

glorification of war, "which few of us would be willing to stomach."

Other critics have faulted Fukuyama for ignoring continuing threats to the liberal idea. True, he says, the communist world could abandon reform. But communism can never regain the moral authority that made it a worldwide challenge to liberalism. What about Islamic fundamentalism? "For all of Islam's pretensions of being a universal religion, fundamentalism has had virtually no appeal outside of communities that were not Muslim to begin with." And although Islam claims nearly a billion adherents, the clash between Islam and the West "seems something less than an even match."

Fukuyama is more inclined to take seriously the challenge of resurgent nationalism, especially now that German reunification is a serious prospect. Still, he holds, it

is hard to imagine nationalist conflicts turning into wars on the scale of the ideological struggles of the past.

Finally, there is what the historian Gertrude Himmelfarb called the "X-factor," the possibility that some unimagined new ideology may arise to challenge liberalism. Fukuyama believes the fact that human progress toward liberalism has been underway "since at least the beginning of the Christian era in Europe" makes this unlikely. And yet he cannot completely rule out Himmelfarb's prospect.

Fukuyama admits one mistake. What he failed to make clear when he said that liberalism will "govern the material world in the long run" was that the "long run" may be several generations of struggle away. The end of history, then, is an anticlimax. It is cause neither for wild celebration nor for complacency.

ECONOMICS, LABOR & BUSINESS

Industrial Policy Rides Again

"The Quiet Path to Technological Preeminence" by Robert B. Reich, in *Scientific American* (Oct. 1989), 415 Madison Ave., New York, N.Y. 10017.

During the 1980s, two Republican administrations devoted to the free market have launched an undeclared national defense-oriented industrial policy.

In 1987, for example, the Reagan administration approved a \$4.4 billion superconductor accelerator; a \$1 billion "high-performance computing strategy" was announced early in 1988. Among other elements of the new "industrial policy" is the Defense Advanced Research Projects Agency's \$100 million annual contribution to SEMATECH, the joint research venture sponsored by U.S. semiconductor companies.

Reich, the relentless industrial-policy advocate

from Harvard's Kennedy School of Government, finds himself in the unaccustomed position of opposing these government subsidies. The United States, he says, already outspends Japan on research and

Defense Protectionism

In *Orbis* (Fall 1989), William J. Long of American University criticizes the Republicans' de facto industrial policy.

Increasingly, the argument is heard in defense circles that a sound strategic trade and investment policy entails governmental protection of, or encouragement for, certain industries . . .

Once [the Pentagon] weakens the executive branch's commitment to open trade and capital markets, large and powerful industries are likely to wrap themselves in the banner of strategic trade to obtain preferential treatment. For, as Jacques S. Gansler, a former Pentagon procurement officer, puts it: "National security sells. Industrial policy doesn't."



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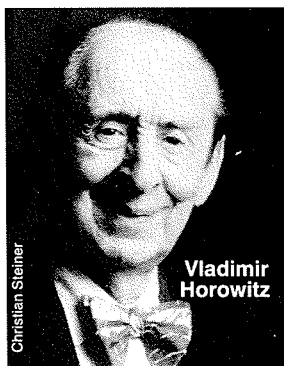
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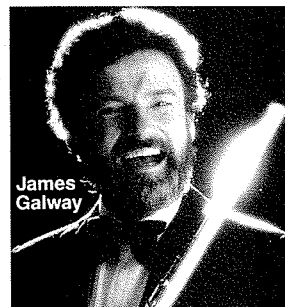
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development by three to one. Its research laboratories in both industry and the universities are second to none.

Where the United States falls on its face, he argues, is in quickly translating basic research into "products and processes for designing, manufacturing, marketing and distributing such products." Experience seems to bear this out. American scientists invented the transistor, but in 1953 Western Electric licensed the technology to Sony. The rest is history. In 1968, another U.S. firm, Unimation, licensed industrial robot technology to Kawasaki Heavy Industries. And who has heard of Unimation since? During the year ending in March 1987, Reich reports, Japanese firms spent \$1 billion to buy technological information in the United States; U.S. firms spent less than half as much in Japan. Between 1956 and 1978, Japanese firms paid \$9 bil-

lion for technologies that cost between \$500 billion and \$1 trillion to develop.

Reich just happens to have a handy six-point program to turn things around. U.S. industry must search the globe for inventions with commercial potential, and it must learn to integrate the work of laboratory and factory floor more effectively. Washington must work harder to make the fruits of government research and development available to industry, and it must set uniform technical standards for new technologies, such as high-definition television, so that corporate research efforts are not wasted. Finally, government must invest more in basic education and industry must invest more in worker training. Unfortunately, these are not strategies that lend themselves to headlines and ballyhoo. And that, Reich says, "may prove to be the major stumbling block."

Corporate Makeover

"Eclipse of the Public Corporation" by Michael C. Jensen, in *Harvard Business Review* (Sept.-Oct. 1989), Boston, Mass. 02163.

The boom in leveraged buyouts (LBOs) and other kinds of corporate takeovers has provoked cries of outrage in the executive suites of the *Fortune* 500 and even in Congress. Now, from the Harvard Business School, the high church of corporate capitalism, comes a lusty cheer.

The publicly-held corporation, declares Jensen, a Harvard professor of business administration, "has outlived its usefulness." We are in the midst of a massive restructuring of the U.S. economy.

The chief agent of change is the LBO; the chief result is that large corporations whose stock was once traded on the nation's stock exchanges are "going private." In 1988 alone, the \$77 billion of LBOs (mostly financed by "junk bonds") shrank the supply of stock in public corporations by 2.5 percent.

Behind it all is not the greed of buyout artists like TWA's Carl Icahn or Wall Street investment banks, Jensen argues, but the "widespread waste and inefficiency of the public corporation and its inability to adapt to changing economic circum-

stances." Because the owners of stock in big publicly-held corporations can rarely supervise their investments effectively, corporate managers have grown fat and lazy. They have ignored stockholders' interests. Thus, Ford Motor Company executives have hoarded an amazing \$10.5 billion war chest. It ought to be distributed to shareholders, Jensen says, but Ford executives are sure to use it for "diversification," otherwise known as empire building. The reason is simple. In Corporate America, executive pay, perks, and prestige are linked to corporate size rather than to corporate performance.

How do LBO's help? Jensen maintains that the substitution of "junk bond" debt for stock changes everything for the better. The need to meet payments "creates the crisis atmosphere managers require to slash unsound investment programs, shrink overhead, and dispose of assets that are more valuable outside the company."

And since executives in privately-held companies have bigger ownership stakes in the business, rewards are more strongly