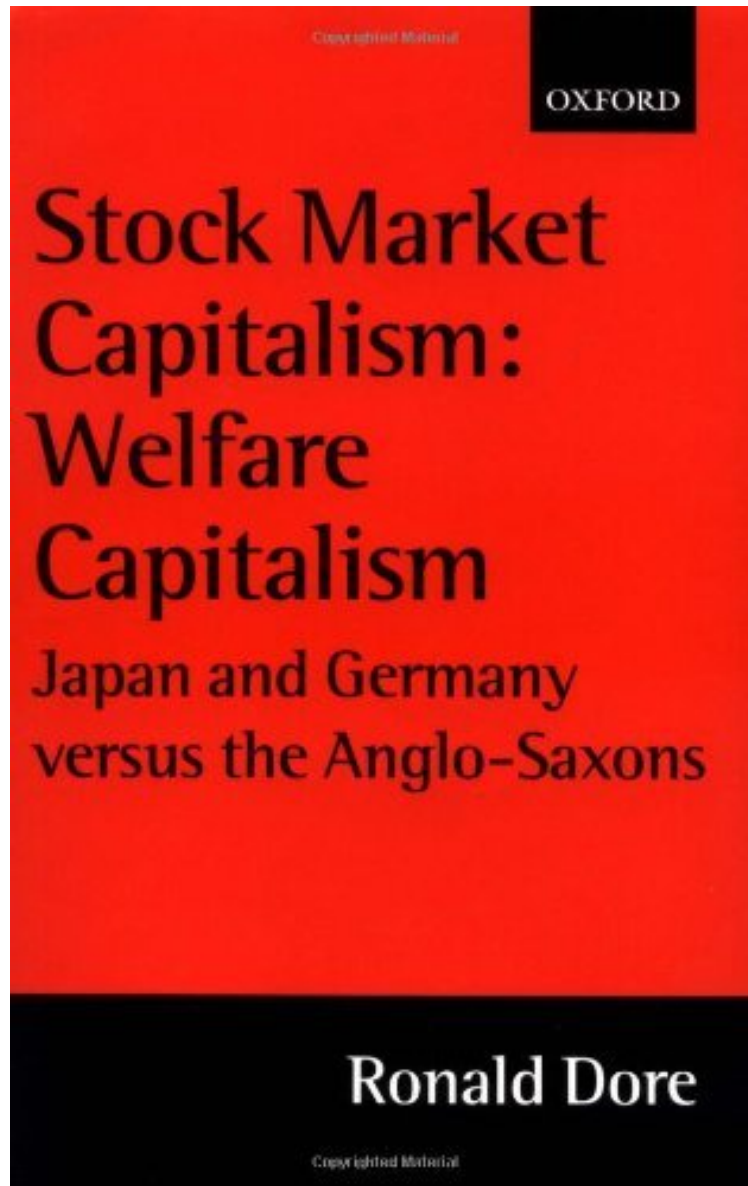


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Stock Market Capitalism: Welfare Capitalism: Japan and Germany versus the Anglo-Saxons (Japan Business and Economics Series)

Ronald Dore

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Ronald Dore : Stock Market Capitalism: Welfare Capitalism: Japan and Germany versus the Anglo-Saxons (Japan Business and Economics Series) before purchasing it in order to gage whether or not it would be worth my time, and all praised Stock Market Capitalism: Welfare Capitalism: Japan and Germany versus the Anglo-Saxons

(Japan Business and Economics Series):

