MANAGING WORLD ECONOMIC CHANGE

INTERNATIONAL POLITICAL ECONOMY

Second Edition

ROBERT A. ISAAK
Pace University

Prentice Hall, Englewood Cliffs, New Jersey 07632

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To Gudrun, Sonya, and Andrew,
who light up my life

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PREFACE

This book takes a collective learning approach to the management of global economic change. It utilizes the standard of *laissez-faire,* liberal, free-market ideology as a point of departure in order to see how, why, and when nations and managers depart from this standard or return to it. Collective learning is the social, political, and organizational behavior involved in this process. Global economic change has speeded up in the 1990s. A primacy is now placed in management upon learning how to learn quickly in an organizational context: victory in the global economic race now goes to the quick rather than to the big.

In focusing on the origins of how change is managed in the global economy of the 1990s, the second edition of *International Political Economy* has put its subtitle up front in more ways than one. *Managing World Economic Change* stresses the human, the strategic, and the political dimensions of managing economic change. The text has been simplified to become more accessible and "human," while the focus upon the process of collective learning has been sharpened.

Updating of a number of economic and political transformations in the 1990s has brought home that we are in an era of comparative capitalisms moving rapidly towards what Peter Drucker has called a "postcapitalist society." A postcapitalist society, however, is also a *postliberal society,* which is a fundamental theme throughout this second edition. Specifically, there are not merely trends towards functional globalization economically, but also countertrends towards local and regional autonomy both politically and economically. These countertrends to globalism represent postliberalism in their resistance to (if not transcendence of) liberal market assumptions of self, society, money, and trade. They seek to protect the cultural and ethnic integrity of peoples and their economic and political sovereignty. Thus, on October 12, 1993, President Bill Clinton spoke at the University of North Carolina of a strategic focus upon "security" as the theme that would unite his policy initiatives. He stressed not *freedom*, but *security*: economic security, health security, and personal security. While many formerly statist nations, such as those in Eastern Europe, were moving towards liberal market freedom, Clinton was leading a postliberal security drive away from the classical liberal standard. This direction was epitomized in his campaign for a universal healthcare system in the United States.

Hence, the second edition brings out the tensions between liberal market assumptions and postliberal development: liberated self versus effective social ethics; the stability of independent national monetary management versus the democratic pressures upon politicians to seek to increase exports and employment by devaluing the currency; the classical liberal assumption of free markets and free trade versus the trend towards protecting certain sectors in the emerging knowledge economy for the sake of long-term national development, short-term job preservation, and social welfare. A new chapter on "Post-Cold-War Economics" replaces the former East-West chapter. It discusses the tension between liberal market assumptions and the global trend towards "privatization." It also deals with local and regional reactions against the abstract (yet significant) macroeconomic principles of economic liberals in the form of movements for protection and reassertion of traditional ethnic and ideological identities. In this context, basic concepts of macroeconomic stabilization and economic liberalism are introduced (through the cases of China, Russia, and Poland) so that those without a background in macroeconomics will be able to follow the rest of the book without difficulty. In later chapters, countries participating in the "East Asian miracle" (from Japan to Hong Kong, South Korea to Malaysia) are shown to have mastered macroeconomic principles of low inflation, sound fiscal policies, high domestic savings, heavy investment in education, and openness to foreign technology. At the same time, these countries intervene with government subsidies for targeted lending, tax incentives, and export subsidies for key industries and short-term protectionism.

A second new chapter has been included on North-North competitiveness in the post-cold-war economy. It focuses upon Japan, Germany, and the U.S. and addresses the kinds of industrial policies and learning frameworks that are necessary in order to become an economic superpower. Collective learning is shown to be the vital dynamic link between external opportunity provided by the global environment and domestic organization for the creation of wealth and jobs.

All chapters have been updated and refocused on this continuing theme of liberalism versus postliberalism in managing world economic change in terms of processes of targeted collective learning. Key concepts have been highlighted in bold type and summary principles cast into italics to make it easier for students and instructors to review what matters most. Thought questions at the end of each chapter have been added to aid "collective learning" in the classroom. This book has been used successfully in macroeconomics, international political economy, international management/business, and international relations courses as well as those focusing on government institutions, business strategy and economic policy.

* * *

Angela Liberatore, William Clark, and others at the International Environmental Institutions Research Seminar at Harvard's Center for Science and International Affairs provided fruitful suggestions on my application of collective learning to economic development and environmental responsibility. I am also indebted to colleagues Edward Weisband, Mark Levy, and Roger Kasperson, who participated in the round-table discussion on this subject at the 1993 International Studies Association meeting in Acapulco. I also benefitted from comments by Kiichi Kageyama and his colleagues at Tokyo Keizai University in Tokyo in October 1993 at the International Symposium on Networking of Human Relations and Technology. Their reactions to my application of collective learning theory to entrepreneurial networking and strategic alliances were most helpful. These arguments were further refined at the "Training for Change" International Seminar held at the *Institut d'Aministration des Enterprises* in Aix-en-Provence, France, in May 1994.

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R.A.I.

INTRODUCTION

Ill fares the land with the great deal of velocity where wealth accumulates and there ain't any reciprocity.

O. Henry, "Supply and Demand"

O. Henry's short story "Supply and Demand" is the tale of a big white man who goes down to "Gaudymala" and uses force and his wits to turn an Indian tribe into slaves. The white man, Patrick Shane, sets himself up as king. He takes the biggest house in the village for himself, and has the natives wash the streams for gold dust that they bring only to him. To keep this colonized political economy going, King Shane, or the "Grand Yacuma," gives the Indians a weekly sermon in the council-house (he is the council) on the law of supply and demand. He praises supply and knocks demand. Teaching them not to desire anything beyond their simplest needs, they bring him all the gold and remain contented on a bit of mutton, cocoa, and fruit. They even make their own clothes.

