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Revisionism Revisited

Revising America's View of Japan

Revisionism, as it refers to theories about Japan's political-economic system, is about the evolution of a set of ideas that were generalized and applied far beyond their original provenance. Theories of economic development in backward economies in the late nineteenth and early twentieth centuries, exemplified by Germany and Japan, formed the basis of this school's analysis of Japanese practices through the 1970s. In a kind of freeze-dried view of history, the same institutions and processes identified as critical to Japan's stellar economic advancement are said to continue to determine the way things are done there today. Nothing changes, assert revisionist writers. Don't be fooled by surface movement; underneath everything remains the same.

The model that the architects of revisionism derived from Japan's experience has relevance to American audiences for two reasons. First, the methods presumed to have worked in Japan to produce its economic miracle through the 1970s and its alleged competitive trade threat since then have been recommended as appropriate economic policy for the United States. Second, the assumptions about Japanese behavior found in revisionist writings informed American. trade policy in President Clinton's first term.

The more influential revisionist writers, whose work appeared in the latter half of the 1980s and the early 1990s, include journalists James Fallows and Karel van Wolferen as well as former Reagan administration trade negotiator Clyde Prestowitz. They were preceded by then University of California professor Chalmers Johnson and his 1982 historical, political-economic study of what he and others have labeled the central institution in Japan's economic development—the Ministry of International Trade and Industry. This book provided the intellectual foundations for the more popular writings of the other authors and for Mr. Johnson himself. Its combination of scholarly insight and provocative findings also stimulated a great deal of further academic research that tested many of the hypotheses advanced by the originator of revisionism.

Enough time has passed since the revisionist books and articles were published that their hypotheses, predictions and assertions can be assessed with less emotion than governed their first appearance. This chapter will focus on the authors named above and concentrate on their discussions about Japan, particularly those related to economic issues. Mr. Johnson and other members of the revisionist school unquestionably produced insights about the operation of Japan's state bureaucracy. It is their generalizations that are more problematic.

Japanese Capitalism Is Different

Revisionism, according to its intellectual founder Chalmers Johnson, "refers to the observation that Japan has a political economy different from that of the Anglo-American countries in terms of institutions, the role of the state, and the weight of economic nationalism."[1] He contrasts this view with those of "orthodox, academic American economists" who maintain that Anglo-American patterns define capitalism, including the Japanese variety, and that economic rationality ought to, and does, motivate business and state policy and behavior. Since Mr. Johnson and his colleagues claim that Japan differs from the alleged norm, they are said to be revisionists of the standard view.

Mr. Johnson's analysis begins with the observation that since Japan was a late developer, circumstances required the state to take an activist role in overseeing and guiding economic behavior. Japan is a "capitalist development state" as opposed to a "capitalist regulatory state," such as the United States and other early developers. The Japanese style of capitalism, therefore, is different from that espoused and practiced in the

United States and other Western economies.[2] Most important, the central role of the state is not the maximization of consumer values—the guiding star of liberal Western economies—but the pursuit of economic nationalism.

The roots of economic nationalism go back to the Meiji reforms of the 1870s, when the state led industrialization in order to defend the country against Western imperialism. However, Mr. Johnson moves beyond the Meiji reforms in his notion of the concept. “Japanese pursue economic activities primarily to achieve independence from and leverage over potential adversaries rather than to achieve consumer utility, private wealth, mutually beneficial trade, or any other objective posited by economic determinists.”[3]

The revisionist understanding of Japan’s industrialization in the nineteenth century is extended to Japanese behavior in the twentieth century, with considerable continuity ascribed to the postwar period. Mr. Johnson’s scholarly work takes the story up to the 1970s, but he and others in the revisionist camp maintain that the same basic system prevails now. This system, they insist, was the source of Japan’s enviable economic growth and what now is being copied by other participants in the Asian economic miracle.

The nineteenth-century policy extended and generalized to twentieth-century Japan and its neighbors is further extended and generalized by the notion that Japan’s development approach is applicable to most non-totalitarian, under-developed states. Even more, revisionists explicitly suggest that many elements of the Japanese system are appropriate to the United States and other developed countries.

