Chapter 4
Is capitalism everywhere the same?

As managed capitalism developed in different societies, it took very different organizational and institutional forms, but in the wake of the 1970s crisis the neo-liberal model of capitalism became intellectually and ideologically dominant. This model seemed to be driving all societies towards a new market-based uniformity. Does this mean that capitalism is becoming everywhere the same? Or have the international differences of managed capitalism persisted and maintained the diversity of capitalist societies? This chapter examines the development and transformation of three very different systems of managed capitalism in Sweden, the United States, and Japan.

Swedish capitalism

Managed capitalism in Sweden probably comes closest of the three to managed capitalism in Britain. Like Britain it has had a strong labour movement, a highly developed welfare state, and minimal state involvement in the industrialization process, though Sweden was rather more successful in developing an efficiently functioning managed capitalism.

The circumstances of Sweden's industrialization were quite different to Britain's. Sweden industrialized later and with only a small domestic market, because of its small population, and without the markets and resources of an overseas empire. Swedish industry was therefore dependent upon exports and had to be highly competitive if it was to survive. Indeed, some have argued that this pressure forced Swedish unions and employers to cooperate and explains the 'labour peace', for which Sweden later became well known.

This view is quite misleading, for there was intense class conflict during the early years of industrial capitalism in Sweden. In 1909 there was a five-month-long general strike that makes the British general strike of 1926, which lasted one whole week, look like a gentlemanly cricket match. The 1909 strike resulted from a steady escalation of conflict, as each side of industry extended its organization in order to outgun the other. Socialists were heavily involved in union organization and in the particular context of Swedish industrialization were able to create a strong and unified organization of the working class. Swedish employers responded by constructing a highly centralized national employers' association, which forced a comparable centralization on the unions. The absence of ethnic and religious divisions and low levels of individualism in a Lutheran society may well have facilitated strong class organization, but conflict was the driving force behind it.

Class cooperation came out of class conflict. The growth of such strong organizations made possible a staunchly corporatist form of managed capitalism, in which its management was substantially delegated to the central organizations. While British governments struggled in the 1950s and 1960s to get the national organizations of the unions and employers to take responsibility for wage restraint, Swedish governments could largely leave this to them. Indeed, Sweden acquired a reputation for 'labour peace' mainly because of the control these powerful organizations exerted over their members. Thus, it was the very intensity of class conflict in Sweden that created the conditions for organized class cooperation and peaceful industrial relations.

A strong and unified labour movement also provided the basis for a long period of Social Democratic government, from 1932 until 1976. This established its reputation through measures to relieve unemployment in the 1930s and an early adoption of Keynesian policies. It later created an advanced and extensive welfare state, based on high and progressive taxation.

State welfare was but one aspect of the collectivist policies of the labour movement. This also strove to reduce inequality through a 'wage solidarity' policy that remarkably compressed wage differentials, with the gap between the average wages of the higher and lower paid halving during the 1960s and 1970s. In the 1970s there was also extensive legislation to protect employees in the workplace and give them a voice in company policy. Such policies were not simply pursued out of ideology. They were part of a Social Democratic strategy to increase the labour movement's organizational and political strength by creating a common interest and identity amongst all employees, working class and middle class.

All this did not mean that Social Democratic Sweden was becoming a non-capitalist society. The labour movement's leadership recognized that welfare depended not just on the strength of socialist ideas and working class organization but also on the operation of a dynamic capitalist economy that could compete internationally and increase the size of the national economic cake. It was one of the central principles of Swedish economic policy that unprofitable companies should be allowed to go bankrupt, so that their resources could be transferred to profitable sectors of the economy. Swedish workers were in this respect rather less protected than British workers by government interventions to bail out failing companies. Furthermore, the union-controlled labour market policy did not protect jobs but assisted workers to become mobile and retrain.

Sweden showed that a Social Democratic welfare capitalism could really work, and this was apparently confirmed by its avoidance of

Thatcherism. Levels of industrial conflict did rise and Sweden too faced economic crises in the 1970s. Indeed, there seemed to be a parallel with Britain as a growing individualism and the shift of politics to the Right resulted in six years of 'bourgeois' government between 1976 and 1982. The Swedish Right was, however, historically divided between three parties that could not cooperate sufficiently to carry through a Thatcherite transformation. The Social Democrats then returned to government and this, together with favourable economic conditions, suggested that the Swedish model had weathered the storm.

