

# Book Reviews

Craig Freedman (ed.), **Why Did Japan Stumble? Causes and Cures**, Cheltenham: Edward Elgar UK, 1999, pp. xi + 236.

Reviewed by Joseph Halevi\*

This is the second volume published by Edward Elgar containing the papers of the interesting conferences held by the Centre for Japanese Economic Studies at Macquarie University in Sydney's metropolitan area. Both books have been edited by Craig Freedman, the director of the Centre who has published extensively in areas related to economic theory and to epistemological issues in economic thought. This cultural dimension reverberates in the profile of the conferences organised by Centre making them more appealing than the rapidly forgotten technocratic gatherings of similar outfits in Australia and elsewhere in the world. This volume confirms and indeed strengthens the trend set by the first one in providing a non conventional picture of the evolution of the Japanese society and economy in the light of the crisis that has gripped it during the last decade.

The volume contains four papers which take a long term view informed not by the *a priori* tenets of economic theory but rather by an awareness of the limitations of theory and of the importance of history and of its components, such as political, cultural and sociological. The remaining papers are expertise oriented and offer a set of analyses of rather mixed value. Within the first set of contributions one finds that of Michio Morishima ('Why I expect Japan to Collapse'), Kyoko Sheridan's ('Japanese business culture and society'), Jenny Corbet's ('Crisis? What crisis? The policy response to Japan's banking crisis'), and, lastly, Craig Freedman's 'Introduction' which ought to be viewed as a contribution rather than as a presentation of the themes of the book.

At this point it may be preferable to discuss first the expertise oriented papers. Ryutaro Komiya, a very well known economist, addresses, in the third chapter of the volume, issues related to long term policies ranging from the size of the public sector and of its socio-cultural character, to declining population growth and to the burden of the debt. There are many

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strange things in this paper beginning with the bearings taken by the author. We are told that the public in Japan has been impatient so that the pendulum in 1997 began to swing in favour of expansionary policies. By contrast, the British and the New Zealand people have been more thoughtful as they endured a difficult period of reforms followed by the enjoyment of the fruits of those reforms. This is a very bold statement indeed both vis à vis Britain and New Zealand. The latter in particular has gone through a dramatic phase of deregulation engendering severe economic shrinkage to the point where the new government has decided to institute the Ministry For Economic Development. Furthermore the author seems to chastise Japan for not ideally being able to qualify for membership in the European Union since her deficit and debt ratios are way out of those decided in Maastricht. But is it a bad thing? Perhaps had Japan conformed to the Maastricht criteria her fate would have been much worse or her external surplus would have had to be much higher to offset the negative impact on demand and output of Maastricht like criteria. While the description of the public sector in Japan is informative, the discussion of economic policy issues is not. It starts with some healthy scepticism about the validity of macroeconomic theories only to end up accepting some of their weakest aspects such as the twin deficit story and the Mundell-Fleming model, both utterly irrelevant for Japan. Finally the analogy between the American military industrial complex and the government-industry complex in Japan is out of place in the macroeconomic conceptualisation chosen by Komiya where the Baran-Sweezy notion of monopoly capital simply does not appear.

Despite has a very promising title 'Why has the Japanese economy been stumbling for so long?', the chapter by Masaru Yoshitomi has no analysis of the stumbling process, only a description of the main phases covering the 1992-98 period. These are the 1992-94 recession induced by earlier excess investment, the 1995-96 recovery interrupted by the sharp appreciation of the Yen relatively to the American dollar and also by the continuing financial deflation, although no causal explanation is provided. Lastly, we have the third phase characterised by the tax increases of 1997 –euphemistically called 'fiscal consolidation' – and by the deepening banking crisis. At this point the Asian crisis is thrown into the frying pan as being responsible for a 20% drop in exports in 1998. However for someone who has read the book by Walter Hatch and Kozo Yamamura, *Asia in Japan's Embrace* (Cambridge: Cambridge University Press, 1996) the causation would be seen as running from Japan to the rest of Asia and not the other way around.