Alexander Gerschenkron: Economic Backwardness and Late Development

The intellectual source of the model of Japanese economic development adopted by Mr. Johnson came from the concept of late development—industrialization that occurred after the early examples of Great Britain and the United States. The primary name associated with these ideas is that of Alexander Gerschenkron, the Harvard University economic historian who specialized in Russian and European development. In a seminal article published in 1952, Mr. Gerschenkron speculated that there may be regularities in development among those countries that followed the original industrial economies. He noted that “the development of a backward country may, by the very virtue of its backwardness, tend to differ fundamentally from that of an advanced country."[4] The rapid speed of industrialization and the organizational structure of industry, in particular, seemed to show considerable differences from more advanced countries.

Although Mr. Gerschenkron expressly denied detailed knowledge of Japan in the formulation of his hypothesis, it appeared to him that the Meiji Restoration had served the purpose of removing the barriers to development. Once this occurred, large-scale industrialization on a broad front would allow the potential benefits "to become sufficiently strong to overcome existing obstacles and to liberate the forces that made for industrial progress."[5]

This process happened often enough that Mr. Gerschenkron was able to speak of "industrial revolution" when development took off in a "sudden, eruptive way."[6] His description predated Japan's postwar economic miracle. It suggests that developmental spurts already were sufficiently common to be incorporated in a theory of development.

Fourteen years after publishing his first essay on economic backwardness, Mr. Gerschenkron summarized his further thoughts and research as well as the findings of others stimulated by his original essay. He listed several outcomes that he believed were associated with the development of an economically backward country: the more likely was its industrialization to start discontinuously; the greater was the stress on producer goods as against consumer goods; the larger was the part played by special institutional factors designed to increase the supply of capital to nascent industries and to provide them with better informed entrepreneurial guidance; and the more pronounced were the coerciveness and the comprehensiveness of these factors.[7]

Mr. Gerschenkron's Harvard University colleague, economics professor Henry Rosovsky, set out to test the backwardness theories on the Japanese experience. He noted that government was "Japan's institutional instrument for rapid industrialization." However, only "if national and international comparative advantages were lacking, and if the particular economic activity was deemed a developmental imperative, did the government dominate the picture." Japan's military requirements supplied that imperative. "In fact, it was present during almost the entire period of modern Japanese economic development."[8]

Chalmers Johnson: The Capitalist Developmental State

Mr. Johnson's explanation of Japanese behavior is rooted in the concept of late development. According to his formulation, late developers require a conscious political decision to industrialize. Mobilization regimes force their economic priorities on society. "The two fundamental types of such mobilization regimes are the Leninist-Stalinist totalitarian model and the Bismarckian-Meiji authoritarian one. Both involve social goal setting, forced saving, mercantilism, and bureaucratism."[9] The second model, the capitalist developmental state, is based on market-conforming methods. It uses the market to implement its goals. Mr. Johnson notes that this process is infinitely more efficient than its communist rival but not as efficient as the ideal market economy. He declares, however, that the capitalist developmental approach is much more effective in achieving its societal goals than its market competitor.

At the center of Mr. Johnson's model of Japanese development is a covert, elite establishment that perpetuates itself through a conservative alliance. It promoted national pride to motivate the spirit of development and to deflect attention away from constitutional development. Through 1945, imperialism was the motivational influence; in the postwar period export promotion and competition for market share supplied substitutes for imperial expansion and war. The elite state bureaucracy set the goals of the society, "but in order to implement the goals, they must enter the market and manipulate and structure it so that private citizens responding to the incentives and disincentives make the market work for the state."[10]

According to Mr. Johnson, the government gave greatest precedence to industrial policy—to establishing a structure of domestic industry that enhanced international competitiveness. In addition to looking after the industrial structure, the state may intrude into the detailed operations of individual enterprises to improve them. The Ministry of International Trade and Industry was the "pilot agency" that faced the concrete challenges of originating and implementing industrial policy. The chief duties of this bureaucracy were to identify and choose the industries to be developed, select the best means of rapidly developing the targeted industries, and supervise competition in the designated strategic sectors to guarantee their economic health and effectiveness. Commenting on MITI's view of markets, Mr. Johnson says that, despite a commitment to free enterprise and markets, Japanese industrial planners were convinced that market forces alone never would produce the desired results.[11]

Mr. Johnson's historical overview of MITI describes the unplanned nature of the evolving system. After a harrowing struggle that spanned the challenges of Manchurian development in the 1930s, mobilization in wartime, destruction in its aftermath, and the vast structural changes of the immediate postwar period, the system came to a full flowering in the 1955-75 period. Only looking backward did the participants in this process come to the conclusion that they had produced a theory of development.