This was an illusion, for the corporatist cooperation central to the Swedish model was now in a state of collapse. Centralized organization had generated its own tensions, not only between centre and periphery but between different sections of labour. The inevitable extension of centralized organization to white-collar and public-sector workers, as their occupations grew, produced very powerful organizations and these then engaged in competitive rivalries, which the centralized structure of Swedish bargaining could not contain and, if anything, amplified. The central wage negotiations became longer, more complex, and more conflictual. In the process Swedish employers became thoroughly alienated from the institutions of central cooperation.

They were also alienated by another sequence of changes. In the 1960s workers became discontented with the impact on their jobs and work conditions of Sweden's dynamic capitalism. A submerged labour radicalism resurfaced with demands for greater industrial and economic democracy. This culminated in the ingenious Meidner Plan to transfer gradually the ownership of industry from private capital to union-controlled funds, though only a heavily watered-down version was actually legislated. The Social Democrat leadership was not going to wreck the capitalist engine of Swedish economic growth. Serious damage was done, none the less, to the relationship between the labour movement and the employers.

The *modus vivendi* established in the 1930s between the labour movement and the employers had come to an end. During the 1980s the main employers' organization embarked on a broad counter-attack to reinstall the values of an individualist and capitalist society. There was an employer drive to decentralize and individualize wage bargaining, and in 1990 the employers finally withdrew from the central wage bargaining that had enabled the reduction of wage differentials. Their strategy switched from a corporatist representation of their interests on state bodies to a greater use of political influence and lobbying. Corporatism had been dismantled in Sweden, though by the employers rather than by a bourgeois political party, as in Britain.

A limited remarketizing of Swedish society had already begun as Swedish politics moved in a neo-liberal direction during the later 1980s. Welfare capitalism had generated a large public sector, high public expenditure, a large government deficit, and inflationary wage settlements, which were evidently eroding Swedish competitiveness. Business leaders warned that unless changes were made they would have to move their operations out of Sweden and the leadership of the Social Democratic Party recognized that industry was becoming uncompetitive. Exchange controls were lifted and financial markets deregulated; private capital was brought into state-owned industries; local authority services were operated increasingly on business lines; benefits and public expenditure were cut; taxation became increasingly indirect.

The crunch came in the early 1990s. The economic crisis that had been brewing in the 1980s arrived and GDP fell by 5% during 1991–3, while unemployment soared to levels not seen since the 1930s. The Social Democrats could not cope and were rejected by the electorate in 1991. Three years of 'bourgeois' government led by Sweden's most right-wing party followed. This meant further cuts in benefits and the introduction of more market mechanisms in the delivery of social services. Then when the Social Democrats returned in 1994 they too had to cut welfare expenditure in order to deal with a large government deficit. In the 1980s many had thought that the Swedish case proved that the Social Democratic alternative was still viable, but the early 1990s seemed to show that it was not.

The key issue here is the kind of comparison that is made. If Sweden in the early 21st century is compared with Sweden in the 1960s and 1970s, then there is no doubt that the 'Swedish model' of central cooperation, welfare capitalism, and growing equality has declined. As in other societies, inequality started to increase again during the 1980s. But if contemporary Swedish capitalism is compared with contemporary capitalisms elsewhere, there are considerable and significant differences, some of which are actually increasing.

Central wage agreements no longer exist but their replacement by broad sectoral agreements between employer and union groupings shows that Swedish wage bargaining has remained highly coordinated. Union membership has declined but is still, internationally speaking, exceptionally high, with 81% of employees unionized in early 2003, as compared with around 30% in Britain in recent years. This difference had in fact widened, as union membership declined much faster in Britain than Sweden.

The Swedish welfare state is also still distinctive. The Organization for Economic Cooperation and Development's (OECD's) summary measure of state benefit entitlements shows Britain and Sweden at virtually the same level in 1981, a substantial gap then opening up between them during the 1980s, as benefits were cut in Britain, and largely persisting since then *in spite of* the cuts in Sweden. Duane Swank's review of recent research on the Swedish welfare state concludes that there has not been 'much if any convergence of the Swedish welfare state with its neoliberal counterparts'.