5 of 7 people found the following review helpful. Review of Journal of Economic Literature By A Customer This review appeared in JEL, Dec. 2002, by RICHARD A. WERNER Sophia University, Tokyo. Hardly a day passes without the financial press asserting that Japan's economic structure is responsible for the long recession and demanding "badly needed" structural changes. The results of a decade of apparently vigorous counter-cyclical policies have been disappointing. It is therefore not surprising that many experts agree with the Bank of Japan's argument that deep structural reforms are needed to enhance growth. A similar story is being told about Germany. Recent economic weakness is seen by the European Central Bank as evidence that structural re-form is "needed"-a view enthusiastically supported by the financial press (who, according to Dore, constitute an interested party benefiting from the "financialization" that results from introducing U.S.-style capitalism). As Francis Fukuyama argued, the "Anglo-Saxon" free market and stock market based system has become the global standard. It is this mainstream view that Ronald Dore's important and refreshing book is directed against. It deserves praise not just for Dore's courage in defending an unpopular cause. The book is very timely: it points out the advantages of German/Japanese welfare capitalism just when it is becoming an endangered species. It is rich in detail, yet surprisingly concise. It is analytical, yet highly readable and full of illuminating examples. It combines an eye for macro-economic implications with sound micro-economic and management-level insights. Finally, Dore's book provides an analysis of the ongoing pressures on welfare capitalism and how its salient features are now changing. Dore's readers benefit from his decades of experience and seminal work on the Japanese firm. The relatively smaller weight given to Germany is the book's main (though acknowledged) weakness. Dore identifies key features that make German/Japanese capitalism different from the "Anglo-Saxon" variety familiar from textbooks. The former produces benefits due to its cooperative nature and long-term orientation. The Anglo-Saxon model is good for the shareholders. The Germans and Japanese maintained market mechanisms, but eliminated shareholders as the main beneficiaries. Instead of serving the few, a form of capitalism was born that succeeded in creating a decent quality of life for the many- employees and society at large. Dore is a must-read for any economist, precisely because he challenges our preconceptions. As is increasingly recognized in the literature, once unrealistic assumptions such as perfect information and efficient markets are relaxed, there is no guarantee that markets left to their own devices will produce socially optimal results. The designers of the German and Japanese systems based their institutional designs on a more realistic description of the world. By focusing on mutually beneficial cooperation and coordination, they managed to internalize externalities, minimize information costs, and, most of all, motivate individuals. They recognized that "utility functions" are interdependent, people compete in hierarchical fashion and have a common desire for justice and fairness of organizational arrangements. Recent growth theories acknowledge the importance of the human resource aspect of "labor." While neglected in static models and policy advice, human resources are at the center of the German/Japanese model. With regard to the premise that capital is the scarce resource and that "labor" will normally be in fairly abundant supply, Dore says, "It is amazing that anyone can seriously sustain this view in a world awash with so much liquidity that its movement from one country to another keeps exchange rates in perpetual motion" (p. 15). Human resource mobilization requires institutional design. "The whole discussion of modal behavioral dispositions as a factor in the functioning of economic systems tends to be avoided among economists who wish to believe that what they teach their students are theorems about THE economy, determined by the universal utility function of MAN" (p. 38). Not so in Japan, where people tend "to be good at discerning possibilities of cooperation which can be of general benefit, and at devising organizational forms which can reap those benefits in ways which all participants can consider fair" (p. 38). One such organizational form is the system of industry associations, which are modern incarnations of the medieval guild structure. Due to their public goods character, resulting cartels may be welfare-enhancing. The cooperative orientation does not mean there is no competition. As Dore explains well, competition can be fierce, as the system combines markets and hierarchies. The tendency towards the formation of cartels is counteracted by relatively low concentration ratios in many industries (due to bank finance and cross-shareholdings which result in fewer hostile takeovers) and inter-firm rivalry due to lifetime employment. Just when economists are beginning to recognize these issues, Germany and Japan are moving toward adopting the Anglo-Saxon model. These changes increase "financialization" and thus the share of economic activity devoted to profit-seeking by shifting ownership certificates from A to B. Adopting U.S.-style capitalism means that Germany and Japan are importing its disadvantages and social problems. Dore asks: Can it be efficient to devote ever more people to servicing "gambling on uncertainties in financial markets" with analysis, advice, appraisal, advertising? As increasingly strong shareholders demand "value," will social welfare or overall fairness increase? One issue remains: If it is so successful, why is Dore one of the few to defend welfare capitalism? Recent weak economic performance is blamed on the system, and it is seen to have outlived its usefulness. Whether this is really true must be investigated, though it is beyond the scope of Dore's book. In my forthcoming book (2003, Princes of the Yen, Japan's Central Bankers and the Structural Transformation of the Economy, Armonk, NY: M.E. Sharpe) I provide evidence that the Japanese recession was not due to the economic structure but instead to a central bank aiming at dismantling welfare capitalism. All in all, Dore's book succeeds in

raising and illuminating these challenging issues. It deserves much attention. It also shows the need for further research on this topic-and soon, before this species of capitalism becomes extinct.2 of 2 people found the following review helpful. Good book with wrong conclusionsBy Giovanni PolastriI disagree with the conclusions which contain a good deal of left-wing simplifications and pessimism (I believe that Germany and Japan will preserve many of their characteristics and prosper!). However, no doubt an interesting piece of work, which I recommend especially now that changes in the two countries mentioned above are finally accelerating (while the US is starting a phase of decline after a very successful decade).1 of 6 people found the following review helpful. Stock Market CapitalismBy A Customer"...a thoughtful and provocative book on how global capitalism may evolve" Jeffrey Garten, Dean of Yale Management School

Ronald Dore places recent developments in Japan in the broader context of gradual changes in modern patterns of capitalism common to all industrial societies--a process that he labels marketization plus financialization. His central focus is on the tendency for shareholder value to be preached as the sole legitimate objective of corporate executives, against the traditional alignment of Japan on the productivist, employee-favoring side of the divide.

`This book provides a good guide of change in economic behaviours of countries. Although it challenges the less financially astute reader, it makes more sense upon each reading. It is well-documented. The author explicitly shows a warmth for people's daily lives as the basis of economic systems.' H-Japan`A thoughtfully detailed book, it's worth the time to read and re-read.' H- Japan`Professor Dore has written a thoughtful and provocative book on how global capitalism may evolve. Whether or not you agree with him - and many economists and CEOs will not - if you are interested in the future of the world economy, you should read this book.' Jeffrey E. Garten, Dean, Yale School of ManagementAbout the AuthorRonald Dore is at London School of Economics.