COMMON PROBLEMS – UNCOMMON SOLUTIONS: CAPITALISM IN JAPAN AND BRITAIN

by

James Y. Bourlet

1. Introduction

Capitalism today is characterised by a mixture of contemporary problems and by features from past efforts towards solving (or past failures to solve) previously identified problems. Nineteenth century capitalism was perceived as exhibiting a general sense of conflict between labour and capital and between landed and capitalist interest, a political anxiety over the possibility of revolutionary unrest, and specific problems concerning such things as factory conditions, the legal protection of minority shareholders and the employment of women and children. A century earlier Adam Smith had identified state regulation and control, the promotion of territorial monopoly and business collusion as the principal impediments to progress. Attempts to cope with these problems present us today with economies characterised by a large measure of free competition, state intervention on a massive scale aimed at redistributing income and a legal framework setting ever more comprehensively the physical and contractural parameters of both state and private business activity. Current attention however must focus on different issues, or at least on very different manifestations of older issues such as 'stagflation' and 'trade friction', public debt, subsidy and inefficiency, and wider share ownership in the interests of both employee participation and of democracy. Such current problems can be identified in both the more and the less 'successful' modern capitalist economies, though symptoms certainly vary. This paper is concerned with such problems as they are exhibited by Britain and by Japan and, through this comparison, an attempt is made to suggest directions for the future. The table on page 2 is intended to provide a 'road map' for the subsequent discussion.

Summary Table

Japan	Britain	Underlying Common Problem	Analysis	Suggested Solution
Symptom (Current Solution (?))	Symptom (Current Solution (?))			
1. Trade Friction (Int. Negotiation)	Stagflation (Monetarism)	Surplus investable funds relative to domestic opportunities	Marx Keynes Meade	Capital redistribution Low wage
2. Corporate pyramids (Employee ownership myth)	Industrial conflict (Class conflict)	Limitations of ownership concepts for business enterprise	Schumacher Goyder Hayek	Share ownership review Tax changes
3. State deficits (Borrowing)	High tax burden (Black economy)	Denial of natural state income base – Land and money	Lincoln Knuppfer Holloway	Reform tax base
4. High prices (None)	Nationalised industry inefficiency Captured regulatory agencies (Socialism)	Inability to mobilise competition in the public interest	Austrian school	Attn Barriers to entry
5. The dual economy (Market forces)	Declining industry (Subsidy and protection)	Changing economic structure	Galbraith Lewis Brittan	Market Indicators

2. *Capitalism*

'*Capitalism*' is an ill defined term whereas its so called rivals such as '*Socialism*' or '*Communism*' can at least be pinned down to the extent of looking at the writings of those who originally conceived them.

Are we to say that 'Capitalism' is that system described by Adam Smith – a system above all devoted to self interest and consumer satisfaction? Or are we to say that 'Capitalism' is that system described by Karl Marx – a system of sinister monopoly producers exploiting workers? Or are we to say that 'Capitalism' is that system described by J.K. Galbraith as just a passing nineteenth century phase during which investment funds happened to be in short supply and the rewards to savings exceptionally high? Or are we to say that 'Capitalism' is that complex 'catellaxy' of ever changing free economic relationships which, according to F.A. Hayek, alone permits "the great or open society"? Or are we to say that 'Capitalism' today is the 'finance capitalism' of conspiring banking interests described by George Knuppfer?[1]

There is much truth and insight in each of these and the reader probably has one or more of these in mind when approaching this paper. But these views are essentially conclusions – to be challenged or accepted. To adopt any one is to prejudge the issues which have arisen from an economic system based on just two simple concepts – private ownership and the use of markets in decision-making.

3. *Approach*

This paper will suggest that, contrary to initial appearances, Japan does share with Britain certain common problems. However, since problems manifest themselves in different ways and since national characteristics and experiences differ, developments in Japan can be very usefully contrasted with developments in Britain in the search for solutions.

Of course, in practice national experience is always combined with the work of influential writers in public policy making. But intellectual debate seems often dominated by fashionable credibility. Yesterday's gurus are often today's ogres and, to gain political acceptance, each new school of thought seems to have to denounce its predecessor. Thus Marx over Smith, Keynes over Marx and Monetarism over Keynesianism. In university circles such schools dominate formal teaching but it is important to realise that today there is a great wealth of material quite apart from orthodox academic texts which is relevant if new solutions are to be found. This material is to be found in the lesser known schools of economic thought (for example, the 'Austrian' school), in the work of political activists (for example the 'Libertarians', or the 'Job Ownership Campaign'), in the work of policy study institutions (for example the 'Institute of Economic Affairs'), in the published work of leading politicians and in many books by lesser known authors which, because they cannot fit easily into the established body of beliefs, are little noticed.

The initial identification of problems will, one hopes, be taken in that spirit rather than seen as shallow criticism, and the use of a broad, eclectic approach towards solutions must be seen as door-opening suggestions for further research rather than definitively formulated answers.

4. *Britain – Some Problems*

1. 'Stagflation' – a condition where there seems to be just three choices, prosperity but with escalating inflation, a stagnant economy with modest inflation (or temporarily without, given falling raw material prices from less developed countries) or thirdly a non-inflationary economy which involves a permanent large army of unemployed workers.

2. 'Conflicting interests of capital and labour' – involving trade union hostility, low motivation, insecurity for workers and a wasteful process of adversary decision-making in industry.

3. A 'high level of taxation' which now involves major disincentives for those with modest incomes and strong encouragement for all to engage in the so called 'black economy' with the inevitable consequent erosion of public morality, honesty and national pride.

4. 'Major difficulties in micro-economic control' demonstrated by nationalised industry inefficiency, the "capture" of regulatory agencies and instances of local authority corruption.

5. A 'growing disparity between the well-off and the poor' in which it seems that those in the advanced service sector or in public sector employment can, when all aspects of reward are taken into account, be shown clearly to be outstripping the fortunes of those in the old industrial and traditional service sectors.

5. *Japan – Some Problems*

1. 'Trade friction' arising from Japan's visible trade surplus which has ballooned during the past 4 to 5 years. This surplus measures an unplanned drain of goods from Japan and most likely constitutes the first symptom of a major economic downturn for the Japanese economy.

2. 'Unbridled corporate wealth'. Japan's immense companies pay meanly to shareholders and follow market rates for wages and salaries. Hostile takeovers, an essential element in any effective 'market for corporate control' (in effect, the ability of shareholders to buy and sell managements) are practically always unsuccessful (*pace* Minabea Corporation). Companies can therefore have no other aim than constant expansion thus postponing indefinitely possible increases in Japanese living standards.

3. 'Mushrooming government debt' in the face of increasing age-related social expenditures and a pressing need for greater expenditure on public infrastructure. There has been a 70% increase in the government bond servicing costs during the last 4 years. This cost in fiscal 1986 exceeded 20% of the general account budget – over ¥10 trillion. The Bond picture must be drawn to include not only 'deficit financing' bonds but also 'roll over' bonds and 'construction' bonds. Total such debts now represent over 40% of GNP which is higher than in any western country.

