From: Raven, J. (1995). *The New Wealth of Nations: A New Enquiry into the Nature and Origins of the Wealth of Nations and the Societal Learning Arrangements Needed for a Sustainable Society (pp.17-31)*. Unionville, New York: Royal Fireworks Press; Sudbury, Suffolk: Bloomfield Books.
Raven, J. (1995). *The New Wealth of Nations: A New Enquiry into the Nature and Origins of the Wealth of Nations and the Societal Learning Arrangements Needed for a Sustainable Society*. Unionville, New York: Royal Fireworks Press; Sudbury, Suffolk: Bloomfield Books. (Chapters 1 [which summarises the whole book], 4 ["Some Observations on Money"], and 17 [Summary of Parts I to III and overview of Part IV: The Way Forward] are available at www.npsnet.com/cdd/nwn.htm).

Chapter 7

Manufacturing, Wealth, Money, and Management

In Chapter 4 we argued that a shortage of money does not necessarily imply a need to cut back on wealth-generating activity: We can have higher quality of life - i.e. real wealth - without having to have money *first*. Wealth is a *product* of productive activity, not a pre-requisite to it. We also suggested that the success or failure of an enterprise or society will depend primarily on its ability to use information to manage its affairs.

These lessons have been applied in Japan, which has transformed itself[7.1], without borrowing money, from a poor indebted country to a major exporter of high-quality products. On the surface, at least, it looks as if it did this by systematically developing the institutions, and collecting the information, required to manage both its own internal affairs and its relationships with the rest of the world.

Japan's Ministry of International Trade and Industry (MITI) initiated an international trawl to identify the products the rest of the world wanted. Its personnel collected and sifted information on technical innovations from all over the world, and acted on the information so obtained. Japan externalised the costs of scientific research not only by initiating an incredible search for relevant information, but also by actually placing the bulk of its research contracts with overseas - largely American - universities and research institutes.

An examination of the way in which the Japanese moved out of shipbuilding and into information technology is instructive. MITI realised that ship building was going to become less important, that other nations would be able to do the work more cheaply, and that it would be wise to transfer resources to some future-oriented activity - such as information technology.

But this was no behind-closed-doors debate, limited to the public service. An extensive network of discussion groups was set up in every community and supplied with information by the thousands of people who had been sent abroad on research missions. Key people were invited to Japan and media time was allotted to them and what they had to say. A great deal of media time was - and still is - devoted to a discussion of the state of the country and what needed to be done about it. The discussion groups not only considered whether the views expressed were sensible, but also what needed to be done to translate their recommendations into effect. In this way great effort was devoted to consensus-building. All of this was supported by some not-so-open consideration of the steps needed to promote the best use of human resources within Japan - such as the enaction of laws preventing firms from investing directly in research and development (thus excluding those costs from their prices and preventing work essential for the marketing of foreign products in Japan from being carried out there). An extensive web of disinformation - involving, among other things, the fiction that R&D in the motor industry was funded from money raised by a cycle race[7.2] - was developed to mislead foreigners who sought to enquire into pricing arrangements. Likewise, to mislead those who sought to enquire into accusations of "dumping" products below cost abroad, a system of not marketing the same product in home and overseas markets was developed. Extensive non-tariff barriers, such as the requirement that cars have particular types of mirror or rear lamps, were developed to prevent overseas penetration of the Japanese market. Indeed, for many years, after careful study of the product substitution required, the protection of the home market was quite explicit and laws were passed to outlaw discount stores and thus protect small firms.

The UK has 34 times as many accountants per member of the population as Japan. These accountants are preoccupied with cutting labour costs even though these amount to only between 10 and 12 per cent of the costs of production and despite the fact that society must then pay to maintain these "redundant" workers in idleness. The Japanese tend to take a wider and more long-term view. Not owned by pension and insurance companies, firms are less concerned with short-term profitability. But neither are they owned publicly through the stock market. As a result, while the Japanese can buy up (and close down) foreign companies - such as the European camera industry - no one from outside the country can do the same to a segment of Japanese industry[7.3].

