

## BOOK REVIEWS

*Industrial Growth, Trade, and Dynamic Patterns in the Japanese Economy* by Miyoei Shinohara, Tokyo, University of Tokyo Press, 1982, x+243 pp.

This collection of essays on Japan's industrial and trade policies and aspects of growth experience in the postwar period provides a lively commentary on issues of interest and importance to policymaker and researcher alike. Shinohara is one of the foremost practitioners in the great empirical school of policy-involved economists in postwar Japan, earlier associated with a prominent group at Hitotsubashi University and now Professor at Seikei University as well as Chairman of the Institute of Developing Economies. In this book too, Shinohara tussles with the facts and constantly puts theory to the test of relevance, as he assesses Japanese postwar policy and growth experience and relates it to recent developments in the Asian-Pacific economy. Though they will not all be satisfied with Shinohara's conclusions, readers should go away from the volume conscious of having been privy to a very vigorous and significant debate.

The title of the book suggests an integrated argument, and may mislead and disappoint some readers. In fact its chapters are a very valuable miscellany of recent writings by the author around three main loosely interrelated themes. Some of the essays included have not appeared in English translation previously; others have.

The book is organized into three parts around its main themes. The first deals primarily with Japan's industrial policy and the role of the Ministry of International Trade and Industry (MITI) in what Shinohara sees as the efficient promotion of industrial growth in postwar Japan. The second takes up the theme of changes in the international structure of economic power and, then, international economic relations between Japan and her major trading partners as well as developments in the Northeast and Southeast Asian economy. The final part is a collection of three studies on different subjects: the origins of the high savings rate in Japan; long- and short-run cycles in economic activity and their persistence; and a supplementary chapter which employs conventional production function analysis to assess the contribution of technical progress and other factors to changes in Japanese industrial productivity.

The first part of the book contains material of most general interest. It also contains the author's more controversial views on the nature and effects of Japan's industrial and trade policies. Shinohara staunchly perpetuates the view that MITI was the powerful initiator and decisive arbitrator in efficient industrial growth in postwar Japan. He chastises his colleagues for relying overly on textbook models of competition in their assessment of its role. He stresses the role of national and business cooperation in effecting the huge transformation in Japan's industrial structure and the elevation of Japanese productivity and incomes. He cites MITI's support for the merger that formed Nippon Steel Corporation as an example of successful and far-sighted MITI intervention, despite the counsel of academic economists. He is "convinced that the unprecedented economic growth of the postwar period would not have been possible without the group-oriented psychology and social structure unique to Japan" (p. 40). Shinohara exhorts researchers to a new evaluation of MITI's industrial policy and to "look into such questions as the relationship between Japanese industrial

society and rapid economic growth, and what sort of impact government policy had on industrial development. If such research is not done and published for reference throughout the world, then the true picture of Japanese industrial policy will be buried under a mountain of scholarly disfavor, relegated forever to the realm of economic freakdom" (p. 52). It would be interesting to have Shinohara's appraisal of the equally colorful contribution of Chalmers A. Johnson<sup>1</sup> in this context.

Shinohara also suggests that the structure of Japanese industrial organization, with its loose finance-based corporate groups and, within that structure, its vertical subcontracting monopsonies, was a very positive factor in efficient industrial growth. Compared with individual companies which displayed a great "capacity to transform," "business groups as a whole have even greater flexibility, providing a cushion against rapid change in the economy" (p. 42). He confirms the worst fears of foreign competitors and suppliers in his description of Japan's "unique" general trading companies: "they have telecommunications equipment and intelligence gathering networks that rival anything the CIA or Pentagon can come up with, enormous strength in international markets, ability to procure massive capital at home and abroad, and excellent organizational capability as demonstrated in the way that they have mobilized many manufacturers to enter overseas markets" (p. 44).

Both in the context of Japan's protection of "infant industries" and pursuit of "dynamic comparative advantage in the international economy" and in the context of management of the international trading system, Shinohara rouses on those who would advocate unconstrained free trade as captives of a static way of thinking and unconscious of marketplace and political realities. "If we could assume that free trade, as it is portrayed in the static perspective, leads to a perfect equilibrium, and that things do evolve in a smooth manner, then export control would be an evil, to be sure. But free trade of the kind which is expounded by proponents is not so static and perfect in nature; in many instances, it results in floods of exports" (p. 113). The need for export restraint and safeguards against excessive competition, he suggests, have to be understood in the light of such realities.