4. A 'pattern of high retail prices', not only for imported goods but for practically everything produced in Japan as well. (A notable exception is motor cars.) Woronoff[2] concludes that "oligopoly and connections, domination of the market and marketing channels, unfair business practices and discrimination ..... express the reality ....". There is no doubt that the Japanese, as consumers, are being substantially cheated out of the standard of living which their income would bring them if spent elsewhere. A foreign visitor is very hard pressed to find any item, Japanese or foreign, obtainable more cheaply in Japan than at home.

5. 'A dual economy'[3] in which a large sector of the economy, overwhelmingly tuned to exporting, can offer relatively high wages, and good security and prospects to employees is to be contrasted with the majority who exist in the traditional sectors facing somewhat lower wages and longer hours with greater insecurity. The low output per person in farming and distribution contrasts sharply with achievements in manufacturing.

6. *Stagflation and Trade Friction*

The role of savings provides the link between the British problem of stagflation and the Japanese problem of trade friction. The role of investments holds the key to a solution.

Rather surprisingly, the authorities at the European Economic Community Commission have, in their various publications about Japan's international activities, spoken of visible trade balances whilst they have ignored the corresponding capital flows.[4] Until recently, the Japanese balance of payments has been a fairly simple picture of current account surpluses balanced by capital account outflows and the relatively low valued Yen was in equilibrium on this basis. However, the effect of orchestrated overseas criticism of this position and the 'G5' decision to intervene in order to raise the yen value has been to add speculative overseas yen purchases to the equation thus, at least temporarily, bringing about much higher free market Yen values.

Capital flows normally reflect differential interest rate opportunities whilst import and export changes reflect prices as expressed through exchange rates. Thus trade flows are powerless to determine the capital balance but capital flows can indirectly determine the trade balance. So, in order to maintain competitiveness and profitability in Japan's export sector, the Japanese government has now had to resort to various tactics to combat Yen speculators – allowing Japanese companies to issue Yen corporate bonds abroad, allowing Japanese insurance companies and trust banks to invest a higher proportion of their assets abroad, allowing an increase in official holdings of foreign currency reserves, reducing the reserve requirements of Japanese commercial banks and making official statements suggesting that the Yen is overvalued at moments of market weakness in order to encourage sales of Yen by Japanese trading houses and corporate treasurers etc. If all this succeeds – as looks likely – then the Yen value will return to a more modest level, at least against all other currencies together if not specifically against the US dollar.

For Japan to revert to a position of increasing trade surpluses and investment abroad is in no sense against the established rules of international economic relationships. The situation is indeed not uncommon – the USA, for example, has traditionally run a balance of trade surplus plus an investment outflow with Canada. Writing in the London Financial Times, Samuel Brittan commented that "Japan has a perfect right to run a large savings and trade surplus and invest the proceeds abroad".[5]

However, this does not necessarily mean that such flows are good for Japan! G.C. Allen,[6] writing in 1972 commented that he thought the Japanese government would not wish to see a high long term outflow of capital. At that time, such an outflow was neither anticipated nor sought. What are the arguments? Partly it is a matter of degree. Some overseas investment is necessary to promote exports, facilitate imports and allow internationally integrated production. The extent of such investments may well exceed the willingness of foreign firms to invest in japan. But recent flows have been at least ten times the amounts required on this basis! The high savings outflow has, as we have already noted, the effect of lowering the international Yen value. This then means that Japanese purchasing power for imports is lowered whilst Japan has to export more goods for any given dollar income. This in addition to the postponement of consumption implied by the trade surplus itself. Turning to the capital side, the outflow of savings leaves less funds available for domestic investment and growth and places Japanese savings in the care of economies beyond Japanese control where devaluation or confiscation could steal its value. The devaluation of the $US from Y230 to Y170 between August, 1985 and April, 1986 meant that about 26% of Japanese savings lodged in the US had been given as a 'present' to Uncle Sam!

To argue that the outflow of savings is a response to the world's need for investment funds is to allow theory to triumph over observation. Whilst investment funds are desparately needed in the 'third' world, practically all Japanese funds are flowing to the old industrialised countries where study after study has shown that it is investment opportunities rather than the supply of funds which constrain growth. It is more realistic therefore to view the extent of savings flow from Japan into fixed interest securities elsewhere as an uncontrollable haemorrhage to be faced as a problem rather than brushed aside as yet another Japanese success. As the Maekawa report has noted,[7] the trade surplus now amounts to 3.6% (1985) of Japan's National Income and the savings outflow is somewhat higher – around 4% and approaching a half of net personal savings. This huge outflow is not based on the need to disperse overseas the otherwise disruptive effects of a temporary bonanza, such as Britain's exploitation of North Sea Oil, but on manufacturing production.

It is hard to find precedents for this. Some comparison however may be in order with the British economy's outflow during the late 19th century (at one point as much as 90% of savings were flowing abroad). The effect was to leave the British economy's home installations outdated. Then war and confiscation (for example the nationalisation of overseas railways) destroyed the rewards which might have accrued from overseas possessions. More recently, the outflow of capital from Italy during the late 1960s, which signalled the end of that country's 'economic miracle', seems relevant.

Thus, to argue that such capital outflows represent 'capital integration in an interdependent world' or that the problem lies not in the flows of capital but in the 'Immobility of land and labour' or the 'reality of political force (protectionism)' is to give a very one-sided picture. The other side is that, whatever 'trade friction' may do to foreigners, the prime loser is Japan. Japan loses in terms of consumption because of the surplus and the lower valued Yen, and loses because the rate of investment and thus growth inside Japan is necessarily reduced.

The problem – and the losses – seem to date from around 1970 when the balance between profitable investment opportunities inside Japan and Japanese savings tilted towards excess savings, when investment opportunities fell in the face of rising labour costs, sharply increased energy prices, a tailing off of technology imports and cautious macro-economic policies.

The early 1970s were a period of unhappy change in Britain also, and the high levels of both unemployment and inflation, dubbed 'Stagflation' which ensued led to the tight money policies of the early 1980s, with consequent lower levels of inflation but with disastrous levels of unemployment.

In retrospect, the 1960s in Britain look successful – although at the time the nation was pervaded by a sense of shame through comparing the statistics of its economic progress with those of other nations. Economic growth rates, though modest, stood higher than during this decade, unemployment though tending to rise stood between 3% and 5% compared with today's 13%, and workers' wages were rising relative to overall incomes (due to tight labour market conditions). But corporate profitability was declining and real interest rates were falling – reaching minus 15% by 1975. This was prosperity for the working man based on macro-economic policies which had to be increasingly inflationary in order to balance the growing tendency for savings to outweigh investment opportunities. It was an increasingly uncomfortable existence for those with money and privilege – unless assets were skillfully managed directly by their owners.

Reaction from interests at risk came in many guises. City institutions backed the campaign to join the EEC (European Economic Community), attracted by the opportunities of investing freely on the Continent. A tiny minority of academics calling themselves 'monetarists' found easy publicity and obtained a reputation way out of line with their intellectual achievements. Even the IMF was wheeled in to admonish Chancellor of the Exchequer Dennis Healey. Finally, a moralistic lady chemist with little background in economics, when paraded by the Conservative party, found a new majority among the post-war middle aged voters who saw in inflation a threat to their pensions and Building Society savings and were happy to ignore the benefit they themselves had reaped from low interest rate prosperity in terms of house purchase and security in employment over the years. Since 1980 a lawyer and a banker have served as Chancellors of the Exchequer and a majority of cabinet members have been comfortably placed farmers.

