Новые тексты

SOCIAL ORGANIZATION AND ECONOMIC DEVELOPMENT[1]

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In this paper I argue against the neoclassical assumption that markets should be all alike, and that differences between markets represent imperfections. Rather than assume the "model" market of economics, I propose four alternative assumptions about markets and market action. I argue that not only are these assumptions supported by observation, but that they will lead to better policies.

When Kazuo Inamori, the founder of Kyocera, the large Japanese electronic components firm, started business in 1961, he was faced with formidable obstacles. Despite an attractive new technology for the ceramic packaging of semiconductors, Inamori found it difficult to hire workers, to get financing, and even to buy supplies. Most importantly, he had trouble selling his admittedly superior product to Japanese semiconductor firms.

In fact, Inamori did not become a success in Japan until he became a success in the United States. In 1965 he traveled to the U.S., and in spite of his poor command of English, was able to interest Texas Instruments, then the world's largest semiconductor manufacturer, in his ceramic packaging. T.I.'s small initial orders became substantial ones and other U.S. firms, taking note, began to rely on Kyocera for supplies. When Inamori's export business to the U.S. was established, the Japanese business community acknowledged him. Only then was he readily able to hire workers, get bank loans, buy materials, and sell products in Japan.[2]

Inamori's experience is illustrative of several market conditions in Japan. First, it is hard to start a business in that country if you are an unconnected individual, even one with a good idea. Japanese workers, who value long-term employment and predictable management environments, avoid jobs in start-up companies with uncertain futures. It is difficult to get good, much less top-quality, technical help unless you are a well-known firm. Japanese lenders favor loans to companies that have established ties with other firms, such as suppliers and purchasers. Bank financing goes to companies with relationships to other companies, not free lancers like Inamori. Orders for products--even technologically superior new products--are made not solely on the basis of product characteristics or price. Japanese firms prefer to buy from companies they know and with whom they can anticipate a long-term relationship. It is difficult for an outsider to break into the networks of supplier-buyer relationships that connect buyers and sellers in the Japanese market.

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[2] 1 Recounted in Clyde V. Prestowitz, Jr. Trading Places: How We Allowed Japan to Take the Lead, New York: Basic Books, 1988, pp. 92-3.

The business failure rate suggests that starting an enterprise in the United States is also difficult, but not for the same reasons. In the U.S. Inamori would have had a better chance at hiring the ceramic engineers he needed, had he been able to convince them of the soundness of his ideas. American workers do not expect to remain with an employer for life, or even a long time, and often are particularly attracted to work in start-up firms where they might enjoy stock options and a dynamic management atmosphere. Money is difficult to get to finance new businesses in the U.S., but private venture capitalists do exist for precisely the sort of enterprise Inamori was attempting to establish. Even banks, convinced of the soundness of a business plan and promising proprietary technology, may lend to unproved individuals. An existing personal relationship or membership in a business network is not considered crucial to a financial relationship in America. Instead of trust, legal covenants would safeguard the lender's money as much as possible.

Suppliers in the U.S. would have been happy to sell to Inamori if he had money. American sellers typically distribute to many buyers, or at least that is their aspiration. Deals are done primarily on the basis of having an attractive product at an attractive price; who the buyer or seller may be is unimportant. The prospects for a long-term contractual relationship may be a factor considered by either party, but it is a secondary factor at best.

It is perhaps ironic that because of the character of the American marketplace, a Japanese man speaking broken English could more easily make a deal in Dallas, Texas than he could in Kyoto, Japan. The purchasing agents at Texas instruments looked primarily at Inamori's product, not at Inamori or the personal references he could bring to the transaction. After what seemed to them to be suitably cautious small orders, they decided he could deliver as promised and Kyocera became a major supplier of Texas Instruments.

