is only one thing to say: that the United States/Japan comparison once looked very different, and there seems to be no fundamental change in the working of market economies to convince one that it cannot be different again. Just one relevant observation about a difference between Germany and Japan: Japan can still run a budgetary deficit of 9 per cent of GDP by way of Keynesian demand stimulus (even though still, at the time of writing, with no certain prospect of success). With the (for the moment binding) Maastricht stability pact in place, Germany's armoury of macroeconomic policy weapons would be much more limited and in any case would have to be coordinated with its fellow-Europeans.

Business strategy: monopoly power

Beyond these business-cycle effects, what are the long-term factors which will affect outcomes? Clearly, the capacity to innovate quickly and produce efficiently. But before we consider that, a brief word on one strategic advantage enjoyed by countries with 'community-like' firms over those with firms devoted to the pursuit of shareholder value—an advantage particularly in those industries, such as telecommunications, where oligopolistic market power can be of decisive importance. Where it is shareholders which count, all one has to do to bring off an acquisition is to offer them a good price (plus, perhaps, side-payments for senior managers in the form of golden handshakes, chairmanships, etc.) and the deal is done. Where, however, other stakeholders have a legal (Germany) or socially recognized (Japan) right to interfere, even the most attractive tender offer may not bring off a hostile takeover. Thus Mannesmann had no difficulty in buying

the British Orange, but British Vodaphone's attempt to buy German Mannesmann is fraught with difficulty and, at the time of writing, of uncertain success. The gain to the winner in this contest—in terms of the ability to set technical standards and prices, to bargain down suppliers' prices, etc.—will be very great.

This asymmetry, of course, is denounced by the British press and by Tony Blair as grossly unfair. However, it is not altogether clear to me why possession of this 'natural immunity' to takeovers should be seen as more unfair than so many other advantages countries have thanks to nature and history—such as all that British natural gas in the North Sea or America's power to absorb armies of clever Chinese graduate engineers.

Skills, cultures, and organizations

But let us return to the question of those features of German and Japanese (manufacturing) industry which were supposed, in the heady days of the 1980s, to give them competitive advantage. It was not just a matter of having patient capital, no fears of takeover, and managers able to devote their time to running their business rather than M&A wheeling-and-dealing. The ability to make use of the opportunities that patient capital affords rested on other features which they supposedly had in common. Such as:

- a high level of skill in the average worker, which is in content a mixture of cognitive and manual competence, and of conscientiousness, backed by effective training (albeit of very different patterns in the two societies), but rooted also in moral qualities—seriousness of purpose, self-discipline, notions of a duty of self-development—for which families and primary schools are probably more important than training on the shopfloor;
- similar orientations in engineers and their ability to embody the routines developed by such workers for producing high-quality products (plus a lot more evolved out of their own inventive problem-solving heads) in hardware which makes skill less necessary, is proof against momentary lapses of attention, and also allows much more customer-tailored product diversity within mass-production systems;

- the customer orientation plus 'perfectionism as end-value' (i.e. as something which is not just an instrument to obtain profit, and can sometimes reduce it—think of the curious word 'overengineering') which make top managers *want* to utilize to the full the above characteristics of workers and engineers;
- the long tenure of managers and their consequent identification of their own interests with the long-term future of the firm, a factor which enables them to make full use of the availability of patient capital—long-term planning, a low time-discount, low hurdle rates for investment;
- the ability to mobilize conscientiousness and cooperation among employees—workers, engineers, and the planners of company strategy—conditioned by the fact that the firms are run as much for the benefit of their employees as for that of their shareholders.

These qualities do not disappear overnight. But they do have two cumulative long-run consequences. Inasmuch as they confer a competitive advantage and faster growth rates (as they did for Germany and Japan in the 1970s and 1980s)—and inasmuch as a part of their recipe is to be more egalitarian in income distribution—wage costs, and consequently prices, rise faster than those of competitor countries. Secondly, the quality-guaranteeing improvements in production techniques, which may start off as tacit knowledge and skills on the shopfloor, frequently get embodied in hardware and in teachable organizational routines. As such they diffuse to competitors. I have already quoted one German manager's estimate: 'quality used to give us a 20 per cent premium on the price: now it's about 5 per cent'.