As a result of tight money policies and a high level of government borrowing real interest rates are now higher that at any time, banks are more profitable than ever, those with money are getting richer and industrial profits are rising. But the consequent high exchange rate of the early 1980s reduced export sales and reaped an import whirlwind from the EEC. Bankruptcies and closures were widespread and people speak of the areas north of London as an "economic wasteland". Despite the benefits of North Sea oil and generous unemployment benefits, allusions to 1930s conditions are constantly made. With the prospects of a non-inflationary future, many are concerned at the ever rising burden of government debt.

Thus both stagflation in the UK and trade friction in Japan arise from conservative policies designed to protect the rewards of ownership in the face of excess levels of savings relative to investment opportunities. To wealth maximise in the real economy by equating supply and demand for funds under conditions of full employment it seems that ever lower (and perhaps negative) rates of return on capital are required.

This is hardly a new hypothesis. The principal charge made by Marx was that advanced capitalism would be characterised by unsaleable surpluses[8] in the face of worker poverty because capitalists would be unwilling to spend all their income on current consumption and would not be able to find profitable investment opportunities for all their surplus (i.e. savings) unless wages were reduced. And the main claim made by Keynes was that involuntary unemployment is caused by an excess of savings leading to overall demand deficiency. Now though Marx's analysis was profound, his predictions were confounded by the ever increasing ability of governments to borrow the excess savings to spend on social investments and by the destruction of assets that was brought about by wars and armament expenditure.

Keynes grasped this point and therefore sought to provide a rationale for conscious and deliberate action by governments to offset the unfortunate effects of excess aggregate savings. Keynesian 'demand management' called for whatever stimulation was necessary to maintain 'full employment', in the form of either increased money demand created by note issue or increased bank credit. Now whilst in the 1950s and 1960s such policies succeeded through the discovery of satisfactory investment opportunities, by the 1970s they were only succeeding through supplementing this process with a reduction in the value of savings by inflation. Eventually, the level of inflation became politically intolerable. It would seem that the same result would occur in Japan if massive stimulation of the domestic economy were used in answer to those opposed to the current 'trade surplus with export of savings' position. Thus Britain through reaching a 'limit of inflation' and Japan through reaching a 'limit of trade friction' have both arrived at a stage where their only alternatives seem to be a long running recession or a totally fresh approach.

The advantage of approaching the problem via observation of the Japanese economy is that it focuses attention sharply on the need to balance domestic savings and investment and indicates through the extent of the trade surplus, the magnitude of the problem involved. Now, of course, if a permanently lower rate of economic growth is acceptable, one solution would be to reduce the level of savings, as advocated by Senator Danforth and others, by such measures as the abolition of tax relief on small savers' income, a yet lower rate of interest or a big increase in social security provision. Though strictly speaking an increase in investment rather than a reduction of savings, measures to stimulate private home purchase could be said to reduce 'net personal savings'. But such solutions seem defeatist – to say the least.

On the other hand, what might be done to stimulate business investment? Orthodox economics has some suggestions to make but each has been tried and found to be inadequate. One course is to raise overall demand to open up increased sales opportunities for business and hence justify more investment. Sadly, the effect of this seems to be more to lead to inflation – first of land and asset values and then of income and prices rather than permanently increased business investment. Another course is to raise business expectations – through talk of through some sort of 'indicative' planning. Used too often, this loses credibility. A third course, though this depends largely on chance, is to rely on 'new frontier technology' arriving, which can initiate waves of investment opportunity. But this, in current circumstances, really does seem to be asking a bit too much of bio-technology, genetical engineering and new ceramics, even though a good case can be made for claiming that in the past new farmlands, the motor car, aviation and computers have played such a role.

Now there are certainly plenty of *technical* investment opportunities using currently available equipment. Hard nosed politicians and business leaders in Britain however are for ever commenting that costs are too high to make them viable, that wages are excessive and that the problem is that "we are paying ourselves too much". On an overall basis this is hard to reconcile with a 13% unemployment rate which clearly indicates a demand deficiency, but in relation to individual projects, they are surely correct. The point is that whilst the reward to labour is indeed too high, overall incomes, which includes the reward to invested capital, seems too low. Income therefore needs to be re-routed. Workers need to receive more of their income as shareholders and less as wage-earners.[9]

To look at this another way, let us project current trends and wishes into an ultimate future vision. New technology, capital equipment, robotics and many other developments now enable goods to be produced on an ever increasing scale but with an ever diminishing requirement for labour. Ultimately, as a '*reductio ad absurdum*' the point will be reached where no further human work is required and machines do everything. In this situation, those who own the machines (and land) will collect ALL the rewards and those who own nothing must presumably just vanish – a ludicrous conclusion but a logical one given our current socio-economic arrangements and technological developments.

Obviously, with everyone around willing to work but with less and less rewardable tasks to perform (and ultimately none at all), wages, to equate supply and demand for labour must fall (and ultimately be zero). For social-equity reasons therefore interest and dividend payments will need to become more widespread and in any case it is only through the widespread dispersal of high income levels that sales levels will be possible to justify continued high levels of investment.

In practical terms, what sort of solution does this imply? If the argument holds that wages must fall but at the same time wealth must be redistributed then surely ways can be found to bargain one against the other? Perhaps one can imagine employers saying to trade union representatives "this year we can offer 100 shares in our company per employee on condition of a 10% wage cut". Perhaps trade unions will take the lead by asking for some low value shares in exchange for foregoing a wage rise during a difficult period. Surely that is better than bankruptcy and unemployment! Perhaps some government will take a lead and legislate for automatic employee shareholdings related to length of employment. There are many possibilities but perhaps, in the future an average household will derive its income, let us say, one third from wages, one third from interest and dividends and one third from government assistance of various kinds – for example spendable education vouchers or a 'social income' (roughly equal to today's unemployment payments) payable to all.

In fact today there are many unemployed in Britain who nonetheless participate in the so called 'black economy' – employment for undeclared cash. They already seem to be in this three segment income position – receiving unemployment pay, income cash and occupation of their owner occupied home! As usual in economics, free markets lead the way over both administrative arrangements and academic consensus!

Stagflation and trade friction however are *national* scale problems and experiments by a few firms or illegal activities by a few in the 'black economy' may indicate the right direction but larger actual policy proposals are needed. As a basis for further discussion of new public policies consider:

(i) Immediate payment of a sum equal to unemployment pay to *all* members of the labour force, unemployed or not. Finance this from an increase in upper bracket income taxation. Such payments *not* to be income tax exempt.

(ii) All schemes for denationalisation (British Gas, JNR, etc) to take the form of share *gifts* to all citizens equally.

(iii) Establishment of a 'National Share Certificate' carrying an index linked fixed interest return to give as part payment of salaries to all public employees. Such payments to be 'standardised' and linked to number of years of service.

(iv) All private firms to be invited to offer a share scheme for employees on the basis that employees always have the right to ask an employer to purchase a 'national share certificate' for him instead should the employee consider the value inadequate.