All goes well until a capitalist laden down with artificial jewelry and mirrors comes into the village on a mule and tempts the local population with Western luxuries in order to get at the gold that is rumored to be in the village. Enlightened by the marketing of the foreign salesman, the natives revolt against their ruler. The king and the capitalist flee for their lives, taking their trinkets with them but leaving behind the gold, which is not worth much if there are no goods to be traded for it.

O. Henry's tale illustrates key elements involved when managing change in the international political economy. Some people have more than others to start with. They use their advantageous position to speed things up, accumulating even more wealth and further increasing the gap between themselves and the poor. The rich, in short, are better positioned and better able to use speed to their advantage. Noting this, they continue to speed things up to increase their holdings.

Wealth does not seem to buy happiness, however. The hectic velocity of materialism combined with the lack of reciprocity in the community leads to a sense of meanness in the quality of life. Leisure becomes hectic and time-starved. There is hardly a moment left for "others." Ultimately, if the gap between the rich and the poor is perceived to be too great, or too "unfair," those in power may see their power base begin to crumble. The political recipe of pushing supply and knocking demand works only as long as the community can be isolated from the infinite variety of goods and services available to consumers on the global market. As the majority of people gain access to information and goods from markets external to the community, a process of collective learning is stimulated. The people suddenly want more than they have and they know what they want. As their leaders adopt the way of foreign elites who bring new knowledge, goods, and opportunities into the community, this process of collective learning accelerates.

The same impulse that leads the wealthy elites to speed up social and economic processes to maximize their own short-term interests forces those down the social scale to accelerate their learning curves in order to adapt and survive in the emerging economy. As the scarcity of resources appears to become less scarce to the general population, they demand more, buy more, and learn faster. **International political economy** is the study of the inequality in power and wealth between peoples and nations and of the patterns of collective learning and positioning that preserve or change this inequality or asymmetry. By focusing upon collective learning in the process of managing economic change, one can target knowledge in order to improve one's own life chances and those of one's family, village, and nation.

What is striking in O. Henry's tale is not so much the inequality between the foreign elite and the natives—which is the nature of the world—but rather the specific ways in which this asymmetrical status quo is at first preserved and then eventually undermined. Nor are the natives necessarily better off when the foreigners leave, despite their freedom. Like Adam and Eve, they have been bitten by knowledge of the world and can never return to ignorant bliss. International political economy is a process of continual disenchantment. But by examining the collective learning patterns of other peoples as they cope with the conditions and rules of the global political economy, individuals can perhaps understand their own disenchantment as a

fruitful learning process for themselves and their people. For there are strategies and tactics in this ceaseless struggle of the strong to keep what they have in conflict with the weak who seek to change the international system in their favor. Perhaps, as Antonio Gramsci suggested, one can learn to train the individual will to be optimistic despite the pessimism of the intellect when it is applied to the outcome of the collective behavior of human beings.

Ever since the Industrial Revolution, the gap between industrialized and developing countries has become a central preoccupation of the study of international political economy. Some scholars define international political economy as the interplay between international politics and international economics or business. Others prefer to stress the process of international wealth acquisition and transfer. But the key question of international political economy concerns the essential dynamics that give rise to unequal distributions: *Who gets what, when, and how among different players in the global economy?*

Because such unequal distributions are not immutable or frozen, the most fruitful focus is upon managing change for the sake of specific collective interests. By stressing ongoing collective learning and positioning processes, one can understand how managers of nation-states, multinational corporations, and international organizations are able to outmaneuver each other and can see the consequences for different peoples. It is particularly important to pay attention to nations or multinational companies that are in the process of making innovative breakthroughs. For example, the eight "superstars" of East Asia (Japan, South Korea, Taiwan, Singapore, Hong Kong, Indonesia, Malaysia, and Thailand) increased their income per person almost 6 percent per year over the past twenty-five years. Japanese memory-chip companies set the standard for competitiveness in the field. Are these examples an outgrowth of something uniquely Asian, or have the Asians discovered a transferable recipe—a blend of state subsidy and free-market innovation that is superior to mere free-market-oriented economies, on the one hand, or state-regulated market economies, on the other? Which factors permit the development of such collective capacity for learning or adaptation in the global economy on the part of states or multinational organizations? Are neo-Confucian societies superior in their ability to learn quickly to adapt collectively to global transformations? Which breakthrough models of organization are most worthy of emulation: the complacent Big Blue IBM that almost went under while clinging to its mainframe computer ideology in the mid-1980s, or the decentralized IBM of hit-team consumer targeting, which began with giving a creative group the autonomy to develop the PC (personal computer) without bureaucratic hurdles to jump? Which structures block such innovative learning or adaptation, and why? How can we collectively learn to pick up competitive learnings of others swiftly enough to satisfy the social and economic needs of our own communities?

Here, the focus upon collective learning and positioning of unequal actors in the global economy and upon successful management strategies will be contrasted with other, more conventional approaches or schools of thought. To demystify the differences between competing perspectives, this book will dwell upon the contrast between the assumptions of Western liberalism and its stress upon markets and what will be termed "postliberalism"—"interventionist" reactions to liberalism stemming from older visions such as Marxism, economic nationalism, structuralism, or from newer communitarian visions seeking to transcend liberalism for the sake of the integrity of an existing community's values. As one observes how these perspectives illuminate the explanation of major phenomena in the global economy—such as the world trade and monetary systems—one also senses what has been left out or left in the dark. The observer can only wear one set of glasses at a time, and each set only permits the wearer to see what the lenses were designed to see. The student's suspicion that international political economy is a war of disciplines and ideologies over the same worldly turf is unfortunately accurate.