But Japan and Germany are stuck with wage levels predicated on that 20 per cent premium, and in the medium-to-long term—unless the dollar remains for ever the only 'safe haven' currency and the yen and the euro remain weak—that threatens their competitive power. A lowering of the national standard of living, or at least a slowing-down of wage increases until competitors catch up, is one recipe. Another is the hollowing-out transfer of a lot of production to low-wage countries, leaving predominantly the high-value-added, design, and new-product functions at home. That too can be an effective way of maintaining market share and GNP.

As far as lowering, or more likely holding back, the standard of living to get closer to competitors does become necessary, Japan is at

an advantage. Its company-level wage-bargaining system is more flexible, and it can still engineer its own inflation inside its own currency zone. Germany by contrast has powerful central unions which prove strongly resistant to requests for sacrifice in the national interest, though, through Alliance for Jobs contracts, the unemployment problem can to some degree provide an effective argument to evoke concessions. As far as inflation/devaluation is concerned, Germany now can only enjoy the same inflation rate as Italy and Spain, though the weakness of the euro at the time of writing (which has provided exchange rate advantages and greatly eased German cost pressures) has been the result of mechanisms which have nothing much to do with inflation.

But discussion of the wage rate cannot nowadays be divorced (at least in Germany, and now, increasingly, in Japan) from discussion of unemployment, and not just as a bargaining tool in wage settlements. Maintaining competitiveness through hollowing-out—keeping up GNP but not necessarily GDP—would only exacerbate unemployment problems, which are in any case already produced by the fact that German manufacturing industry's success in raising productivity (by over 1.5 per cent annually in the first half of the 1990s) was far greater than any possible increase in output—thus swelling unemployment. A similar increase in productive efficiency is probably available in Japan, but it is masked there by the fall in capacity utilization and output and the much stronger lifetime-employment guarantee, which has meant that instead of higher headline unemployment rates (though they are still rising at what is considered an alarming rate) there is more waged idleness, ritual retraining, and other forms of concealed unemployment in lifetime-employing firms. It is doubtful whether the recovery of the economy will be followed by a fall in unemployment. The ratchet effect has probably already started to work.

But that brings us back to 'good society' problems self-generated within the original German/Japanese models themselves. When they lose their capacity to give jobs to those who want them, their claim to enhance the overall quality of life may become suspect. But it is not clear that the Anglo-Saxon economies, if one looks behind their currently better headline unemployment rates, are any better. And in any case, the relevance to the present question—what change or non-change does to competitiveness and the growth rate—is not entirely

clear. The 'job-less growth' arguments, that in modern economies large segments of the unskilled labour force are technologically redundant—with the implication that finding them jobs would add little to GDP or the capacity for growth—may be exaggerated, but it is clear that the employment question and the growth question can be separated.

And, for the growth question, the capacity for innovation is clearly of the greatest importance.

Where ideas and capital meet

There are two parts to the argument that neoliberal economies are better at innovation because of their flexibility and mobility of resources: the speed with which they off the old, and the speed with which they find and produce the marketable new. Of the first there can be no question. Where the Anglo-Saxon economies clearly excel is in the destruction part of Schumpeterian creative destruction. Upsizing profits is quickly achieved (if only in the short term) by downsizing staff.

