# Comments on "Organizational Capabilities"

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"Organizational Capabilities" denotes an institutional richness that surely appeals to historians. And in view of America's obvious problems with labor relations, education, and corporate raiders, the decline of organizational capabilities seems a certain cause of competitive decline. This is the intuitive theme of Bill Lazonick's paper.

Lazonick argues that two key factors stand behind the loss of organizational capabilities: the de-skilling of shop-floor labor, and the sharp escalation of corporate acquisitions and mergers. Intentional and implicit de-skilling, which began in the late 19th century, has alienated the work force, undermined productivity, and hampered the smooth vertical flow of administrative information. An equity-based financial market, which accommodated conglomeration in the 1960s, evolved further in the 1970s and 1980s into a market for corporate control. This market, according to Lazonick, discouraged managers from making the financial commitments necessary to competitiveness.

Despite these immensely provocative themes, Lazonick's paper has three shortcomings. The thesis was overstated; no mention was made of asymmetrical country development cycles, savings, and investment rates, or different government policies. Second, the paper lacked even the skeletal data necessary to frame the problem or confirm comparative differences. And third, Lazonick did not show change over time in causation. This point is key, for historians. If deskilling is a cause of decline (after the 1960s), why did it not cause decline from the 1880s through the 1950s--the period of American preeminence? Likewise, if relatively fluid capital markets have dealt the fatal blow, why weren't they damaging right along, since the great merger movement of the 1890s?

Rather than nitpick at this important paper, I prepared some simple aggregate data to frame the issues raised. These data don't *prove* anything;

[1]The data on which this comment is based are drawn primarily from Angus Maddison, "Growth and Slowdown in Advanced Capitalist Economies: Techniques of Quantitative Assessment," *Journal of Economic Literature*, 25 (June 1987), 649-98. It should be noted that the base year used for currency and purchasing-power adjustments was 1984–before the sharp decline of the U.S. dollar, especially relative to the Japanese yen, in 1985 . A post-1985 base year would significantly elevate Japanese GDP and absolute productivity in dollar terms.

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they merely put the issue, and some aspects of its causation, in sharper perspective.

Charts 1 and 2 show the absolute and relative growth of four major industrial economies. From a casual glance, decline is certainly a relative concept. If Chart 2 were described as "convergence," it would cast a different interpretative light on the role of organizational capabilities.

Charts 3 and 4 attest to Japan's extraordinary growth in labor productivity, especially compared to the U.K. and the U.S. But this says nothing about causation. Different growth rates in the denominator, for instance, could explain much of this. And for the numerator, most economists would agree that capital/labor substitution is a major factor. Indeed, Chart 5 confirms an extraordinary growth of investment in plant and equipment, for Japan and Germany, beginning in the 1960s. This substitution of capital for labor represents the very de-skilling to which Lazonick attributes decline.

Chart 6 shows that Japanese, and to a lesser extent German, workers simply work harder than Americans and Britons. After the decimation of war, they sacrificed to catch up. This more likely can be attributed to cultural differences, or nationalism, or the necessity born of poverty, than superior managerial direction.

The last two charts represent a quick-and-dirty effort to document Lazonick's indictment of American capital markets (with which, parenthetically, I agree). Chart 7 does show a slight drop in retained earnings--probably a reflection of squeezed profits from increased international competition. Chart 8 suggests that a high rate of mergers and acquisitions is hardly new to the U.S. economy. And while the assets involved are probably larger, the proportionate number of firms might actually be smaller.

So what is one to conclude from this data, incomplete as it is and open to broad interpretation, when combined with Lazonick's thought-provoking paper? For me, at least, Lazonick's argument about organizational capabilities is a compelling, *partial* explanation; but only a part. Macroeconomic and cultural asymmetries, especially those that affect savings, investment, and work, together with significant differences in trade and defense policies, certainly accounted for the lion's share of this relative decline.