Yet the turf remains to be explained in some sort of universal and verifiable way—namely, the human use and abuse of the earth and the way people learn to position themselves to improve their collective life chances upon it. The political economist must separate universal (collective) cognitive patterns of learning from specific organizational and cultural modes of behavior. And in this process the picture of the whole earth or global context cannot be lost without ignoring the dominant revolutionary transformation of our times: the evolution of *one global market or economy* that will be managed one way or another by managers with transnational perspectives—whether they be managers of governmental institutions, multinational corporations, or international organizations.

POLITICS VERSUS ECONOMICS OR LIBERALISM VERSUS POSTLIBERALISM

The "whole earth" approach to political economy—a *world* view—remains the exception and not the rule.[1] Economists note that their discipline was traditionally called "political economy," the queen of the social sciences dating back at least to Adam Smith's *Wealth of Nations,* published in 1776. While more comprehensive than most visions of economists since, Smith's classical laissez-faire view was based on a Western society of small shopkeepers, anticipating the Industrial Revolution but hardly the global consequences of the multinational corporation or the nuclear superpower state. Nevertheless, Smith's classical tenets of **economic liberalism**—that minimal state interference in the economy and maximum reliance upon the market result in business productivity and social wealth—still predominate in Anglo-Saxon cultures today.

The sacrosanct value of individual freedom in the United States, for example, originally depended upon the assumption that economics and politics could be kept separated, that the state should be kept out of people's private "business" lives as much as possible: "That government is best which governs least." But in the 20th century, this "negative" view of the state was modified by a "positive" view of the state intervening to save the private sector from itself in times of potential economic depression and to create equal opportunities for access to the market for the disadvantaged. Nevertheless, the guiding rule of even "positive state" American liberalism was to rely upon the markets as much as possible and to preserve the stability of individual freedom above all else—even collective competitiveness.[2] Americans, "the people of plenty," have been reluctant to accept that there are no clear boundaries between politics and economics within their own society, not to mention in American attempts to impose their liberal ideology upon other societies. But politics and economics always overlap; they are logical spheres that can never be totally separated in the real world.[3]

One of the most influential critiques of the assumption that politics and economics can be separated was offered by the continental theorist Karl Marx in *Das Kapital,* published in 1867. Perhaps a third of the world's population have been taught that Marx's massive critique of laissez-faire capitalism—focusing upon class struggle as the prime mover—is "the economic truth." As American political economist Charles Lindblom noted in *Politics and Markets:* except for the distinction between despotic and libertarian governments, the greatest difference between one government and another is the extent to which market replaces government or government replaces market. Adam Smith understood this. So did Karl Marx.[4] Neither planned (or "control") economic systems, based on Marx, Lenin, and Stalin, nor market economies, based on Smith and Ricardo, can avoid key questions of governmental-market relations where politics and economics overlap. If the Unites States traditionally attempted to embody the ideology of Smith's market economy, the Soviet Union and the People's Republic of China sought to adapt Marx's economic vision to their own distinctive ideological purposes. The relationship between politics and economics thus became the ideological basis for cold wars between would-be superpowers.

Ideology involves falling in love with ideas that further a certain group's or state's concrete interests. Such action-oriented nests of ideas or worldviews serve to shore up the legitimacy of elites in power. The pragmatic individualism and empiricism of Anglo-Saxon thought served as the backdrop of the birth of the Industrial Revolution in the 19th century. More specifically, Adam Smith's classical liberal doctrine of maximizing self-interest was a precondition for the emergence of the Industrial Revolution in Britain.

Students of international political economy often ask themselves concerning the origins of the Industrial Revolution: Why Europe first? Why England? While conditions other than economic ideology are necessary for a sufficient explanation in answering these questions, contemporary historical developments suggest that individual self-interest and organizational efforts to optimize what already exists, which are the engines of motivation behind industrial capitalism, are ideas without which no adequate explanation is possible. The notion of "industrial society" is an ideological objective of Western modernization rooted in ideas of individual and group self-interest, accumulation, and autonomy—with all the positive and negative implications of these priorities.[5]

Of course, another basis of the Industrial Revolution underlying the British development was the birth of technology itself, which dates in its modern sense at least back to the first half of the 18th century. "**Technology**" derives from the Greek word *techne,* meaning skill or craft, combined with "ology"—organized, systematic, purposeful knowledge. By applying knowledge in systematic ways, the Industrial Revolution demystified the secrecy of the craft guilds, where access was limited and "skill" was assumed to be based upon experience. Apprenticeship schools of applied knowledge emerged in Germany. In the last half of the 18th century, Britain shifted its patent system from monopolies for those favored by the monarchy to a system of rewards for inventors applying their work to tools and production processes. Collective learning thus shifted to become applied learning diffused throughout the population—the diffusion of technology that was to make capitalism the dominant form of political economy in the Western world.