Furthermore, these deviations from the neo-liberal model have been compatible with economic revival and a viable capitalism.

Sweden did go through a severe economic crisis in the early 1990s but has since recovered. Unemployment dropped from the 10%-plus level reached early in the 1990s to a tolerable 4% in 2001. The 2002 OECD Economic Survey of Sweden concluded that 'overall, the economy is performing well'.

So what does the Swedish case tell us about capitalism? It shows that in certain conditions the conflict between employers and unions generated by capitalism can provide the basis for centralized class cooperation and a functioning system of corporatist management and welfare capitalism. It also shows that such a system could not in the end contain the underlying conflicts between capital and labour, and sections of labour, which eventually paralysed it. Increasing international competition and global economic integration made such a high-cost system difficult to maintain. Economic crisis was postponed but could not be avoided, and Sweden had to conform *to some degree* to international neo-liberal tendencies. All this did not mean, however, that the structures and institutions created during the period of managed capitalism disappeared. The revitalizing of Swedish capitalism did not eliminate its collectivist distinctiveness, which remains and is proving perfectly compatible with economic growth.

American capitalism

With its pronounced individualism, American capitalism has been at the opposite end of the ideological and organizational spectrum. Industrialization occurred in a decentralized and individualist society, where there was a widespread belief in success through enterprise and initiative. The absence of an aristocracy and the establishment of political and civil rights by the 18th-century American Revolution had encouraged such beliefs. The growth of industrial capitalism did result in the formation of unions, but these were mainly self-interested organizations of craft workers that were not concerned with class organization or the socialist transformation of society.

In this context the business corporation flourished and produced a corporate rather than corporatist capitalism, in which business corporations rather than class organizations were the dominant actors. The large American domestic market enabled the growth of big corporations and in the late 19th century a greater concentration of ownership occurred than in other industrial societies. At first this took the form of 'horizontal' mergers to give control over markets, as in Rockefeller's construction of Standard Oil. It was, however, the 'vertically' integrated corporation, which built a strong and secure competitive position by bringing together all stages in the production and distribution of a product, that became the dominant form in the 20th century.

America was the home of the 'managerial revolution' theory, discussed briefly in Chapter 3. Although this underestimated the continued power of owners, it has been argued convincingly by Alfred Chandler that the managers of American corporations were distinctively allowed to 'get on with the job' during the period of corporate growth, which largely resulted from their highly developed 'organizational capabilities'. Chandler contrasted American management, with its use of profits to finance investment and growth, with the more personal and traditional ownership of British companies, which were more concerned with dividends to shareholders than long-term investment.

The centrality of the business corporation was paralleled by the distinctive character of American trade unionism. This was predominantly a 'business unionism' concerned not with social transformation or even the collective interests of labour as a whole but with obtaining the best possible contract for union members. This meant not only good wages but also fringe benefits, such as holidays-with-pay, insurance, and health care, particularly after the Second World War. This business unionism reflected not only domination by the business corporation but also the divisions within the American working class. It was the unionism of white, male workers and has been regarded as a deviant form by its class-conscious and socialist European counterparts. The proportion of employees unionized barely topped one-third even at its peak and this was already declining in the 1950s, though the unions were still well able to deliver the goods for those who were their members during the 1950s and 1960s.

As the importance of fringe benefits shows, some of the welfare that in Europe was the province of the state was in America provided by the corporation. Indeed, the term 'welfare capitalism', commonly used to describe the combination of a dynamic capitalism with an advanced welfare state, in America refers to corporate welfare provision. This is not to say that there was no development of state welfare in America, but this only provided a piecemeal safety-net for the poor and welfare was otherwise the responsibility of the corporation or the individual, and was delivered by private services operating through the market-place.

