

INDUSTRIAL PERFORMANCE CENTER
Massachusetts Institute of Technology
Cambridge, MA 02139

**DIVERSITY IN ECONOMIC ORGANIZATIONS:
AN AMERICAN PERSPECTIVE ON THE IMPLICATIONS
OF EUROPEAN INTEGRATION FOR THE
ECONOMIC PERFORMANCE OF JAPAN**

Michael J. Piore

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Michael J. Piore

David W. Skinner Professor of Political Economy
Massachusetts Institute of Technology

This paper develops an American perspective on the challenge that the formation of the European Community as an increasingly cohesive economic unit poses to Japan. But it is also a perspective focused on the organization of the firm, of work and of the labor market as opposed to macro-economic management.

From these perspectives, the central puzzle is the contrast between the presumptions about economic organization in the 1980's and those of the 1990's. The 1990's have seen the resurgence of the United States as the dominant economic power in an increasingly global economy and the reemergence of American institutional structures as models for other countries in the industrialized and developing worlds alike. But the American economic renaissance came after over a decade in which the U.S. as an economic power appeared to be on the wane, particularly relative to Europe and Japan. It was also a period in which we called into question our own organizational models; came to recognize fundamental characteristics of foreign institutions, particularly Japanese, which we had previously seen as the vestiges of underdevelopment; and tried to rethink and reform many of our operating institutions in the light of foreign models. We are thus led to ask how much of these reforms are responsible for our economic resurgence? Are the foreign models still relevant, and if not why? Do our reforms, modeled on your institutions, paradoxically now serve as a template for reforming your own economic organizations?

My own views on these questions rest on a framework of analysis which I laid out with Charles Sabel in [The Second Industrial Divide](#). The starting point of the argument

was mass production. Mass production was the dominant technological paradigm and business model in the United States from the late nineteenth century and continues even today to exercise a strong influence on the way American managers and engineers think about the endeavors in which they are engaged. Our argument was about the limits of mass production as a paradigm for industrial development in the United States. The underlying approach to technological progress under mass production was to divide the production process into a series of simple, well defined operations, and to develop specialized resources in the form of narrowly trained workers and dedicated capital equipment to perform each of those operations. Production processes were, as a result, so narrowly tailored to a particular product – in fact, in the extreme, to a particular make and model of that product – that it was impossible to divert them to other uses. This made it difficult for the productive apparatus to adjust to changes in the business environment.

The organizational structure of the American economy as it developed in the course of the twentieth century was designed to stabilize that environment and make it hospitable to this approach to technological development. The key institutions that worked toward this end were the modern corporation, mass industrial unionism, collective bargaining and the Keynesian welfare state. The business environment of the 1970's and 1980's, however, increasingly escaped the control of these institutions. The resulting uncertainty and instability about the composition of product demand and of the relative prices of industrial inputs, in particular energy, was thus extremely hostile to mass production.

American business sought to escape this dilemma by seeking more elastic technologies, work organization, and business management. Its efforts to do so took two principal forms. First, it began to reexamine and reevaluate foreign organizational models, which it had previously dismissed as vestiges of pre-industrial and underdeveloped economic structures. American managers were especially attracted to Japanese organizational forms. Following the Japanese models, they sought more flexible productive equipment, a more broadly trained work force, more flexibility in job assignments, flatter, less hierarchical management structures, and greater reliance on teamwork in both management and on the shop floor.

The second approach of American management to enhancing flexibility was a concerted effort to escape the restrictions of industrial unions and collective bargaining and to dismantle the protections of the Keynesian welfare state. Private sector union membership fell from 21% of the labor force in 1980 to less than 10% in 1997. Other markers of this approach included a decline in the minimum wage relative to the average and shrinking coverage of the unemployment insurance system. There was a significant widening of the income distribution, especially at the lower end.

The argument of the Second Industrial Divide still seems to me essentially correct for an understanding of the difficulties of the American economy in the 1970's and 1980's. The organizational problems of the 1990's are sufficiently similar to those of the earlier period so as to confuse the analysis, and the emphasis on flexibility in the management literature continues. But in a very important respect, the last decade has been very different from the two that preceded it. Our original argument was about the organization of production and innovations in process. Economic prosperity in the 1970's and 1980's depended on the ability to shift among a relatively familiar production space in response to changes in basic economic parameters or shifts in consumer taste. Prosperity in the 1990's has been much more associated with new products and dependent on the ability to imagine such products in the first place and then to design them, develop them, and bring them to market quickly.

