Rival Capitalists

International Competitiveness in the United States, Japan, and Western Europe

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Rival Capitalists

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Preface

This book examines the five largest capitalist, industrial countries (the United States, Japan, France, Germany, and the United Kingdom) and their strategies for dealing with change in the national and international markets for steel, automobiles, and semiconductors. I selected steel, automobiles, and semiconductors because they represent three distinct historical periods of industrial change. The earliest of the three to emerge was the steel industry; the most recent was the semiconductor industry.

Many books on industrial policy deal with the effect of government policy on aggregate economic performance. They frequently argue that a centralized and explicit form of industrial policy, usually associated with Japan, is best suited to fostering overall competitiveness in international trade and therefore accounts for the higher rate of economic growth in these countries. That argument is firmly refuted in this book.

Instead, I argue that an exclusive focus on government policies to explain changes in international competitiveness is misleading. Government policies obviously affect international competitiveness. They cannot explain, however, why Japanese firms do so well in areas lacking administrative guidance or why German firms do so well inasmuch as Germany has nothing vaguely resembling administrative guidance. To build a credible explanation of changes in competitiveness, it is necessary nonetheless to know how government, business, and labor are organized in each country.

One of the core arguments of this book is that changes in international competitiveness must be observed at the level of individual industries but that they can be explained only at the level of the national system. Changes in international competitiveness tend to be similar across the three industries studied here for all five countries. The countries that have experienced declining competitiveness in all three industries—the United States and Britain—have had problems creating or diffusing new technologies in those industries. The countries that have experienced increasing competitiveness—Japan and Germany—have developed a variety of institutional mechanisms (not just governmental) to create and diffuse new technologies.

The book is divided into seven chapters. The first chapter lays out theoretical arguments to be pursued in the rest of the book and summarizes changes in national competitiveness in the three industries since World War II. Chapters 2–6 give detailed comparisons of national policies toward the three industries. These chapters include an introduction to the organization of government, business, and labor in each of the five countries. Chapter 7 summarizes the findings of the country chapters and shows how they provide evidence for the theory proposed in Chapter 1.

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JEFFREY A. HART

Bloomington, Indiana

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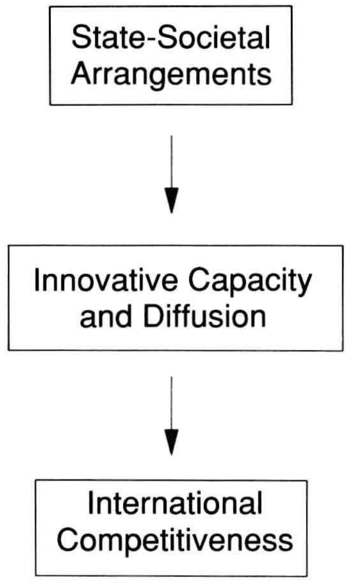
State-Societal Arrangements and International Competitiveness

The main argument of this book is that variations in state-societal arrangements best explain changes in international competitiveness since World War II among five major industrial countries—the United States, Japan, Germany, France, and Britain. I focus on three important industries: steel, automobiles, and semiconductors. The creation and diffusion of new technologies is the most significant intervening variable between state-societal arrangements and international competitiveness (see Figure 1). This chapter elaborates that argument and discusses its relation to alternative explanations for changes in competitiveness.

After defining the explanatory and dependent variables and giving some background on their theoretical and conceptual roots, I provide quantitative evidence for economy-wide and industry-specific changes in national competitiveness. The consistency of these data requires explanation at the level of national systems because, even though internationalization of markets exposes all countries to a global, industry-specific logic, national logic prevails across industries within each country.

The connection between the creation and diffusion of new technologies and changes in competitiveness must be made at the level of specific industries because technologies vary considerably from industry to industry. Chapters 2 to 6 describe and summarize overall and industry-specific state-societal arrangements. The demonstration of the linkages between these arrangements and the creation and diffusion of technologies is left to the final chapter.

Figure 1. The impact of state-societal arrangements on international competitiveness.



