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Interview: Notes on the Post-Business Society

Q: You have written that there is a profound sense of unreality about both politics and economics today. What do you mean?

A: Most of what we assume axiomatically no longer fits our reality, lending a surreal air to our work and lives. The world seems to have dissolved into a series of media events that appear either bigger than reality or totally formless. This is especially true in political life, where we have entered ***terra*** *incognita.*

The reason for the present confusion is that, at some point between 1965 and 1973, we passed a "great divide" into the next century, leaving behind the creeds, commitments and alignments that had shaped politics for a century or two. At the most profound level, the Enlightenment faith in progress through collective action—"salvation by society," which had been the dominant force of politics since the eighteenth century—was thoroughly dashed. American Democrats of Great Society lineage are no longer true believers, and, neither the nominally socialist François Mitterrand, nor even Mikhail Gorbachev, espouse the faith any longer. In the rise of Western ideas, especially Marxism, to world dominance, the West's superiority in machines, money, and guns was probably less important than the promise of salvation by society. Now that is gone.

Yet, the only effective nonideological counterforce of political integration—interest bloc politics—is also finally spent. Witness the demise of Jim Wright, the factional crisis and collapse of the Liberal Democratic Party in Japan, and the precarious political coalitions of Europe's economic anchor, Germany.

The last such divide was crossed a century earlier, in 1873. That Liberal century, in which the dominant political creed was *laissez-faire,* began in 1776 with Adam Smith's *The Wealth of Nations* and ended with the nonevent of the Vienna stock market crash and the short-lived panics in Paris, London, Frankfurt, and New York in 1873. Although the economy of the Western world had recovered 18 months later, politics—which would now seek security and protection from the upheavals associated with the Industrial Revolution—was changed forever.

Within 10 years of the Vienna crash, German Chancellor Otto Von Bismarck had invented national health insurance and compulsory old-age insurance. Within 20 years, Marxist socialists had become the largest political party in every major country of continental Europe. In the **U.S.,** the 1880s brought a shift away from the unrestricted market to the Interstate Commerce Commission for regulation of the railroads, the antitrust laws and the first state laws regulating securities. The 1880s also brought about the first distinctly "antibusiness" movement in the U.S., the populists, and their successful "socialization" of the local power company in Lincoln, Nebraska—only the second city in the Western world to do so, after Vienna.

Following these early events, the "progressive" cause of government control of the economy and direction of society became widespread. The great political debate of the last century was not over the "welfare state." Instead, the debate was over unrestricted government power, as we saw in the case of Hitler, Stalin, Mussolini, and Mao, versus democratic and legal constraints on the power of the state as we saw in the **U.S.,** Japan and postwar Europe.

The period 1968–73 is a divide fully comparable to 1873. Whereas 1873marked the end of ***laissez-faire,*** 1973 marked the end of the era in which government was the "progressive" cause, the instrument embodying the principles of the Enlightenment. The "oil shock," the floated dollar, and the student rebellions across the West set us adrift from the century in which we had lived.

To be sure, the slogans of the welfare state persist, but they do not provide a guide for action or motive power. They are all that remain, like the smile on the Chesire Cat, when all else is gone.

Q: After the turbulence of "creative destruction" that accompanied the Industrial Revolution, a whole set of mechanisms—whereby the state absorbed social risk—were set in place. As government's role as insurer against social risk grew, it came to be seen as an impediment to the new wave of innovation, the "entrepreneurial burst" associated with the bioengineering and Information Revolutions and the internationalization of the economy.

Have we just completed a long trend toward a culture of security that is now being cast off in favor of a culture of risk? Isn't that the common thread that runs through the post-1973 era of Reagan-Thatcher-Gorbachev?

A: First of all, let's be clear that government is still growing. Ronald Reagan increased the size of the federal budget more than any predecessor. And, while we have deregulated the airlines, we have also made drug testing mandatory. Drug testing is far more interventionist than airline regulation. The state is hardly withering away.

Risk and security are not in opposition, but parallel. After all, Social Security is an invention of the nineteenth century's industrial "entrepreneurial burst." It was created precisely because there was so much risk being generated. And, I am sure new forms of security will be created to cope with the risks of the current entrepreneurial period.

What might the new forms of security be? One response, resulting from the present economic upheaval, is to me the most significant development of the late twentieth century: the emergence of the job as a property right. These last years have seen a spate of court rulings sharply limiting the traditional right of the employer to terminate employees at will, even if they have no contract.