What is not so clear is whether this is the reason why they excel (if they do indeed excel) at the creation bit. In spite of all those tales of the sacked engineers from IBM and Boeing providing the nucleus for much of Silicon Valley's success, it is not at all clear that the rapid release of resources through destruction without compunction is a factor which conduces to effective innovation, much less *the* essential precondition. Compunction or ruthlessness has a clear effect on distribution issues; but not so obviously on the production side. The opportunity cost of the resources 'wasted' in the kindlier and gentler way the Japanese ran down the coal mines in the 1960s, or the numerous industries hit by the oil shock in the 1970s, seems not to have been much of a growth inhibitor. And again, as one of the least conformist of Japanese economic commentators remarked in 1999,[9] chiding the 'blood-on-the-floor' advocates of restructuring for dynamic innovativeness: if Japan were operating at full employment, and with a scarcity of capital, they might have a point. But it is clearly not such supply-side constraints that today inhibit the growth of new ventures or the launch of new products by old ventures. It is something else.

One part of the 'something else'—the confidence that markets will

be there for new products—we have already dealt with. The other part is the organizational part: what is often called the 'national innovation system'.[10] Those Japanese who make the standard argument about the Japanese economy being admirably structured for catch-up but no good for the new stage of innovation-at-the-frontier frequently make clear that their ideal is Silicon Valley, the place where individual technological brilliance and daring creativity combine with business entrepreneurship and venture-capital financing—the winning combination for which Japan has no answer, and which all the attempts over the last decade to promote venture business have failed to emulate.

There does, indeed (still concentrating on the Japan/United States comparison) seem to be a big difference in the dominant innovation paradigms. The sources of creativity remain elusive, but clearly the originality needed to make either breakthroughs or incremental improvements has to be combined with the high-grade learning ability needed to get rapidly to the frontiers of existing knowledge—in short with high IQ. In the United States, a high proportion of people with such talent go into university doctoral programmes which are also fed by large numbers of bright students from overseas, many of whom become American citizens. Some of these 20- to 30-year-olds develop ideas during their doctoral and postdoctoral spells in well-funded academia which they subsequently take out to found entrepreneurial firms on Route 128 or Silicon Valley or one of the other industrial parks close to universities. Others go into corporate laboratories—to which they are usually recruited specifically for the expertise they have acquired—and may well, later on, 'spin out' to become founders of entrepreneurial firms. This often gives rise to charges that in spinning out they have taken commercial secrets with them, thus providing lawyers with much lucrative business. (One hard-disk manufacturing firm which captured a goodly market share from IBM was founded by someone who had worked on a new hard-disk generation inside IBM. He compounded the offence by getting his funding from a venture capitalist who drew substantial investment from the IBM pension fund.) Others—particularly in the health, pharmaceuticals, and biotechnology fields—spin out from national laboratories with ideas largely developed within them, giving rise to complaints that though 90 per cent of the development work was done with public money, 100 per cent of the profits are private.[11] In the electronics field, in which the United States has leapt ahead in the last decade, the role of

public money, via defence contracting, is even greater. Thanks to a new Minister of Economic Planning and his 1999 Economic White Paper, the economic philosophers of Japan have found a new buzzword to replace the 'tension' about which I wrote in Chapter 4. It is risk (*risuku*: untranslatable into traditional Japanese contexts without overtones of—nasty—speculation!). What the Japanese do not take into account when they speak so admiringly of the American ability to take risks is the extent to which it is not only the easy acceptance of bankruptcy as a device for starting again, but also assured income from defence contracts which often substantially reduces what the risk-taker is laying on the line.

The essential ingredients of this recipe, then, are a strong role for universities at the frontier of innovation; a strong role for individual profit incentives provided by strong individual property rights in inventions; great mobility of engineers and scientists in response to those incentives; and a good deal of covert public spending. And what makes all this work is the financier, the venture capitalist who specializes in taking (and spreading) high risks for the prospects of occasionally very high, and usually on average high, returns.