The Americans consolidated the economic power of the British by following their Industrial Revolution with a "productivity revolution," which was stimulated by the influence of Frederick Winslow Taylor (1856–1915). Taylor applied knowledge to the analysis of work, inventing "scientific management." While the model British gentleman and aristocrat was schooled to look down upon mere work, Americans celebrated the independence and wealth it promised if properly organized and administered. Taylor attacked the mythology of "skilled work," arguing that there was no "skilled work," just "work," which could be analyzed in the same way through "task studies." Such task studies reduced redundant movements and sought out the most efficient tools for the job. Upsetting both the managerial classes and union leadership, Taylor said that the benefits resulting from his universal workplace efficiencies would be enjoyed primarily by workers—a prediction that ultimately proved to be accurate. Taylor's systematic method of "task studies" enabled the Americans to organize their military machine quickly in order to win World War II. It also permitted the Japanese to mobilize their workforce in order to win the "cold-war peace" economically.[6]

The influence of Anglo-Saxon ideas upon the world economy deepened with the impact of John Maynard Keynes' *The General Theory of Employment, Interest and Money (1936),* emerging as a therapy for the Great Depression that began in 1929. A father of the "mixed economy," Keynes focused upon the role of capital investment in providing for national economic growth and stability. In bad times, the government was to intervene in the economy by increasing the money supply and government spending to stimulate the demand for production, which in turn would increase employment. In boom times government was to cool down the economy by intervening to tighten up the money supply, thus reducing demand to assure stable growth. Since government spending is more popular with democratic populations than are government austerity measures, Keynesian policy prescriptions, which have predominated in Western industrialized countries, have had an inflationary, debt-creating bias upon the structure of the world economy.

Anglo-Saxon ideology has "structured" much of world economy since the British Empire dominated it in the nineteenth century and the American regime in the twentieth century. *Pax Britannica* was followed up with *pax Americana.* The compatibility of President Ronald Reagan and Prime Minister Margaret Thatcher on policies of political economy was no accident: It was the cultural outcome of a traditional "special relationship."

But the majority of the world's nations and peoples are not of the Anglo-Saxon culture. Yet they find themselves asked to play by its rules of the economic game and to speak its language. For British hegemony—or power domination—was replaced by American hegemony after World War II, epitomized by the system of Western monetary and trade agreements emerging in 1944 in Bretton Woods, New Hampshire. To the victors went the spoils. Only the United States had the military and financial power to enforce its economic will and to attempt to impose its classical liberal vision upon the world economy. As Louis Hartz noted in his classic work *The Liberal Tradition in America* (1955), the United States skipped the feudal stage of history and the revolutionary reaction against feudalism. Since Americans basically know only what they have experienced, they could never really understand the left-wing rebellion against feudalism (socialism) nor the right-wing reaction to socialism (fascism). In short, rugged individualistic liberalism based upon Anglo-Saxon roots was all Americans knew. Their liberal ideology was rigid and dogmatic. Any form of socialist thought, much less fascist thought, was simply incomprehensible. Americans tended to see the world in terms of black-and-white categories of laissez-faire capitalism versus state-controlled, socialist communism.[7]

THE MORAL DILEMMA OF LIBERALISM

Once these black-and-white categories of the cold war collapsed along with the Berlin Wall in 1989, the ideology of American liberalism confronted a moral dilemma: if the self-maximizing principles of democratic liberal markets had "won," what could be the community limits to this self-aggrandizement?

What, in short, could become the basis of social ethics in managing economic and political change?

Political philosopher Michael Sandel argued in *Liberalism and the Limits of Justice* (1982) that American liberalism involves a notion of the "thin self," or minimal self, "free" to satisfy basic needs or lowest common denominator views of what is "good." For, while the ideal vision of liberalism assumes that "justice" or "duty to do the right thing" is more important than what any one person believes is "good" personally, this notion of justice is too abstract to serve as a practical standard in everyday life. As a consequence, people in liberal societies tend to forget about "justice" and to maximize their own views of what is "good"—often defined in terms of their own selfish interests in the short run. Truly ethical human beings of "character," on the other hand, are "thickly constituted selves" with a sense of duty to a specific community, friends, and long-term commitments.

Such ethical human beings are threatened with being swept away in a liberal American economy that seeks to speed up the maximization of individual and corporate interest over everything else for the sake of economic competitiveness. Mobility and quick adaptation are the qualities rewarded in the economy of the "virtual corporation," where society demands instant consumer satisfaction from companies.[8] **Virtual organizations** are collective learning networks which can almost instantaneously produce and deliver products or services at any time, in any place and in any variety to satisfy a specific customer. In contrast, individuals who cling to local communities, friends, and long-term commitments in a specific place risk poverty as the price for their ethical stance. Just consider the example of the barely surviving independent farmer in rural areas of the world.

GLOBAL LOGIC VERSUS COMMUNITY IDENTITY

The moral dilemma of liberalism is becoming a global moral dilemma in the post-cold-war era. The spread of free market capitalism has speeded up and become more diffuse as formerly "socialist" states have attempted to privatize certain industries or institutions in an effort to attract foreign investment and to stimulate economic growth. However, this global logic of world markets is countered by several significant trends. On the one hand, regional blocs are being formed. At the same time, we see movements of local ethnic groups and community resistance to change for the sake of preserving collective identity and cultural traditions. This book will focus on the ways in which communities, organizations, regions, and states use collective learning processes to adapt to the global logic of capitalism, while struggling to preserve their ethical and cultural integrity. The global economic "standard" of free-market liberalism will be used as a point of departure for collective learning that resists or transcends it, or, for collective learning that turns back towards it. Which will it be: more market or more state? (or community?) That nations outside the Anglo-Saxon heritage are often ambivalent about adopting free market liberalism is understandable from a recent historical perspective.

