

Glos, Michael

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## Do we need a strategic industrial policy à la MITI?

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coordinated – from educational policy through infrastructural policy, tax and economic policy to trade policy.

□ Within the framework of this overall strategy an *industrial policy* is necessary, and that means: we must complement our fundamental and determined adherence to competition and free trade with the selective promotion of the identified strategic industries. We already make exceptions from the market economy principle, but these are applied, under the pressure of political lobbies, to conventional industries such as coal and shipyards. We must make the exceptions instead for the industries of the future; instead of being economically irrational the exceptions must in future be rational.

□ Hand in hand with industrial policy there must be a bilateral (German and European) *foreign trade policy with regard to Japan*. Whereas the European market is open to exports from, and direct investment by, Japanese high-tech enterprises, the Japanese market is de facto largely closed to European high-tech enterprises. The task of foreign trade policy is to make it possible for European companies to establish positions in the Japanese market

by means of strategic cooperation with Japanese firms. Industrial policy must make European businesses capable of cooperation and trade policy must politely but firmly see to it that Japanese businesses, with some “persuasion” from MITI, are willing to open up the market by cooperating in this way. If, for example, Motorola develops and produces automobile chips for Toyota, then it should be possible for Siemens to do the same for Nissan.

□ At present the German federal government does not possess any institution which would be capable of working out an integral concept for the global self-assertion of the German economy in the age of high technology. The first step could be the setting-up of a “*Committee of Experts for Strategic Competitive and Trade Policy*”. The Committee should be established by the Federal Chancellor or by the Chancellor and the Bundestag. It should consist of about twelve representatives of industry, the government, the trade unions and the academic community who should be chosen on the basis of their personal qualifications for the task in hand. The American “Competitiveness Policy Council” set up in 1991 can serve as a model; it has just presented its first report to the President and Congress.

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Michael Glos\*

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## Do We Need a Strategic Industrial Policy à la MITI?

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The continuing success of Japanese companies on world markets has been a subject of growing interest in corporate, academic and government circles. In the 1980s the Japanese economy showed a real-term growth rate of more than 4%, almost twice the rate of economic growth in the other leading industrial nations. Japan's automobile manufacturers are vastly superior to their international competitors in terms of productivity and quality. The Japanese have revolutionized production techniques (we need only think of the term “lean production”). In connection with major technology areas such as superconductors and image processing Japan has largely taken over the lead from the United States.

Some “visionists” are even saying that by the 21st century Japan will have advanced to the status of a superpower whose influence will not be based on military strength, but rather on its technological lead and the economic power of its industrial companies, its trading firms and its banks.

There is a tendency to seek the reasons for Japan's success in the role played by government in the Japanese economic process. To the outsider, government and industry in Japan appear as a single unit (“Japan Incorporated”), in which a special role is attributed to the Ministry of Trade and Industry (MITI) in connection with the coordination of activities between the public and the corporate sectors. Industrial development is supported and “guided” by a forward-looking industrial and research policy. This integrated economic policy – as it were –

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\* Deputy Chairman of the CDU/CSU Group in the German Bundestag.

focuses government and industrial efforts on long-term objectives.

MITI acts as a moderator in a national dialogue on the future of Japanese industry and society. It organizes and heads the "Industry Structure Council" in which top managers, government officials, members of the academic community, labour union leaders and journalists are brought together to formulate general guidelines for the future. At the beginning of a decade MITI takes its "visions" of future economic, technological and sociocultural trends to the public. They contain predictions on key investment sectors for the new decade which are then given priority support through government research, industry and tax policy.

The systematic absorption and evaluation of information on technological trends in America and Europe has proven to be very useful in this context. The branch offices of MITI, the Japanese embassies and consulates, major trading firms, banks and industrial companies cooperate in this function. Thousands of translators monitor western trade magazines and scientific journals, making all new advances immediately available to Japanese research and industry.

Once a basic consensus has been formed on the direction in which research and industrial policy development is to move, the companies in question – coordinated by MITI – form developmental groups in which they jointly implement individual projects in an overall programme. When basic technologies have been successfully developed the companies separate once

again to engage in international competition while keeping the domestic market sealed off, at least for the time being.