**Chart 1**

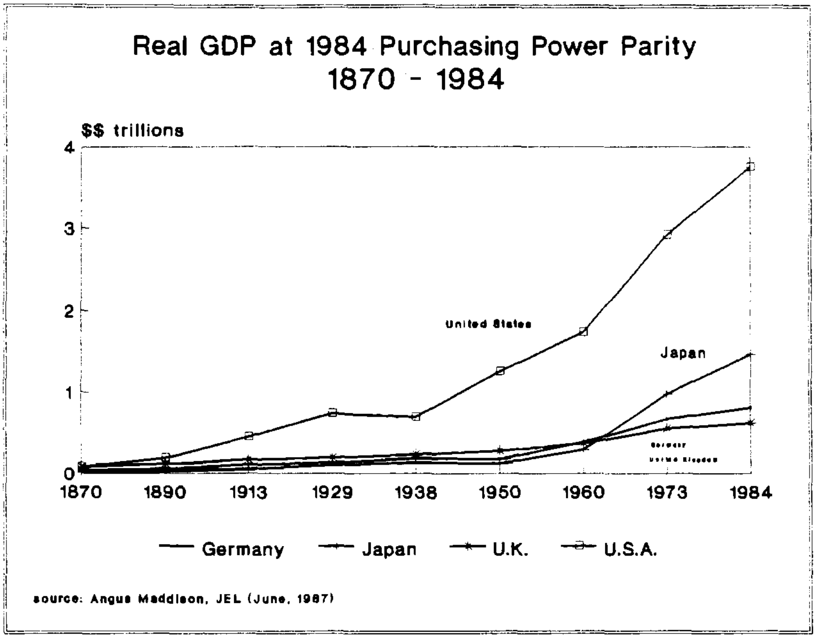


**Chart 2**

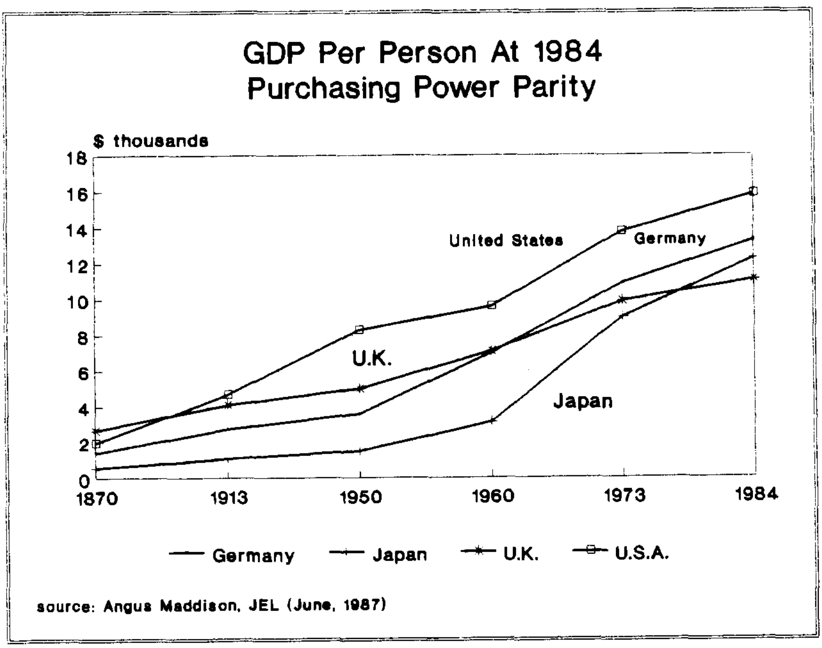

Chart 3