The MITI system of industrial policy, Mr. Johnson argues, grew out of Japan's particular history. He warns of the dangers of attempting to generalize and adapt Japanese institutions and policies. Despite this caution about the hazards of emulation, a few pages later in his *MITI and the Japanese Miracle*, the author suggests that other developing societies might match, if not replicate, the preconditions and "apply the model of the Japanese high-growth system to use as a guide for its own application." By the last page of the book, Mr. Johnson proposes that, to meet their long-term requirements, "Americans should perhaps be thinking about their own 'pilot agency.'"[12]

Having described the operation of a covert, elite state bureaucracy that planned and implemented industrial policy for nationalistic rather than economic goals, Mr. Johnson extends this characterization in his later writings on American and Japanese policies. Thus, he argues, Japan's form of capitalism is different from America's and that of other Western countries. Japan does not respond to economic forces in its external behavior because it is not governed by economic goals. Case in point: despite the yen more than doubling in value in the post-1980 period, Japan's trade surplus continues to build. As a mercantile power, Japan uses state action to export the greatest possible quantity of its own manufactures and to import as little as possible.[13] Although Japan is immune to changes in its economic environment, Mr. Johnson maintains that policymakers deliberately foster the illusion of change.

The problem for America, says Mr. Johnson, is that Japan's foreign economic policy—based as it is on genuine mercantilism—is predicated on "protecting its domestic market, overcharging domestic consumers, and using the overcharges to subsidize exports, and predatory pricing abroad to destroy competitors." He ends the 1990 article on trade and revisionism from which the just-cited material is drawn by declaring that the United States must emulate or match Japan's accomplishments in government-business relations, industrial policy and industrial organization "or go the way of the U.S.S.R."[14]

The founder of the revisionist school extends and intensifies some of these ideas in a 1993 article. For example, he expands the notion of deliberate illusion, stating that "Japan's economic strategy implies indirection, disinformation, and deception in order to defeat the nation's economic competitors."[15] He explicitly says that the historically based nature of economic nationalism continues to be the fundamental principle of Japan's government-guided capitalism. Mr. Johnson also reiterates the need for a U.S. industrial policy, given that the "high-growth economies of East Asia have demonstrated that the state can be a critically important contributor to the success of market economies." He recommends, too, that the United States adopt a results-oriented trade policy. This, he claims, is the logical conclusion to draw from the differences between the United States and Japan, where state guidance prevails, the effects of economic forces are weak, the bureaucracy never changes, exports are an imperative and the trade surplus will not disappear. Such a policy would recognize the underlying reality, Mr. Johnson asserts.[16]

Karel van Wolferen: The Headless State

Karel van Wolferen, a Dutch financial journalist who is a longtime resident of Japan, describes the Japanese state as one without a head; it is missing a center of accountability. "No person or group holds a mandate to make binding decisions for all of Japan's institutions as part of a national effort."[17] The subtitle of his 1989 book, *The Enigma of Japanese Power: People and Politics in a Stateless Nation,* makes this point. The headless state is bound to be a problem for the United States because its prime minister and other power figures "are incapable of delivering on political promises they may make concerning commercial or other matters." There is "no room for an accommodation to foreign wishes or demands."[18]

Mr. van Wolferen's other main points largely follow Mr. Johnson's. For example, he also emphasizes the different kind of capitalism found in Japan: "Far from beating the West at its own game, it might not be playing the Western game at all." Later on he adds: "It is a fiction that Japan belongs in the category known as capitalist, free-market economies."[19] Its political and economic behavior is meant to accomplish aims that are fundamentally different from those assumed by the United States. Moreover, Mr. van Wolferen argues, barring some great upheaval, Japan is unlikely to change because that would entail the breakup of the bureaucracy-business partnership that forms the heart of its system.

Mr. van Wolferen develops these points in a 1990 article but adds the twist of Japanese omnipotence and a United States that is close to helpless. He reiterates his earlier point that any Japanese government commitments gained through bilateral negotiations are “unlikely to provide Americans with the opportunities they hoped to gain.” This outcome will lead to American frustrations, but any indications that the special relationship between the two countries may be endangered will “give greater purpose to Japan’s further frantic economic expansion.” He underlines the notion of conspiracy with the revelation that the “Ministry of Finance coordinates the important international moves of financial institutions operating in informal cartels.” Those “are essentially in the business of national security. International domination in as many industrial areas as possible is part of an uncoordinated and never delineated yet powerful campaign to make the world safe for Japan.”[20]

A powerful government presence that directs international conspiracies is difficult to reconcile with a headless state. He tries to introduce some consistency by suggesting that “parallel operating groups” are the source of economic vitality, but also a great weakness. It is the highly developed institutional memories of the participants and their intricate but informal methods that preserve order.