At the Industrial Performance Center at MIT, we have recently been studying the organization of product design and development in Europe and Japan as well as in the United States. Two qualities seem particularly important to this process. One is sheer innovation, the ability to go outside and beyond existing structures of thought and to imagine new and different things. A second quality is the ability to understand the world of the customer. This is often expressed in the management literature in terms of "listening to the voice of the customer". But it is more accurately characterized as the ability to understand the world in which the customer operates, interpret that world, and translate new product ideas into forms that fit into it and are compatible with it. The roles of interpretation and translation are especially important in the development of radically new products such as those associated with the internet, mobile telephones, and

biotechnology, products which are so outside of present experience that customers cannot voice an opinion about how they might be used at all.

A key factor in the ability of American firms to do this has been the diversity of the labor force within the firm and of the larger society. To some extent that diversity has always been present. But in the last several decades it has taken an increasingly open and constructive form: one in which the diversity creates a clash of ideas and perspectives which gets people to question old ideas and generate new ones. It also facilitates the process of moving into and coming to understand and relate to different customer worlds.

The emergence of diversity as a critical creative factor comes after three decades in which the theme of diversity has become increasingly salient in the United States. American culture increasingly celebrates that diversity and the legal framework has tended to promote and protect it. This has not always been true, and space permits me only to note the key historical markers of this process. The attempt in the 1960's to face up to race and the discrimination against blacks was the historical turning point, and the black civil rights movement served as a model and catalyst for civil rights campaigns by women, the disabled, gays and lesbians, and a variety of ethnic and racial groups. Foreign observers (indeed Americans themselves) have been struck by the weakness of traditional social policy and the way in which the social safety net deteriorated further in the 1980's and even under the Democratic administrations in the 1990's. What is missed is the development of a new social policy protecting civil rights of minorities and stigmatized social groups, and promoting equal economic opportunity. The distribution of income in the U.S. has deteriorated in terms of social class or across individuals and families. It looks very different when one looks at the distribution across social groups.

But three additional factors seem particularly important in the diversity of the American society and the way in which this contributes to the country's preeminence in the world economy. These are: (1) the openness of higher education to foreign students and foreign faculty; (2) American mass culture and the way in which that is spread throughout the world through movies and popular music; and, (3) immigration. All have been important, but the last is the most dramatic. In 1965, we abandoned an immigration policy which was both highly restrictive and gave preference to Europeans to the virtual exclusion of people from the rest of the world. The new system has favored for the first

time massive immigration from Latin America, the Caribbean and Asia. The number of immigrants per decade rose from slightly over three million in the decade of the 1960's to nearly nine million in the 1990's. An even more striking figure from the point of view of product development: in 1990, 60% of U.S. doctorates in engineering went to foreign students.

In the context of an economic boom driven by product innovation and globalization, these three factors have worked together in at least four ways. First they have created a flexible, dynamic labor force living (and working) abroad but available on call at virtually all levels of the occupational hierarchy, from unskilled labor at the bottom to professionally trained engineers and scientists at the top. Second, they have generated a tolerance for diversity among American managers and, above all, a tolerance for the kind of clash among different approaches which has stimulated innovation and creativity. Third, they have created a pool of knowledge within American enterprises about foreign countries that we increasingly look to for cheaper and more efficient goods and services as inputs into our production processes and to which we are looking increasingly as well for markets for our products. Fourth, they create a broad demand for products which bear an American stamp both because our mass culture had made those products fashionable and because migrants returning home to visit, or to live for prolonged period of time, create a demonstration effect.

Indeed, in understanding the way in which the American economy is coming to be embedded in the world, it is important to stress the circular character of the migration flows which have developed over the last thirty years. Foreigners not only come to the United States to study and work, but many of those who have done so return home carrying skills and, perhaps more importantly, ways of doing things and linkages to the United States. This facilitates subsequent remigration to the U.S. when employment opportunities arise. But it also acts to reshape their institutions on the American model and reorient them toward the United States. This is perhaps most importantly true in education where curriculum and teaching methods are modeled on U.S. higher education by faculty who have studied there and plan to return there regularly at least for conferences and seminars and, in the extreme, to work in the colleges and universities which are ever more open and willing to recruit from abroad. And, of course, this

integration between the foreign education systems and that of the U.S. further enhances the flow of labor, ideas, and products in both directions.