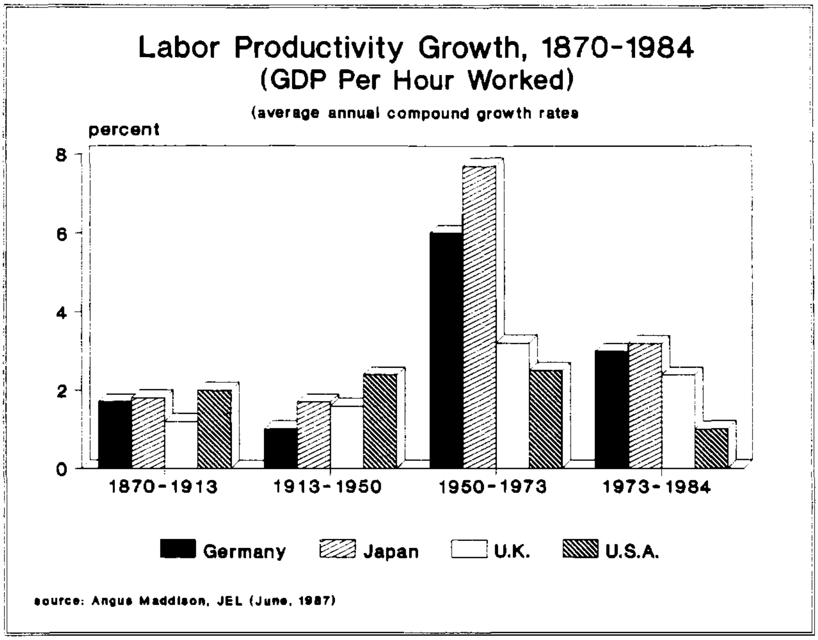


Chart 4

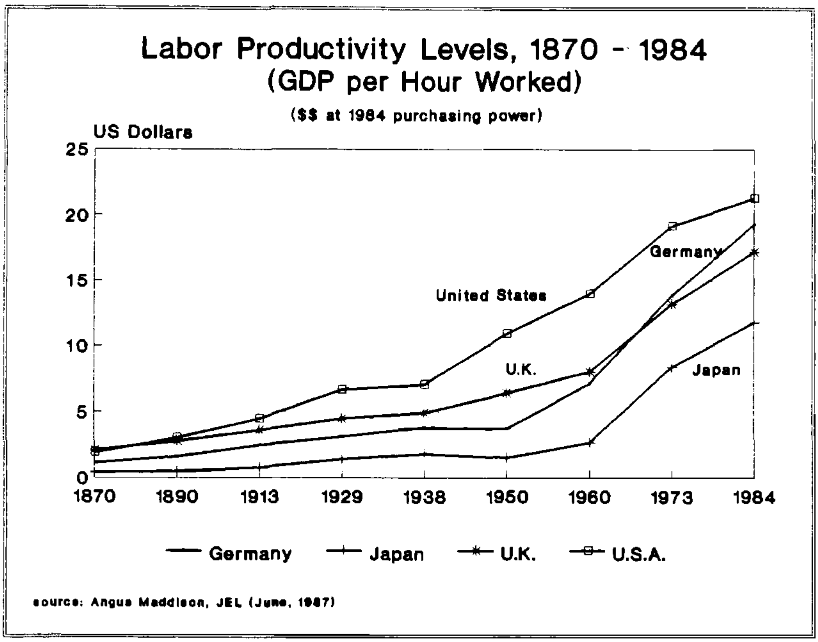

**Chart 5**

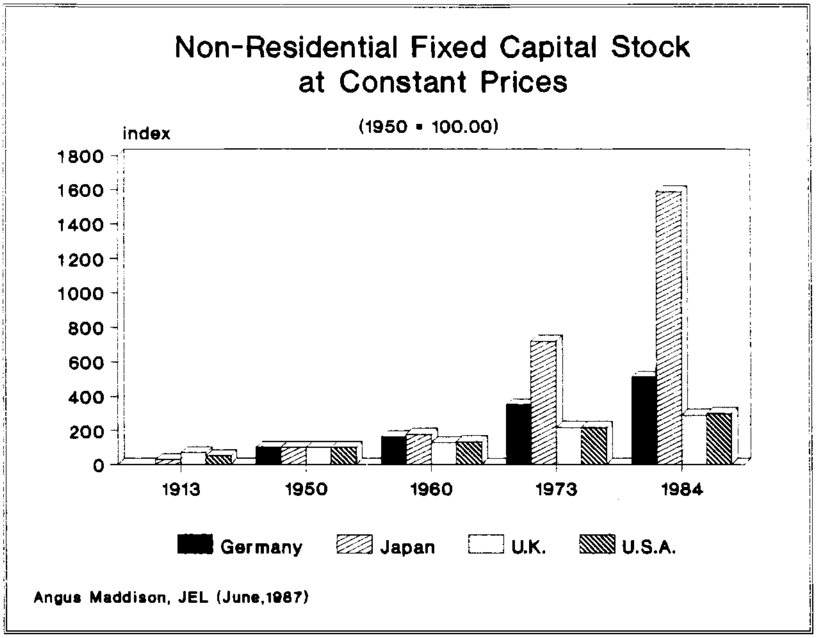