But just as important as these activities was the study of how overseas political-economies worked. Thus, the import of Japanese cars into Pakistan was achieved by shipping them into the Gulf, off-loading them into little boats, running them ashore on the other side of the border, putting them on display in the tribal areas and then marketing them through the teaching profession. One could pay the local teacher the price of the car as displayed in the tribal area or that price plus a bribe to the customs officer to let it across the border. In this way the Japanese avoided most of the 300% duty on motor cars.

In a similar way, at the time of the 1970s Arab oil price increase, Japanese officials concluded that the Arabs would have vast sums of money to spend, and set about building a network of superstores to sell their products in the Middle East.

It is obvious from these comments that the "Japanese miracle" is by no means due just to the "quality circles" that the Japanese borrowed from an American ignored in his home country (Deming) and translated into effect. This is not to say that quality circles are unimportant: Japanese management has proved itself capable of turning round American companies whose industrial relations had contributed to their running at a loss for many years. (One is, of course, entitled to wonder whether other developments in these firms may also have played a role. Were there, for example, undisclosed injections of "funny-money", and what role did changes in accounting practices play in their "success"? As we have seen, costs, prices, and profitability are constructed by human hand and can legitimately be manipulated by taking different decisions. But this is only to reinforce our claim that more than quality circles were involved and to underline the crucial importance of a broadly-based concept of what management involves.)

The most striking features of Japanese businesses are the extent to which they have been able to adapt their marketing strategies to a wide range of economies - capitalist and "communist", democratic and dictatorial, centralised and decentralised, based on "corrupt" or "open" marketing practices - and the way in which they have been consistently able to present themselves in different ways in these economies and societies. Beginning with their 1870 visit to the UK, they have been able to attend to the way in which *systems* work and take the steps required to make those systems work *for them*. They have developed appropriate development *strategies*: Everything starts with small experimental projects which are carefully monitored against a number of society-wide criteria and an examination of systems constraints, opportunities, and societal consequences, and systematically built upon. The process has been applied to banking as well as industry.

But one should not over-glorify Japanese accomplishments. Even at the level of industrial development, large numbers of small firms are exploited. They are left to shoulder the financial risks of innovation and then let go if the product the large firms have required them to produce does not turn out to be a success. But Japan's most important problems arise from the failure of the "New Values[7.4]" required for sustainability to emerge and take root there. These - like industrial development before them - have emerged from the much less orchestrated kind of evolution which occurs in Britain.

"*Creating Conditions in Which the Market Can Work*"

From the point of view of societal management, it is important to recall that Smith thought that it was necessary for governments to establish and enforce a framework in which the market could work and consider the implications for a world in which there is no international government to regulate world trade and enforce the rules. Japanese success (like the growth of many TNCs) has, in fact, been in part due to systematically flouting Smith's rules, deliberately concealing relevant information, and obstructing such enquiries as international bodies have initiated. Japan consistently conceals[7.5] the vast public funds it pours into industrial R&D, into the provision of free manufacturing equipment, into international industrial espionage, into the evasion of patents (in part by subsidising reverse-engineering), into the invention of non-tariff barriers to protect its home market, and into espionage designed to find out how other political economies work and find ways of circumventing national regulations so that those economies come to benefit Japan more than themselves. It also conceals the extent of its systematic dumping of products at below cost on international markets and its use of bribery and underhand dealings to evade taxes in other countries. All of these processes help it to find ways acquiring the plant and marketing agencies of the firms thus driven out of business. One could, of course, make similar comments about America, drawing attention to the funding of car, aircraft, and communications-technology research and development out of military budgets and not out of sales, to hidden grants made to manufacturers, bribes to overseas purchasers (remember Lockheed), and political intervention through the CIA. And, historically, one could recall the British imposition, by military force, of the demand for opium on the Chinese in order to generate a semblance of a demand for "trade" to pay for the goods Britain wanted from China. The point, of course, is that much of the above-board moral context which Smith explicitly deemed necessary for the effective working of the economic marketplace is missing on the international scene and eludes most commissions of enquiry.