The risk of dislocation now means losing the security of the position a person has achieved after working 22 years at General Electric. If this person was the managing engineer, he once knew that if he made steam turbines yesterday he would make them tomorrow. And he knew that when GE controlled 45 percent of the market he did not have to work too hard to stay where he was. There would always be a job for him and raises ahead. Now, that person knows GE may move out of steam turbines altogether, at any time. A young person he has never heard of could come up with a gadget tomorrow that would make GE's 45 percent control of the market obsolete.

That is an outrage to this vested employee. His illusion of security has been exploded. He had come to accept his job as a right, his position as a law of nature. So he sues to keep that job, seeking to redefine it as his "property."

In human history, nothing has had greater impact than the redefinition of property rights. That is fundamental to the transformation of social orders. In the transition from *laissez-faire* to the welfare state, the important property became the commercial wealth created by trading merchants; it was no longer land.

The redefinition of the job as property right is largely a reaction to today's great wave of entrepreneurialism.

Q: In the perpetually innovating "knowledge society" characterized by economic instability, isn't education both the mechanism of mobility and security, a kind of *mobile security* that allows one to move between careers and different organizations?

A: The right kind of education is a new form of security. However, our schools have yet to accept the fact that in the "knowledge society," the majority of people make their living as employees. They work in an organization in which they have to be effective. Yet, this is the exact opposite of what our educational system assumes.

The "knowledge society" is a society of large organizations—government and business—that necessarily operate on the flow of information. In this sense, all the advanced societies of the West have become "post-business." Business is no longer the main avenue of advancement in society. Career opportunity increasingly requires a university diploma. The center of gravity has shifted to the knowledge worker. Yet, no educational institution—not even the graduate school of management—tries to equip students with the elementary skills that would make them effective as members of an organization: the ability to present ideas orally and in writing; the ability to work with people; the ability to shape and direct one's own work, contribution and career. The "educated person" ought to be the new archetype of the post-business society.

Q: What new economic realities have made our economic thinking outmoded?

A: There is a new configuration to economic life today which confounds all the old analytical categories.

For the first time, the raw material economy has become uncoupled from the industrial economy. For the non-Communist world, at least, the raw material economy has become marginal.

For almost a decade now, the raw material economy has been in a deep depression, yet the industrial economies are booming. In all past business cycles, a slump in food and raw materials has been followed within 18 months by a crisis in the industrial economy. Not this time.

I think there are a couple of related reasons for this uncoupling. There is a worldwide surplus of farm products, caused by the enormous expansion of agricultural production in the developing world. While that glut has caused farm income in the U.S., for example, to drop by two-thirds in some regions between 1984–87, it has had little effect on the overall spending power in the economy because the farm population is now insignificantly small.

As important, manufactured products contain far less raw materials than they used to. In the 1920s, for example, raw materials and energy comprised 60 percent of the cost of the key product at the time, the automobile. The key product of our time, the microchip, has a raw material and energy content of less than 2 percent. Japan increased its industrial production between 1965 and 1985 two and a half times, but it barely increased its raw material and energy consumption at all!

Manufacturing is also becoming uncoupled from labor. In 1988, the same volume of goods could be produced as in 1973 with only two-fifths the blue-collar man hours.

Investment used to follow trade. Now, investors put production facilities anywhere in the global market instead of producing at home and exporting. They can now just as easily produce abroad and then import back home. They do research where there are researchers and design where there are designers. The Pontiac Le Mans, for example, was designed in Germany and built with Japanese parts in Korea. Honda makes cars in America and exports them back to Japan.

The "real" economy of goods and services has been uncoupled from the money economy. Every day, the London Interbank market turns over 15 times the amount of Eurodollars, Euroyen, and Euromarks needed to finance world trade. Ninety percent of the transnational economy's financial transactions serve no "economic function" in terms of production. Yet, a substantial activity of every transnational firm must involve managing their inherently unstable foreign exchange exposure. The transnational money economy is no longer the "veil of reality" as Marx once said. It *is* the reality to which goods and services are subservient.

Complementary and competitive trade have been replaced by adversarial trade. In Adam Smith's eighteenth century, trade was complementary: England sold wool to Portugal for wine it could not produce; Portugal sold the wine for wool it could not produce. In the mid-nineteenth century, trade became competitive: Germany and the U.S. competed to sell chemicals to each other and to the world.