The reason behind the importance attributed to the process of consensus formation in Japan – and the prerequisite for the success of this process – is a consensus mentality in the Japanese population that has existed for centuries and constitutes a factor whose importance should not be underestimated. The Japanese sense of group loyalty has its foundation in religious convictions and is reflected in a high level of work discipline, a low level of entitlement thinking and a basic feeling of commitment to the group purpose. Economic advantage and individual happiness are subordinated to group interests. Government opportunities to exert influence on corporate strategies are given in Japan less on the basis of established laws and more on the basis of traditional and informal contacts. These conditions are not given in the Western hemisphere.

#### Risks of a Strategic Industrial Policy

The main problem involved in connection with the pursuit of a forward-looking industrial policy on the part of the Japanese government is that of making accurate predictions with regard to the development of key technologies or the identification of successful markets. Forecasts of this kind cannot be made with certainty no matter how many experts are consulted – or whether the advisers are in Japan, in Germany or in any other country. If the "visions" of a government-moderated "concerted effort" prove to be wrong, the commitments undertaken by

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### **DAS LÄNDLICHE GENOSSENSCHAFTS- WESEN IN POLEN**

#### **Von der polnischen Teilung bis zur Gegenwart**

The beginnings of peasant self-help organisations in Poland were characterised by the political situation in which Poland found itself in the 19th century. A Polish state had not existed since 1795.

Different legal, economic and social conditions therefore prevailed in the areas annexed by Austria, Prussia and Russia. This study describes the development of peasant self-help in Poland. The various types of self-help are first examined historically and then in the form they take today. (Only available in German.)

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entire branches of industry will turn out to be bad investments. If MITI were a German institution it would certainly not be long before calls were heard for government compensation payments and protective measures. In Japan this is much less problematic as a result of the general consensus-thinking approach taken. Japanese shareholders do not generally ask critical questions about the success or failure of an investment. The labour unions rarely pursue objectives that are not agreed on with the companies in question. And there is a general lack of critical journalism. As a result of a wide range of measures aimed at sealing off the Japanese market, Japanese companies can also get away with imposing excessively high prices.

MITI's industrial policy successes in Japan are by no means as legendary as is generally claimed. There are definitely examples of projects that have failed. By way of example, the attempt to build up an independent Japanese aircraft industry was a major failure. The Japanese semiconductor industry, for which MITI initially created obstacles, has developed independently of government support. It was only after this industrial sector became a world market leader on its own that the decision was made to provide government support.

Advocates of a "strategic" industrial policy in our country thus either lack the necessary knowledge of the differences that exist in the economic and social systems in Japan and Germany or they have a preeminently strong interest in creating government responsibility for our industrial future. In a Western-style market-economy system it is a simple fact of life that companies are faced with the need to find future markets on a trial-and-error basis. This is something that cannot be replaced by "collective reasoning", no matter what kind of corporate group is involved.

We should not allow ourselves to be misled into wanting to solve our problems by trying to transfer things into our context that are not transferable and by trying to mix government and industrial jurisdictions à la MITI. The danger would be too great that competition would suffer at the hands of a large institution responsible for coordinating industrial policy, that the market would lose its central steering function, and that the taxpayer would be stuck with the bill. The more the public sector engages in interventionist policies the more strongly the market-economy function of competition is undermined and the more companies concentrate on trying to obtain special concessions from the government instead of embarking on a search for profitable production options.

The differences that exist in the industrial policy approaches taken in Japan and Germany are reflected in

the differing level of importance attributed to laws regulating competition. Whereas in our country this is viewed as an important part of the market-economy system, Japanese cartel law – created after the war as a result of American pressure – continues to be an alien element in the Japanese economic system. Laws regulating competitive policy do not play a very significant role compared with the situation in Western countries. The Japanese anti-trust act has been successively watered down in order to prevent major collisions with strategic industrial policy.