(v) Reform of the tax system towards income taxation and land value taxation rather than point of consumption or indirect taxation. Avoid double taxation of company income (as company profit and as shareholder dividend).

(vi) Lay down a recommended procedure for bargaining wage rates against share distribution. Specific figures to be given during times when 'income policies' are considered worthwhile.

In considering these proposals it should be remembered that the point is that both stagflation and trade friction arise from the problems of an excess of savings over profitable investments. The aim is therefore dramatically to improve the climate for business investment by lowering wage costs whilst boosting overall demand. This can only be done with the consent of employees and that consent will only be obtained if nearly everyone can end up better off than at present and if everyone can see a gain for each concession made.

Proposal (i) will raise overall demand and will allow workers to accept jobs at low pay without facing the 'penalty' of losing unemployment pay.

Proposal (ii) will dramatically underline the importance of a share-owning democracy and introduce many to share ownership in preparation for their employers' proposals of shares in place of wage rises.

Proposal (iii) will bring public sector employees into the picture and provide a standard for the private sector.

Proposals (iv) and (v) will allow firms to reduce wages sufficiently to ensure profitable use of investment funds.

Proposal (vi) is aimed at minimising tax disincentives on private sector business investment.

7. *Stakeholdership and Ownership – UK Industrial Conflict and Japanese Corporate Wealth*

The 'stakeholders' of a business firm are the employees (including managers) and the shareholders. Customers, suppliers, environmentalists, local communities and others have additional interests which a law-abiding and socially responsible firm will respect. There is an obvious and simple difference of interests between the two major stakeholders. Legal arrangements plus social and business conventions are constantly evolving to reflect the interaction of changing practical requirements and shifting social and political influence. Political and economic theories also play an important role in support of the players involved.

Each time a satisfactory set of arrangements seems to have been made, an unwelcome symptom of the continuing conflict emerges and new arrangements have to be considered. In Britain a legal structure clearly giving control to shareholder interests has produced the side effect of industrial conflict and even 'class war'. In Japan, the virtual denial of shareholder rights has produced excessive corporate wealth and power.

The key to a solution is to ask what *natural feelings of ownership rights* people have and then try to fashion the law to enable these feelings to be matched by income and wealth reality. Clearly when a new – especially capital intensive – company is set up, the shareholders feel entitled to ownership and nobody would dispute this. But in time, long standing employees come to feel that it is *their* company whilst the shareholders, who have drawn dividends over many years, now have much weaker feelings of entitlement (though no doubt they would vigorously defend their claim). But in Britain the 'shareholder takes all' whilst in Japan neither shareholder nor employee does very well! (Of course this is a generalisation – there are many exceptions.) Surely, however, better arrangements can be made.

In Britain the position is clear. The shareholders own the company and can sell it at any time. The employees are on contract and can be dismissed at any time. True, management has great power and security and is usually seen as being 'on the side of' shareholders but, ultimately, managers are also employees.

In Japan the position is also clear.[10] The shareholders legally own the company but the employees regard it as 'theirs'. The position of employees is strengthened by the conventions of life-time employment and promotion by seniority, while the position of shareholders is weakened by conventions of non-interference and by dubious practices such as the use of 'Sokaiya' at AGMs. Dividends follow a convention of a fixed % payment on share par value whilst employees are paid more or less in line with the economic principles of the theory of 'marginal revenue product price'. Hostile take-overs are discouraged and are practically unheard of. At the same time management emoluments are modest and it would seem that long hours are willingly worked by all.

But in both of these apparently satisfactory situations symptoms have appeared which remind us again of the underlying interest conflicts.

In larger British business organisations, both public and private there is a 'them and us' conviction that life amounts to a constant battle for fair rewards and a reluctance to accept change for fear of disadvantage. Things are deteriorating – disillusionment, cynicism and suspicion increasingly dominate. Long standing employees often feel cheated in some vague and unspecifiable way – and resentment is expressed in terms of 'class antagonism'. Demarcation disputes are common and productivity mostly low.

Meanwhile, in the London stock market there seems to be 'take-over fever' and research has shown a significant correlation between the extent of such take-over activity and poor growth of productivity in international comparisons.[11] Enormous gains are being made by those with money and a nimble hunting instinct. Workers can be easily laid off, shareholdings can be easily switched, whole businesses can be easily sold. It IS a jolly party![12] True, shareholders often chalk up losses but such losses are hardly comparable to the lost life's work investment and career security which is at stake for the employee.

The general outcome in Western economies of these developments is the growth of hazy and destructive notions of class struggle. Governments and the state are easily seen as the tools of those with ownership rights to use force to perpetuate their privileges. With these bitter feelings, much else is lost or distorted. For example, Marx accused the 'ruling classes' of 'inventing' religion as an 'opium of the people'. At the same time, the philosophy of 'individualism' which should mean the right of each individual to the maximum opportunity to develop himself fully, is twisted by those already well off into a claim that each of us is entitled to nothing in life except that which we can earn from our own efforts – a virtual denial of the existence of common inherited wealth and the existence of the capital base created by previous generations without which current prosperity would be impossible. One can see how easy it was for Marx to view the state, established religion and the intellectual estate as mere tools of the capitalist class!

Japanese companies have avoided conflict by the simple device of paying both shareholders and employees modestly but preferentially and leaving the organisation itself as the main risk taker. During poor times companies' retained earnings are low (they may even borrow to keep up dividends) and bank loans are high to finance investment. During good times retained earnings are high. Either way, basic dividends and basic wages vary little though some effect is likely to be felt by shareholders in the form of a changing paper value of shares on the stock market and by employees in the form of variable bonus payments. The early 1970s and the early 1980s were both periods of high retained earnings but the late 1970s was a period of higher dependence on outside funds.

The trouble with such an arrangement is that it is unstable, it probably would not survive a major environmental change and it leaves companies in a very vulnerable position. It is unstable because shareholders are only prepared to forego their legal rights as long as they are content to draw a major part of their benefit from increased share values but if share values should revert to reflecting dividend payments alone there would be a major change in shareholder attitudes. A major change in the business environment – causing bankruptcies and unemployment would most likely demonstrate the illusion of wealth which 'lifetime employment' offers. As firms close it will only be the shareholders who have any legal rights to the value of assets – especially land and buildings. Employees will have absolutely nothing to sell. Companies are vulnerable because they are growing mountains of wealth and power, the confiscation of which can bring riches to a opponent without necessarily making those involved – the shareholders and employees, any worse off! Left wing politicians could simply argue that they are transferring undemocratic corporate power to democratic state control via nationalisation of major companies.

Put another way, Japanese companies appear to resemble the British monasteries of the late Middle Ages where great wealth lay in the hands of such institutions (which in themselves were certainly centres of progress) whilst the monks led austere simple lives. At some risk of exaggeration one is tempted to suggest that the patient devotion, spirit of humble co-operation, acceptance of institutional paternalism, acceptance of relative abstinence from the company of women and children and the communal, male hierarchy which shares the joy of a common enterprise, all of which attitudes are said to have characterised the monasteries makes a more than passing comparison with the Japanese enterprise of today!