STATE-SOCIETAL ARRANGEMENTS

State-societal arrangements are defined as the manner in which state and civil societies are organized and institutionally linked. The state consists of a set of institutions mostly associated with the government but also including tripartite (government-business-labor) boards and commissions, state-owned business enterprises, and other parastatal organizations. Civil society is the domestic social environment in which the state operates. In contemporary advanced industrial countries, two groups in civil society, business and organized labor, are of primary importance, especially when considering competitiveness in manufacturing industries.[1]

The state-societal dichotomy is rooted in liberal political philosophy and premised on the notion that the power of the state should be and will be limited to prevent undue interference in the actions of individuals and selected collectivities.[2] In an ideal free enterprise economy, all

1. For a convincing argument that agricultural groups need to be included in descriptions of social dynamics in earlier historical periods, see Ronald Rogowski, *Commerce and Coalitions: How Trade Affects Domestic Political Alignments* (Princeton, N.J.: Princeton University Press, 1989).

2. For lengthier discussions of the concepts of state and civil society see Bertrand Badie and Pierre Birnbaum, *Sociologie de l'état* (Paris: Bernard Grasset, 1979); Martin

business corporations would be private and relatively independent of state agencies and thus part of civil society. All private individuals would also be members of civil society, unless they hold state offices. No capitalist country meets this liberal ideal; all use state-owned enterprises to perform certain functions of government and limit the autonomy of private firms through regulations.

The communist ideal for state-society relations subordinates the state to the interests of one class, the proletariat, in the expectation that the state eventually will wither away and a classless society be reached. The social democratic ideal gives the state sufficient power to reduce the inequities between classes that capitalism creates over time but tries to keep it accountable by maintaining a representative form of government.[3] The fascist ideal gives the head of state extraordinary powers, organizes societal interests from above, and prohibits the formation of autonomous groupings that might resist state leadership.[4] In the neocorporatist ideal the state and privileged groups—especially business and labor—work together to determine national policies.[5]

None of these ideals has ever been fully realized. Yet they have had a major influence on national and international politics in the twentieth century. National debates over state-societal relations tend to be defined in terms of these ideals. Not only do such debates become an important element of partisan politics; they become highly salient during and after major international wars, domestic social conflicts, and deep economic crises. At key moments in a nation's history, changes in state-societal arrangements may be embodied in new political, social,

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Carnoy, *The State and Political Theory* (Princeton, N.J.: Princeton University Press, 1984); Eric A. Nordlinger, *On the Autonomy of the Democratic State* (Cambridge, Mass.: Harvard University Press, 1981); Reinhard Bendix, ed., *State and Society* (Boston: Little, Brown, 1968); Charles Tilly, ed., *The Formation of National States in Western Europe* (Princeton, N.J.: Princeton University Press, 1975); John A. Hall and G. John Ikenberry, *The State* (Minneapolis: University of Minnesota Press, 1989); and Alfred C. Stepan, *The State and Society: Peru in Comparative Perspective* (Princeton, N.J.: Princeton University Press, 1978).

3. See David Held and Joel Krieger, "Theories of the State: Some Competing Claims," in Stephen Bornstein, David Held, and Joel Krieger, eds., *The State in Capitalist Europe: A Casebook* (Winchester, Mass.: Allen and Unwin, 1984).

4. I owe this formulation of the fascist ideal to Gregory Kasza, *Administered Mass Organizations* (forthcoming).

5. A very clear statement of this ideal is in Wolfgang Streeck and Philippe C. Schmitter, "Community, Market, State—and Associations? The Prospective Contribution of Interest Governance to Social Order," in Wolfgang Streeck and Philippe C. Schmitter, eds., *Private Interest Government: Beyond Market and State* (Beverly Hills, Calif.: Sage, 1985), p. 10. See also Gerhard Lehmbruch, "Introduction: Neocorporatism in Comparative Perspective," in Gerhard Lehmbruch and Philippe C. Schmitter, eds., *Patterns in Corporatist Policy Making* (Beverly Hills, Calif.: Sage, 1982).

and economic institutions designed to settle the domestic debates, at least for a time.[6]

The ways state and society are organized and linked vary significantly from country to country as a result of historical and contextual factors. Different institutions are inherited from the past. Some states have more centralized bureaucratic systems than others, often recruiting from elite colleges and universities. Some states are more inclined than others to structure civil society through the exercise of state authority and, at times, direct intervention in the economy.[7]

SYSTEMATIC OBSERVATION OF STATE-SOCIETAL ARRANGEMENTS

State-societal arrangements vary across countries and across time. They may even vary across specific industries, although the empirical cases presented here suggest that this type of variation is not very important. To approach the observation of state-societal arrangements in the area of industrial competitiveness, I asked the following questions for each country examined in Chapters 2–6:

1. How is the government organized? Specifically, how centralized and influential are the bureaucracies that set industry-specific policies? What instruments are available to the government for making industrial policies? How inclined is the government to use these instruments? How successful is the government in getting its way with business or labor in conflicts over industrial policies?