It needs to be taken into account that in the case of global industrial targeting à la MITI a considerable potential for trade policy conflicts would accumulate. Any integrated public- and private-sector strategy aimed at bringing about concentrated sector- and product-related innovations will necessarily be connected with a massive buildup of export capacities. However, concentrated export offensives on the part of individual countries tend to provoke backlashes in other countries and lead to international demands for protection against imports (see example Japan/USA or Japan/EC). The danger would be considerable that free trade would suffer as a result.

### Learning from Japan

Rejecting a government role in coordinating research and industrial policy à la MITI does not mean that industry and government could not learn a great deal from Japan. Since countries like Japan or the other up and coming countries of Asia are more and more frequently moving into the lead on world markets, what we will need to do is to analyse our own weaknesses in comparison with the Japanese and focus on finding a solution to the problem at home with a view to improving our economic efficiency.

There is no other industrial country in the world in which as much money is invested in renewing and expanding production capacities and in renewing capital stocks as is the case in Japan – always with a view to future technologies, markets and competitors. The flexibility with which Japanese companies adapt to changing conditions is unexcelled. To achieve this in Germany there would be a need to eliminate a number of productivity, innovation and other locational disadvantages. In a competitive market economy this is primarily a task for companies themselves. The government is called upon to create the necessary legal, economic and social conditions so that German companies will be able to compete successfully on international markets.

A great deal would be gained if we were to succeed finally in achieving a consensus in government, industry and society on the necessary priority to be attributed to

high-tech as a prerequisite for new industrial sectors as well as for the ability of the economy as a whole to compete on international markets. Unfortunately there would still appear to be a large number of technology deficits in our society. Opposition-party politicians, the media and the industrial associations interpret their responsibility for the future of our country all too often only in the form of generalized fears and concerns with regard to new and unknown dangers. Our companies are faced with a worried and obstructive climate of opinion both in society as a whole and in public administration, be this in such areas as biotechnology, genetic engineering, pharmaceuticals or magnetic-levitation trains – not to mention nuclear technology. What investor can afford to accept licensing procedures that extend over a period of years when product cycles are becoming increasingly short?

In addition to all of this, the Japanese have always been able to combine progress in the right proportions with tradition and virtues, so that modesty, discipline and a sense of responsibility for group interests continue to play a significant role. In our country, on the other hand, entitlement thinking, a preoccupation with leisure-time activities and egoism are emerging more and more strongly. We are seeking to optimize the well-being of the individual and are pursuing our claims with regard to peace, freedom and environmental protection without giving consideration to the economic foundation this is to be based on in the future. Apparently we have become a people that reaps but no longer sows. The consequence is that we have the world's highest wage costs and non-wage labour costs, combined with an excess of productivity-inhibiting regulations and a large corporate tax burden compared with the situation in other countries. This is posing an increasing threat to production at German locations. There is a need here for corporate, labour and government players to act.

It will be necessary to find out more about the status of research and production technologies in Japan. Whereas the Japanese are precisely informed as to what goes on in our Max Planck Institutes and Fraunhofer Institutes, we generally know very little about what is going on in the various fields of research and development in Japan. Some 95% of the scientific and engineering publications there are in Japanese. We are not making an effort to have them translated or to learn Japanese. What will be needed is to overcome the geographical distances and the barriers created by a foreign language and an unfamiliar culture and to develop a better understanding of Japan. Consideration might be given, for instance, to bilateral research projects involving German and Japanese scientists and to the establishment of special professorships at German universities aimed at promoting

an awareness of the Japanese language, culture and society. The founding of a "Japan Centre" at a German university, which industry could help to finance, would also be a proposition worth thinking about.

The German educational system will also need to give greater consideration to the Japanese challenge in the future. At present students spend too much time at our schools and universities either not learning enough or not learning the right things. We will not be able to address the challenges posed by increasingly rapid economic and technological development with thirty-year-old university graduates whose training is in many cases obsolete before they enter the working world. As such, it would be urgently necessary that we streamline the curricula at our general education schools and our universities and that we base them to a stronger extent on our economic requirements. We need more scientists and engineers instead of large surpluses of sociologists and political scientists. In general, the transfer of economic activity into higher-value sectors will impose higher standards with regard to the qualification of our workforce.