Well, like Japanese companies today, the monasteries could only grow – until eventually King Henry VIII decided that ecclesiastical materialistic domination could not be allowed to challenge the civil order and so he simply sent in the troops to demolish the buildings and lay claim to the lands and other possessions. Then the ruined buildings became mere quarries for building the church robbers' mansions.

So in Japan the problems of corporate ownership show up again – but the symptom rather than employee resentment takes the form of unbridled but vulnerable corporate power. The funds cannot be reached by their legal owners – the shareholders – and such wealth must be invested by the companies whether or not they have high return projects in hand. The result is often capital intensive long range investment yielding low returns – and a great deal of complaint from overseas competitors who are obliged to make open market returns on their funds. Indeed, it can be called a form of shareholder subsidy and this forms a major part of the notion foreigners have that Japanese companies 'play the game by different rules'. Meanwhile Japanese employees who enjoy lifetime employment and company benefits have nonetheless to pay a price in terms of submission and immobility.[13] When they leave the company they have no assets which can be sold or passed on to children. Calling the company 'theirs' is indeed a myth. Thus the problems of ownership of the Japanese company have simply yet to re-surface.

It was suggested earlier that 'better arrangements can be made' for the company ownership issue. Such arrangements have to aim at matching the legal position with the natural feelings of ownership which people of goodwill feel, in equity, entitled to. The aim, in the case of Britain is to create conditions in which employees will work as well and willingly as they do in Japan. The Japanese 'myth of employee ownership' is the clue. The notion of employee ownership can be expanded into the various suggestions for employee partnership and 'industrial democracy'. In Britain, Professor James Meade has made some of the most notable recent contributions in developing such thoughts. Earlier Fritz Schumacher in 'Small is Beautiful'[14] outlined the scheme operated at the Scot-Bader company and there are a good many examples of partnership arrangements already in existence – such as the John Lewis Partnership.

At the same time, especially in Japan, there is a need to ensure a better allocation of investment resources and a decline of corporate power. One hesitates to suggest it, but Western stockmarket experience might offer the only available clue for a solution!

But surely one could go further. For discussion of new public policies consider:

(i) Seniority based share allocation rights for employees.

(ii) A time limit on the validity of shares – say 50 years – so that shares would be rather more like a leasehold than a freehold asset.

(iii) By law, oblige companies to pay out ALL profits as dividends and thus oblige them to raise ALL expansion capital via new issues.

(iv) Give official encouragement, rather than discouragement, to 'take-over' bids, especially where shares are mainly held by employees.

8. *Taxation and Government Debt*

The third problem area is that of government revenues. Taxation of ordinary incomes is much higher at lower income levels in Britain than elsewhere and the total burden of taxation felt by productive enterprise is a source of constant complaint. Many small businesses remain very small and avoid expansion precisely in order to avoid further tax entanglement – especially the clutches of VAT and the costs of employing staff. I would suggest that this ranks with the dynamism and stability of Japan's conglomerates in explaining Britains's relatively low growth rates.

Meanwhile, in Japan, the reluctance to increase conventional taxation and the opposition to a VAT are given as reasons for the runaway growth of the National Debt and the current impossibility of expanding domestic demand via further deficit spending. In "The Japan Syndrome"[15] Jon Woronoff catalogues dramatically the "Rake's Progress" of the Japanese national finances at the expense of future generations of taxpayers.

In short, in both Britain and Japan there is an enormous problem in financing government expenditures, – expenditures which are justified both by the programmes involved and by the macro-economic dictates of full employment. Britain has sought a solution in ever rising taxation and Japan has found temporary relief in excessive borrowing. In both countries there is much talk of cutting expenditure and a willingness to compromise on the central macro-economic objectives. This high taxation and high borrowing are symptoms of a common problem – an inadequate government revenue base. This inadequacy has, in turn, been created by the long term force of interest groups which have denied the government certain vital sources of income.*

To approach this let us conjure another vision, not from an infinite future but from the past. Imagine that we are in an age where agriculture is the sole economic activity and that a fertile small country though now inhabitable was, a little earlier, subject to some misfortune which killed the entire population. Now imagine that you, as a King, lead your people to this land and proceed to set up a settled community and government. Your first task is to allocate areas of farmland of varying levels of attraction to your citizens and you hold an auction to take bids for 10 year rentals. Each citizen will calculate the yields and returns and, if this market works 'perfectly', the result will be that each farmer will make the same return as every other after paying rents. After 10 years a further auction can be held subject to the proviso that any change of tenancy obliges the new entrant to pay the costs of whatever fixed assets the old tenant has installed. Rents near the centre and on good land will be high and on marginal land in the hills, zero. As King you receive this money but nobody feels 'taxed' since their payments are willingly made in order to outbid rivals. Next, since you have decided to

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* One may argue that one should look instead at the arguments for lower government spending – as John Burton has in a recent IEA booklet "Why No Cuts?"[16] where he argues for government expenditure being limited to 25% of GNP. I can agree with this only in part – and that on political rather than economic grounds.

run the economy with money rather than barter, you print the necessary money notes which can be added to the rental income adding perhaps 15% or 20% to spendable state revenues. You could, of course, increase this by allowing inflation. These revenues allow you to run the state machinery, defence, social security and public services because they amount to a hefty proportion of 'National Income'. Taxes as we understand them may or may not be needed in addition. But move the story on in time. For administrative convenience you divide the country into areas run by your most trusted servants. But when war threatens they refuse support unless, in future, rental incomes can remain in *their* hands and are only transferred to you subject to 'consultation' (have you heard of the 'Magna Carta'?). Thus, after the crisis you are forced to levy new 'taxes' and the concept of 'freehold' property is attached to the lands of your trusted servants who proceed, through the generations, to build wonderful mansions adorned with beautiful gardens and elegant statues. They support the arts and music and donate a little land to build churches for 'the people'. In time, much land is 'sold' and a whole class of citizens discover that the path to security and wealth lies through the ownership of freehold rights. Today it is said in London that 70% of post-war millionaires have 'made it' through property.

During this same period certain enterprising citizens who prefer the perverse confinement of a desk bound life run banks of sorts. Their fellow citizens who enjoy the active outdoor life of production and horse-riding view payments to them with great suspicion. The Magna Carta[17] is half filled, you may be surprised to hear, with complaints and demands by their Lordships against "Jewish moneylenders".

Anyway, time and generations pass. Bankers gain respect and trust. The architecture of their buildings is designed to express this (or is it designed to counterbalance their insecurity?) and they discover the possibility of lending with promissory notes in excess of their deposits – ie 'fractional reserve banking'. A weak King allows this development[18] and soon the citizenry are using bank deposits more than state notes for their money holdings. The revenue from 'seignorage' has largely been handed over to the banks. (In the USA it has been wholly handed over – even the notes are of the Federal Reserve whose private shareholder banks keep the proceeds.) Eventually, the banks develop credit cards and lobby for laws which prevent traders offering as an alternative, discounts for cash despite the charges made by credit card organisations (which would, of course, properly limit their use). Cash is used less and less and state benefits dwindle. The banks can use this 'subsidy' in two ways. If they are 'perfectly competitive' and there is free entry to the business, services can be offered to customers at below cost and although the banking sector becomes unjustifiably large, no one bank is excessively profitable. Or (and) they can use it to finance enterprise and make loans to business and government, competing with earned savings. Over time amazing levels of bankers' bad debts can be weathered. Businesses close to banks grow whilst others do not. The great banking families amass astonishing wealth. In times of war, the profits of 'lending' to the state can become positively embarrassing and perhaps the government is 'allowed' to issue 1% or 2% bonds to be purchased by the banks where the 'interest' payments are recognised as suitable to cover just the administrative costs to the banks of issuing the new credit. This happened in Britain during the last war. The bonds were known as 'Bradley's'.

