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**Stock Market
Capitalism:
Welfare
Capitalism**

**Japan and Germany
versus the Anglo-Saxons**

Ronald Dore

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RONALD DORE

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Stock Market Capitalism: Welfare Capitalism

‘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

To Peter Parker

who may not share all the sentiments, much less endorse the judgements of this book, but whose warm support was invaluable at many points on the road to its completion

Preface

... up to the present moment, mostly you were for the economy or for protecting the environment, you were for business or you were for labor, you were for promoting work or for promoting family life. . . . We come and say, well, we're for fiscal responsibility and social justice, we're for individual and group identity and the national community.

William Clinton, speech at the Florence Third Way Conference,
21 November 1999

Britain must leave behind the sterile century-long conflict between enterprise and fairness—between the left which promoted the good society at the expense of the good economy, and the right which promoted the good economy at the expense of the good society.

Gordon Brown, pre-Budget speech, *Financial Times*, 10 November 1999

What sort of government wants to slash capital gains tax for entrepreneurs while limiting access to incapacity benefit? Britain's Labour government. . . . In the past, the Chancellor seemed to view wealth creation as an abstract process which could occur without individuals getting rich. . . . Wait a few years and we may even hear Mr Brown talking about the trickle-down effect.

The Lex column, *Financial Times*, 10 November 1999

THERE you have it: the fluffy circle-squaring politicians and their plain-speaking interpreter who knows where he and his fellow wealth-creators are coming from. I suppose that if I were asked to explain in one sentence what I mean by the 'versus' in my subtitle, the answer would go like this. People in Germany and Japan, both those whom Gordon Brown and Bill Clinton would count on the political left and those they would put on the right, do not have quite the same views about money and motives as they or the Lex columnist have. They tend to believe that, although money is a splendid thing to have, and few people would not put themselves out to get some, if you want to know why people work hard, work conscientiously, work creatively, work entrepreneurially, money is only a small part of the answer; you

need also to look at social structures, the perceived fairness of organizational arrangements, friendships, collegiality, obligations arising from personal relations, as well as the intrinsic satisfactions of the work itself.

And I hope this book will also draw attention to the fact that where people *do* believe that, their beliefs are more likely to be reflected in—and confirmed by—the way other members of their society actually behave. Conversely, a society in which people are always told that the only thing that counts is the bottom line is likely to become a society of bottom-liners. This is not a book about ‘human nature’ as embodied in that rational maximizing automaton who lurks in the pages of every neoclassical economics textbook. It is about living people whose families and schools and tobacco advertisements and sitcoms and politicians’ speeches and work friendships have made them into individuals who, in spite of their infinite variety, can—most of them at least—be discerned to belong to the genus *Americana*, the genus *Japonica*, the genus *Anglicana* or *Germanica*.

Apart from the beliefs about money and motivation which I have singled out here, there is a long list of other concomitant differences between these societies which the following pages will enlarge on. But for the most part the book is not just about those differences themselves, but also about the very large number of people in both Japan and Germany who now believe, or profess to believe, that their countries have been *getting it all wrong*. What we need, these reformers argue, are all the things which over the last twenty years have made America and Britain the successful societies they are today—deregulation in the name of consumer sovereignty and of the moral as well as the efficiency virtues of competition, a change in corporate governance to make managers concentrate single-mindedly on creating shareholder value, a roll-back of the state and especially of the welfare systems which encourage dependency and idleness, tax adjustments to let the wealth-creators keep more of the wealth they create in their own pockets.

The debate has been more prominent, more strident, in Japan than in Germany, largely because Japanese society and economy were so much further from these ‘Anglo-Saxon’ ideals. But, during 1998 and early 1999, when this book was being written, the dominance of such reformist opinions in the media and in the pronouncements of business leaders and politicians was unmistakable.

The extent to which actual economic *behaviour* changed was far less dramatic. The *Financial Times* and *Wall Street Journal* correspondents were able, it is true, to find evidence for enthusiastic, celebratory, and often patronizing, reports that the Japanese were finally abandoning their quaint, irrational, cronyist habits. Firms were refusing to give profit-sacrificing help to banks just because they belonged to the same enterprise group, they were abandoning loyal suppliers in favour of cheaper ones, declaring lifetime employment to be at an end, proclaiming their conversion to doctrines of shareholder value. Much the same tale was told about Germany. And the Japanese media, more than the German, reflected the same general assumptions: few swallows here as yet, but the full Anglo-Saxon summer of which they were the harbingers was well on its way and bound to come.