Complementary trade sought a partnership. Competitive trade sought a customer. Adversarial trade aims to dominate entire industries. While competitive trade was fighting a battle, adversarial trade seeks to win the war by destroying the enemy's army and capacity to fight.

Protectionism is not an answer to adversarial trade. As far as I can see, only reciprocity—where each country enjoys the same access to the other country's market and no more—is the only trading relationship that will avoid degeneration into protectionism. And I suspect that reciprocity will function most effectively in regional units—the EEC, Japan-Far East, North America—so that the smaller economies will have a large enough market to generate enough production and sales to sustain themselves.

Q: Let's talk about economic theory. Why do we find it so difficult to conceptualize the workings of the economy these days?

A: For *60* years, mainstream economic policy in the West was based on the ideas of John Maynard Keynes. Now, the assumptions of his concepts are obsolete.

Keynes could not see the shape of the global economy, which would undercut his theories, until the end of his life in the late 1940s. Indeed, before he died, Keynes admitted his theory of the economy could no longer work. But it was too late, the Keynesians were already in full control.

Under the influence of those Keynesians, economic theory still assumes that the sovereign state is the predominant unit of economic life, and thus the only effective unit for economic policy.

In actuality, there are four economies, each, as the mathematicians would say, a "partially dependent variable"—interdependent but not controlled by each other. First, there is the economy of the *nation;* increasingly, however, power is shifting to the region—North America, the European Economic Community, and the Far East region grouped around Japan; there is also an almost autonomous *world economy of money, credit, and investment flows;* finally, there is the economy of the *transnational enterprise,* which views the world as one market.

With OPEC and Nixon's floating of the dollar in the mid-1970s, the world economy changed from international to *transnational.* The transnational economy is shaped mainly by the dynamic of money flows rather than goods and services; sovereign nation-states react to, rather than initiate or control, events in the global capital markets. The traditional factors of production—land, labor and even money, because it is so mobile—no longer assure a particular nation competitive advantage. Rather, *management* has become the decisive factor of production. And the goal of management in a transnational enterprise that operates in one world market is *maximization of market share*, not the traditional short-term "profit maximization" of the old-style corporation.

Q: So, Keynes was only viable as long as one force—the national economy—was a sovereign entity that had some control over its internal situation and could calculate its policy effect in the international economy. Now, that is gone.

A: As long as there was some reality to the nation-state, Keynes' "perfect gas" theory of the economy seemed to work. He felt that if the national government could control the temperature and pressure of the macroenvironment through money, credit and interest rates, individuals and firms—the micro-economy—would react predictably.

But this theory of how an economy works cannot explain any of the main economic events of the last 15 years.

In order to promote exports and create jobs in the mid-1970s, Jimmy Carter pushed down the value of the dollar, vis-a-vis the yen, from 250 to 180. Exports boomed but unemployment continued to rise, which should have caused deflation. Instead, inflation skyrocketed as high as 14 percent.

When Reagan came to office, he raised interest rates to halt inflation. He succeeded, but drove the dollar back up to 250 against the yen, damaging American exports and creating an unprecedented market in the **U.S.** for Japanese products. According to all available theory, that should have caused more unemployment; instead, unemployment rates under Reagan fell to the lowest level in decades, with acute labor shortages appearing in some areas by 1989.

When Reagan tried to adjust the dollar "slightly" in the fall of 1985, it went unexpectedly into freefall down to 125. Instead of massive "flight from the dollar," which available theory predicted, the main holders of the dollar—Japan, Taiwan, West Germany, and Canada—who had placed large amounts of their dollar reserves in **U.S.** debt obligations, actually ***increased*** their lending to the **U.S.**

To confound theory further, the price of raw materials, from Danish butter to Arab petroleum—which the Japanese pay for in dollars—plummeted. That further depressed worldwide commodity prices.

Additionally, the devaluation of the dollar should have raised the price of Japanese goods in the **U.S.** Instead, the Japanese firms did something unprecedented: they absorbed a 50 percent cut in profits to maintain their share of the **U.S.** market. To compensate for that cut in foreign profits, Japanese companies sharply raised prices at home. But instead of triggering a recession, Japan experienced the largest consumer binge in its history. Presumably, it was the maturing babyboomers emulating their consumer counterparts elsewhere in the West that frustrated the expectation that higher prices would curb spending but raise savings.