It would also be quite wrong to suppose that individualism and free market ideologies kept the state out of economic life. On the contrary, the monopolistic tendencies of business corporations meant that economic life required regulation, if competition were to be maintained and the interests of consumers protected. An 'anti-trust' movement emerged in the late 19th century and the Sherman Act of 1890 declared illegal any activity or organization 'in restraint of trade or commerce'. This did not stop the growth of powerful corporations, but it did have consequences, notably forcing the break-up of Standard Oil, and it did give rise to a distinctively American apparatus of anti-trust legislation and enforcement. The state had been drawn into economic life not by class conflict, as in Europe, but in defence of competition.

In the 1930s state intervention appeared to take a much more European direction. In response to the Great Depression, Franklin Roosevelt's New Deal legislated ambitious relief and welfare programmes, eventually adopting Keynesian economic policies. It

8. 'Ring-around-a-Roosevelt': his New Deal offspring dance around him

came into considerable conflict with big business over its taxation proposals; its drive to provide, partly through the publicly owned Tennessee Valley Authority, cheap electricity; its continuation of the 'anti-trust' attack on monopolistic tendencies; and its legislation to protect trade unions.

Unions were given the right to organize and bargain collectively, and a National Labour Relations Board was set up to enforce these rights. Union membership tripled between 1933 and 1938, as the Committee for Industrial Organization (CIO) established a more inclusive trade unionism and organized America's mass production industries. Further legislation to regulate wages and hours of work, and protect vulnerable groups, was passed in 1938.

The federal structure of the state, and its fragmenting division of powers between President, Congress, and Supreme Court, gave opponents many opportunities to block and frustrate New Deal measures. Furthermore, although the New Deal created an astonishing range of agencies and programmes, it lacked coherence, at least in comparison with the more ideological programmes developed in Europe. It depended on the commitment and energy of Roosevelt and an army of well-intentioned and highly motivated reformers and administrators, but there was no reformist political party to support it and drive it forward. The Democratic Party, Roosevelt's political base, did ally itself with the unions and supported state welfare programmes but it was not a 'labour party' and contained people hostile to the unions and the New Deal.

The pro-labour legislation of the 1930s was, indeed, at least partly reversed by the Taft-Hartley Act of 1947, which substantially weakened the unions' powers and rights. This was passed by Congress, against the veto of Roosevelt's successor, Harry Truman, demonstrating the weakness of a labour movement without a political arm. The American unions already faced in the 1950s the kinds of restrictions on their behaviour that the British unions did not have to confront until the 1980s.

In other respects, the managed capitalism of the New Deal continued to operate during the 1950s and 1960s. The social security legislation and welfare programmes introduced in the 1930s were extended in the 1950s and 1960s, especially to give free medical care to the poor and the old. As late as the 1970s, during Richard Nixon's presidency, the federal government experimented with the control of prices and incomes. Deficit financing continued, though not simply because Keynesian economics had become the new orthodoxy, for the Second World War and then the Cold War resulted in massive military expenditure. The profitability of substantial sections of industry, and therefore the employment and earnings of labour, depended on state spending. The whole idea of a state-directed industrial policy was anathema in the United States, but, as David Coates has argued, the creation of a military-industrial complex was, in effect, one form of such a policy. Business opposed government interference but accepted government money.

While American industry was in better competitive shape than British industry, it too suffered in the later 1960s and 1970s from inherited rigidities and intensified international competition, especially from Japan. Lower levels of trade unionism, state welfare, and public ownership did mean that there was less pressure to transform the state than in Britain. The United States was half way to Thatcherism already. But there was still half way to go, and the United States too went through a process of transformatory change, albeit at a slower speed, with frequent halts and occasional reversals along the way.

Thus, in the 1980s and 1990s, American society too was remarketized. Keynesianism was abandoned, government expenditure was cut, some industries were deregulated, some services privatized, and state welfare reduced. The 1970s' inflation discredited Keynesian policies. The Reagan administration of the early 1980s then sought to stimulate market forces by cutting both taxes and government expenditure, though vested interests resisted cuts in the latter and the reduction of the budgetary deficit was a slow process. The deregulation of the airlines marked the first break with the New Deal tradition of industrial regulation and was followed by the deregulation of the railways, trucking, telecommunications, and electricity generation. The publicly owned part of the railways, and many state-run local services and prisons, have been privatized. A welfare-to-work programme, which became a model for New Labour in Britain, limited the duration of welfare payments and forced recipients into low-paid work.

