

The Economic Emergence of Modern Japan

edited by Yamamura Kozo
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The miracle of the Japanese economy is known to everyone, but not everyone has investigated what caused the Japanese economy to rise, and fewer still agree about the causes.

This collection of essays is therefore welcome, in spite of the fact that all the chapters are reprints, the first four chapters from *The Cambridge History of Japan* published at the end of the 80s, and the remaining three chapters from *The Cambridge Economic History of Europe*, published as long ago as the 70s.

The essays survey economic change in the nineteenth century; industrialization and technological change between 1885 and 1920; the period from 1920 to 1945; the post-war Japanese economy; and, over the entire period, the formation of capital; of factory labor; and of entrepreneurship, ownership and management.

What justifies bringing these essays together in a book today is that they still serve collectively as a reliable exploration of Japanese economic history over more than a century. Further, what unites the Western and Japanese authors brought together here are unusual academic perspectives which raise and sometimes new and significant questions, such as: To what extent did the Japanese governments in fact contribute to the rise of the economy, historically? How did *zaibatsu* and *keiretsu* promote or reduce Japan's economic performance? Which institutions today are tending to improve and which to impede efficiency? Why did (and why do) those institutions which reduce the performance of the economy survive and persist? What social costs has Japan paid in the process of industrialization?

From the book emerges a picture of the complexity of the factors involved

in the progress of the economy: first, and most important, there was the forging of a national consensus regarding the need for the nation to "catch up." Second, governments adopted a "developmentalist" philosophy, systematically intervening in the economy by a program of "priority production," industrial rationalizations, trade protection for "infant" industries, industry-specific subsidies, the encouragement of government-guided cartels among large firms, policies which were designed to or otherwise resulted in a high rate of savings among citizens, as well as in encouraging entrepreneurs and large firms to keep up with the technology curve. Third, and in the final analysis no less important, profit-motivated pioneering entrepreneurs in a range of industries who established and managed profitable firms. Fourth, firms and financial institutions, led by able leaders, who made oligopolistic profits but built extensive networks of ownership and management. Fifth, community-spirited bankers and businessmen who were motivated to increase collective, national interest. Sixth, particular combinations of circumstances ranging from wars to particular moments of crisis such as the oil shock of 1973.

Reading such a historical survey reminds one that there is an old and well-established pattern to growth in Japan over the last century: if the ethical foundations of the rise of the West lie in Protestantism, the ethical foundations of modern business activity in Japan have lain from the beginning in parallel notions of service to the community and the state; the deflation at least partly engineering by Finance Minister Matsukata in the 1880s established the strategy of giving priority to the modern sector although at an inevitable cost to the average Japanese; between 1913 and 1938, Japan's gross national expenditure grew at the highest rate (averaging 3.9%) among all the industrialized economies; the rapid rise in exports caused friction between the United States and Japan as early as 1968, causing Japan to place voluntary restrictions on the export of iron and steel in 1968 and textiles in 1971.



There remain two key questions which concern everyone who is interested in Japan: "Is the present decline of the Japanese economy terminal? If not, how soon will the economy revive?" These are not questions which this book attempts to answer in any direct way, but the historical record provides ambivalent evidence about whether Japan has the cultural and structural resources which are needed. On the one hand, it has successfully survived numerous crises over the last century, emerging from each crisis strengthened and revived; on the other hand, all this was in the context of a change from a traditional to an industrial society, from a philosophy of government oriented toward control, to a philosophy of government oriented toward manipulation for growth. The very process of industrialization has de-traditionalized Japanese society to a certain extent (and in the case of young people to a remarkable extent). Will Japanese society be able to make the transition to an open and transparent society with modern institutions based on traditions of voluntarism and ethics? So far, no non-Protestant society has been able to make that transition and whether post-Protestant societies will be able to maintain democracy is to my mind an open question. Japan is the first society which faces that challenge with relatively rich resources in spite of its mixed record. I remain hopeful.

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