What has happened? First of all, it turns out that the microeconomy—the decisions of the multitude of individuals and firms—has sabotaged the supposedly controlling macroeconomy of the sovereign nation. The servants are in control of the master.

For example, Keynes assumed that the "velocity of the turnover of money"—how fast individuals spend their money—was a social habit that remained unchanged over long periods of time. But, every time this assumption has been put to the test it has been proven wrong.

Indeed, the individual's ability—not the government's ability—to control the rate of spending money explains Jimmy Carter's policy disaster. Consumers did not follow the textbook by spending and creating jobs; they hoarded instead. In a rapid reversal, American consumers then increased their spending during the Reagan years, which explains why his policies worked in expanding the economy even with a huge trade deficit.

Similarly, the Japanese firms frustrated attempts to balance trade because they sought "market maximization" instead of "short-term profit maximization," thus confounding what they were "rationally" expected to do according to present economic theory. In the world economy, economic rationality means something different than it meant in the national economy. As the Japanese have understood, "sales" in the world market are returns on long-term investment: What matters is the total return over the lifetime of the investment, and the return over time depends on monopolizing market share.

And, of course, there is no room in contemporary economic theory for technology and innovation. Yet, entrepreneurship, invention and innovation can profoundly alter the economy in a very short time.

So, both individuals and firms, especially transnational firms, sabotage the attempted macroeconomic policies of nation-states that are no longer sovereign. The new realities have turned Keynes on his head.

Keynes was the last great synthesizer of economic thought. Without a new synthesis that presents a model of how the "four economies" interact to create economic reality, we may be at the end of economic theory. And without economic theory there can be no economic policy—no foundation for governmental action to manage the business cycle and economic conditions.

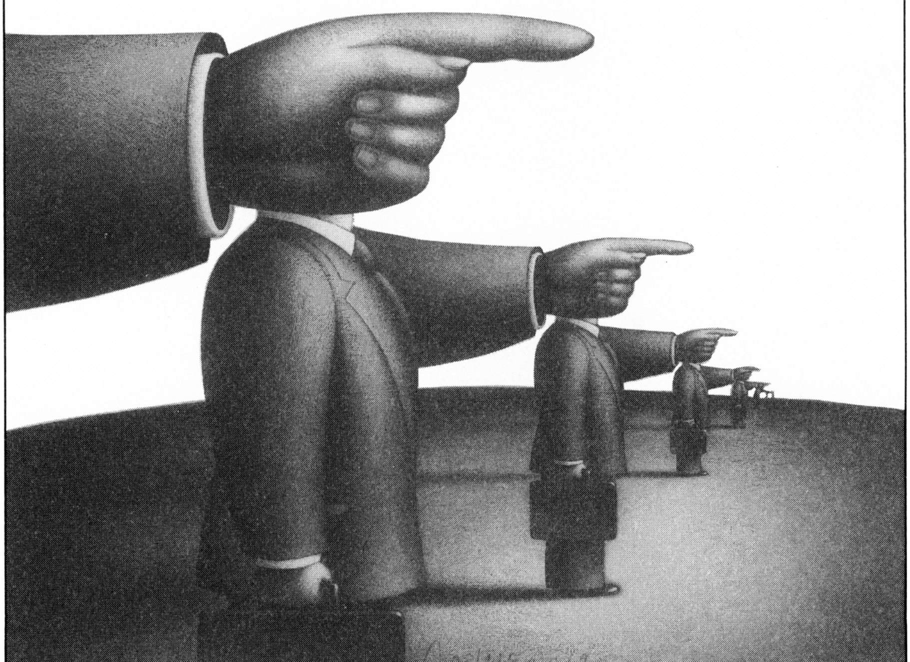
Any functioning economic theory of the future must integrate the macroeconomy of money, credit and interest rates, and the microeconomic decisions about how firms and individuals spend money. Such a theory must also account for the dynamic of entrepreneurship and innovation.

We may well conclude that the new reality means we can no longer control the economic "weather" of recession and boom cycles, unemployment, savings and spending rates, but only the "climate"—avoiding protectionism, or educating the working population to function in a knowledge society. In short, preventive medicine instead of blind attempts at short-term fixes.

[1989]

Part I

ECONOMICS



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The Futures Already Around Us

In five important areas the 1990s will bring far-reaching changes in the social and economic environment, and in the strategies, structure and management of business.