As in Britain, these changes were accompanied by the greater exploitation of labour through an intensification of work, declining real wages, and the weakening of unions. Hours of work lengthened and real wages dropped at the rate of 1% a year during the 1980s. Industrial corporations moved their plants south from the 'rust belt' to the 'sun belt' and then Mexico, in search of cheaper labour. Elitist 'business unions' concerned with meeting the immediate needs of their existing members either failed to organize the new labour force or (in Mexico) could not. By 2001 union density had dropped to a very low 13% of the labour force. Inequality increased, with the number living in poverty rising from around 25 million in the 1970s to around 35 million in 2002.

There were equally important changes in management, as the 'managerial revolution' of the early 20th century was reversed. The greater mobility of capital, popular investment in the stock market, and the expansion of the financial services industry increased the importance of a company's market valuation. According to the newly fashionable doctrine of 'shareholder value', the goal of management was no longer to invest in the future or build up a company or balance the needs of its various interests but only to maximize the value of its shares by increasing profits. Managers were given an incentive to do this through stock options which rewarded them for increases in their company's share price. Managers had been to some extent separated from owners by the managerial revolution, but now they increasingly became owners.

From the mid-1980s to the late 1990s, the intensified exploitation of labour and the emphasis on shareholder value raised corporate profits. There was economic growth, but not for long. Much of the growth was associated with an information and communication technology boom that had to come to an end some time. In the later 1990s, when exports weakened, growth was sustained by a surge in domestic consumer demand that was financed by a borrowing spree that could not go on indefinitely. The preoccupation of companies and investors with share prices encouraged a bubble mentality that pushed prices up to levels unjustified by earnings and profits, giving people a false sense of their wealth and then suddenly removing it when the bubble burst. The short-term concern with share prices at the expense of future prospects led to financial scandals at Enron and Worldcom, and in Wall Street, which undermined confidence and discredited the pursuit of shareholder value (see Chapter 6).

Much of the 1990s' confidence in the virtues of the American model has been dissipated and there is considerable uncertainty about the future. Higher state spending, with military and reconstruction expenditure rising in Iraq, together with tax reductions and lower interest rates, may stave off recession and even promote some recovery. Weakening exports, higher state spending, and high domestic consumption have, however, generated a huge international, public, and personal indebtedness, which is storing up problems for the future, as are higher unemployment and rising poverty.

American capitalism has from its beginnings been characterized by strong beliefs in individualism and market forces, but the development of American capitalism, like capitalisms elsewhere, did result in the collective organization of labour, corporate concentration, and extensive state regulation. Managed capitalism in America was importantly different to managed capitalism in Britain and Sweden – collective organization was less extensive, state welfare less universal, anti-trust legislation more developed – but America did, none the less, go through this stage.

The current state of American capitalism reflects its historic distinctiveness, but it is not just the expression of some special character that American capitalism possesses. It is also the result of the remarketizing of American society after the crisis of the 1970s. This remarketizing process met less resistance and fewer obstructions than it did elsewhere and produced strong growth, but also created a bubble that eventually burst, and generated serious economic and social problems. The recent recovery looks fragile and American economic success towards the end of the 20th century may well be leading to a crisis early in the 21st.

Japanese capitalism

Japanese industrial capitalism was managed from its very beginnings. By the middle of the 19th century Japan was a highly commercialized and entrepreneurial society but not yet an industrial one. After the Meiji Restoration, Japan's 19th-century revolution, industrialization was directed by the state as part of a programme to build a strong and independent country that could stand up to the Western empires that were encroaching upon Japan. The individualism and liberalism of the West were attractive to some intellectuals and policy-makers but alien to Japan's new rulers, who were nationalist bureaucrats schooled in the Japanese version of Confucianism.

One of the best-known ways in which the new government tried to industrialize Japan was by setting up model state enterprises but these were not always successful. Some, such as the Yawata Iron and Steel Works, were crucial to the industrialization process, but others were poorly managed and inefficient. Thus, as Frank Tipton has pointed out, the state-owned cotton spinning factories imported water-powered machines with only 2,000 spindles instead of investing in the latest steam-powered machines with 10,000 spindles, which could be operated by relatively unskilled labour. The state-owned enterprises ran into such difficulties that in the 1880s the government privatized those that were not considered of military importance.