There are at least two lessons one can learn from Inamori's example. First, it gives credence to Western critics who complain that Japan has a "closed" market where it is difficult to break into tight networks of business relations; the U.S., in contrast, has a relatively "open" marketplace where anyone with a good idea can hope to be a success. Of course it is also clear from this example that if the Japanese market is closed, it is not closed only to foreigners, but to anyone who does not go about doing business in a way that is acceptable and understood in Japan.

The second lesson one can learn from this example is a corollary of the first: *markets are not all alike*. The social bases of market activity differ in the two countries and channel economic action in unlike ways. The Japanese market is highly personalistic and presumes enduring networks of social relations, both within firms and between them. In contrast, the American market presumes autonomous individual decision making in hiring and firing, in purchase decisions, and in lending relations between firms and banks. In fact, I want to argue that it is the *differences* in markets that can lead to their economic success.

Explaining market structure

How can we explain the reasons for differences in structure and success between markets? Historically, the most important form of economic explanation has been neoclassical economics. Although originally developed by Adam Smith and his contemporaries to explain the logic of a rising industrialization in Europe, modern-day economists use the same logic to explain contemporary markets in the West, and more recently, Asian business patterns.

Neoclassical market explanations assume that economic action is motivated by rational self interest, an expression of, in Adam Smith's words, man's "propensity to barter, truck and exchange one thing for another" in an attempt to turn a profit. Neoclassicists conceive economic man as an autonomous profit-maximizing actor. Industrial structure, in this view, is the aggregated response of rational individuals and firms to extant economic conditions.

Underlying neoclassical explanations is a conceptualization of a "perfect market," an ideally competitive economic arena. George Stigler summarized the requisite economic conditions for perfect competition in four basic tenets: a sufficiently large number of firms producing a commodity so that no one firm is able to dominate the marketplace; commodities that are homogeneous, or more or less the same from each producer; firms that are autonomous actors which are widely dispersed throughout the marketplace; and a situation where everyone in a market has complete knowledge about offers to buy and sell. [3]

These four conditions for "perfect competition," according to neoclassicists, are the ideal setting for a truly efficient economic system, one that serves the most people in the most economically advantageous way. These conditions require that no firm or small group of firms dominate the marketplace. They require that firms be kept separate from each other so that collusion is avoided. Perfect competition is a situation where information is circulated widely to buyers and producers, where friends and acquaintances have no special knowledge.

Neoclassical economics assumes a theory of action, which is understood to be selfish and economically rational, and a theory of structure, which is the aggregated outcome of independent actions, not the result of political or social processes. It also assumes a natural state of autonomy between actors, not networks of relations or interdependency. A perfect market is one in which there are no social relations between economic parties. [4]

These conditions are never found in reality, of course, and the actual structuring of any given market is the result of rational actors, both firms and individuals, doing the best they can under the conditions they find, according to neoclassicists. Real firm structures reflect less-than-perfect situations, and real individuals may not be as hyperrational or self-seeking as the homo economicus of the neoclassical model. Nonetheless, the model serves as a baseline for economic analysis and government policy making. Analysts compare real markets with the fictive ideal to show how they differ one from the other and to isolate impediments to competitive conditions. Government policies, for example anti-trust laws that prevent price-fixing among firms, and international development aid policies are often attempts to maintain or create as close an approximation to the competitive model as is economically and politically feasible.

The neoclassical model is fundamentally a theory about, and a prescription for, economic autonomy: why autonomy is desirable--at both the individual and firm level--to economic functioning, and how it becomes corrupted by imperfections. Imperfections of each of the four attributes of a perfect market are possible. They may, for example, be the result of interaction or "social friction" between actors, which lead to collusion. Imperfections can also arise when there are "informational asymmetries," or unequal access to knowledge about quality or price. The assumption is that "Whenever asymmetry transaction specific investments exists, dependence exists. Whenever dependence exists, there exists the potential for opportunistic exploitation of those who are dependent." [5] Economists recognize that

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[3] George J. Stigler, "Competition," in the International Encyclopedia of the Social Sciences, David Sills (ed.). New York: Macmillan.