For a start, the world economy will be quite different from what businessmen, politicians and economists still take for granted. The trend toward *reciprocity as a central principle of international economic integration* has by now become well-nigh irreversible, whether one likes it or not (and I don't).

Economic relations will increasingly be between trading blocks rather than between countries. Indeed an East Asian block loosely organized around Japan and paralleling the European Economic Community and North America may emerge during the decade. Relationships will therefore increasingly be conducted through bilateral and trilateral deals in respect both of investment and of trade.

Reciprocity can easily degenerate into protectionism of the worst kind (that's why I dislike it). But it could be fashioned into a powerful tool to expand trade and investment, if—but only if—governments and businessmen act with imagination and courage. In any event, it was probably inevitable. It is the response to the first emergence as a major economic power of a non-Western society, Japan.

In the past, whenever a new major economic power appeared, new forms of economic integration soon followed (e.g., the multinational company, which was invented in the middle of the nineteenth century—in defiance of everything Adam Smith and David Ricardo had taught—when the United States and Germany first emerged as major economic powers. By 1913, multinationals had come to control as much of the world's industrial output, maybe more, as they do now). Reciprocity is the way, for better or worse, to integrate a modern but proudly non-Western country such as Japan (and the smaller Asian "tigers" that are now following it) into a West-dominated world economy.

The West will no longer tolerate Japan's adversarial trading methods of recent decades—a wall around the home market to protect social structures and traditions, plus a determined push beyond it for world dominance for selected Japanese industries. Yet the Western pattern of an autonomous, value-free economy, in which economic rationality is the ultimate criterion, is alien to a Confucian society; is indeed seen by it as cultural imperialism. Reciprocity may make possible close economic relationships between culturally distinct societies.

Into Alliance

Second, *businesses will integrate themselves into the world economy through alliances:* minority participations, joint ventures, research and marketing consortia, partnerships in subsidiaries or in special projects, cross-licensing, and so on. The partners will be not only other businesses but also a host of nonbusinesses such as universities, health-care institutions, local governments. The traditional forms of economic integration—trade and the multinational company—will continue to grow, in all likelihood. But the dynamics are shifting rapidly to partnerships based neither on the commodity nexus of trade nor on the power nexus of ownership by multinationals.

There are several reasons for this rapidly accelerating trend:

- Many middle-sized and even small businesses will have to become active in the world economy. To maintain leadership in one developed market, a company increasingly has to have a strong presence in all such markets worldwide. But middle-sized and small companies rarely have the financial or managerial resources to build subsidiaries abroad or to acquire them.
- Financially, only the Japanese can still afford to go multinational. Their capital costs them around 5 percent or so. In contrast, European or American companies now pay up to 20 percent for money. Not many investments, whether in organic growth or in acquisitions, are likely to yield that high a return (except acquisitions by management experts such as Lord Hanson or Warren Buffet, who know how to find a healthy but undermanaged business and turn it around). This is especially true of multinational investment, whose risks are increased by currency variations and unfamiliarity with the foreign environment. Financially, it is hard to justify most of the recent acquisitions in America made by European companies. To say that they are "cheap" because of the low dollar is nonsense: the companies acquired, after all, earn in these low dollars. Only a very big and cash-rich company can really still afford today to go the multinational route.
- The major driving forces, however, behind the trend towards alliances are technology and markets. In the past, technologies overlapped little. Electronics people did not need to know much about electrical engineering or about materials. Papermakers needed to know mainly about paper mechanics and paper chemistry. Telecommunications was self-contained. **So** was investment banking. Today there

is hardly any field in which this is still the case. Not even a big company can any longer get from its own research laboratories all, or even most, of the technology it needs. Conversely, a good lab now produces results in many more areas than can interest even a big and diversified company. So pharmaceutical companies have to ally themselves with geneticists; commercial bankers with underwriters; hardware-makers like IBM with software boutiques. The need for such alliances is the greater the faster a technology grows.

Markets, similarly, are rapidly changing, merging, criss-crossing, and overlapping each other. They too are no longer separate and distinct.

Alliances, while needed, are anything but easy. They require extreme—and totally unaccustomed–clarity in respect of objectives, strategies, policies, relationships, and people. They also require advance agreement on when and how the alliance is to be brought to an end. For alliances become the more problematic the more successful they are. The best text on them is not to be found in a management book; it is in Winston Churchill's biography of his ancestor the first duke of Marlborough.