2. How is the business sector organized? How powerful are business peak associations?[8] Do individual firms or subgroups have other channels for lobbying outside of business associations? Is there a system of "industrial families" (loose horizontal groupings) in the business sector? What is the role of the financial sector in underpinning these ar-

6. On this subject, see G. John Ikenberry, "Conclusion: An Institutional Approach to American Foreign Economic Policy," in G. John Ikenberry, David A. Lake, and Michael Mastanduno, eds., *The State and American Foreign Economic Policy* (Ithaca, N.Y.: Cornell University Press, 1988), pp. 223–25; and Stephen Krasner, "Approaches to the State: Alternative Conceptions and Historical Dynamics," *Comparative Politics* 16 (January 1984): 234.

7. The works that inspired this formulation are Andrew Shonfield, *Modern Capitalism* (London: Oxford University Press, 1965); Peter Katzenstein, ed., *Between Power and Plenty* (Madison: University of Wisconsin Press, 1978); John Zysman, *Governments, Markets, and Growth: Financial Systems and the Politics of Industrial Change* (Ithaca, N.Y.: Cornell University Press, 1983); and Peter Hall, *Governing the Economy: The Politics of State Intervention in Britain and France* (New York: Oxford University Press, 1986).

8. A peak association is an association that aspires to represent all organizations of a certain type (e.g., businesses or labor unions) in a given society. Examples of business peak associations are the U.S. Chamber of Commerce, the Japanese Keidanren, and the German Bundesverband der Deutschen Industrie. Examples of labor peak associations are the U.S. AFL-CIO and the German Deutsche Gewerkschaftsbund.

rangements? Are the articulated interests of business in the country so diverse that there is insufficient unity to influence government policies or legal regimes that affect business-labor relations?

3. How is labor organized? How powerful are labor peak associations? What percentage of the work force is unionized? Are unions organized on an enterprise or industrial basis? Can unions successfully block undesired government policies or managerial decisions?

4. What institutions link state and society? In particular, are individuals recruited for top positions in the government bureaucracy from elite colleges and universities? What role does the state play in financing those institutions? Does the government own major business enterprises or does it closely supervise the operations of "private" firms? Does the government help organize and fund consortia of businesses for the purpose of advancing industrial technology? Are there special institutions for transmitting abstract knowledge from universities to the business sector? What role do the state and business sectors play in providing training for workers? What parastatal institutions exist—especially those involving neocorporatist concertative mechanisms—and how important are they in specific policy realms?

In the final chapter of this book I argue that some state-societal arrangements are conducive to the creation and diffusion of new technologies and others are not. Differences in the state-societal arrangements among the five major industrial countries examined here emerge when one studies the distribution of power among government, business, and labor. I argue that the distribution of power among those three social actors is the basic underpinning of state-societal arrangements.

Defining International Competitiveness

Definitions of international competitiveness are controversial, but one proposed by the President's Commission on Industrial Competitiveness seems to satisfy many experts: "the degree to which a nation can, under free and fair market conditions, produce goods and services that meet the test of international markets while simultaneously maintaining or expanding the real income of its citizens."[9] This definition has three main elements that deserve elaboration.

9. *Global Competition: The New Reality*, Report of the President's Commission on Industrial Competitiveness, Vol. 2 (Washington, D.C.: U.S. Government Printing Office, 1985), p. 6; see also *The Cuomo Commission Report: A New American Formula for a Strong Economy* (New York: Simon and Schuster, 1988), p. 19; and Stephen S. Cohen and John Zysman, *Manufacturing Matters: The Myth of the Post-Industrial Economy* (New York: Basic Books, 1987), p. 60.