The Japanese recipe is very different. To start with, doctoral courses in science and engineering departments of universities typically recruit only a limited number of aspirants to an academic career—at the top universities often the very brightest students, but few of them. Most of the people of comparable IQ levels to the leading participants in the American innovation system stay in graduate school only for a taught Master's degree, which nowadays is seen as a part of basic training, a necessary supplement to what is usually no more than two years of specialist disciplinary study in the undergraduate degree. Thereafter, typically, they go immediately into the research lab of a major corporation. They may subsequently be sent abroad for a spell at an American graduate school, or they may do a part-time Ph.D. at a Japanese university—nowadays a major form of collaboration between universities and corporations—but the majority, even of the very brightest, remain committed to the firm they have joined and expect to make their career within it, not necessarily exclusively in research. Much of their work is done in teams, collaborating with colleagues with whom they build up cooperative relationships over a period of years. In most firms they will be named as inventors in any of the patents (the firm's property) to which they have contributed, and

they may for particularly meritorious work get material rewards. (The inventor of a particular artificial fibre process on which the prosperity of a major firm is founded is said to get a $50,000-a-year bonus on top of his salary.) But, as with R&D everywhere, much of their work ends up, after considerable expense, with no commercially viable product. Equally high-risk is the launching of new products through the corporation's own procedures for entrepreneurial initiatives, integrating research, design, production planning, and marketing. Finance for the whole risky process is found from the corporation's own deep pockets.

Two quite different recipes, then: the graduate-school whiz-kid/entrepreneurial individualism/venture capital/eventual IPO recipe and the corporate research/corporate finance/corporate commercialization recipe. The German pattern, like the Japanese, is overwhelmingly of the latter kind, but perhaps with rather closer links between academic institutions and firms, and with rather more small-firm start-ups in some fields. But the difference is not great compared with the difference between both countries and the United States.

To be sure, a careful count would almost certainly show that in the United States, too, it is in fact the latter, corporate recipe which produces the overwhelming bulk of innovation activity. (Innovation producing increments in added value, that is, if not the extraordinary share capital values generated by Silicon Valley and Internet hype. Though the American computer industry may have a productivity growth rate of an amazing 40 per cent per annum, in 1999 it still represented only 1.2 per cent of American GNP.[12]) However, for all that the Japanese tend to exaggerate its importance, it seems obviously true that the venture recipe does play a substantial part in the American pattern and a very small part in Japan—probably with considerable variation among industrial sectors, however. Innovation in pharmaceuticals is more likely to follow the same predominantly corporate pattern in both countries than innovation in electronics.

So the first observation (a much more sophisticated version of the argument that the Japanese/German pattern is all right for catch-up but not suited to the fluid flexible New Economy of the Third Industrial Revolution) is that if there are areas in which the entrepreneurial start-up recipe has manifest advantages over the corporate recipe, and others where the opposite is true, then overall economic growth rates are likely to depend on the future structure of production worldwide and the viability of individual country specializations. On this

the literature is large and growing—and inconclusive. Two recent papers which compare, not Japan, but Germany with the United States concur in seeing the strength of the Japanese/German pattern as lying in those fields where the learning and inventing are cumulative rather than one-off discrete.[13] (German biotechnology is strong on 'platform technologies' rather than specific therapies; custom software for business is a field in which Japanese and German firms seem to do well, while marketed package software is more suited to the risk-taking entrepreneur.) Beyond that, the analysis in both papers suffers from what seems like ad hoc rationalization of observed patterns of technological and trade specialization. The factors listed above which serve as strengths of the Japanese/German pattern—worker involvement, stable relations with suppliers, patient capital, the commitments of insider managers—play out in such a wide variety of ways in different industries that deterministic predictions seem hazardous.

A second question, doubtless, is whether the glittering attraction of the American model will make the Japanese corporate recipe unviable in the long run, even in those areas where it clearly offers advantages. *The Economist* notes that Japan has no shortage of talented software engineers but 'most work for large electronics firms, not independent start-ups'. Clearly an aberration, thinks *The Economist*, and concludes: 'missing from all the talk about embracing the Internet [in Japan] has been any mention of stock options, spin-offs and IPOs. How long before the clever young programmers at Fujitsu, Toshiba and NEC decide to go it alone?'[14]

Industrial policy?