The problems which the internationalisation of trade has posed for Smith's view that governments should act to create conditions in which the market would work for the common good can be illustrated by considering pollution control. Although it would be possible for any country to introduce legislation to control pollution, this would not stop companies registered there moving production to countries which did not have the same controls. Thus, without further intervention to impose taxes or levies on imports and to "subsidise" exports, goods produced in the country which introduced the antipollution legislation would be priced out of the market.

By fixing the prices at which their subsidiaries in different countries sell to each other, transnational corporations ensure that they only make profits in countries where taxes are low. In this way they defraud countries of considerable revenues. Once again, therefore, we see that if modern societies are to function effectively, it will be necessary to establish extensive monitoring, regulation and information-based intervention arrangements. Not only are the countries of the Third World - whose need for these things is in fact the greatest - least able to establish appropriate arrangements, IMF policy specifically discourages those countries from setting them up.

Another way of drawing attention to some of the implications of our observations on the way in which societies and international trade are managed is to say that there are many versions of capitalism. In discussing internationalism one is dealing with types of capitalism ranging from Japanese fiefdoms offering lifetime guarantees *to suppliers as well as staff*, Korean baron kingdoms (where 15 families control the lives of vast numbers of people and feel they should control the government which nominally manages their society), through economies composed of medium size enterprises as in Germany, to the "screw your workers and suppliers" versions of capitalism found in the US, and the state capitalism of Eastern Europe. But behind the differences will be found common, massive, invisible manipulations to promote the interests of the wealthy - individually and collectively. These do not rely on market mechanisms, and it is *on these management arrangements* - some desirable, some deplorable - *that we must focus*.

Profitability in Modern Society

Profitability in modern society is, as we spelt out in earlier chapters, heavily dependent on structures of taxation and the arrangements which public servants make for trade. In addition - since the spending of about 75% of GDP is, in some sense, under the control of governments - most sales of goods and services must be, directly or indirectly, to the state. Notable examples include sales of aircraft (fighter planes), armaments, development contracts for new "defence" equipment, contracts for nuclear development, advertising (government advertising accounts for more than half the revenue of the "independent" television companies in Great Britain), highways (not forgetting the huge costs of planning enquiries and acquisition of land), hospital equipment, "education", construction of government buildings, sales of most academic books, overseas contracts for consultancy and equipment in connection with "aid" projects, and the costs of most criminal prosecutions and litigation. Contracts for such work, often awarded with little public scrutiny, account for much of the work - and thus the profitability - of "private enterprise".

Another significant factor determining the profitability of enterprises is whether (as in forestry) the relevant lobbies have been able to arrange for the introduction of legislation favourable to themselves, or, more commonly, whether firms' accountants have been able to find tax loopholes or tax havens (as, for example, when the head office of a highly profitable chain of British butchers was moved out of the country). Put cynically, farmers farm grants, not fields. Manufacturing industry trades in regional development grants, building and training grants, and non market funding of many other types.

Legislation which is not overtly financial is also important. Thus, the profitability of pension companies is not only dependent on the structure of taxation. It is also depends, on the one hand, on legislation requiring firms to provide their employees with pensions and, on the other, on unscrupulous business practices such as implementing state legislation in such a way as to result in pension schemes being non-transferable. Another example of how legislation can create a market for a product or service is the way in which a one sentence law requiring access to “special education” in the US to depend on “a significant discrepancy between ability and performance” as assessed by a psychologist created jobs for 25,000 school psychologists and a huge market for tests.

Internationally, profitability, as with the drugs and soap powder companies, is frequently dependent on the exploitation of employees and customers in countries where there is little regulation of the conditions of work or on the exploitation of absence of standards controlling the products’ use. The UK Counter Information Services publications[7.6] give examples of many of these (including the baby milk scandal), but further illustrations will be found in reports on the activities of the drug companies and Union Carbide - the company responsible for the Bhopal disaster.