Privatization did not, however, mean that Japanese industry now consisted of independent private companies. A distinctive feature of Japan's industrialization was the emergence of the large industrial groupings known as *zaibatsu*. There were four main groups – Mitsubishi, Mitsui, Sumitomo, and Yasuda. They were owned by families, which controlled them through holding companies. Corporate concentration was occurring in all industrial societies but in Japan it took a unique form, for each *zaibatsu* stretched across virtually the whole of Japanese industry and had its own bank and its own trading company to market its products. The *zaibatsu* were closely connected with the state and eventually performed important colonial functions for the government.

The model enterprises were anyway the least important aspect of the state's promotion of economic growth. The government removed the feudal barriers and restrictions that would have inhibited economic development, and created a modern nation-state. Japan became a unified country for the first time and the heavy subsidizing of railways and shipping transformed communications. Shipbuilding too was heavily subsidized and by 1939 Japan's production was second only to Britain's. The state also created a banking system to finance investment and trade, at first experimenting with American-style private banks but then creating a European-type central bank and specialized banks to cater for the needs of the various parts of the economy.

Above all, the state maintained Japan's economic independence. Many foreign experts had been brought in but were then rapidly replaced by home-grown expertise created through new educational institutions. Foreign capital was kept out, until Japan had become a strong independent state. Indeed, it was the peasantry that bore the main cost of Japan's modernization through a land tax that initially provided three-quarters of the government's income. Japan also began to construct an overseas empire that would provide it with protected markets and raw materials.

Japan was the only non-Western society to industrialize successfully in the 19th century. A distinctive managed capitalism had been created, in which the state played a directive role and corporate concentration took the form of industrial groups that stretched across the economy. Another distinctive feature was the weakness of labour organization. Workers did try to organize, with some success during the First World War, when industry boomed and labour was in high demand, but met heavy employer opposition and state repression. State welfare too was undeveloped, in part because employers preferred to introduce company welfare schemes that integrated workers and detached them from the labour movement.

These distinctive features were further developed during the postwar period, when Japan's growth machine really got going and made the Japanese economy the second largest in the world. Chalmers Johnson has pointed out that military defeat actually increased the state's capacity to direct the economy, by removing military interference and *zaibatsu* obstruction. The *zaibatsu* were dismantled but then reconstructed, as the beginning of the Cold War led the American-dominated Occupation Authority to reverse its policy. Mitsubishi, like Krupp in Germany, now became an anti-communist resource rather than a reservoir of fascism. Crucially, the *zaibatsu* were rebuilt under the aegis of the Ministry of Trade and Industry (MITI), the powerhouse of the state's industrial policy, which used its control of trade, currency, and investment to develop the industries of the future.

The reconstructed *zaibatsu* and other similar groupings performed important economic functions. As they stretched across industry, they provided coordination across industrial boundaries, but they also engaged in intense competition, which stimulated productivity and enhanced international competitiveness. They could pursue long-term policies aimed at building market-share, because their reconstruction on the basis of mutual ownership and their finance by the banks relieved them of shareholder pressure for high dividends. This also meant that they were protected from take-overs by foreign capital or corporate raiders. This pattern of ownership was linked to integration within the company, for Japanese companies could look after their employees instead of maximizing the payment of dividends to shareholders.

Union organization grew rapidly during the first years of the Occupation, giving the lie to claims that Japanese unions have been weak for cultural reasons. In January 1946 there were 900,000 union members, but by June 1949 there were over 6.5 million, as compared with the prewar peak membership of 421,000 in 1936. They were at first encouraged as 'democratic' organizations by the Occupation Authority, but this rapid growth, in the context of the policy shift from an anti-fascist to an anti-communist stance, led to a sustained and violent attack on them by both employers and the state. The employer strategy soon became, however, not the destruction of unions as such but their replacement with tame 'enterprise unions'. At the 'battle of Nissan' in 1953 the company, backed by the Japanese Employers' Association and with financial support from the banks, provoked the existing union into a strike, locked out its members, created its own Nissan union, and gave those who joined it their jobs back. Enterprise unions became the norm.

