

# | Book Review

Craig Freedman (ed.) **Economic Reform in Japan Can the Japanese Change?** Edward Elgar, Cheltenham, UK, Northampton, MA, USA, 2001, pp. xii+231.

Reviewed by Toshihiro Kanao\*

This volume is the third and final in a series edited by Craig Freedman, and is the fruitful product of a conference held in July 2000 by the Centre for Japanese Economic Studies, Macquarie University. It examines the reforms of Japan's social and economic system and provides recommendations for possible future policy directions. The volume is divided into four parts and contains 8 papers, with five supplementary commentaries.

Freedman's introduction gives us a useful summary of the key issues and also provides some valuable insights. Although Freedman, like many Japan watchers, recognizes the necessity of changing the Japanese system, he emphasises the lack of consensus that exists over the various versions of economic reform. Ultimately he insists Japan should change in the right direction and move the current economic environment toward prosperity. He also gives us a noteworthy, cautionary warning, namely, that as perplexing a subject as modern day Japan is, we should never mistake a partial view for a panoramic one.

Part I consists of papers by Miko Wakatsuki and Ronald Dore and examines Japan's social and economic reforms. Wakatsuki's paper deals with Japan's prolonged slump in the 1990s [called the lost decade] and focuses on the politics of Japan's prime ministers from the end of the LDP's reign in 1993. He also illustrates the economic reforms of the late 1990s, such as Japanese firm's increasing their emphasis on ROE (Return on Equity) and the "loosening" of the *keiretsu* networks. For Wakatsuki the new economic model to follow is the American one, though he considers that it should be modified to pay more respect for human values. In conclusion, he considers Japan to be proceeding in the right direction

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and is optimistic about its future prospects. Unfortunately Wakatsuki's analysis of Japanese politics is superficial and, as Freedman points out, the conservative political structures underpin the quagmire of Japan's economy.

Ronald Dore is a British sociologist well known for his research of Japanese society, education [*Edo Era (1760s and 1770s)*] and contemporary political economy, including several books written in Japanese. Dore makes his own laundry list concerning "what aspects of Japanese society and economy ought to be changed" (p.35). I have no objection to his suggested list except the one about Japan's educational system. He appreciates that the traditional system plays a useful role in society as it inculcates self-respect in the bottom half of learners. However, it infringes on the enthusiasm and potential of the top half who desire to study in a more challenging environment. I think the system can be improved to satisfy the needs of both groups.

Dore views Japanese society as less marketised, and characterised by relational trading, symbolized by the main banks and firms. He states that the reform proposals people have in mind are almost exclusively American, but the actual changes are marginal and limited in their impact. However, he eschews adopting the Anglo-American model as the right path, and has hopes Japan will remain a decent society and maintain its social-cultural foundations.

Part II has papers by Kazuhito Ikeo and Makoto Itoh who focus on the financial reform of the Japanese system. Ikeo's paper argues that the 1940 system, also known as the wartime regime (post Noguchi), ostensibly reformed in the mid 1970s, still survives. He states that the Japanese system has changed considerably but in the wrong direction, since the alterations are focused entirely on sustaining the status quo. This view is commonly accepted in Japan. Concerning the recent situation of financial stability (not collapse), he notes that, as state control is responsible for stability, the banking crisis will not be over until this control of the financial system ends.

Ikeo and Wakatsuki are mainstream economists but are quite different in their approach to past economic policies and the reform in progress. While Ikeo argues that the Japanese system has changed in the wrong direction and that recent financial reform is insufficient, Wakatsuki believes that, although changes have been slow, they have been in the right direction.

Makoto Ito's paper claims that financial reform based on neoliberalism has led to further deterioration of Japan's economic position. He is critical of the capitalist economy supported by the floating exchange rate system, as it inherently includes financial instability (specu-

lation). He advocates a Tobin tax on international currency to deter financial speculation, as well as the establishment of an Asian Monetary Fund which serves “not only as a lender of last resort but also could stabilize exchange rates in cooperation with the EU and NAFTA” (p.118). However, as Ito’s commentator Masato Masuda rightly points out, there are problems with both the Tobin tax and the Asian Monetary fund in relation to their realization and usefulness. In addition to this, we have no system better than the floating exchange rate system. Concerning the effect of BIS regulation, established for international stability, Ito is negative especially in the case of Japan. He proposes that the same rules should not be applied to all countries and should be more flexible. As a whole I agree with his proposals, but unfortunately he does not give us a clear pathway to their realization.