**Chart 6**

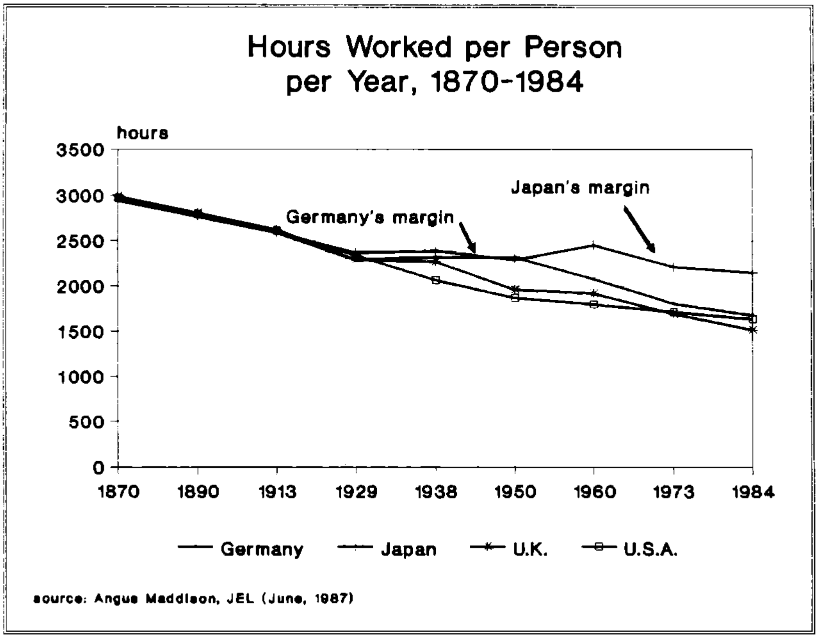

Chart 7

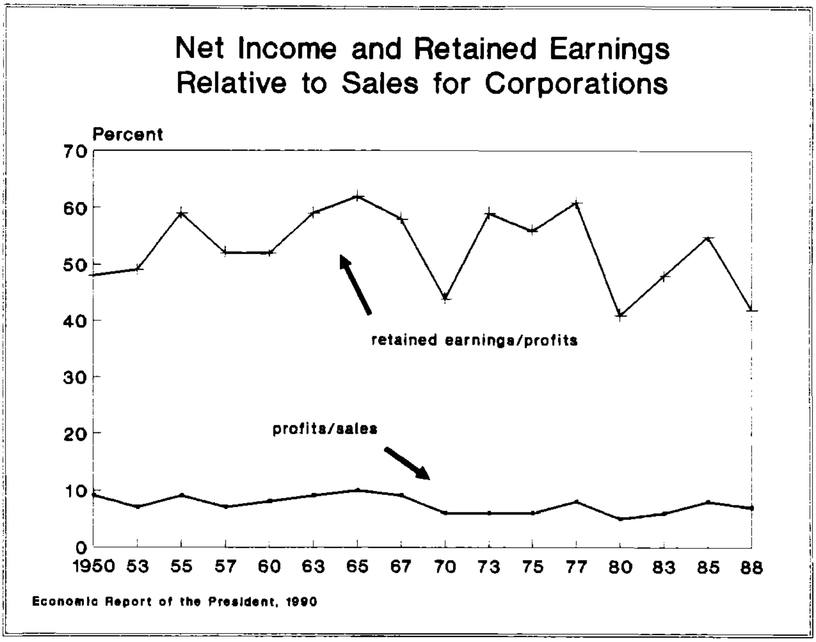


Chart 8