[4] Mitchel Y. Abolafia and Nicole Woolsey Biggart, "Competition and Markets: An Institutional Perspective," pp. 211-231 in Socio-Economics: Toward a New Synthesis, A. Etzioni and Paul R. Lawrence (eds.). Armonk, NY: M.E. Sharpe, 1991.

[5] Jay B. Barney and William Ouchi, "Basic Concepts," Organizational Economics (San Francisco: Jossey-Bass, 1986), pp. 22-23.

social friction and inequalities are common, and in fact may be ameliorated by structuring exchange differently to provide "remedies associated with dependence." [6] Contracts, for example, may assure performance where inequality between parties exists, and dishonesty can be punished via communications to future potential customers; economists conceptualize a "market for reputations." Another "remedy for dependence" is vertical integration, or placing market transactions within a firm so as to better monitor them for shirking or other imperfections. Although autonomy and asocial economic relations are ideal economic conditions, economists describe some social arrangements as second-best solutions that ameliorate dependency and other social frictions.

Although a model originally developed to explain the developed economies of Western Europe and North America, the neoclassical paradigm has assumed the stature of a universal theory equally applicable to all times and places: capitalist markets have a single logic and operate according to general laws. Markets differ only in the character of their imperfections and the institutionalized means used to ameliorate or adjust to them. Because of its presumed universality, policy analysts from the World Bank, the International Monetary Fund, and other development agencies therefore use this perspective to explain the structure and functioning of economies anywhere and at any historic moment. More importantly, they use this conceptualization to restructure economies so that they will emulate the “perfect” market model. Ideally, they would remove all differences – “imperfections”- from markets and make them all look like the ideal.

The result of radical restructuring of developing economies to help them achieve a “perfect” market in the last ten years has been a miserable failure. Countries as diverse as the Czech Republic and Russia, Thailand and Indonesia, have suffered dramatic harm to their social institutions and experienced immeasurable suffering when economic experts attempted to make them conform to a fictitious model. Mass privatization and drastic financial reforms have not brought about the results reformers hoped for, and sometimes supported corruption and perverse economic arrangements.

If neoclassical economics, and its presumption that all markets should emulate the model market, what assumptions should we base our understanding of economies on?

Assumptions about economies

My studies of various economies and economic organizations over the last fifteen years – real ones, not fictive models - have led me to feel quite comfortable in suggesting that we adopt four alternative assumptions about economic action and economic organization. I believe that if development agencies had begun with this set of presuppositions, not the four that they currently use, that restructuring economies would have avoided much pain and been farther along in achieving their economic ambitions.

1. Economic Action is Social Action. The actors of economic models are unusual creatures. These actors have no friends that influence their decisions, they have no memory of past exchanges, and they have no traditions that influence what they buy or sell. They are very smart, however, and infinitely capable of calculating. Moreover, they have perfect information. Despite these capabilities they have no reputations, and do not accumulate experience. They are selfish hermits without memories that act and calculate alone.

This model *homo economicus* is a simplification, of course, and no economist would argue that this creature actually exists. This fictive character is designed, not to reflect reality, but to simplify it, to bring it down to bare essentials. According to neoclassical economists it has

[6] Ibid., p.23.

the virtue of lending itself to the construction of mathematically tractable economic models. While no individual looks like economic man, economists would argue that in the aggregate the model holds up.

I would argue, however, that this counterfactual approximation is a *poor* basis for theory building. It flies in the face of both casual observation and the scientific results of study by psychologists, sociologists and anthropologists on the cognitive and social characteristics of people.

Rather, I believe it is far better to begin with the presumption that economic actors are *social* actors. Following Max Weber[7], this means that when people go out into the economy they are oriented toward others. They have hopes, wants, and aspirations that have been shaped by their culture, by their class location, by their gender, by the historic moment in which they live. They make presumptions about the people they meet, and act on those presumptions. When Kazuo Inamori, the Japanese entrepreneur, went out to sell his product in Kyoto, he was met by actors quite different from the economic actors he met in Texas.

