

BOOK REVIEWS

Japan—The System That Soured

The Rise and Fall of Japan's Economic Miracle

By Richard Katz

NEW YORK: M. E. SHARPE, INC. 1998
346 PAGES + APPENDICES

The main thesis of *Japan: The System That Soured* is, as the title implies, that while Japan's economic system was instrumental in helping the country during the catch-up phase of its industrial development, "it turned into a terrible system once Japan had in fact caught up." Richard Katz, Senior Editor at the *Oriental Economist Report* (a monthly English language newsletter about Japan), argues that the Japanese economic model is not a different form of capitalism but an earlier stage of it. Japan's mistake was in continuing to use "the same economic tactics of protection and promotion in the 1970s and beyond" that it had used during its postwar development stage. The result is "a dysfunctional hybrid of super-strong exporting industries and super-weak domestic sectors."

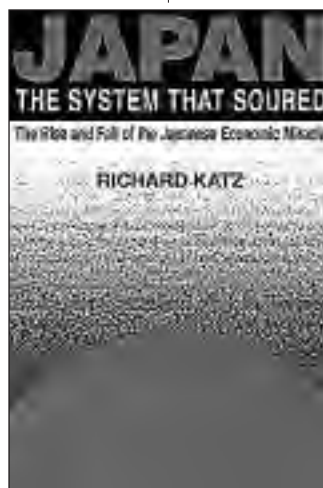
Tough overseas competition forces Japanese exporters to be efficient while domestic companies stagnate without this incentive. Worse yet, says Katz, is the fact that the inefficient domestic industries are subsidized by the high input prices Japanese exporters are required to pay and this has resulted in a flood of Japanese exporters moving production overseas. So, while inefficient textile and pulp and paper producers stay at home, Japanese electronic and automobile manufacturers are moving abroad, hollowing out Japan's economic base. *Japan: The System That Soured* concludes by arguing that Japan must dismantle this inefficient dual economy. It must revive its productivity and growth, stop the rush of off-shore manufacturing investment, reform the political and financial relationship that exists between politicians and the inefficient domestic sectors and open its doors to imports and foreign investment. If it fails to do these things, Katz argues, then the Japan of the new millennium is unlikely to do more than "muddle through" with low levels of growth and little of the vitality that characterized the postwar Japanese economy.

Japan: The System That Soured has numerous strengths. It is clear and easy to read, gives a good deal of background to both "the success and the souring" of the Japanese economy and introduces the various analytical camps that disagree with Katz's point

of view, providing thorough documentation to allow the reader to follow up on dissenting viewpoints. The book's weakness however, is that parts of the argument are not entirely convincing. For example, Katz does not do a good job of convincing this reader how a nation with \$250 billion in foreign currency reserves and an additional \$1 trillion in savings, ballooning balance of trade surpluses, and overwhelming manufacturing prowess could be said to be in dire economic straits. Many of the figures that are used to back up Katz's argument are productivity surveys and statistics on GDP per workers, data that is difficult to understand and that can be read in a variety of ways.

The dual economy argument does not explain why there are so many products produced by Japanese companies (e.g. Sony in laser diodes, Shimano in bicycle brakes and gears) that have not faced much in the way of international competition and yet are exceptionally productive and industrially competitive. Nor is it clear why, if the domestic industries are holding back exporters because of the high input costs the exporters are forced to pay, Japanese exporters have continued to make record profits at exchange rates as high as 100 yen to the dollar. And while many Japanese exporters have moved their production overseas, this has often been to take advantage of lower labor costs (as neo-liberal trade and investment theory instructs) and the most cutting edge technology and jobs have been left at home while Japanese manufacturers continue to strive to produce more new and innovative products.

Nonetheless, whether or not you are convinced by Katz's argument, *Japan: The System That Soured* contains much of interest and is an important reference source. Used in an upper division undergraduate or a graduate course on the Japanese economy, it should generate some interesting discussion. The statistical discussions are complex and at some points unclear; but the overall argument is accessible, contentious and worthy of debate. ■



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