A diligent attempt to model the Japanese banking crisis in an international perspective is undertaken in the sixth chapter by Michael Hutchison, Kathleen McDill and Rita Madrassy. The paper runs into the traditional difficulties of applied - and indeed theoretical - economic modelling. The matter is lucidly summed up in the comments written by Eileen Mauskopf: 'trying to fit very complicated temporal relationships between institutional structures, macroeconomic policies and circumstances into probability models of banking failures may lose a lot of the richness and diversity of the crises' (p. 186). A more nuanced conceptual approach is followed in the beautiful paper by Jenny Corbett on the same topic (chapter 7). The paper shows a refined perception of the pitfalls of theory. After a thorough review of the literature on banking crises the author points out that the very notion of a banking crisis is not robust as it can often only be ascertained with the benefit of hindsight. Identifying the degree of severity of a crisis is equally problematical. Thus 'It is obvious that there is no agreed-upon definition of exactly when a system is in crisis, but worse, that even if there were, serious difficulties would arise in collecting reliable data in advance of the crisis becoming systemic' (p. 195). Since banking crises are hard to detect in an effective way, it is normal for countries and authorities to react slowly. Japan therefore is not such an exception among the industrialised nations. Similar problems arise in evaluating the policy response to crises and, within these limitations, Corbett elects to contrast the tough with the soft approach to rescue operations. With a tough policy managers would be heavily penalised inducing them to take advantage of informational asymmetries and hide bad loans by rolling them over. A soft bailout policy based on encouraging banks to reveal their true state is, accordingly, preferable to a tough one. In this context the *ex ante* tough, and *ex post* soft attitude adopted by Japanese authorities is viewed as a bad example. Yet, as observed by Takatoshi Ito in his comments, a soft approach may not be successful if managers still feel that they have something to lose. Hence, as in just about everything in economics, we do not really know, we cannot really tell, but we can still talk about it.

Having briefly presented the more applied parts of the volume, although Corbett's paper straddles into the conceptual set, it is now possible to concentrate on the contributions taking a longer term perspective on Japan. The most ambitious of these is Morishima's essay which develops a definite thesis concerning the evolution of Japanese society. According to Morishima post-war Japan has been built on a contradiction. On one hand the traditional system of power relations, hitherto based on the *Zaibatus*, was restored in a modified way. On the other hand education was trans-

formed, but not quite, through the policies of the American occupation authorities. The new form of the old order is in fact an oligopolistic bloc, although the author does not use this term, based on the alliance between corporations, government bureaucrats and politicians. The economic structure of the society is highly hierarchical with the small firms being confined to their place. The schooling system has neither been promoting Confucian values, where leadership flows from educational achievements, nor has it developed liberal values, except for their materialistic side. Hence the formation of the ruling groups has taken place on the basis of patronage and clientele relations. Thus, the restoration of the Old Order conflicted with the new and incomplete educational system making the latter ineffective in a Durkheim sense. That is, if society is not changed, educational reforms can even have negative results.

How was it then possible to attain, for nearly two decades, a high rate of economic growth? By combining Morishima's previous book *Why has Japan Succeeded?* (Cambridge: Cambridge University Press, 1981) with the present essay, the answer seems to rely on three factors. First, there were the imperatives of reconstruction and of the restoration of the old power system which, since the end of the Meiji period onward, recognised industry as being a crucial force for power. Second, there was the fact that the old, let us say Confucian, generation was in charge of the reconstruction strategies, and, thirdly, the internationally sheltered nature of Japan's position provided by the United States. In one way or another these three elements ceased to function and to exist by the 1980s and Morishima is perfectly correct in locating the beginning of the troubles in Japanese society at the start of that decade. According to the author there is, however, a theoretical solution to the crisis of the oligopolistic bloc represented by the development of a market driven capitalism from below. Morishima ascribes such a capitalism to Weberian ethics and calls it a Neoclassical revolution, yet it can be equally Smithian or Marxian given the emphasis that these two theorists put on competition as an engine of accumulation.

At the same time the negative predicament of the future evolution of Japan is deduced from the virtual impossibility of implementing a strategy of building capitalism from below in Japan. Again the reason for such a lack of capacity is to be found in the contradictory relation between the power bloc and the educational system which neither creates a leading group of people nor does it instill liberal values cum responsibility and initiative. Japan may well then slide into a Tokugawa period situation of a comfortable standard of living but with an insignificant role internationally,

especially in the light of the rise of China and of the importance that the United States attach to the China.

Morishima's essay is methodologically compelling, although I would object to both the term Neoclassical revolution and to the idealisation of Weberian capitalism as something which exists in practice. In fact we do not know whether capitalism did really grow on the basis of the spirit of Weber and/or on the basis of the Smith-Marx mechanism of competitive accumulation. Alternative explanations such as that of Karl Polanyi are never given a chance vis à vis the competitive growth paradigm (dogma). Unfortunately Morishima's contribution is no exception. Just the same the essay should be required reading since, if anything, it utilises the ideas of economics not in an economicist way but rather to suggest a societal and cultural scenario. In this respect Hugh Patrick's characterisation of Morishima's contribution as coming from an amateur historian is inconsequential.

The necessity of looking at what appear outwardly as economic processes in cultural, political and sociological terms is emphasised also in Craig Freedman's introduction. The socio-cultural outlook becomes particularly important when market conditions change at a much faster pace than society can. The formation and the evolution of the business culture, which Morishima considers now to be completely rotten, is described very well in Kyoko Sheridan's paper in chapter 4. Its main focus is the organisation of labour in Japan. Both from her narrative and from her data on the productivity/wage dynamics it appears (although she omits highlighting it) that Japan's accumulation was more Marxian than in most of other capitalist countries with *surplus value* being relentlessly extracted from its working population. Pity that Karl Marx, like Karl Polanyi, does not get a chance either.