Finally, it should be emphasized that the effects are both real, measured by flows of inputs and outputs, and intangible, a disposition to adopt, invest and assimilate ways of living and being to which one is not accustomed, and which have not been anticipated. These “things” may begin with products and modes of entertainment but they include cellular telephones and internet shopping.

Thus, to repeat a point made earlier, the focus in comparative social policy on traditional labor rights masks a second dimension of social policy. Traditional social policy has been weaker in the United States than in virtually any other industrial country, and became even weaker still in the course of the 1980’s and 1990’s as union membership declined and the social safety net has been progressively eroded. But while traditional social policy has been in retreat, the U.S. has moved to expand protection for minorities of all kinds. Among the policies which have had this effect are: equal employment opportunity; the revival and expansion of immigration, not only in low wage markets but increasingly in high wage markets; and the development of hate crime legislation, etc.

If one thinks that diversity is the key to American creativity, and hence to our recent economic success, what does this suggest about the European Union and Japan?

There are strong parallels in Europe to the forces at work in the United States. Integration itself appears, in fact, to drive toward diversity in much the same way that the attempt to accommodate race drove us toward diversity in the United States. The very process of integration requires a respect for diversity and a set of institutions and organizations which work it out. One can argue that the European Union is basically about diversity – the merger of the different nations together into a single economic unit brings the kind of variety which has been the hallmark of the U.S. The institutional process of integration has led to the adjustment of institutions and organizations to accommodate diversity. Integration has been the product of an ideology of diversity and has thus, in turn, reinforced that ideology. The European Court has promulgated a set of human rights which are very similar to those we have achieved in the United States for minorities including rights for women, for gays and lesbians, and for the physically

handicapped. The interchanges among European institutions of higher learning are moving their system of higher education in the direction of openness to foreign students and faculty. European countries have also received substantial numbers of foreign immigrants: the percentage of foreign-born living in France, Germany, Great Britain and the Scandinavian countries is actually similar to that in the United States (although the U.S. figures are trending upward and in the last decade have begun to surpass those of the countries of the European Community).

There are countervailing forces which distinguish the European attitudes and practices from those in the United States. There is, for example, a tendency to think of integration in terms of adherence to a universal set of values which implies assimilation to the dominant culture. American society once thought of assimilation in these terms and the notions that underlie this way of thinking are still present. But the emergent view in the United States involves a much greater tolerance for difference and the clashes of cultures and ideas that produce new approaches to living which are distinct from any of the cultures and ideas with which we start out. The difference between the American and European perspectives is suggested to me by the way in which the French reacted to Muslim girls wearing head coverings in school or the way that Western Germany imposed its systems of governance and cultural values on the Eastern states when East and West Germany merged.

The European countries have been a good deal more ambivalent about immigration in the last two decades than have we in the United States. There have, to be sure, been local reactions, especially in California and Florida, which parallel those in Western Europe, but on the whole the politics of immigration in Europe recall much more American immigration politics in the first half of the twentieth century than contemporary politics in the United States.

Hence, Europe and the United States may ultimately emerge with very different cultures of diversity, but, at the moment, the two societies seems to be moving in parallel, and if diversity is indeed the key to economic competitiveness in the new economy, Europe certainly has ample material to mount a challenge to the United States.

I will not presume to speak to the situation in Japan. We believe in the West that Japan is the most closed and insular of the advanced industrial (or post-industrial)

societies; that it is the most resistant, for example, to foreign immigration and to foreign ideas; that as a culture, your approach to resolving differences is adverse to the furious debate which characterizes life in the high tech industries that have been the fountainhead of innovation in the United States. On the other hand, Japan has historically shown a capacity to remake its economic and social institutions in response to competitive challenges along lines suggested by those of other countries. It has moreover managed to do this in ways which produce new structures that are not only peculiarly Japanese but often superior competitively to those upon which they drew for inspiration. My argument here is that if you are looking to the United States and Western Europe this time around, it would be a mistake to focus on the institutions which have dominated our own economic policy discourse: the competitive market and the welfare state. You will be equally misled by focusing on the problems, and the response, of the 1970's and 1980's. What you need to do instead is to find the Japanese equivalent for the ideologies of diversity which in Europe are associated with the process of integration itself and which in the United States emerged from the movements of social liberation that began with the civil rights movement and spread progressively to other social groups in the course of the last three decades.