There is a growing body of rather unorthodox literature on this subject – such as works by Norburn,[19] Knuppfer. Holloway[20] and mullins[21]

When the state evolves into a 'democracy', state policies that maintain these remarkable privileges can no longer be secured by inside influence and instead public opinion must be managed. Suitable or acceptable advocacy groups receive funds as do congenial political parties. The campaign for British EEC membership was mainly financed from 'city' funds. Politicians who take up the questions of land value taxation and seignorage rights are 'discredited'. Abraham Lincoln who said that "the creation of money represents the government's greatest creative opportunity" was assassinated. Suspicion, to this day surrounds the assassination of President Kennedy on the grounds that it was arranged by 'financial interests'. Here is a paradise for conspiratorial imagination!

Anyway, to return to our world today. On the subject of state rights to land rental income a major campaign is under way in Britain for the retaining of 'rates' (a property tax based on total property value) and its development into 'site value rating'. On this one can recommend reading recent issues of the magazine "Land and Liberty".[22] Hong Kong and various other cities illustrate application.[23]

However, the enthusiasts for this type of 'taxation' face a major problem in that today land is by no means the only 'community created wealth' with income that could accrue to the state 'without affecting incentives to enterprise'. In fact any monopolistic position where free competition cannot, in time, reduce rewards to 'normal' should join this category. The concept thus needs to be broadened to include all broadly defined 'monopolistic' privileges that can be subject to periodic auction. Even then at least two provisos seem required. Firstly, since land ownership does now exist confiscation is unacceptable and so the state might only lay claim to *increases* in site value from now on. Secondly, since the search for 'excess' profits is part of the very heart of the dynamic of modern capitalism, only a part of such gains could be taken without adverse effect. In all this our past experience of the problems of collecting 'Betterment' should be useful.

But one can be sure that there would be opposition. Mitsubishi, which owns all of Maranouchi and the Duke of Bedford who owns all of Harley Street will hardly give in without protest!

On the subject of seignorage rights to the value of new money creation, the issue has now become immensely complex and the internationalisation of banking may well mean that only internationally co-ordinated measures could work. In principle one ought to be able to develop some fairly straightforward lines such as a demand that all banks purchase from their respective central banks, bonds carrying only a nominal interest rate each year to exactly the amount that their contribution to M_3 has increased. Seignorage state revenues would be restored, bank subsidy removed and whilst bank charges to private customers might increase, the size of the banking sector might be reduced.

The effect of 'new' state revenues along these two lines could surely be dramatic. Other forms of taxation could be reduced. The National Debt might be seen as unnecessary. Instead of interest payments taking an ever increasing share of state revenue, they might be phased out altogether. There is no reason why the overall effect should be either inflationary of deflationary.*

Issuing state money to finance expenditures is not incidentally novel. Lincoln used this to finance the US Civil War and in more recent times an interesting experiment took place in the Island of Jersey which worked well until manipulations by the banking community squashed it.[24] Something similar has been claimed regarding Allende's Chile.[25]

Thus it is suggested that both Britain and Japan face similar problems over state revenues and that the solutions ultimately lie in a completely fresh appraisal of state revenue rights.

9. *Prices and Efficiency*

My fourth problem area concerns economic efficiency and related questions of income distribution. We have noted that in Britain charges of inefficiency in the Nationalised Industries are frequently made,[26,27] that where there are regulatory agencies to fix prices for private producers there are (and this more especially refers to studies done of the US) many instances of agency 'capture' by the very interests regulated. Where local authorities have regulatory powers (for example over land use) there are ever present temptations for corruption;—such occurrences have indeed been publicised.[28] In addition we may note the well known restrictions on imports of food in Britain (which force up prices by an average of around 15%), on cars (the VER on car imports from Japan is reckoned to have been a necessary pre-condition for the maintenance of UK car prices at levels around 30% higher than they otherwise would have been) and numerous less dramatic items such as textiles and VCRs.[29] The UK banking system is dominated by a 4 bank oligopoly and the largest – Barclay's – is said to be the most profitable bank in the world.

In Japan there are many instances of strong competition. 'Sharp competition' has been well documented amongst car makers, new supermarket chains are clearly revolutionising food retailing and there is an obviously competitive world in restaurants and bars. If bargains are to be found, these are the areas in which to look.

But at the same time restrictive practices and monopolistic price behaviour proliferate. Whisky importers' margins[30] (at around 150% according to a recent Japanese government report) are scandalous and exist because the sole importers of leading brands are either partly owned by Suntory and Nikko or are cowed by threats of price war. The lesser brands follow the market leaders. Dentsu advertising agency dominates the Japanese market with around 70% of its market. The most important media for advertising is TV and Dentsu own a major shareholding interest in all the leading TV broadcasting companies so that peak time advertising can *only* be obtained by employing Dentsu as agent.

If it is right to criticise the EEC's CAP then it is surely fair game to look at Japan's food price policies. The heart of the matter is really the intervention price for rice.[31]

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* Personally though, I would fear deflation more since the scale of new money creation when exposed and brought under public control might lead to greater timidity than at present.

The rice price is far higher than that needed to maintain any reasonable level of self-sufficiency. Worse though is the fact that most land which can be cultivated at all in Japan can be used for rice growing and so the high rice price generates high land prices which in turn forces up the price of everything else, since their revenue has to be sufficient to compete with rice production. This is the reason why carrots, cabbages and strawberries, for example, are laughably expensive. By comparison, restrictions on imports take second place. On the other hand, for fruit juices, upland potatoes and chestnuts it is the import restrictions which count most and it is very hard to see a strategic or security reason for restricting imports. The late 1970s great Japanese US cherry imports saga is nothing short of sadly hilarious.[32]

Japan's permissiveness of activities which are anti-competitive – especially in relation to prices is hardly a recent phenomenon. Richard Halloran writing in 1969 commented "The Japanese, a deliberate people, are reluctant to leave anything to chance, and regulate the economy to bring all its components into harmony. They intensely dislike competition. The Japanese are personally competitive for power and prestige but fear that if this is not controlled, what they consider excessive competition will cause economic chaos. The Japanese believe that laissez faire, unco-ordinated decision making, and the play of market forces are luxuries they cannot afford. .... The Japanese have made a way of life of investment, production and trade targets, of cartels, quotas and fixed prices, and of combining the influences of the bureaucracy, the political world, and the business community in economic decision making."[33]

Furthermore, seeing that Japan's own businesses exploit consumers in this fashion, importers and other foreigners have reasonably concluded that such practices are fair game for them too. Meanwhile public protest on such matters is non-existent. Perhaps publicised complaint would be unacceptably antagonistic, or perhaps Japanese consumers simply have no stomach for such a fight.*

Arrangements, tie-ups and inter-conglomerate links are a justifiable invisible import barrier complaint by importers.

