

Bob Rowthorn on a dearth of innovation

Wealth Of Nations

The Competitive Advantage Of Nations (MacMillan, £25) is a sprawling work which few will wish to read from cover to cover. But despite its length (more than 600 pages of text, together with 200 pages of charts, tables and appendices) it is extremely interesting. Michael Porter provides a stimulating analysis of international competition and economic growth. He is primarily concerned with capitalist economies, but many of his arguments are directly relevant to socialist economies and to current problems in eastern Europe and the Soviet Union.

Porter's starting point is the observation that no country can be competitive in everything. Strength in some areas implies weakness in others. A successful country is not one which succeeds across the board, but which has a sufficient number of internationally competitive industries to finance the economic and social aspirations of its population.

The main aim of the book is to identify factors which determine the 'competitive advantage' of a nation in a given industry, and to show how these factors work together as a system. A crucial factor is the phenomenon of 'clustering', in which related

groups of successful firms and industries emerge in one nation to gain leading position in the world market. Porter gives copious examples to illustrate the importance of this phenomenon, including detailed case studies of the UK and seven other national economies.

Porter divides capitalist development into four stages: factor cost driven, investment driven, innovation driven and wealth driven. These first three stages represent a movement towards progressively more advanced types of production. The final wealth driven stage, however, is one of actual or incipient decline in which the basic dynamism is lost, since the driving force is no longer the creation of new wealth but the administration of existing wealth.

In this final stage, the needs of industry become subordinate to the needs of finance. Financial speculation and the pursuit of short-term gain inhibit long-term investment, while the control of industry falls increasingly into the hands of lawyers and accountants, in place of engineers and other technical experts.

The educational system also fails to provide the work force with the kind of

skills required in the truly dynamic economy. Because of these, and various other negative features, a country that has reached the wealth driven stage of development gradually loses the capacity to innovate and compete in world markets.

According to Porter, a number of advanced countries are approaching the wealth driven stage, but the situation in the UK is by far the worst. Indeed, the UK has been stuck in this stage of development for decades. Porter sees signs of renewal under the Thatcher government, but argues that these have been mainly in the form of short-term restructuring and cost-cutting. While there has also been a fair amount of foreign investment in the UK, it has been largely in assembly facilities taking advantage of low-wage, mostly unskilled labour. For a secure economic future what is required is innovation. This, he claims, has been noticeably lacking.

For each of the countries examined in this book, Porter proposes an agenda for change. For the UK he lays particular stress on education and industrial financing. He welcomes the new core curriculum in schools, but argues that without massive new funding it will be a fail-

ure. This is surely correct. He also claims that long-term investment in the UK is seriously inhibited by the city of London, whose institutions are concerned primarily with short-term financial gain. This is also correct. Unfortunately, he has little to say about how the situation can be altered.

A striking feature of Porter's work is his stress on the nation. Competition is becoming increasingly global in nature and multinational corporations increasingly dominant.

Many commentators believe this is undermining the economic identity and importance of nations. Porter takes just the opposite view: 'Companies, not nations, are in the front line of international competition. They must increasingly compete globally. Yet globalisation does not supersede the importance of the nation.... With fewer impediments to trade to shelter uncompetitive domestic firms and industries, the home nation takes on growing significance because it is the source of the skills and technology that underpin competitive advantage.'

This is a surprising and important conclusion, although I personally am not entirely convinced.