The threat to the United States is so powerful, maintains Mr. van Wolferen, that even if it greatly improved its competitiveness by doing everything suggested by American analysts—balance the budget, increase savings, improve investment—“the United States would still face an often hopeless competition against Japanese manufacturers and banks.” This longtime Japan observer also states that American negotiating demands that irritate Japan “must take into account a newly emerging and intimidating right-wing force ... with a network of sympathizers reaching into the press, the universities, and the ruling party.”[21]

The problem that this system generates for the United States is left unclear in Mr. van Wolferen’s later writings. To some degree, it did not have to be defined because Americans already had absorbed the idea that a problem existed. All that Mr. van Wolferen had to do was to allude to it, and readers could summon up their own images to fill in the gap. In the 1986 article where he introduced the “Japan problem,” the issues were somewhat clearer. It was not just the bilateral trade deficit that was the difficulty, but that “if present trends are allowed to continue, they will eventually lead to the gradual loss of industrial capacity in the United States.”[22] Moreover, legislators, driven by their constituents, could end up wrecking the international trading system in attempts to protect the United States from unstoppable Japanese imports.

Is it possible for the United States to deal with a fundamentally incompatible, conspiratorial, Hydra-headed, potentially fascist nation that hopelessly outcompetes us and for which there is not even an address to send a letter of complaint? Mr. van Wolferen suggests that the U.S. government first must unambiguously recognize the enormity of the problem it confronts. But his 1990 article trails off into a fuzzy proposal to completely overhaul multilateral trading institutions. Perhaps, given Mr. van Wolferen's description of Japanese behavior, nothing concrete can be done. However, in his earlier article he suggested that the United States learn from Japan's predilection for cartels and impose fixed import commitments or else unilaterally restrict U.S. imports of Japanese goods. This approach is similar to Mr. Johnson's call for managed trade since both have a common conception of the Japanese system.

James Fallows: Learning from Japan and Asia

Intrigued by the economic dynamism of East Asia, James Fallows, also a journalist, took himself and his family to Japan and Malaysia for a three-and-a-half-year stay in the late 1980s to understand and report on developments in Asia. This sojourn resulted in several articles and a book, the titles of which explain his point of view. A major article, "Containing Japan," attempted to alert Americans to the threat posed to the mutually beneficial U.S.-Japan relationship by the "one-sided and destructive expansion of Japan's economic power."[23] The only solution, in both countries' interests, is somehow to limit this force.

Mr. Fallows' 1994 book, *Looking at the Sun*, refers to the brilliance that is Japan and East Asia. Because their economic successes can be blinding and the reasons behind those achievements so confounding, Americans avert their eyes because it is painful to contemplate and comprehend the meaning of the Asian experience. Mr. Fallows urges his readers to view the situation directly and learn from it.[24]

What is there to learn from Japan and East Asia? Mainly it is the importance of promoting production over consumption and the use of industrial policy to accomplish that task. A central conclusion of Mr. Fallows is that the East Asian system, including repression of the individual, has "made the whole society, including its business sector, function more effectively than most in the West." Further, the system's success creates American dependence and vulnerability. "It is clearly better to have more control over the decision yourself—or by people subject to the constraints of your political system and social mores," Mr. Fallows writes.

Because Japan has had more power to push its economy in the direction it wants, the United States is being pushed in directions it does not like.[25]

Mr. Fallows cites the importance to Japanese thinking of German economist Friedrich List with his emphasis on national economic power rather than the consumer welfare of Adam Smith's economics. Whereas the Anglo-American economic objective is the materialistic one of raising living standards, the Asian goal is political, with national power as an end. Moreover, the Anglo-American model views unpredictability and surprise as the ever present traits of economic life. Free and fluid markets are the chosen means for dealing with unpredictability in contrast to attempts to outwit markets by "picking winners." The Asian system, Mr. Fallows asserts, mistrusts markets as a method for determining economic direction.[26] In order to promote various aims and values, industrial policy was both necessary and effective for the developing Japanese and East Asian states.