And the prices of chemists' goods are scandalous. Being asked to pay ¥1,000 for a few aspirin is unbelievable.

Now a useful distinction is made in micro-economics between *economic* efficiency and "*X*" efficiency.[34] In terms of the latter it certainly seems that Japan, by and large, has much to teach the world. Plant layout, worker co-operation, quality control and inventory carrying costs are examples where studies have shown clearly Japanese superi-

* In Japan, as a visitor, I naturally (being one of Adam Smith's self-interested free trade oriented consumers) devote idle thoughts to finding items which are a bargain relative to home. This turns out to be extraordinarily disappointing! Thinking of a camera I found that both list and discount prices for Japanese made cameras are cheaper in London than in Tokyo (even including the UK 15% VAT). Turning to Walkman radio sets or computer word processors I find the same thing. About the only advantage of buying in Japan seems to be the availability of new models perhaps 2 or 3 months ahead of their appearance in the UK. Even on a daily basis in small shopping arcades I have noticed that prices vary startlingly on occasion for similar items – but the Japanese don't seem to even bother to check!

ority. But it would seem the reverse is true on *economic* efficiency on many aspects. In distribution, imports and market control there is much for Japan to learn from the West's experience in competition policy and open markets.

But to return to our UK-Japan theme. In both countries there continues to be a basic inability to use *competition* as an effective discipline in the public interest. The discipline of competition is, in the end, the sole justification for allowing freedom in private enterprise. The morality of producer gain is without foundation if competition is compromised.

In Britain, although there has been a moderately successful history of post-war anti-monopoly and restrictive practices action, the major "solution" has been sought, at least until the current government's experiments with 'contracting out' and 'privatisation', in Nationalisation and official regulation. Britain has failed, by opting out, to use competition effectively.

In Japan neither Nationalisation nor regulation nor an effective private sector competition policy has been pursued. Instead producer arrangements have been allowed to proliferate and links with the bureaucracy and government often used to secure advantage and protection. This is a near modern Mercantalism where a strident overseas trade performance has been matched by an 'orderly' internal market. Here too, but by default, there has been a failure to use competition effectively.

So again, despite initial appearances, there is a common problem.* Towards a solution the most valuable contribution to this debate has come not from the Joan Robinsons or J.K. Galbraiths of this world but from the little known "Austrian" school of economics.[35] Though this may have started in Vienna, it is today by no means a group of people living there – though the name persists. Early members included names like Joseph Schumpeter, Von Mises and Bauen-Bawerk and today it includes Friedrich von Hayek in Austria, Stephen Littlechild in England, Israel Kerzner in the US and Sudha Shanoy of India (currently in the U.S.).

The stress of the Austrian school is always on 'freedom of entry' rather than on cur-

* As a 'solution' for this problem I think it wrong to join those smug semi-educated economists who tell us that the ideal is something called 'perfect competition' (PC). PC presupposes a set of conditions that are the very denial of the dynamic process of real competition in an evolving economy. It is a dead, static, end state; a picture of boring uneventfulness awaiting us when everything has been achieved. In metaphore it is the flat delta of a mature old river where truly interesting competition is the rushing torrents and erosion of the mountain watercourse. PC assumes a 'homogeneous product' where real competition consists of the endless struggles to produce something better. PC assumes all producers face the same costs where real competition consists of each producer seeking to better his rivals with improved production methods. PC assumes only 'normal' profits where at least quasi monopoly profits from new developments are the very prizes which inspire business initiative. PC assumes perfect knowledge of markets and products by consumers whereas the educative role of advertising is a cutting edge of progress. PC assumes 'many' buyers and sellers where real competition can feel the effects of *potential* market participants even if there is currently monopoly or monopsony. In short, PC cannot be part of our world and has become one of the gravest handicaps to the economics profession in its mission to influence public policy. Real competition is, to use Hayek's phrase a 'a discovery process'.

rent members of a market. The dynamic *process* is the point to be observed rather than a photo-flash in time. Monopoly they note can be harmless or loss making as well as super-profitable. It is the urge and opportunity to explore that counts. If one supplier can act so efficiently as to achieve monopoly then, provided there are no barriers for new entrants, so be it. But new entrants should include foreign as well as domestic suppliers. The state is seen as the ultimate provider of barriers to entry in almost every case – and it is the state which can release the creative power of renewed competition. The existence of just one competitor, just one alternative choice for consumers, is an infinitely larger step than a subsequent jump to larger numbers. In the real world, the ingenuity of the consumer is always set to outwit the conspiring producer and must not be 'government foiled' in the attempt. Silent market behaviour by consumers is always preferable to any reliance on protest actions, regulation or complaint. All laws urged to 'protect' the consumer should be studied with the greatest suspicion lest they be subtly intended to exploit him. These thoughts, for Britain, mean a dismantling of Nationalisation and administrative controls and the promotion of the competitive process. For Japan, a hurricane of new thought, perhaps comparable to the early 19th century post Adam Smith change in informed opinion is surely the way to overcome the vested interests that have found security in the public apathy of modern Japan.

10. The Dual Economy and Structural Change

So far this paper has considered four aspects of current capitalism; macro-economic imbalance, ownership of the firm, state revenues and micro-efficiency. Now we can turn to the last area, the changing structure of activity.

In Britain during the post war years we have witnessed a painful and seemingly hopeless decline in industrial employment. "Britain never really seemed to recover from the war" wrote one outside observer. At the same time, the growth of public sector employment has been, according to an important analysis by Bacon and Eltis,[36] the main reason for the decline in the 'tradeable' sector of the economy and thus in the overall decline. But at the same time the so-called 'middle classes' have seemed to do rather well. Home ownership has increased dramatically. Any visitor to Britain is likely to express surprise at the high standard of living he mostly sees around him and, in London, many express a sense of wonderment at the number of Rolls Royces and other prestige cars. There is surely a strange paradox here between the comparative statistics and reality. But go north to the old areas of industrial activity, look at the depressed inner cities and the idle or bulldozed factories and doubts creep back. Some are doing well, to be sure, but others are falling behind.

In Japan a very different scenario has unfolded. After the war most people found work – of sorts – in the old small scale areas of activity. "There was none of the expected high unemployment. . ." writes Takafusa Nakamura "for the simple reason that people could not afford to be unemployed."[3] Farming, restaurants, distribution, small workshops, traditional arts and crafts, family worked businesses and other small outfits employed the overwhelming majority of the Japanese labour force. The result was low wages, low per capita output and neither the capital nor a market to sustain large scale industrial production. But Japan nevertheless possessed great strengths at that time – a well educated workforce with knowledge of industrial techniques, a core of industry together with numerous small scale workshops containing useful machinery which had survived the war, some centres of great wealth, and a legal, social and political system which formed a satisfactory environment for business security and confidence. Government worked with industry and the banks were sufficiently entwined with industrial ownership to enable a major part of new credit creation to benefit productive enterprise.