Germany is clearly closer to the Japanese than to the American pattern in its balance of the two recipes: apropos software just mentioned, a recent article points out that two of its big firms (Siemens–Nixdorf and a subsidiary of Daimler-Benz) have been gaining market share in IT services/custom software in recent years after a poor beginning, though, as just noted, Germany (like Japan) does less well in packaged software. It is harder to compare these countries with respect to another important dimension in national systems of innovation, the much disputed question of the role of industrial policy. The simplest measures—the volume of public funding in the total research effort,

for example—are difficult to compute. It is hard enough to compare the costs, let alone the effectiveness, of (*a*) the small injection of funds but larger injection of hands-on bureaucratic effort of the centrally funded Japanese pre-commercial research consortia (some of which appear to be successful, some not), (*b*) the numerous disparate initiatives of the *Land* governments and their *Landesbanken* in Germany, and (*c*) the (probably in total much larger) sums spent by the American federal government, partly in such overt 'competitiveness-boosting' schemes as Sematech and partly under the guise of the defence budget for 'dual-use' technology, or in the form of generous public procurements which cross-subsidize civilian R&D.

Intellectual resources

It is no use having good organizational recipes for transforming brainpower into commercially successful product innovation if you do not have the brainpower in the first place. Here again the difference in the recipes outlined above is not irrelevant, since the high-powered university graduate schools which play such an important role in the United States are one factor—together with the English language, the openness of American society, and America's role as cultural hegemon and the Mecca of the world's scientists—which explains the migration of a great deal of scientific talent to the United States. Look through any list of leading American scientists and engineers and you will find a considerable number from Asia, Europe, and Latin America who did their first degrees in their native country. Both Japan and Germany, as less attractive places to migrate to (especially Japan, with its lifetime-employing corporations), seek alternative means of tapping foreign sources of talent by setting up corporate R&D establishments in Europe and the United States. Japan in particular will probably do so increasingly in China, and may well, until Chinese salaries get a good deal higher, attract a good number of R&D researchers from China as well. And it is worth remembering that, on the assumption of similar gene pools, when China with its vast population reaches the same level of educational provision and merit-based selection as Japan, for every Japanese who scores, say, three standard deviations above the mean on IQ tests, there will be ten Chinese; for every such American, there will be six Chinese.

Conclusion?

This is perhaps a good place to stop—with that reminder of the possibility that, just as Japan went in two decades from registering 4 per cent of the patents filed in the United States to a more than 25 per cent share, there is a good chance that in 20 years' time it will be China which is the world leader in scientific research, and in product and process innovation. And China by then could well have such a weight in the total world economy that the form its capitalism takes will have a considerable influence on the rest of the world, not least on its Asian neighbours.

By that time there will be a good deal more evidence to judge whether or not the 'decent quality of life' virtues which I discern in Japanese—and in German—society are likely to be endangered by a lack of competitiveness in international markets and an inability to achieve growth rates comparable to those of other societies. Germany will clearly lose much of its separate identity as it is absorbed in, or absorbs, Europe. Japan will still for a long while to come be a much more autonomous entity. All that can be said in summation of the comparisons made in this chapter is that there is no reason to suppose—and, indeed, simple measures like the recent US patent registration record give one no reason to suppose—that the underlying strengths of the Japanese economy which were responsible for its earlier success have disappeared. Neither the 'end of catch-up' theory, nor the 'wrong kind of creativity' theory, nor the 'growth fatigue' theory seems convincing. Japan clearly needs not to take too long to recover national self-confidence, to stabilize its asset prices and its expectations of future asset prices, and to get its savings rate down in line with its investment needs. Should it do so, even if (or rather, *especially if*) it calls a halt to some of the incipient processes of financialization and resists the siren voices of those who promise that tough structural reforms will lead to quick salvation, there is no reason to suppose that those strengths should not be apparent once again, and once again deliver respectable growth rates.