There is also a need for more competition in our university sector. In the early decades of this century universities such as Berlin, Göttingen, Tübingen and Munich were world famous. Today, by contrast, when people talk about the world's great universities the names most often heard are American: Stanford, Harvard, MIT and Princeton. In Japan it is universities such as Todai and Kyoto that are contributing significantly towards training the necessary elite. We will not be able to get around the need to orientate our university system more strongly than is the case at the present time towards promoting top academic achievement, not least of all with a view to preventing gifted young people from going abroad.

### **Cooperation Among Manufacturers**

In the research sector there will be a need in key technology areas for major manufacturers to engage in a larger measure of cooperation – in the microelectronics sector for instance. In a world in which technology and markets are becoming global, this strategy holds out more promise of success than the current parallelism of research efforts on the part of different teams of scientists on the same subjects. There will be a need to look for ways of coordinating basic research and the development of product applications more closely and more smoothly. This will be necessary if we want to avoid basic research being carried out in our country and then applied in products developed by Japanese companies.

German companies are faced with the constant challenge of having to develop new organizational and

production structures. There is a need to make production "leaner" in order to be able to compete successfully on international markets. The success of Japanese companies is largely attributed to the circumstance that they need less production time, are more successful in eliminating assembly errors, make more use of just-in-time suppliers, are better able to motivate employees in working groups and have lower levels of absenteeism than competitors in the United States and Europe.

The conclusion to be drawn is that industrial policy in Germany will continue to require a clear dividing line between corporate and government responsibility. Adjustment to changing market data will need to take

place on the basis of decentralized decisions in the competitive situation. This is and will continue to be a corporate task. Companies themselves will need to come up with adequate responses to the new challenges being faced in connection with growing international competition, technological change and the implementation of new technologies. The public sector can only provide marginal assistance. It is called upon to create the necessary general conditions so that German industry will be able to assert itself in the face of international competition. There are enough areas where government involvement is possible and necessary without the need to involve itself in a venture as risky as a "strategic" industry policy.

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Dietmar Keller\*

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## Should Europe Provide Selective Assistance for Key Industries?

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The small market shares of European firms in some areas of high technology combined with large trade deficits are causing growing concern within the European Community. It is feared that Europe will become increasingly dependent on Japanese and American exports of technology if European companies are not able to master important processes that are regarded as key technologies. The loss of key, high-growth sectors would also mean the loss of earning potential. In view of Japan's tremendous success in high technology, there are growing calls for the EC to adopt an industrial policy along Japanese lines to assist the industries of the future.

Before the Maastricht summit the French and Belgian governments had proposed instituting industrial policy as a Community instrument in the Treaty on European Union and introducing qualified majority voting in the Council of Ministers for industrial policy measures targeted on the sectors of the future. The French initiative ran into vigorous opposition from the British and German governments in Maastricht.

The actual shape a European industrial policy would take remains to be determined, however, even after the

European summit. On closer examination, the decisions taken in this regard represent a compromise between the advocates and opponents of an EC industrial policy. The advocates can consider it a success that a separate chapter on industry (Title XIII) was written into the Treaty on European Union; Article 130 gives the Community and member states the task of ensuring "that the conditions necessary for the competitiveness of the Community's industry exist".<sup>1</sup> On the other hand, their opponents managed to limit the Commission's powers over industrial policy. For example, "specific measures in support of action taken in the Member States" that affects the competitiveness of European industry are to be decided by the Council, "acting unanimously on a proposal from the Commission, after consulting the European Parliament and the Economic and Social Committee".<sup>2</sup> Title XIII nevertheless expressly excludes measures that could lead to a distortion of competition.<sup>3</sup>

The claim that Western Europe is becoming increasingly dependent on foreign technology has been

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\* Hamburg Institute for Economic Research (HWWA), Hamburg, Germany.

<sup>1</sup> Cf. Council of the European Communities and Commission of the European Communities: Treaty on European Union.

<sup>2</sup> Ibid.

<sup>3</sup> Ibid.