Shinohara does not always mean exactly what he seems to say. Partly this is because of the nature of the essays in the first two-thirds of the book. They are academically controversialist and didactic pieces in the best sense—challenging conventional wisdoms, tilting at academic windmills, and asking rather uncomfortable and fundamental questions. Originally conference papers or lectures addressing a broad range of issues, their arguments are not fully elaborated; they set out to make one or two challenging and important points. Some points seem at odds with others. But complete consistency is not the objective of this exercise; nor should it be expected. There is a danger, however, that Shinohara could be misread if too much notice is taken of posture in an argument and too little taken of the strands which balance his position.

Read carefully, for example, it is clear that Shinohara's argument is not that Japanese institutions and policies are "unique" in the sense that other countries are unable to replicate whatever beneficial effects they may have wrought. Simply he sets out to stress the role of cooperative, *alongside* competitive, action through the nature of policy and business organization, in Japan's industrial achievement, and the importance of a strong and well-directed framework of government intervention and support in the process of industrial development. At the same time, he rejects the Japan, Inc. view of government-business relations in Japan, referring with approval

<sup>1</sup> Chalmers A. Johnson, *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925-1975* (Stanford, Calif.: Stanford University Press, 1982).

to the United States Department of Commerce Report<sup>2</sup> as sweeping "this odd image of the economy out the door" (p. 38).

Nor does he suggest that the Japanese model can be replicated in its "across-the-board" support for industrialization in some of the smaller newly industrializing countries (pp. 64-66). Here there is a tacit admission of some of the gigantic failures of Japanese industrial policy and business organization, a huge aluminium industry no sooner constructed and never competitive before it has to be dismantled because of its unbearably wasteful cost.

Nor is Shinohara any rabid protectionist, although his diatribes against free trade may leave him open on this issue to most serious misinterpretation. He does not recommend protectionism. He urges Japan to reduce agricultural protectionism and Australia to reduce protection of its industries (p. 134) and warns against maintaining protection of "infant industries" in perpetuity since "the damage thus incurred should be colossal in dimension" (p. 113). Shinohara obviously regards trade growth and specialization as essential to successful industrialization and trade is no one-way street. What he is concerned about is how to make free trade workable in a dynamic context and in the context of various market failures. In making this plea, perhaps he understates the ultimate objective and overstates the failures. The time and growth dimension to comparative advantage and specialization in trade has not been neglected in the literature. Also the "infant industry" argument for protection is well established. In the Japanese case it may well have been that the government played a critical role, through its industry support measures, in ensuring that investment decisions were taken by private industry in the right time frame. And appeal of reasonable principles in the management of the international trading system under GATT has been absolutely essential to making free trade workable. Shinohara reacts strongly against neglect of these facts. The danger is that he may appear to be prepared to discard what is important as well as what needs to be changed.

At this point in the history of world trade Japan has perhaps a particular responsibility in making the objective of free trade workable. As Shinohara urges, more thought needs to be given to this issue. But we should be wary of destroying or defaming the institutions that we have built to make free trade workable in the postwar period, and from which Japan more than most countries has prospered, without very careful thought.

In many ways this is an exciting book, full of robust argument and setting out implicitly or explicitly a whole new agenda for research. Views are put strongly but there is a stronger sense of ongoing argument and discourse in the best intellectual tradition. Who knows whether Shinohara is right on Japanese industrial policy? There has been no comprehensive analysis of the history and consequences of Japanese commercial policy in the postwar period. Who knows whether Shinohara is right on the effectiveness of Japanese business organization in promoting efficient structural adjustment? There has been no careful study of the question. What new "reasonable principles" (p. 119) of international trade can be brought to bear on the world's current trading problems? They have yet to be enunciated and argued fully.

It is good to have these questions raised in this way by so prominent a scholar. The Japan Foundation is to be congratulated on supporting the publication in English of what is both a very handsomely produced and stimulating book.

(Peter Drysdale)

<sup>2</sup> U.S., Department of Commerce, Bureau of International Commerce, *Japan: The Government-Business Relationship* (Washington, D.C.: U.S. Government Printing Office, 1972).