High company employee integration gave Japanese companies the edge that enabled them to out-compete their Western rivals. The company provided the security of lifetime employment, wages that increased with seniority and length of service, welfare services, and often housing. In return employees had to work hard and long, giving up weekends and holidays if required by their company. Other mechanisms of integration were the absence of status distinctions within the company, company uniforms, and the social interaction of workers and managers both at work and leisure. Earnings differentials have been very much lower in Japanese companies than comparable Western ones.

Integration for some was at the expense of others. Contract workers, part-time workers, and women workers, who were largely confined to these categories, did not enjoy the benefits of lifetime employment and all that went with it. This also applied to the small companies subcontracted to carry out much more of the large company's work than in Western industrial societies. These were the shock-absorbers that enabled the large companies to ride out economic fluctuations by turning their labour on and off as required. There was a sharp division in Japan between an integrated elite of permanent employees and a disposable periphery.

A key set of linkages in a highly integrated institutional structure operated through the Japanese welfare system. There was only a rudimentary welfare state, which kept workers highly dependent on company welfare schemes and reinforced their subservience but also encouraged the Japanese to save privately for a 'rainy day'. Individual savings went into a postal savings scheme controlled by MITI, which could then channel them into industries it had marked out for investment.

So, in Japan there is an undeniably successful capitalism very different in character to the others we have examined. While the welfare state has been an integral part of Swedish capitalism, its absence is crucial to the Japanese model. The state's directive role has been particularly distinctive, and led some commentators to call for Western governments to develop comparable industrial policies. Patterns of corporate ownership and bank finance contrast with the stock-market model of the United Kingdom and the United States. Company domination of workers has been more complete in Japan than even the United States, where unions have been more combative. Company welfare too has been more extensive, and Ronald Dore has described Japanese capitalism as a 'welfare capitalism' in yet another application of this label.

Like the other systems of managed capitalism that we have examined, the Japanese one ran into difficulties in the later 1960s and the 1970s, and Japan also came under heavy and steady external pressure to open itself up to trade. This really began after the early 1970s rapprochement between the United States and China changed the American view of Japan, which was now regarded not as a bulwark against East Asian communism but as an industrial competitor that engaged systematically in unfair trade practices. Although Japan found ways of replacing tariff with non-tariff barriers, famously declaring that Raleigh bicycles were unsafe, restrictions on the import of goods and capital were gradually lifted. MITI's instruments of control were dismantled and it had to rely increasingly on 'administrative guidance' through its extensive network of retired bureaucrats with second careers in industry.

Japan did not, however, respond to the problems of the 1970s by abandoning its institutions and plunging down a neo-liberal path. Growth and international competitiveness were sustained by exporting the capital accumulated through growth and setting up operations to exploit cheaper labour abroad, particularly in South-East Asia, but also in Europe, the United States, and Australia. MITI launched a new drive to develop the knowledge-based industries of the future, and Japan soon became the world's leading producer of microchips. So strong was the competitive strength of Japanese industry that the United States continued through the 1980s to run a huge trade deficit with Japan, though Japanese investment in American bonds recycled some of Japan's earnings back to the United States and financed its deficit.

All this changed at the beginning of the 1990s. Share and land prices had reached unsustainable heights and the bubbles burst. A stock-market crash was followed by economic stagnation and higher unemployment. Japan entered a vicious deflationary circle. As unemployment rose and uncertainty about the future increased, people saved more, consumer demand dropped, and growth declined even further. The problem was not so much in export markets, where many Japanese companies were still very successful, but the domestic market. The government has responded with increased public expenditure and lower interest rates but found it difficult to restart the growth machine.

The institutions that had enabled growth began to attract criticism. Lifetime employment was viewed as a 'rigidity' that interfered with the free workings of a labour market and prevented companies shedding labour. Mutual ownership in the industrial groups was criticized for supporting unprofitable companies and preventing a refreshing inflow of capital from abroad. The banks were considered too closely linked with industrial groups and therefore unable to pull the plug on unprofitable companies. Indeed, many banks were themselves in serious trouble because they had loaned so much money to bankrupt speculators and failing companies. Faltering economic growth and the exposure of corrupt links between companies, banks, political parties, and bureaucrats combined to undermine the 'developmental state'. Inside and outside Japan, there were calls for Japan to conform to the market model that, it was claimed, the pressures of globalization in any case made unavoidable.

