Review of Richard Lester, The Productive Edge: How U.S. Industries Are Pointing the Way to a New Era of Economic Growth, New York: W.W. Norton and Company, Inc., 1998, $29.95 ISBN: 0-393-04574-9

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Scantly a decade ago, many - if not most - commentators portrayed the American economy as reeling under the onslaught of foreign competition. In industry after industry, on virtually every measure of competitiveness from product quality, to manufacturing efficiency, to consumer acceptance, American companies were being annihilated by foreign competitors using new quality oriented, hyper-efficient manufacturing systems. But, but the mid-1990s, much appeared to have changed. The pundits, the press, and even established academic economists began to write glowingly of America's comeback, drawing a pointed contrast to Japan's faltering economy, the Asian crisis, and persistent unemployment in Europe. What accounts for this dramatic turnabout?

The Productive Edge, the new book by MIT's Richard Lester, takes a close, hard look at this question. It is important reading for anyone interested in the future of American industry and the ongoing debate over economic growth and its consequences. Lester is among the most insightful and clear headed students of the American industrial competitiveness and is co-author of the influential 1990 book which set out the challenge facing American industry. Based on a reasoned analysis of key indicators of long run economic performance and careful studies of five key industries - automobiles, semiconductors, steel, electric power, and cellular communications, he provides an even handed, clearly written and illuminating survey of what is right and wrong with American the American economy.

The bottom line for Lester is clear: Despite the current spate of overly optimistic prognostication, all is not rosy on the American economic scene. While certainly there is much to applaud in American industry's decade-long turnaround, myths and half-truths abound.

First and foremost, according to Lester, the biggest long-run problem lies with our anemic rate of productivity growth. Over the past 25 years, overall productivity growth has edged up at rate of roughly 1 percent per year, far below historical trends and worse than our economic competitors. While manufacturing industries have indeed done better (posting annual productivity growth in the range of 3 percent since 1990), this has not translated into significant economic gains for the economy as a whole, nor has it boosted real wages or helped to overcome widening wage disparities. Investment too has been anemic, whether measured as gross private investment, investment in R&D, or investments in our decaying infrastructure. Gross private investment as a percentage of total economic output, for example, has hovered at roughly 12 percent during the early 1990s, well below historic patterns and when compared to other advanced industrial nations, cites Lester.

Second, far too much emphasis has been placed on management fads from total quality management to business process reingineering, according to Lester, which are partial solutions at best and which generally speaking have failed to deliver the goods. And, the powerful allure of these quick fixes has complicated matters, diverting attention and effort from doing what's necessary to really turn things around. "There is no sign that total quality management, reengineering and many other strategies ... have produced a significant productivity benefit for the U.S. economy," Lester writes. Much the same can be said of the waves of corporate restructuring and downsizing of the early 1990s. And, such strategies have frequently failed to live up to expectations in the companies that have made significant investments in them, argues Lester.

The jury is still out on the American economy, according to The Productive Edge. Our nation - and the world - are caught in a wrenching period of economic transformation where change and uncertainty are the only constants. Rapid technological change, rampant and far-flung globalization, and the recasting of government's role in the economy through deregulation and privatization continue to destabilize traditional economic patterns and to create new uncertainties. Mounting economic anxiety is the result, as the bonds of loyalty which once held our society, its institutions and its people together weaken under the strain of these powerful economic forces. This, The Productive Edge cautions, has enabled a simplistic, backward looking, and dangerous solutions such as "economic nationalists" to gain a toe-hold in the debate over America's economic future.

What then can we do? Outlining a strategy for the future, Lester draws upon the factors that account for success in leading edge organizations. The key to economic renewal, according to The Productive Edge, is to look beyond short-term, piecemeal approaches, focussing instead on the long, hard work of enhancing "organizational capabilities" - the broad retinue of practices and supportive culture which allow everyone from R&D lab to the factory floor to contribute their full potential. True "high-performance" organizations invest in the knowledge, skills, and organizational assets required to launch new products, reconfigure themselves to adapt nimbly to change, and create whole new markets.

Our nation, Lester suggests, should do the same. The vehicle he advances for doing so is a "new economic citizenship." By this, he means essentially instituting a new vision of work enhanced by technology, and recasting the role of government to encompass a new set of economic and social supports which is more in tune with the new economy. This means among other things establishing a new, more decentralized and individually-oriented "safety net" which explicitly recognizes the realities of varied career paths and multiple jobs, providing the resources for Americans to effectively navigate the new economy - portable pensions, individual learning accounts, and the like.

Fashioning such a far-sighted and much needed agenda will not be easy. And, the only real weakness of The Productive Edge is that it provides far too little detail here. As with all matters of policy, the devil is in the details, and Lester gives us only the scantest outlines of what a model for the new economic citizenship can look like.

And, there remains the vexing question of what kinds of forces and factors can bring this change about. The Productive Edge rightly points out that the future is not preordained - that we have a "choice" in the ongoing debate over the American economy. But, it fails to address the political shift required to bring it about. Political institutions and public policy change much more slowly than technology or the economy, as the classic work of the late Mancur Olsen on The Rise and Decline of Nations has shown: the lag between the rise of a new economic system and a new policy agenda of the sort Lester calls for is very, very long indeed. Furthermore, the United States political system suffers from a collective hardening of the arteries - what Jonathan Rauch has dubbed "demo-sclerosis." In fact, the emergence of a new policy agenda for the new economy faces the daunting challenge of overcoming the persistent legacy of mass production political institutions - our handed-down system of policies which grew up over the past century to support the mass production economy. This policy system will likely prove far more difficult to deconstruct and transform than American industry.

One of the biggest contributions of The Productive Edge is in laying this fundamental challenge before us. American industry has taken to revitalizing itself. But, the agenda for long-run economic transformation is far from complete. The next - and even more critical - step is to develop and institutionalize a broad and integrated policy agenda that can enable all Americans to participate and prosper in the new economy.

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