If we want to know how economic action takes place, we must begin by observing real actors and assuming that their preferences and actions are socially formed.

2. Economic Action Becomes Embedded in Conventions and Institutions. Secondly, because it is socially aware persons who conduct economic action, they must agree on the premises of exchange. I do not mean that people go out into the market and negotiate how they will exchange every time, but rather that customary practice emerges to facilitate repetitive economic acts.

Custom creates the very basis upon which exchange may take place, and may facilitate the organization of economic activities of different sorts. Over time, established social arrangements can provide incentives to act in predictable ways thus upholding "credible commitments"[8] Actors who ignore established arrangements and conventions risk being unintelligible to others or judged immoral or irrational.

When Kazuo Inamori, the Japanese man I mentioned in the introduction, attempted to hire workers or get bank financing, he was refused because he ignored the Japanese convention of working through personal connections. Having no connections, he went to the U.S. to do business, an economic setting in which the convention of doing business with people one knows is far less important.

3. Economies are organized. The customs and conventions that structure economic activity in an economy are not idiosyncratic. Over time they develop ideological and political underpinnings, justifications for their presence, if only an invocation of "this is our culture" or "it is traditional to do it this way." They may even become subject to regulation and legal support by the state. Anyone who has traveled between economic arenas has experienced the often quite different ways in which economic action can be organized (as Inamori discovered to his benefit) and regulated. This is the third point that I want to make: economies are differently organized, and the structure of a market is justified by a legitimating organizational logic.

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[7] Max Weber, Economy and Society, 1978, Berkeley, University of California Press.

[8] See Douglass North, 1993, "Institutions and Credible Commitments" Journal of Institutional and Theoretical Economics 149:11-23, for an institutional economist's version of this idea, and Nicole Woolsey Biggart and Gary G. Hamilton, 1984, "The Power of Obedience" Administrative Science Quarterly, for a sociological version of this thought.

Let me give a couple of examples. In the United States, as Inamori knew, actors and firms in many economic spheres tend to act independently of each other, or at least that is not uncommon (this is less true of some industries and in some regions, but is generally the case). The economy, compared to other capitalist economies such as Japan and France, appears to have more autonomous firms and fewer business groups. Ideological support for the autonomy of both people and firms is found in *individualism*, which can be traced historically to Calvinist religious influences that stress individual accountability before God. It is also a logic of action that is found in American educational practice, legal institutions, and workplace behaviors that presume individual autonomy and responsibility.

The German economy is an expression of organized *corporatism*. Different institutions – the state, the educational system, firms, labor unions – are organized in an array of cooperative arrangements, and are expressions of an institutional principle that is legitimate in that setting. Banks are intimately involved with the firms to whom they loan money, managers and unions practice "co-determination", and educational and industrial institutions cooperate in a dual apprenticeship system. This pattern of organized cooperation, like the U.S. pattern of organized autonomy, emerged over time.

Socio-economic logics are historically developed, causally complex, and difficult to change in fundamental ways. It is hard to imagine, for example, that the highly networked Japanese, could ever become like the autonomous U.S. In fact, of course, the U.S. attempted this after World War II during the occupation, and was quite unsuccessful in changing Japanese economic organization, which remains highly networked and much influenced by state practices.

The fact that the social organization of the economy is deep and difficult to change, does not mean that change is impossible. It does mean, though, that attempts to change must begin with a recognition of the historical setting of the economy and society, including the legitimate role of state action. Attempts to change should not assume a *tabula rasa*, but rather should begin with an investigation of the indigenous pattern of social organization, critical social groupings, and organizational logics that might be influenced toward more productive arrangements.