Japan has therefore come under a growing pressure to allow a greater mobility of capital and deregulate financial markets. Foreign capital has moved into Japan, with some ailing companies being bought by foreign competitors, as in Renault's take-over and rationalization of a failing Nissan. The so-called 'big bang' deregulation of banking and finance announced in 1996 has allowed Japanese capital greater freedom and facilitated the entry of foreign financial interests. Bankruptcies and rationalization followed, as weak institutions lost their protection. The term 'big bang' belied, however, what was in reality a slow and partial process of implementation that was not at all comparable to the 'big bang' in London. There is some acceptance that Japan must adapt but not that it must conform.

Can Japanese institutions be preserved? In his recent examination of these issues, Ronald Dore has chronicled a process of gradual change, with the main Japanese employers' association rethinking lifetime employment; legislative changes to strengthen shareholder power; a movement towards performance-related payment systems; and some liberalizing deregulation. Dore also comments frequently, however, on the superficiality of change, resistance and reaction to it, and the inertia of a system with so many interlocking parts.

9. Carlos Ghosn, the Nissan CEO from Renault, announces the closure of factories, October 1999

What is striking about Japan is in fact its stability, both political and economic. In the early 1990s it looked as though the long-standing domination of Japanese politics by the Liberal Democratic Party (LDP) was breaking down and a political alternative was emerging, but the main opposition party, the Japanese Socialist Party, then entered a coalition with the LDP, which has subsequently maintained its dominant position. The astonishing growth rate of earlier years has not been maintained and Japan has certainly experienced much economic pain in the 1990s, notably higher unemployment, but its current unemployment rate is actually considerably lower than the OECD average. The world's second largest economy has been kept afloat and has not tumbled into depression. If you have experienced massive economic growth and have a high standard of living, stagnation may not be a bad option! This stability may be expected to preserve Japanese institutions.

The pressure to marketize Japanese society may also be lessening. Shareholder capitalism, certainly in its American guise, was riding high in the 1990s but, as indicated earlier, this is currently under something of a cloud after the accountancy scandals at Enron and Worldcom, while, after the bursting of the late 1990s bubble, the American economy appears fragile. Those seeking to resist the liberalizing of the Japanese economy now have ammunition to counter the arguments of those who have been pressing for a liberal transformation of Japan.

Convergence?

We have examined the emergence of three national systems of managed capitalism with distinctive organizations and institutions. In all three, capitalist industrialization generated class organization and class conflict, and attempts by governments to manage the problems of a capitalist society. Each also created its own 'welfare capitalism', though this meant different things in each society.

Although each seemed to have solved the problems of capitalism in its own way, all three faced growing difficulties from the 1970s, in part because of changes in the world economy but in part because of the problems that their distinctive institutions had created. All came under pressure to abandon their practices of managed capitalism and introduce reforms that would allow market forces greater freedom to operate.

Has this led to the decline of national differences? Instead of capitalisms is there now just one all-conquering capitalism? There is plentiful evidence of continued national distinctiveness. Nor does the fact that all three have moved in a similar direction mean that they have converged, in the sense that they are any closer to each other. If three people standing one metre apart each move one metre to the right they are still as far apart as they were before!

It is important to resist the notion of an inevitable convergence, not only because it is untrue but also because it deprives us of choice. In a world where functioning alternatives to capitalism have been eliminated, it is only the alternatives within capitalism that provide choice. This does not mean that one can simply pick whatever capitalism one chooses, for the existing institutions in any one society constrain free choices, but it does mean that people can strive to move their particular capitalism in the direction they think appropriate. The argument that market forces inevitably and increasingly override politics in a capitalist society cannot be sustained, for the comparative study of capitalisms shows that quite different organizational and institutional structures have survived remarketization and are perfectly compatible with functioning market mechanisms.