Recently, in Japan especially, a badly bruised national self-esteem seems to be recovering. On 1 March 1999 a business magazine, *Nikkei Bijinesu*, splashed across its cover: 'The Japan which has not woken up to the power of the Net'. By 11 October it was proclaiming 'Second wave of the e-revolution: Japan and America towards a great reversal of roles' and describing how the number of Internet-connected mobile phones in Japan had gone from zero in January to a million and a half by August, while they were still hardly heard of anywhere else. And as confidence returns, the advocates of reform may be losing ground. Defenders of the system seem less daunted by the prospect of challenging what they have been told are 'global standards' (and what is indeed a globally dominant ideology), and they have begun speaking up more boldly. Toyota's chairman told an international business forum (at which Jack Welch from GE was the star turn) that his firm was not going to abandon lifetime employment however much Standard and Poor's lowered its credit rating (*Nikkei*, 8 October 1999). In Germany, too, the Vodaphone/Mannesmann battle (not exactly a clash between 'financial logic and the dictates of German nationalism' as the *Lex column* crassly put it) is sharpening issues as never before. Even such famous spokesmen for shareholder value as Schrempp of Daimler-Benz and Ackermann of Deutsche Bank, acting as shareholder representatives on the Mannesmann Board, seem unwilling to view the Vodaphone offer solely in terms of whether shareholders would ultimately benefit. (Their other considerations have less to do with 'German nationalism' and more to do with notions of corporations as organic entities and objects of loyalty; though if it turns out—ultimate

irony and ultimate comeuppance for Mr Esser, the Mannesmann Chief Executive—that Mannesmann goes under because it has let 60 per cent of its shares get into foreign hands, the nationalist tap will obviously be turned on with a vengeance.)

Who knows whether, before this book reaches the bookstores in five months' time, the whole perspective on the issues it deals with will have been changed. After all, even the persuasive magic of Greenspan surely cannot much longer persuade fund managers that price-earnings ratios, outstanding margin loans, consumer debt, and the balance of trade deficit can all go on rising and rising—and carrying their dollar asset values into the stratosphere—for ever. And among the many and not necessarily pleasant effects of a jolting 'correction' on Wall Street would certainly be a deflation of the claims of the Japanese and German proponents of stock market capitalism. The reader of this book may know a lot more than the writer; the hazards of writing a book about the contemporary world to academic publishing timetables are obvious.

This one started, in 1991, as something quite different, a book to be written with a German colleague on how the capitalist economies of Japan and Germany differed, and differed in similar ways, from those of Britain and America, and how the countries of Eastern Europe might do well to question whether a flourishing stock market really was the key to rebuilding their economies on free market lines. We had no sooner started than we were scooped by Michel Albert, who made the central point about different types of capitalism in a much more entertaining, if less meticulously documented, way than we would have done. (Those were the days when I was less confident about people taking me on trust without meticulous documentation than I am now.) Then, the next year, Alan Blinder delivered what we had intended to be the 'message for emerging economies' forcefully and elegantly in an address to the International Economic Association in Moscow. It soon became obvious that nobody in Eastern Europe was in the least inclined to listen to Alan Blinder, much less to us—as the failed efforts of a Russian and a Hungarian friend to get a short article of mine translated for local journals demonstrated. But still, for the first half of the 1990s, although the zest had gone out of the intended book project, its intention of delineating a stable 'alternative form of capitalism' remained. That the final upshot should be a book whose central theme is whether or not there will *continue to be an*

alternative form of capitalism is something which, even five years ago, I would never have imagined.

My debts are multiple: to the Centre for Economic Performance, its director Richard Layard, and its administrators Nigel Rogers and Marion O'Brien for giving me a home over those years; to the Leverhulme Trust, which long ago gave me a grant to start the work, and to Rex Richards and Barry Supple for being so understanding about a gestation period seemingly stretching to infinity; to those who taught me most of what I know about Germany: Wolfgang Streeck, my original intended collaborator and constant mentor over the years, Isabela Mares, whose guidance through my one and only 'field trip' to Germany was so eye-opening, Ansgar Richter for many enlightening conversations, and above all to Gregory Jackson, without whose control over statistical details and close reading of the typescript I would have been lost. I also benefited greatly from the chance to join the Japan/Germany project meetings organized by Kozo Yamamura and Wolfgang Streeck. My chief debt in Japan is to Inagami Takeshi, who provided a steady stream of faxes and e-mails to keep me abreast of what was going on, tipped me off about the web pages I should look at, and ran the Global Standards Study Group of senior academics, businessman, and officials which we formed during my stay in Japan in the spring of 1998. For that visit—three months in the stimulating environment of the Graduate Institute for Policy Research (GRIPS)—I have the kindness of the late and sadly missed Professor Sato Seisaburo to thank. Another steady source of mailed information and (wry) comment was Suzuki Fujikazu of the Rengo research institute, while Kamimura Yasuhiro and Fujimoto Makoto provided the occasional mail-order research assistance. Among the many lunch companions whose ideas I have shamelessly borrowed, several stand out—Asanuma Ken, Larry Duke, Kosai Yutaka, Namiwaki Yoshiyasu, Ogata Shijuro, Ono Kenichi, Takai Kunitake, Tanaka Masami, and Yoshitomi Masaru.

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All errors and quirky opinions are mine, of course.

RD, 24 November 1999

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Chapter I

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 seriously² 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