Reshaping Companies

Third, *businesses will undergo more, and more radical, restructuring* in the 1990s than at any time since the modern corporate organization first evolved in the 1920s. Only five years ago it was treated as sensational news when I pointed out that the information-based organization needs far fewer levels of management than the traditional command-and-control model. By now a great many—maybe most—large American companies have cut management levels by one-third or more. But the restructuring of corporations—middle-sized ones as well as large ones, and, eventually, even smaller ones—has barely begun.

Businesses tomorrow will follow two new rules. One: to move work to where the people are, rather than people to where the work is. Two: to farm out activities that do not offer opportunities for advancement into fairly senior management and professional positions (e.g., clerical work, maintenance, the "back office" in the brokerage house, the drafting room in the large architectural firm, the medical lab in the hospital) to an outside contractor. The corporation, in stock market jargon, will be unbundled.

One reason is that this century has acquired the ability to move ideas and information fast and cheaply. At the same time the great nineteenth-century achievement, the ability to move people, has outlived its usefulness; witness the horrors of daily commuting in most big cities and the smog that hovers over the increasingly clogged traffic arteries. Moving work out to where the people are is already in full train. Few large American banks or insurance companies still process their paperwork in the downtown office. It has been moved out to a satellite in the suburbs (or farther afield—one New York insurance company ships its claims by air to Ireland every night). Few airlines still locate their reservations computer at the main office or even at the airport.

It may take another "energy crunch" for this trend to become a shock wave. But most work that requires neither decision making nor face-to-face customer contact (and that means all clerical work) will have been moved out by the end of the decade, at least in Western countries; Tokyo and Osaka will take a little longer, I suspect.

(What, by the way, does this mean for the large cities, the children of the nineteenth century's transport revolution? Most of them—London, Paris, New York, Tokyo, Frankfurt—successfully made in this century the transition from manufacturing center to office center. Can they make the next transition—and what will it be? And is the worldwide urban real-estate boom that began in eighteenth-century London at last nearing its end?)

The trend toward "farming out" is also well under way, even in Japan. Most large Japanese hospitals are today cleaned by the local affiliate of the same maintenance contractor that services most American hospitals. Underlying this trend is the growing need for productivity in service work done largely by people without much education or skill. This almost requires that the work be lodged in a separate, outside organization with its own career ladders. Otherwise, it will be given neither enough attention nor importance to ensure the hard work that is needed not just on quality and training, but on work-study, work-flow, and tools.

Finally, corporate size will by the end of the coming decade have become a strategic decision. Neither “big is better” nor “small is beautiful” makes much sense. Neither elephant nor mouse nor butterfly is, in itself, “better” or “more beautiful.” Size follows function, as a great Scots biologist, D’Arcy Wentworth Thompson, showed in his 1917 classic ***On Growth and Form.***

A transnational automobile company such as Ford has to be very large. But the automobile industry also has room for a small niche player like Rolls-Royce. Marks & Spencer, for decades the world’s most successful retailer, was run as a fair-sized rather than as a large business. So is Tokyo-based Ito-Yokado, arguably the most successful retailer of the past decade. Successful high-engineering companies are, as a rule, middle-sized. But in other industries the middle size does not work well: successful pharmaceutical companies, for instance, tend to be either quite large or quite small. Whatever advantages bigness by itself used to confer on a business have largely been cancelled by the universal availability of management and information. Whatever advantages smallness by itself conferred have largely been offset by the need to think, if not to act, globally. Management will increasingly have to decide on the right size for a business, the size that fits its technology, its strategy and its markets. This is both a difficult and a risky decision—and the right answer is rarely the size that best fits a management’s ego.

The Challenge to Management

Fourth, the governance of companies themselves is in question. The greatest mistake a trend-spotter can make—and one, alas, almost impossible to prevent or correct—is to be prematurely right. A prime example is my 1976 book *The Unseen Revolution.* In it I argued that the shift of ownership in the large, publicly held corporation to representatives of the employee class—i.e., pension funds and mutual trusts—constitutes a fundamental change in the locus and character of ownership. It is therefore bound to have profound impact, especially on the governance of companies: above all, to *challenge the doctrine,* developed since the second world war, *of the self-perpetuating professional management* in the big company; and to raise new questions regarding the *accountability and indeed legitimacy* of big-company management.