Pension companies can, and do, kill or render profitable the manufacturing companies they control. They can - and do - shift their investments around the world - creating national balance of payments deficits and industrial havoc which the IMF then exacerbates[7.7]. They demand high profits from industries located in the LDCs and thus increase the flow of funds from the poor to the rich nations. They inflate the price of land and property. In this way, these unaccountable bodies, which owe their existence to state legislation, have an enormous impact on our societies. Just as there is a need to enable the public to find out more about the workings of the state bureaucracy, so, too, there is a need to open up the affairs of nominally private companies to public scrutiny.

Money is made and people become rich, not, as Adam Smith proposed, by attending to the needs of society, but by manipulating the stock market (as, indeed, did the Rothschild family on the basis of advance information brought by carrier pigeons from the battlefield of Waterloo), by property speculation, asset stripping, and by moving capital around the world to exploit cheap labour or the absence of legislation limiting the use of damaging pesticides and drugs or the production of serious pollutants. As McClelland showed more than 30 years ago, clever people who devote their energies to such activities can become very rich. The problem is that it is not these people, but people who value developing better ways of thinking about and doing things - and who devote their thoughts, feelings, and energy to doing so - who create economic development. Depending on the nature of the society in which they live some such people become rich, but most do not. But, if there are enough of them, and if they attend to social as well as technological innovation, the *societies* in which they live become wealthy.

The fact that money is most commonly made by creative accounting, by securing favourable government contracts, by trading property at higher and higher prices, and by tax avoidance, has had a series of important social repercussions. The most significant crimes in our society are no longer crimes against the person, or minor “fiddles” of social security legislation, but major fraud. The result has been that the State has created an army of law-enforcement officials (like VAT inspectors) with unprecedented powers to infringe the civil liberties of individuals. Equally, an army of public servants has been created to rotate around “private” firms, nationalised industries, and QUANGOs in an effort to ensure that public money is deployed for the purpose for which it was intended.

An important consequence of this is that firms’ managers are deprived of opportunities to exercise the very discretion and judgment that the marketplace supposedly promotes.

Not only is the profitability of a firm primarily dependent on its interface with the State, a very large proportion of its own “costs” consist of administering services on behalf of the State. These are therefore best described as externalised costs of the State. Thus, a significant proportion of firms’ budgets are devoted to paying the accountants and clerks required to administer VAT, PAYE, and pension schemes, and preparing the accounts required, not only by Companies House, but also by government accountants and the innumerable civil servants who sit on endless committees within the firms concerned.

Summary

It follows from the observations made in this chapter that the very concept of “independent”, “private enterprise” firms has little validity in modern society. The question is not *whether* the State will regulate and run the affairs of “private” firms, but ”*how*?”

Thus, just as we need to examine the efficiency with which the State administers pension and health schemes, searching out excessive checking and bureaucracy, so we need to examine the actual efficiency of the “externalised” schemes it has set up but requires others to provide and pay for. The externalised costs of administering our current tax and pension systems - which have to be administered by private firms - are enormous.

These considerations undermine the value of profitability as a criterion of the economic value of an enterprise. The importance of allowing other considerations to over-rule profitability as a criterion of the value of an enterprise needs to be better understood. Constructs like “economic cost”, “economic viability” or “private” enterprise existing “independently” of the public sector are of the most dubious value.

Notes

7.1 However, the importance of dramatic US intervention in connection with the Korean War should not be overlooked.

7.2 Wolf, 1983

7.3 The same is also true of Switzerland, whose businesses are playing an ever-increasing role in Europe.

7.4 The best-selling book in Japan in 1993, selling over two million copies, was *How to Live in Poverty with Dignity*. It consisted mainly of teachings drawn from ancient Japanese manuscripts. Although these sales may be interpreted as evidence of sudden endorsement of the “New Values” - which are actually ancient Navajo and Japanese values - in Japan this is not necessarily the case. Much of the deliberate crafting and presentation of misleading persona to the rest of the world has been legitimised by saying that Japan is a poor country which needs to protect itself. A strengthening of this self-image may therefore lead, not to the expected internal transformation of society, but to a strengthening of the tendency to concealed protectionism and international exploitation.

7.5 Wolf, 1983

7.6 e.g. Counter Information Services, 1976-1984

7.7 Toffler, 1980