This suggests, too, that attempts to copy the development strategy of another nation, at least at the level of organization - they can copy tariff or other trade policies perhaps - will be difficult at best, and most likely will be ineffective. In the U.S., for example, we spent a decade trying to copy Japanese management practices and few of those practices were transferred successfully. Americans are simply too individualistic to adopt decision making and compensation practices that rely on groups, for example, practices that work well in Japan. It is illegal for firms in the U.S. to jointly make decisions, a practice that is well accepted in Japan's highly networked economy and society.

4. The organization of economies makes a difference in economic success in the global marketplace. The neoclassical model assumes that individuals and firms should be autonomous, but I am suggesting that reality is very different. Economies are socially organized in disparate ways. Should this be a concern? Should we attempt to eliminate "imperfect" structures of relationships between economic actors, both individuals and firms? Not only is this difficult, as I have suggested, it may in fact be harmful to an economy. *Economic organization can be the very source of economic advantage to a nation.*

The organization of an economy influences its ability to produce efficiently and effectively certain types of goods. For example, South Korea's society is highly stratified. Society is hierarchically organized with elite families controlling both the economy and the polity. This pattern of organization goes back hundreds of years, and even decades of Japanese occupation did not change fundamental Korean social organization. This control of the economy by aristocratic elites has allowed Korean firms to accumulate capital in large vertically integrated firms that mass-produce goods. The ability of elites to build capital-intensive manufacturing plants has allowed its economy to grow by producing cars, ships, steel, and other goods that require expensive production facilities. The Korean economy has succeeded by leveraging its pattern of social organization to concentrate massive amounts of capital and labor to its comparative advantage.

Taiwan, like Korea, was a colony of Japan and was industrialized by the Japanese. It shares many other attributes with its Korean neighbor, too, such as poor natural resources and Confucian cultural affinities, but it has a very differently structured society. Taiwan is a society of family lineages that are connected through personalistic ties known as *guanxi* networks. Taiwan's economy is largely built on small and medium-sized networks of family firms. Unlike Korea, firm networks are not able to accumulate capital into large ventures (the families break apart the fortunes each generation in order to provide an inheritance for each son). But Taiwan has become very successful by pursuing customized , knowledge-intensive goods such as software, and low capital-intensive commodities that change with consumer tastes. They produce lawn furniture and small appliances, for example, and are very quick to adapt to market forces. The Taiwanese have used their social patterns to their comparative advantage, although this pattern does not look like Korea's and even less like the neoclassical model of autonomous actors.

Conclusion

I began by telling the story of Kazuo Inamori, the Japanese entrepreneur who could not produce or sell his superior product in his native market of Japan. It was not because his product was not good, or that Japan was too technologically unsophisticated to recognize its value, nor that Japanese electronics manufacturers had no need of his innovation. None of those was the case. Rather, Inamori was an independent economic actor who could not enter into Japan's networked market for capital, labor, supplies, and distribution. Despite the fact that he is Japanese, he was socially outside that market organization. He had to go to the U.S., where independent economic actors are welcome.

I do not want to argue that economic fundamentals do not matter. A firm or a market must make goods that someone wants to buy, that meet international standards of quality, and are offered at a competitive price, as Inamori's enterprise clearly did. I do want to suggest, though, that there is no one market model that will lead to a successful outcome. Germany and Japan need not get rid of corporatism and cooperative economic structures, and France and Korea need not rid themselves of the elite institutions upon which they have build success in science and technology in the one case, and capital intensive goods in the other. Nor should Taiwan be concerned that it cannot develop economies of scale with its small firms; rather it has built success by using the advantage of economic responsiveness that small entrepreneurial enterprises confer.

In retrospect, it seems clearly foolish that the IMF, World Bank and other international agencies have pursued the illusory goal of a market model that only exists on paper and in the heads of economic modelers. Far better, I would suggest, and the experience of numerous successful economies suggests, to examine a nation's social organization for clues to economic advantage. The experience of economically successful societies tells us that history, social structure, and organization matter to economic success, and our development policies should begin to reflect this understanding.