Mr. Fallows describes industrial policy as government support for and encouragement of certain industries in the form of steering more money toward them than the market otherwise would provide. The government also sets conditions, rules, incentives, and standards to increase the chances that the additional money has the intended effect. However, specific operational decisions are undertaken by businesses motivated by competitive market forces.[27]

Trade policy, says Mr. Fallows, should implement industrial policy. He recommends that the United States move away from its ideal, free trade approach to one that recognizes its leverage and that aims at Asian sensibilities about the way things work. The clearest example of this approach in his view was the "expectation" expressed in a side letter to the 1986 U.S.-Japan semiconductor trade agreement that foreign products would represent 20 percent of chip sales in Japan. The goal was a target, not a process that would make Japan become "open" or "fair." That agreement worked in Mr. Fallows' estimation. The more traditional American approach—"cajoling, negotiating, holding hands, waving sticks, and all the while asking for 'openness' and 'change'"—leads nowhere economically."[28]

Focusing on the "Japan problem," Mr. Fallows picks up the idea of Chalmers Johnson that developmental states follow certain imperatives that are inimical to U.S. interests. "Conflict arises from Japan's inability or unwillingness to restrain the one-sided and destructive expansion of its economic power."[29] Specifically, Japan's uncontrolled, unbalanced growth threatens America's ability to pay the costs of global leadership. "If Japan cannot restrain the excesses of its own economy, then the

United States, to save its partnership with Japan, should impose limits from outside." As indicators of excess and imbalance, Mr. Fallows notes Japan's large overseas investments but high prices at home, its export successes together with suppressed domestic consumption, and a continuing trade surplus in the framework of an appreciating currency.

As did Mr. Johnson, Mr. Fallows uses this last point as an indictment of the economics profession. "Classic free-trade analysis has proved virtually useless in predicting how Japan's trade balance would respond to a rising yen." Even so-called market-opening measures illustrate adversarial trade tendencies. Reduced barriers to beef imports, he maintains, led to greater sales of U.S. beef ranches, not American beef. "Japan and its acolytes, such as Taiwan and Korea, have demonstrated that in head-on competition between free-trading societies and capitalist developmental states, the free traders will eventually lose," Mr. Fallows sums up.[30]

Clyde Prestowitz: America's Lost Economic War

Following a five-year stint as special counselor on Japan affairs to the secretary of Commerce, Clyde Prestowitz resigned in 1986 to devote himself to a book detailing his perceptions of the changing American relationship with Japan. The message was simple. The United States had been in an economic war with Japan; America lost. He describes this debacle in vivid imagery. "There were no military weapons and no armed troops. There were casualties but no blood; tears, but no one missing in action. It was an economic rather than a military defeat, partially self-inflicted, and partially at the hands of friends and allies among which Japan was foremost."[31]

Mr. Prestowitz elaborated some familiar themes. "Few, if any, American companies can compete with the Japanese in the areas the latter deem important. ... The Japanese government views industrial performance as akin to national security and pours enormous energy into ensuring that its industry is the world leader. ... The United States does not view industry as a matter of national security as Japan does. ... The United States and Japan have fundamentally different understandings of the purposes and workings of a national economy. ... Japan has focused on production and dominance of key industries that will enhance its strategic position."[32]

Writing in 1987, Mr. Prestowitz bemoaned the accelerating decline of the U.S. economy. By 1984, he notes, Pentagon studies had pointed to the increasing vulnerability and withering technological capability of the defense establishment. More broadly, Americans did not understand that the demands of world power require capabilities in certain industries and key technologies. Such action is not in response to a military threat, which can be comprehended, but to Japan's challenge. When U.S. industries have declined in the face of Japanese competition fostered by government policies aimed at achieving industrial leadership, "our government leaders have agonized over what to do. They have hesitated to enforce U.S. trade laws even in cases of clear violation." Moreover, argued Mr. Prestowitz, the United States has not learned anything from Japanese successes. "The U.S. government has not attempted to change any structure of a whole industry to achieve the strategic power that dominance in that industry would confer."[33]

With respect to trade policy, the former trade negotiator proposed that the United States always go for results with Japan. These can include the revision or the passage of a law, a market share, or a specific amount of sales—anything concrete. Negotiators also require credible threats to attain results. Mr. Prestowitz offers the semiregulated international civil aviation industry as an example of how to compete with Japan more generally. "We give x number of flights a week to Japan, and they give us x number of flights in return. It is not an open market; but within the reciprocal framework, a great deal of competition takes place."[34]