Then America supplied that vital wealthy market for industrial output and, through inward capital investment, the initial gap between exports and the cash needed for raw material and oil imports, was bridged. Motored by the ability to sell into overseas markets Japanese industry raced ahead and the high savings rate of Japanese households sustained an extraordinary level of capital investment.[37] Growth was seen as *industrial* growth and gradually the numbers employed at low rewards in the 'old' sectors were transferred to the 'high reward' industrial sectors.* Meanwhile, the conservatives who have run Japan[38] since the war have repeatedly used deflation in the face of economic difficulty, forcing industry into a constant export hungry stance. And historically, the things that are exportable are industrial things.

The result is that Japan, though in a different context from Britain, also seems to have a two sector economy in which the incomes and prospects of one sector are progressing well whilst those of the other languish.

To analyse this further we can look at various writings which have sought to explore 'stages' in economic development. Rostow's stages are not very helpful – both Britain and Japan have clearly 'taken off into self-sustained economic development'. I prefer to turn firstly to Galbraith on two counts. Firstly, in his *Economics and the Public Purpose*[39] his chapter on 'The Two Systems' where he postulates modern economies characterised by a 'planned' sector and a 'market' sector seems useful because Japan at least seems to conform to the notion of a government-industry co-operative and 'indicatively' planned sector which can be contrasted with the competitive Adam Smith style small business sector and, secondly, because his postulates in *The New Industrial State*[40] have led to concepts of stage by stage evolution discussed by other writers which neatly fit our needs.

Galbraith's long term stages involve the idea that any enterprise requires inputs of factors which he lists as: physical labour, land, capital and team work management. He suggests that, over time, *technological* development has led to changing amounts of relative factor input and that the owners of that factor which is in shortest supply relative to demand at the margin emerges with the highest return, the control and prestige in society and characterises the stage of development. Thus in primitive times all factors

* It is difficult however to judge the extent to which full employment has been achieved since unemployment as a measured phenomenon amounts only to a tally of those who have more or less joined the industrial sector but are currently out of work. It is small wonder therefore that the figures are regarded as 'controversial'.

except physical labour were cheap and so the owner of 'slaves' predominated. Later, as agriculture developed land became the 'scarce' factor the landowners presided. Later as new lands were developed and technology called for capital for factories, 'capitalism' emerged but today capital is plentiful and large scale production calls for managerial team work and government bureaucratic co-operation. This managerial structure or 'Technostructure' now predominates. But Galbraith fails to tell us what comes next!

For more we have to turn to the 'Think Tank' futurologists mainly in the US or to a fascinating book by a British author, Daily Mail Business Editor, Russel Lewis. In his book *The New Service Society*[41] he challenges Galbraith (as has G. C. Allen though on different grounds)[42] by saying that the 'Technostructure' is only a concept of limited value and then only on the basis of a predominantly *industrial* economy. Lewis was one of the first to point out that with the exceptions of Japan and West Germany, all of the advanced economies in recent years have had a fast growing *service* sector and that there is a general correllation between levels of income per head and the proportion of the labour force in the service sector. The market is telling us that now less people need to be employed to make the industrial products we require but, in our affluence, we choose to buy more services – banking, insurance, education, information, travel, health services, entertainment, personal services, psychoanalysis, help for the aged, litigation, house improvement, and much much else besides. A smaller and smaller proportion of our income is devoted to motor cars (after tax), industrial gadgets and similar factory output. We are moving into the uncharted waters of the post-industrial age. But there is the greatest temptation to say, just as many must have done in Britain 150 years ago that "we don't see how these new-fangled industries can ever sustain our population, 'tis farming which is the basis of the economy", that now "we don't see how the service sector can be the basis of a prosperous economy, 'tis industry which must be protected as our economic base".

The market, the relative incomes and growth in the two sectors and trends generally now, as then, flatly contradict such pseudo-wisdom. In Britain – but not yet in Japan.

If part of the problem is to recognise, albeit with numerous caveats, the different stages in the evolution of the economic structure, another part is to suggest the *means* for promoting change as painlessly as possible. Japan has a dual economy based on a pre-industrial versus an industrial stage. Britain has a dual economy based on an industrial versus post-industrial stage. Central planning and intervention is typically backward looking and subject to the politicisation of economic decisions based on interest group influence[43] – at any rate in post-war Britain. In France and Japan, such planning was successful as post-war reconstruction but later appeared to succeed only by accident. Or, where there has been genuine influence, it can be said to have disadvantageously distorted the economy.[44]

For the best *means* of change we had best now return to the ideals of the liberal tradition in political economy.* Just as market forces in Japan have gradually relieved the disadvantaged in the 'dual economy'[46] so, in Britain, we should allow market forces

* A modern writer of particular note that I would commend on this is Financial Times writer, Samuel Brittan.[45]

to carry us forward into a service sector specialising led economy which, in certain largely unrecognised ways we already are. Britain is now the world's largest earner of 'invisibles' and, in computers, Britain's lead in 'software' compared to Japan's lead in 'hardware' neatly makes the same point.

11. Conclusion

Five areas in modern capitalism posing problems for both Japan and Britain have been identified – macro-economic imbalance, ownership of private corporations, state deficits, inadequate use of price competition and the changing structure of the economy. Reference was also made to the problems which were seen as afflicting capitalism during earlier times.

In all of these a relationship between the problem as found in Japan and in Britain has been seen despite widely differing symptoms.

Somewhat radical solutions seem to be required if future progress is to be made and a variety of such solutions have been suggested. Regarding the macro-economic imbalance, the principal aim should centre on the creation of increased investment opportunities. Regarding corporate ownership, new relationships need to be found between employees and share ownership. Regarding state finance, a reversion to the two original forms of state revenue – the right to income from site values and the right to seignorage benefit is required. Regarding price competition, a renewed assertion of the principles of a liberal economic order seems the only solution whilst the restructuring of the economy – whither direction it will go, is best facilitated through an acceptance of market clues.

If there is any common thread to both the problems identified and the solutions offered it is perhaps that established interests, in defence of their position, have created 'road blocks' against the free flow of economic change. It follows that many of the solutions offered will inevitably and often adversely affect those interests. An opening of competition may well reduce the profitability of some existing owners, the use of shares as part payment of reward for labour within corporations will affect existing share owners, a reduction in subsidies on agricultural production will affect land values (though probably not the current incomes of farmers or farm workers), allowing rapid structural change is likely to mean less willingness by governments to subsidise declining industries . . . and so on.

In Britain one sometimes wonders whether new ideas are of interest only to those whose aim is to protect their position, but in Japan, seeing the interests of the country seems – incredibly – to be the case generally. Quite obviously it is a logical absurdity to suggest that individual interests can be over-ridden in the interests of the economy as a whole by anything other than actions motivated by either altruistic or by overall welfare considerations. Economists should surely take a special pride in – and accept a great responsibility for – their role in this process.

Politicians, however, in both Britain and Japan who respond only to sectional and personal interests in making economic decisions are surely the despair of our age. But one cannot help feeling that Japan with its national – and famous – characteristic of 'pulling together' and seeing the interests of the whole nation now holds the greater hope for constructive change in current circumstances.

The problems identified are not criticisms of capitalism as such and the solutions offered should not be seen as in any way doctrinaire. They come rather from the rich and varied historical traditions of liberal political economy.

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