Part III papers by Koichi Hamada and James Abegglen deal with reform and change of industrial and corporate structures. One part of Koichi Hamada’s paper examines labour market customs, such as lifetime employment and the seniority wage system. Though there have been recent changes, as shown in the decreasing average tenure of employment for the younger generation, and flattening wage, the basic framework still remains. Hamada also notes that defection from the main bank system is taking place but only at slow pace. In which direction should the Japanese corporations change? Hamada does a comparative analysis, utilising Aoki’s J-firm and A-firm models which represent ideal types of Japanese and American firms respectively. On the one hand, he argues that the J-firm model is applicable to the manufacturing sector and the A-firm model to IT related sectors. Further, “the tide of worldwide economy is dominated by IT technology in the service sector, especially in the banking, securities and insurance sectors” (p.155). On the other hand, he states that the “community orientation characteristic of Japanese society may save us from making Japan into a ‘legalistic’ society like the United States” (p.154). Therefore, the convergent model he bears in mind would be a hybrid type. Hamada’s analysis uses this model, so it is simple and clear. However, it also inevitably involves some intrinsic defects which modelling analysis in general contains. As shown by the commentator Noel Gaston, it omits small-and medium-sized companies from its analysis.

James Abegglen’s paper looks at the Japanese economy from the mid-1950s to the mid-1990s, which might be characterized as the high growth period, and the economy after the early 90s, as industrial and demographic maturity. This maturity requires industrial and corporate strategy specific to time and environment. Abegglen argues that Japan has changed drastically in industrial structure, technology level and so-

ciety (as in life expectancy). In addition to identifying the continuity of traditional saving patterns, he points out that the system of corporate governance and personnel management has changed only at the margin. Yet he appreciates the health of Japanese society on the whole since "healthy societies with effective family system change rather slowly" (p.176). He concludes that management in Japan will change at its own pace and in its own direction. I think Dore and Abegglen share common views in their appraisal of preserving Japanese traditional values and attitudes.

In Part IV Marcus Noland's paper analyses Japan's international relations with the United States, East Asia and Europe. Noland asserts that "Japan has arguably been the prime beneficiary of the post-war liberal international economic order" (p.191 & p.210). However, as his commentator Colin McKenzie rightly points out, he presents no substantial evidence to support his statement. He examines Japan's role and activity in international economic institutions such as GATT and WTO, and concludes that Japan has failed to use its soft power effectively. Additional evidence is Japan's inability to establish a FTA in the East Asian region because it embraces low productivity sectors such as agriculture and services. Even after careful reading, it is unclear how much the agricultural liberalization benefits Japan and the rest of the world, especially developing countries, in the long-term. Concerning the lack of Japan's leadership and its future direction, he rightly indicates that East Asia should become less dependent on the US market and Japan needs to "import(s) more and establish better political and economic relations throughout the region" (p.211).

After reviewing all the papers, I find a line of argument that Japan should not adopt a purely Anglo-American model. At the same time, there exists some considerable divergences among the authors in the understanding of Japanese reforms in progress and future directions. For example, Wakatsuki's paper lies on one extreme, and Dore's on the other extreme, even though they observe the same object, Japan. Therefore, we should take the volume as a whole without "the idea that one particular author has somehow put together a correct appraisal" (p.14). Besides debates about reform in this volume, there are some other things to be considered, such as the tax system, and the issue of executive management's personal guarantee system after bankruptcy (as often seen in small-and medium-sized companies). Liability issues hinder not only entrepreneurs from challenging new businesses but also bankers from developing systematic evaluation of real company values. The volume as a whole provides us with useful, intellectual material in considering the contemporary Japanese social and economic system. I highly appreciate

the job done by Craig Freedman who organised the Conference and edited this volume. I recommend it to the specialist as well as those interested in the evolving economic and social reform process of contemporary Japan.