One could not blame the majority of the world's nations and peoples if they were to perceive the hegemony or domination of the Anglo-Saxon culture and its incorporation in American economic liberalism to be self-serving. They look back to the nineteenth century and see colonial expansion by established Western nations, a time when mobility of labor and capital over state boundaries was much more taken for granted, and they discover unfair advantages seized by Western states in building up national wealth and power.[9] By the time that many of the world's nations became politically independent after World War II, most of the earth's prime real estate in terms of resources was already occupied and legal boundaries had been erected between states, which regulated and slowed down the flow of labor and capital among them. The doctrine of classical economic liberalism tracing back to Adam Smith and advocated by the Americans focused upon the more efficient use of the status quo allocation of existing resources, not upon their redistribution or radical restructuring for the sake of the disadvantaged. International law was defined as stable reciprocity in terms of protecting existing ownership and contracts. Classical economic liberalism's assumption that the world economy would become more prosperous and peaceful if each nation used its existing stakes or "comparative advantages" more efficiently did not permit for any redistribution of shares among peoples, more or less guaranteeing a widening gap between the wealth of the rich, established nations and the poor, developing countries.

By the end of 1990 the inequality of income worldwide was striking: Of 185 countries, in terms of income per head, 45 countries had an annual average of $330, 41 countries of $820, 39 countries of $2,400, 11 countries of $4,360 and 50 countries of $19,520. In short, the top 50 countries in terms of income earned more per capita *per week* ($375) than average individuals in the bottom 45 countries earned *per year* ($330).[10]

The inequality among nations and peoples has become more pronounced in the postmodern world economy. Technological development and socioeconomic change have accelerated the tempo of modern life. The gap between the haves and have-nots has grown as those with property were positioned to benefit the most from the opportunities evolving from this historical transformation. As the logic of time seemed to speed up, the logic of space contracted with international communications, transportation, and financial flows. Major events such as the dropping of the gold standard, the 1973 quadrupling of oil prices by OPEC (Organization of Oil Exporting Countries), the rise of Japanese competitiveness, the debt crisis in the developing countries, the collapse of communist regimes in Eastern Europe, the nuclear arms race, and the nuclear accident at Chernobyl demonstrated that postmodern technological and socioeconomic events can only be fully understood in global terms.

The **postmodern sensibility** is one of no-nonsense disenchantment: The Industrial Revolution has come and gone, leaving uncompetitive manufacturers, perforated nation-states, impotent central banks, restructured conglomerates, miseducated youth, the proliferation of waste, and the still undigested split between the real economy (which produces goods) and the capital economy (which speculates on the spreads between borrowing rates and rates of return on investment). Postmodernism is postindustrialism never achieved, narcissism going sour, socialism approaching bankruptcy, and capitalism spreading fast throughout the globe—speeding up the socioeconomic tempo to the disproportionate advantage of the haves. The many parts of the globe that have yet to experience an industrial revolution are often told to forget about it by postmodern opinion-makers for the sake of ecology, if not for their own competitiveness. Quality of life is the postmodern preoccupation: Money is the means, a trophy, an indicator—not the end in itself. Postmodern language is that of "apolitical management"—transforming political and economic issues into technical or administrative black humor. A status job is more important than money, a safe home or maintenance base the prerequisite to entrepreneurial, existential risk-taking and world travel. The world is seen as a whole in postmodern eyes, but the differentiation between parts is more important than the wholeness.

The primacy of global logic does not go to the point of closure of Immanuel Wallerstein, who argues in *The Modern World System* (1974) that neither the sovereign state nor national society constitutes "a social system," that only the world-system constitutes a social system and that one can only speak of social change in social systems. Perhaps the primary characteristic of the postmodern world economy at the end of the twentieth century is its transitional nature between the modern nation-state system and the diffuse world social system that Wallerstein envisions. There *are* social systems that are less than global, but that may not be coterminous with the nation-state—the European Union, for example. Moreover, there are social systems of various sorts within nation-states—the Amish Mennonite community in the United States, for instance. And the anticipation of social change within discrete social systems within nation-states on the one hand and within regional organizations on the other is the critical task for those who would manage global economic change.

The fundamental problem of liberalism and globalism is ethically and politically the same: there is no commitment to *any particular here and now* or local community; all is macro, abstract, future-oriented process. But the content and character of our lives and our community are *always* here and now. Our life chances are grounded at any one point in time.

The grounding of life chances at different places on the globe is made clear when considering that in 1990 about 54 percent of the world's population lived in economies where the gross national product (GNP) per capita was less than $500. Not surprisingly, the people who live in developed countries with GNP per capita over $15,000 have the longest life expectancy at birth (73 years or more), whereas those countries with the lowest GNP have the lowest life expectancy at birth (people in Ethiopia and Sierra Leone, for example, have a life expectancy of less than 50 years).[11] To maximize your life chances, you must be born into a rich country.

But how can one picture in one's mind the extreme economic differences between the richest and poorest countries when there are some 185 of them? One way is to group them.

TIERS

In economic terms, the world can be divided into a number of tiers or layers:

I. **OECD Nations:** members of the Organization for Economic Cooperation and Development (OECD), sometimes referred to as "the rich men's club": The United States, Japan, West Germany, France, and other members of the European Union (EU), Switzerland, the Scandinavian countries, Canada, Australia, and New Zealand.

II. **Newly Industrializing Countries (NICs):** Hong Kong, the Republic of Korea, Singapore, and Taiwan. These are the most upwardly mobile of the developing countries and are characterized by economic growth rates that are often higher than the more established rich countries of the first tier.

III. **Developing Oil-exporting Nations:** a nonhomogeneous group like the others ranging from Saudi Arabia (with the largest oil reserves in the world) to Nigeria and Venezuela.

IV. **Non-oil-producing Developing Nations:** numbering about 100.

V. **"Socialist" Nations:** a heterogeneous mix that appears to be declining in number with the end of the cold war: North Korea, China, and Cuba.