America Was Ready for Revisionism

The revisionist writings fell on fertile ground. The United States had witnessed the undeniable fact of Japan's precedent-making economic development. Tidal waves of made-in-Japan products seemed to dominate every American market entered. The apparent inability of domestic companies to match the designs and the prices of their Japanese counterparts spoke to a worrying flight of competence among U.S. producers. By the late 1980s the volume of Japanese capital flowing into the country suggested that Dai-Ichi Kangyo Bank, Ltd., the largest bank in the world at that time as measured by assets, might become the Toyota Motor Corp. of the 1990s. The ostensible threat to this country's prosperity from Japanese products and finance was compounded in American eyes by Japan's unfairness, evident in its attempts to block U.S. competitors from breaking into Japanese markets. The revisionists had the explanations for the seeming predicament as well as the responses.

Several strands came together to weave this fabric of American anxiety and—even—fear. The strongest strand was the Japanese economic miracle, which excited curiosity and analysis in the United States, as academics sought to explain the sources of this unprecedented phenomenon. Harvard University professor Ezra Vogel's 1979 book, *Japan as Number One*, established a genre of studies that sought to teach the country about the sources of Japanese growth and to apply them to the United States. Although U.S. gross national product per capita in 1979 still was some 50 percent greater than Japan's (measured at purchasing power parity), the comparable figure in 1955 was 500 percent. Clearly, something was going on in Japan to review and perhaps copy.

While Japan's amazing growth was underway, another development was emerging that would have an even greater impact on the American psyche. The nature of production was proceeding through evolutionary change at Toyota, led by production chief Taiichi Ohno. Twenty years of persistent development coalesced to produce a production revolution. In 1965 Toyota already was 50 percent more productive than the average American company, after adjusting for differences in vertical integration, capacity utilization and employee hours.[35] By 1983 Toyota and Nissan Motor Co., Ltd., the automotive industry's number two, produced approximately twice as many vehicles per employee as their American counterparts (again after making various adjustments to the raw data). Mr. Ohno rightfully could join Eli Whitney and Henry Ford as an exemplar of revolutions in manufacturing.

Americans first became aware of these production developments in the mid-1970s, as higher gasoline prices drove automotive buyers to seek smaller, more fuel-efficient cars. At first, the Japanese models did not impress U.S. customers. By the 1980s, however, Toyota and the other major Japanese vehicle companies had adapted their designs to American preferences. The cumulative results of productivity and quality advances propelled the new models to a 20 percent or so share of the American car market.

Other Japanese automotive companies and their suppliers and then other industries learned the Toyota system. In the 1980s made-in-Japan cars, television sets, machine tools, electronics components and other consumer and producer products became ubiquitous companions to Americans at home and at work. Earlier in the postwar period, invasions of Japanese textiles and steel had disrupted familiar production and purchasing patterns. Now the same thing was happening to the icons of American technological know-how and prosperity.

As Japan's newly efficient producers were preparing to enter export markets big time, the U.S. dollar was becoming overvalued. Driven by an American demand for funds to satisfy an economy that was investing more than it was saving, the dollar was an estimated 25 percent higher than inflation differentials in export goods would have warranted.

As if a deficiency of American savings was not enough to drive up the dollar, savers in Japan had more than they wanted to invest in their own economy. Japanese growth was downshifting to a more sedate pace. With growth falling, industry's need for capital investment declined. Household savings, which had fed the demand for capital throughout the postwar period, remained at high levels. At first, government budget deficits absorbed the difference between high household savings and diminished corporate demand for investment purposes, but by 1980 Tokyo had reduced its deficit. The residual savings consequently were available to flow to the rest of the world. Coincidentally, this export of capital had become feasible with the breakdown in the early 1970s of the postwar Bretton Woods fixed exchange rate system and the subsequent liberalization of Japanese capital controls.

The supply of yen on world currency markets, combined with the shortage of dollars in the savings-deficient United States, drove up the dollar. At its high in 1985, the real value of the dollar was 65 percent above its 1978 low. The high-priced dollar strengthened the competitiveness that Japanese exporters had gained through their production efficiency. U.S. imports from Japan surged. From 1978 through 1986, U.S. imports from Japan jumped from $24.5 billion to $80.8 billion. The transpacific trade deficit for those same years climbed from $11.6 billion to $54.3 billion. U.S. car imports from Japan, a bare 34,441 units in 1965, soared to almost one million units in a decade and reached 1.9 million by 1980, representing 21 percent of U.S. sales.

