

The End of Japan Inc. and How the New Japan Will Look

By Christopher Wood; Simon & Schuster, 1994; hardback, 240 pages, £15.99

Journalists do have a tendency toward hype. However, as with political cartoons, their caricatures sometimes help us to see some essential features of reality more clearly than we might otherwise have done.

Briefly, Wood's theory is that we are seeing the shattering of Japan's postwar economic miracle. Information technology is the key battleground for the future, and Japan has lost this to the U.S.A. The national stress on rote learning and conformity, bred from infancy and through the education system, develops skills well-suited for manufacturing and for social cohesion but are a liability for stimulating the individual creativity required in software.

As the global economy flows increasingly away from manufacturing toward the information industry, the major loser will be Japan, the master of mass production and social conformity. Japan will soon begin to unload U.S. real estate holdings, such as the Rockefeller Center, acquired in the 1980s; Japan's grip on the electronics industry will disappear as American companies reap the fruits of winning the battle for high technology; Japan's automakers will have to alter their management philosophy and production quantities, leading to huge layoffs and societal unrest; and Japanese politics will be marked by ideological conflict for the first time since the rise of militarism in the 1930s.

Why does Wood believe that all this will happen? Essentially because the speculative boom of the '80s resulted in the dramatic bust of the '90s, so that by autumn 1993 Japan was facing an unprecedented combination of excess production capacity, falling

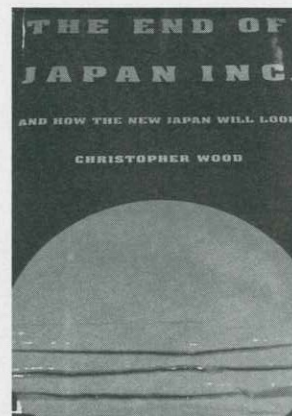
demand, and a rampantly high yen. The postwar economic miracle was built by the export-driven pursuit of market share in global markets, heavy capital spending and the deliberate suppression of domestic consumer demand—and none of these are sustainable.

The teeming markets of South and Southeast Asia remain possible but inherently uncertain, and Japanese investment in these countries reinforces the hollowing out at home. This threatens the social consensus, and the "iron triangle" of politics, bureaucracy and business will be broken. Wood recommends the route of unrestrained American-style capitalism as "messy ... but the best way of allocating resources to where they can earn the best rate of return."

Undoubtedly, much of Wood's analysis is correct and many of his predictions will indeed come to pass. However, Wood (and indeed all of us) needs to consider three things, one each about Japan, about information technology, and about the global economy.

First, Japan has successfully undertaken two revolutions already, in the half-century up to the end of the 19th century and in the half-century up to the present. It is one of the few societies, apart from the U.K., to have managed social revolution without civil war. The two Japanese revolutions have been based on the notion of "catching up" with the West and the result has been startling. But now Japan has reached the stage where "mimicking and refinement" will not provide a basis for further development.

The Protestant revolution, which was a key element in creating the pre-eminence of the West, was based on a certain concept of what is right. These societies have the seeds of self-renewal because of the social institutions this ethos produced. Post-Protestant societies are busily undermining or destroying those social institutions, and how far they will continue to retain the seeds of self-renewal remains to be seen.



Japan began by desiring the material fruits of the Protestant Reformation, and it has achieved as much as it can of that fruit without undergoing a fundamental reformation of its spiritual, social and political life. As it now enters the stage where it has to face the question of Reformation, the Bible will be a better guide than Adam Smith if Japan wishes to retain anything of its distinctive heritage. On the other hand, if Japan wants to become a second-class imitation of America, then it ought to take Wood's advice and follow the capitalist route.

Second, the global economy is demonstrating the limits of capitalism; information technology, far from being the way forward, shows up those limits in starker relief than before. This is not the end of Japan Inc. but the end of Capitalism Inc.

Third, the quantum leaps in information technology provide competitive advantage for ever-shorter lengths of time. Japan, which is still at least the world's second economic power, is not out of the race.

So, far from being dispirited at the choice between capitalism and the Japanese way, Japan can join the rest of the world seeking answers for the way ahead for all of us.

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