Since the 1930s, about two-thirds of world trade has taken place within the first tier.[12] Compared with the early 1970s, the industrialized nations' share of world trade has shrunk a bit: In 1973 more than 70 percent of total world exports and imports was transacted by industrial countries compared to 68 percent for imports and 66 percent of exports in 1985. By 1992, the value of the industrialized economies' merchandise exports and imports still made up about 70 percent of world trade, increasing about 2 percent in 1991, the smallest increase since 1985. Meanwhile, in 1991, the exports of developing countries increased by some 10 percent in volume and imports by about 9 percent. This trend contrasted with a sharp fall in the volume of trade in the five eastern European countries, where exports fell 10 percent in value.[13]

The first tier of the wealthy OECD countries is where the majority of the world's trade and investment takes place: The majority of foreign direct investment (that is, multinational companies setting up manufacturing facilities abroad) occurs in this arena. And the radical transformation in the world economy toward the importance of financial instruments and away from manufacturing—toward the internationalization of capital—has been initiated by the OECD group. Notwithstanding the rise in manufactured goods originating in the second tier, the increase in oil revenues by the third tier, and the growth in direct bank lending to the fourth tier, the changes most responsible for the present global disequilibrium have come *within* the first tier in the past two decades.[14] The rich, in short, basically trade with and invest in the rich and are the prime movers in determining the direction of change in the postmodern world economy.

MANAGING CHANGE AND ENTREPRENEURIAL RISK

The world political economy can be seen as a lopsided pair of scissors in which the global system represents a large, heavy blade while the individual country, international organization, or multinational corporation represents a thin "counter"-blade. Effective management of change involves human coordination so that the thin, more dependent blade functions in harmony with the predominant global reality.

The thinner and more dependent the small blade—as in the case of the poorest of the developing countries—the more the managers or elites seek control and stability, or the equilibrium that keeps them in power and makes their domestic economy appear predictable enough to merit foreign aid and investment.[15] The wealthier countries and multinational firms, in contrast, can more easily take equilibrium for granted. They can use this base of stability to take risks for entrepreneurship and technological innovation. Their managers can concern themselves with strategies of dynamic equilibrium in coordinating with the large global reality. They can speed up their learning curves.

Many of the wealthy, however, fail to take advantage of this dynamic management potential inherent in their privileged position, preferring instead to minimize their risks for the sake of preserving a status quo which is so friendly to their interests. They fail to save *or* to invest enough. Hence, there is an understandable conservative bias on the part of both rich and poor alike to seek out stability and to optimize the existing equilibrium they perceive in crisis rather than to take long-term risks in order to adjust effectively to the rapidly changing postmodern global political economy. The aim of this book is not only to explain the widespread human failure to take farsighted risks for the sake of adjustment and global economic prosperity, but also to illustrate "breakthrough" models of collective learning and structural

positioning that have led to economic and political success in the period since World War II.

In English, "crisis" implies a short-term juncture or turning point. In Italian, it derives from the word "process." And the Chinese symbol for crisis also signifies "hidden opportunity." To manage global change astutely requires a collective philosophy of viewing economic crisis as a long-term learning process in which one systematically takes advantage of hidden opportunities.

HOW THIS BOOK WORKS

This book is divided into five parts: (I) Concepts for Managing Change, (II) The Global Environment, (III) From North-North to North-South, (IV) Domestic Sources of Multinational Behavior, and (V) Conclusions. The parts make up a theory of collective learning defined in terms of reciprocal interactions among global *environment,* domestic sources of multinational *behavior,* and the use of *collective cognitive strategies of management.* For the reader's sake, the parts are further united by a simplifying leitmotif or theme, on the one hand, and a common-sense thesis or recipe for action, on the other. The leitmotif is the global diffusion of the principle of laissez-faire liberalism as the engine for economic growth and the postliberal reactions to this principle and efforts to transcend it. The common-sense prescription for action is simply that human beings can learn collectively to manage economic change by establishing a limited, efficient, risk-reducing maintenance base (or "home base") from which they are able to launch targeted risk-taking entrepreneurial and creative endeavors.

Part One defines the key concepts for managing change using the collective learning and positioning perspective. It then illustrates how these concepts relate to the tensions in the post-cold-war global economy between classical liberal and Keynesian macroeconomic principles, on the one hand, and local and regional efforts to protect cultural and ethnic identity politically, on the other.

Part Two focuses upon the two key areas of the global environment for managing organizational change: namely, the world monetary system and the world trade system.

Part Three contrasts the meaning of competitiveness in the leading industrialized countries of "the North"—Japan, Germany and the United States—with the structures and strategies of North-South relations—from the World Bank to the Lomé Convention to the environmental perspective to the "economic miracles" of East Asia.

Part Four concentrates on the domestic sources of multinational behavior—from elements of collective life chances, education, and socioeconomic positioning to state strategies of economic development to the direct investment, incentives, and cycles affecting multinational corporations.

Part Five summarizes conclusions that can be drawn from the book, ending with a list of recipes for collective learning for managers interested in developing economic competitiveness without sacrificing cultural integrity. To a great extent we end up where we begin the following chapter—with the management concepts necessary to cope with the revolutionary changes in the world economy signaled by the end of the cold war.

THOUGHT QUESTIONS

1. Why does the increase in the speed of globalization matter in the relationship between the rich and the poor? Define "international political economy" in comparison with "international relations," "political science," or "economics."
2. What did Adam Smith mean by "liberalism" and what conditions have changed the meaning of this concept today? What are the ethical morals of liberalism? Of postmodernism? Of postliberalism?
3. How would John Maynard Keynes manage the global economy in a time of deep recession? Of economic boom?
4. What does "technology" mean and how did Frederick Taylor apply it to management? How does technology relate to (a) how fast people learn? (b) average per capita income in different countries?