The Unseen Revolution may be the best book I ever wrote. But it was prematurely right, so no one paid attention to it. Five years later the hostile takeovers began. They work primarily because pension funds are "investors" and not "owners" in their legal obligations, their interests, and their mentality. And the hostile takeovers do indeed challenge management's function, its role and its very legitimacy.

The raiders are surely right to assert that a company must be run for performance rather than for the benefit of its management. They are, however, surely wrong in defining "performance" as nothing but immediate, short-term gains for shareholders. This subordinates all other constituencies—above all, managerial and professional employees—to the immediate gratification of people whose only interest in the business is short-term payoffs.

No society will tolerate this for very long. And indeed in the United States a correction is beginning to be worked out by the courts, which increasingly give such employees a "property right" in their jobs. At the same time the large American pension funds (especially the largest, the funds of government employees) are beginning to think through their obligation to a business as a going concern; that is, their obligation as owners.

But the raiders are wrong also because immediate stockholder gains do not, as has now been amply proven, optimize the creation of wealth. That requires a balance between the short term and the long term, which is precisely what management is supposed to provide, and should get paid for. And we know how to establish and maintain this balance.

The governance of business has so far become an issue mainly in the English-speaking countries. But it will soon become an issue also in Japan and West Germany. ***So*** far in those two countries the needed balance between the short term and the long has been enforced by the large banks' control of other companies. But in both countries big companies are slipping the banks' leash. And in Japan pension funds will soon own as high a proportion of the nation's large companies as American ones do in the United States; and they are just as interested in short-term stock market profits. The governance of business, in other words, is likely to become an issue throughout the developed world.

Again, we may be further advanced towards an answer than most of us realize. In a noteworthy recent article in the ***Harvard Business Review,*** Professor Michael ***C.*** Jensen, of the Harvard Business School, has pointed out that large businesses, especially in the United States, are rapidly "going private." They are putting themselves under the control of small numbers of large holders; and in such a way that their holders' self-interest lies in building long-term value rather than in reaping immediate stock market gains. Indeed, only in Japan, with its sky-high price/earnings ratios, is a public issue of equity still the best way for a large company to finance itself.

Unbundling too should go a long way toward building flexibility into a company's cost structure, and should thus enable it to maintain both short-term earnings and investments in the future. Again the Japanese show the way. The large Japanese manufacturing companies maintain short-term earnings (and employment security for their workers) and long-term investments in the future, by "out-sourcing." They buy from outside contractors a far larger proportion of their parts than Western manufacturers usually do. Thus they are able to cut their costs fast and sharply, when they need to, by shifting the burden of short-term fluctuations to the outside supplier.

The basic decisions about the function, accountability and legitimacy of management, whether they are to be made by business, by the market, by lawyers and courts, or by legislators—and all four will enter the lists—are still ahead of us. They are needed not because corporate capitalism has failed but because it has succeeded. But that makes them all the more controversial.

The Primacy of Politics

Fifth, rapid changes in *international politics and policies,* rather than domestic economics, are likely to dominate the 1990s. The lodestar by which the free world has navigated since the late 1940s, the containment of Russia and of communism, is becoming obsolescent, because of that policy's very success. And the other basic policy of these decades, restoration of a worldwide, market-based economy, has also been singularly successful. But we have no policies yet for the problems these successes have spawned: the all-but-irreversible breakup of the Soviet empire, and the decline of China to the point where it will feature in world affairs mainly because of its weakness and fragility.

Besides, new challenges have arisen that are quite different: the environment; terrorism; third-world integration into the world economy; control or elimination of nuclear, chemical, and biological weapons; and control of the worldwide pollution of the arms race altogether. They all require concerted, common, transnational action, for which there are few precedents (suppressing the slave trade, outlawing piracy, the Red Cross are the successful ones that come to mind).

The past 40 years, despite tensions and crises, were years of political continuity. The next ten will be years of political discontinuity. Save for such aberrations as the Vietnam era in the United States, political life since 1945 has been dominated by domestic economic concerns such as unemployment, inflation or nationalization/privatization. These issues will not go away. But increasingly international and transnational political issues will tend to upstage them.

So?

The trends that I have described above are not forecasts (for which I have little use and scant respect); they are, if you will, conclusions. Everything discussed here has already happened; it is only the full impacts that are still to come. I expect most readers to nod and to say, "Of course." But few, I suspect, have yet asked themselves: "What do these futures mean for my own work and my own organization?"

[1989]