First, meeting the test of international markets means the ability to design, produce, and distribute goods and services at costs that are globally competitive. Factor costs and the application of the latest technologies are central here. If factor costs are high or rising, application of technologies that increase the productivity of factors will be crucial for maintaining or increasing competitiveness. If a country's factor costs are low, the application of productivity-enhancing technologies can improve its competitiveness.[10]

Second, there is the question of whether market conditions are free or fair. If they are not, then some countries will appear to be internationally competitive when they are not because their domestic markets are sheltered or their firms are receiving large subsidies. Any country can present a simulacrum of competitiveness by adopting illiberal policies. Similarly, truly competitive countries will appear not to be competitive because their unsubsidized and unprotected industries are forced to compete with subsidized or sheltered firms from other nations.

Third, there is the question of real incomes. If a country is experiencing a large increase in exports but real incomes are declining, workers and other citizens may be subsidizing the nation's competitiveness. Any country can adopt labor market policies that reduce real wages so as to improve its position in world trade, but this practice does not involve genuine competitiveness.[11]

National competitiveness is not the same as the competitiveness of nationally owned firms. Multinational firms frequently place large amounts of their productivity-enhancing technologies in foreign locations so they can be internationally competitive without affecting the competitiveness of the home country. Indeed, encouraging foreign firms that use state-of-the-art design, production, and distribution technologies to locate in a country can enhance its competitiveness more than supporting domestic firms would do.[12]

A country does not need to be competitive in all industries to be competitive overall, but it *does* need to be competitive in a variety of industries. Countries that become overly specialized in the production of a small number of industrial goods tend to become overly

10. For a much lengthier discussion of the variables that explain competitiveness, see Michael Porter, *The Competitive Advantage of Nations* (New York: Free Press, 1990), chap. 3.

11. "Competitiveness is associated with rising living standards, and an upgrading of employment" (Cohen and Zysman, *Manufacturing Matters*, p. 61).

12. This issue is discussed in Jeffrey A. Hart and Laura Tyson, "Responding to the Challenge of HDTV," *California Management Review* 31 (Summer 1989): 132–45; Robert B. Reich, "Who Is Us?" *Harvard Business Review* 68 (January–February 1990): 53–64; and Laura Tyson, "They Are Not Us: Why American Ownership Still Matters," *American Prospect*, no. 4 (Winter 1991): 37–49.

vulnerable to external economic shocks such as disruptions in the supply of vital inputs, sudden changes in the demand for specialized products, and predatory behavior on the part of foreign producers in upstream or downstream markets. More important, some industries are economically strategic in the sense that their failure to be competitive makes it impossible for a country to be competitive in others in which participation is necessary to obtain access to generic technologies.[13]

Measuring International Competitiveness

National competitiveness may be measured at economy-wide and industry-specific levels. In this book, the stress is on the latter, although there appears to be sufficient consistency across industries to suggest that the economy-wide approach can also be useful. The main reason to measure competitiveness at the level of specific industries is that data on them are easier to interpret than data on the economy as a whole. Interpreting economy-wide data on competitiveness is complicated by problems to be discussed below. In addition, it is impossible to test whether technological innovation and diffusion are important mediating variables (hypothesized in Figure 1) without looking at industry-specific data because technologies vary widely from industry to industry. The competitiveness of an entire country cannot be measured by focusing on a small set of specific industries but must take into account a judicious combination of industry-specific and economy-wide indicators.

Measuring Competitiveness at the Level of the Whole Economy

International competitiveness can be measured on an economy-wide basis using such indicators as trade balances, world export shares, rates of productivity growth, growth in real wages, and price elasticities of imports.[14] Increasing trade balances and world export shares, high rates of productivity growth, rapidly growing real wages, and decreasing price elasticities of imports all indicate increasing international

13. See Hart and Tyson, "Responding to the Challenge," pp. 37–39. For a contrasting view, see Porter, *Competitive Advantage*, pp. 6–11. Here Porter argues that national competitiveness is either meaningless or simply a proxy for productivity. Porter does not accept the idea that some industries may be economically strategic but notes that firms in any given nation tend to be competitive in clusters of related industries.

14. The logic behind this last measure is that low price elasticities of imports will indicate quality differentials between domestic products and imports. See *Global Competition*, p. 8; and Cohen and Zysman, *Manufacturing Matters*, pp. 61, 68.