NOTES

1. Notable among the recent exceptions who do take a global view of political economy are: Peter Dicken, *Global Shift: The Internationalization of Economic Activity* (New York: The Guilford Press, 1992); Kenichi Ohmae, *The Borderless World: Power and Strategy in the Interlinked Economy* (New York: HarperCollins, 1991); Wilhelm Hankel, *Weltwirtschaft* (Wien: Econ Verlag, 1977); W. Arthur Lewis, *The Evolution of the International Economic Order* (Princeton, NJ: Princeton University Press, 1977); Immanuel Wallerstein, *The Capitalist World-Economy* (Cambridge: Cambridge University Press, 1979); Independent Commission on International Development Issues (Brandt Commission), *North–South: A Program for Survival: Cooperation for World Recovery* (Cambridge, MA: MIT Press, 1983); Harold K. Jacobson and Susan Sidjanski, eds., *The Emerging International Economic Order* (Beverly Hills, CA: Sage Publications, 1982); Johan Galtung, *The True Worlds: A Transnational Perspective* (New York: Free Press, 1980); and Garret Hardin and J. Raden, eds., *Managing the Commons* (San Francisco: W.H. Freeman & Co., 1977).
2. See R. Isaak, "The Conservative Tradition of American Liberalism," Introduction to *American Political Thinking: Readings from the Origins to the 21st Century* (Fort Worth, Texas: Harcourt Brace, 1994).

3. See, for example, Charles E. Lindblom, *Politics and Markets: The World's Political-Economic Systems* (New York: Basic Books, 1977).
4. Ibid., p. ix.
5. See Richard J. Badham, *Theories of Industrial Society* (New York: St. Martin's Press, 1986).
6. Although "productivity" was not used as a concept in Frederick Taylor's era, his *Scientific Management* (Westport, Conn.: Greenwood Press, 1972) aims at the same thing. On Taylor's neglected significance and the impact of his ideas on the world economy, see Peter Drucker, *Post-Capitalist Society* (New York: HarperCollins, 1993), pp. 32–40. For the need to transcend "Taylorism" in the 21st century, see Yuji Masuda, ed., *Human-Centered Systems in the Global Economy* (London: Springer-Verlag, 1992).
7. Hartz's continuing relevance is demonstrated in Robert A. Packenham, *Liberal America and the Third World* (Princeton, NJ: Princeton University Press, 1973).
8. See William H. Davidow and Michael S. Malone, *The Virtual Corporation: Structuring and Revitalizing the Corporation for the 21st Century* (New York: HarperCollins, 1992) and R. Isaak, "Virtual Organizations: From Entrepreneurial Networks to Strategic Alliances," a paper presented at the International Symposium on "Networking of Human Relations and Technology" at Tokyo Keizai University, October 25, 1993, Tokyo, and revised for presentation at the International Seminar, "Training for Change," at the *Institut d'Administration des Enterprises,* at Aix-en-Provence, May 5, 1994.
9. See, for example, Mahbub ul Haq, *The Poverty Curtain: Choices for the Third World* (New York: Columbia University Press, 1976).
10. Statistics from *The World Bank Atlas 1991* (Washington, D.C., The World Bank, 1991), p. 10.
11. Statistics from *World Bank Atlas 1991,* pp. 3, 6–9.
12. André Frank, *Crisis in the World Economy* (New York: Holmes and Meier, 1980), p. 4.
13. Statistics from *World Economic Survey 1992: Current Trends and Policies in the World Economy* (New York: United Nations, 1992), pp. 49–52.
14. James M. Cypher, "Global Disequilibrium: The Instability of Interdependent Accumulation," *Economic Forum,* XI (Winter 1980–81): 23.
15. See Stephen D. Krasner, *Structural Conflict: The Third World Against Global Liberalism* (Berkeley: University of California Press, 1985).

CHAPTER ONE

COLLECTIVE LEARNING AND POSITIONING

In the knowledge economy, imperfect competition seems to be inherent in the economy itself. Initial advantages gained through early application and exploitation of knowledge (that is, through what has come to be known as the "learning curve") become permanent and irreversible.

Peter Drucker

Knowledge is the orderly loss of information.

Kenneth Boulding

The postmodern world economy is characterized by too much information to digest. "To know" has come to mean to lose as much of this information overload as possible in a systematic way in order to have a few basic principles or categories left over. The managers of the World Bank, IBM, or the U.S. Federal Reserve attempt to cut the quick from the dead in this thicket of data: "News" is some breakpoint in an expected trend or an habitual image of how things usually work. Significant news is often decked over by the superfluous. When it became apparent in the early 1980s, for example, that the nine largest U.S. banks had lent three times the amount they held in equity to developing countries, which had become incapable of paying back the in-

terest on the loans, *The New York Times* published this sensitive news in a small article buried in its least-read Saturday edition. "Knowledge" that suggests "the sky is falling" could send the financial markets into a downward spiral and undermine the Western financial system.

This view of knowledge, however, has a conservative bias. Like Adam Smith's classical notion of capitalism, the motive behind it appears to be to understand the existing equilibrium and to optimize what already exists. In the asymmetrical international political economy, such viewpoints appear to further the interests of the minority of the rich nations rather than the interests of the majority of the poor: Optimizing what exists implies an inevitability in the status quo. Knowledge is limited to how things are. Classical liberal capitalism is concerned with the growth of things that exist, with maintaining them with greater efficiency, productivity, and effectiveness. What *could* exist, be created, or developed is excluded from the view of knowledge as systematically sifted left-over information or from Adam Smith's stress upon optimization.[1]

What is at stake here is the illusion that the classical economic liberalism of Adam Smith is always on the side of "progress." Initially, the private pursuit of self-interest is a powerful motivator, leading individuals and groups to accumulate great stores of private wealth through individual efficiency, rationalization, and productivity. But eventually a point is reached in a capitalist society where so many people have succeeded in creating plump private nest eggs that their interests shift from efficient productivity to risk-reducing maintenance of that which they have already accumulated. The state of rugged individualism becomes the affluent welfare state: Risktaking for future gains is overwhelmed by risk-reducing insurance against possible losses. Or, as economist Joseph Schumpeter suggested, capitalist societies succeed only to do themselves in: The very wealth and leisure that their economic success makes possible provide the means for counterculture lifestyles and motives that undermine the work ethic and efficient rationality that led to the economic success in the first place.[2] From this perspective, the world political economy is characterized by a minority of old, rich capitalist societies conservatively attempting to preserve their past gains (OECD countries); another upcoming minority of "new rich" newly industrializing countries (NICs); a majority of "nonaligned" poor, developing countries without the capital or resources to get their own systems of dynamic economic growth started; and a small, mixed group of socialist states increasingly tempted by the economic success of the old-rich and new-rich nations but ideologically or culturally blocked from moving too fast in the direction of capitalism. The basic theme of this undertaking is the conflict between efficiently maintaining the old versus effectively creating the new in order to adapt to global economic change.

THE ARGUMENT

The argument here is that the only way that individuals, economic organizations, and states can cope effectively with global economic change (and the information overload it implies) is through a process of collective learning and structural positioning. Effective collective learning breaks beyond status quo-conditioned maintenance models to initiate targeted, innovative, strategic risktaking and adaptation.

Collective learning involves three elements: *environment, behavior,* and *strategy*. At any moment in historical time, a group of people find themselves in both an organizational and global environment. Within this environment, they are motivated to act according to cultural habits or patterns of behavior shaped by national and organizational traditions. Finally, in order to survive and to succeed economically, the group must develop managerial or cognitive strategies that enable them to use scarce resources effectively in competition with other groups.

In order to create strategies, the group must first know what it wants to preserve of its cultural tradition and what it is willing to risk for the sake of adaptation, growth, and development. Collective learning is based on a distinction between the organizational maintenance base and entrepreneurial risk. The **maintenance base** maximizes efficiency, stability, and risk reduction inside the organization. **Entrepreneurial risk,** in contrast, stresses effectiveness, risktaking, export growth, and customer and niche creation in the external arena of domestic and global markets. The focus of collective learning is upon the entrepreneurial "breakpoints" or developmental "takeoff" points in corporations or states that result in improved competitive positions in the world economy. "Economic miracles" are assumed *not* to be miracles: they are, rather, effective collective adaptive responses to turbulent change.

Take the cases of West Germany and Japan in the post–World War II period. These nations can be viewed as "tight ships in a storm." The efficient reconstruction of the maintenance base of their political economies was combined with targeted external policies of entrepreneurship and export-oriented growth to create their "economic miracles." Of course, it is significant that the global environment was friendly. The U.S. bankrolled the world monetary system with dollar credits and the 1950s and 1960s were marked with dynamic global economic growth. That West Germany and Japan received a privileged opportunity from their domineering "godfather," the United States (which also took care of their military security), does not distract from their effective collective use of this opportunity. **Hegemony** means domination. A **hegemon** is a state or organization that dominates others in its region or in the world. To the extent that Germany and Japan have become hegemons in their regions, if not at times in the global economy, the most fruitful focus is upon the recipes for hegemony that led to their prosperous

condition rather than upon a passive lamentation of the injustices involved in the creation of such superior economic positions. The weak have more to learn from the strong than the strong from the weak if economic competitiveness and full employment are the social objectives sought. While not neglecting the weak, this book will focus upon the recipes of the strong.

In the United States the maintenance base functions differently from that in West Germany and Japan. The ordered chaos of the largest domestic market in the world provides constant economic opportunities and new consumption choices through continuous restructuring within this entrepreneurial, newly rich society: The turbulence of the outside markets is brought home to create jobs through flexible investment opportunities and corporate reorganizations for both the American and global markets. The government serves as the gatekeeper and as a major customer, insuring the heavy debt structure of the society to keep up the cash flow. Dogmatic classical economic liberalism is the basis for the rugged individualism of the American political economy: It may be all the United States knows (as Louis Hartz suggests). But unlike all other societies, given the wealthy endowment of natural resources, it may be all the United States thinks it needs.

However, classical laissez-faire liberalism may be a wasteful, experimental approach to economic problem solving in a technocratic global economy with resource scarcity and payoffs for tightly structured teamwork. The American assumption that each individual will learn mainly from his or her *own* experience (what can be called "learning by burning") implies a multitude of duplicate learning experiences and a host of failures in an uncoordinated trial-by-error approach. The question is whether or not the rest of the world can afford to continue to subsidize the wasteful individualism that is part and parcel of American liberalism. In *The Waste of Nations* (1989), economist Douglas Dowd documents U.S. consumer, military, industrial, agricultural, and human waste and characterizes the style of American hegemony as "an impulsive boyish recklessness."

* * *

Collective learning is a social learning process of distinguishing legitimate patterns of adaptive behavior within an organization in order to manage environmental change without losing cultural integrity.

Albert Bandura of Stanford University defined *social learning theory* as the result of reciprocal interactions among person (or cognition), behavior, and the environmental situation.[3] This is a stimulus-organism-response theory. It assumes that individuals can learn from others vicariously—that is, by *modeling* their own behavior after others whom they have observed.[4] I might, for example, learn by watching a famous tennis player on television always to hit the ball to my opponent's weakest side or backhand. I could learn