The other defining event for U.S.-Japan relations was the "economic bubble" that seized Japan from roughly 1986 through 1990. During this period land and stock prices skyrocketed by more than 300 percent. The real cost of raising capital on the Tokyo Stock Exchange fell into negative territory. Financial capital flowed abroad, mainly to the United States, as Japanese investors sought profitable opportunities to reinvest their burgeoning paper wealth. U.S. Treasury bills were a favored parking place, but real estate and corporate investments made headlines when well-known American properties fell under Japanese control. To many Americans, it looked as though the country was up for sale.

The economic forces driving the *tsunami* of Japanese exports to and investments in the United States created anxieties among Americans about the economy's overall competitiveness. In fact, some U.S. products that had dominated the postwar scene here and abroad gradually had lost their competitiveness, as productivity and design advances elsewhere overtook American producers. However, this was not true of the full range of domestic products and services.

The high-priced dollar did its part to render otherwise solid U.S. products unsellable in foreign markets. But Japan's government and companies on the other side of the Pacific played a significant role in turning Americans' anxieties into anger because of what most people interpreted as unfair practices that kept competitive American products out of Japanese markets. Such practices included long-term business relations, exclusionary arrangements among companies, collusion, nontransparent administrative guidance by government agencies over business activities, regulated industries and explicit government interpretation of rules that denied entry to U.S. goods. Emblematic of the high-visibility fairness issue was the prohibition of American aluminum baseball bats on safety grounds and French skis on the pretext that Japan's snow was different from France's. What was difficult enough to understand and accept on economic grounds was converted by clumsy but routine Japanese behavior into widespread suspicion and distrust.

Revisionist views and the swelling emotions directed toward Japan as well as America's earlier negotiating experience colored U.S. trade strategy toward Japan in the first Clinton administration. Key administration officials were swayed by the revisionist rhetoric. Japan was different; it did not respond to economic forces; the Japanese government coordinated economic activity; collusion, conspiracy, and a headless state prevented Washington from gaining a meaningful response from Tokyo. It was not surprising, therefore, that previous negotiations had failed to produce results. "We negotiate and negotiate and nothing happens," was the cry from U.S. Trade Representative Mickey Kantor.

The approach that came out of the revisionist model of Japanese behavior was to negotiate specific targets or indicators of trade progress, with sanctions to be applied if these were not attained. It then would be up to Japan to decide, in its own inscrutable way, just how these results would be accomplished. But that was a Japanese problem. America just wanted to be dealt into the game and be assigned its fair share of the pot.

It did not take long for reactions from Japan and elsewhere, including those of many Americans, to cause this initial conception to be watered down. However, for two years or so it produced a troubled relationship with Japan. Eventually, the United States realized that its diplomacy in Asia required Japan's active cooperation. Since one part of the White House's results-oriented policy was intended to demonstrate to the electorate that the Clinton team could get tough with Japan on market access, the approaching 1996 presidential election gave Mr. Clinton the opportunity to declare victory.

Assessing Revisionism

The revisionist model can be assessed by posing several questions. Does it accurately describe Japanese behavior in the postwar period extending up to today? Does it apply to developing countries more broadly? Is it applicable to developed countries like the United States? And how well do some of the predictions hold up in light of subsequent experience?

Before tackling these questions it should be noted that the authors cited in this report have produced valuable evidence about the functioning of Japan's state bureaucracy. Mr. Johnson's description of MITI opened up an entire subject for additional research. Mr. van Wolferen's portrayal of a fragmented government drew attention to the inadequacy of the assumptions about the operation of state power in Japan. Messrs. Fallows and Prestowitz gave their readers inside views of a dynamic Asia and the workings of American trade negotiations. It is the conclusions and the generalizations of these writers that are problematic.

The machine tool industry, for example, was the exemplar strategic industry. From the 1930s it was an explicit target of the different phases of industrial policy. However, according to a study of this industry, "none of MITI's machinery policies was successful. In the period of planning and financial support, output objectives had no effect on industry performance, while government loans did not generate economic expansion. The cartelization phase did not reduce firm entry or market volatility, nor did it rationalize production. ... Numerical control development and export success were not the result of government or private efforts to coordinate production and marketing abroad. ... In no single instance did MITI's policies lead to anticipated market outcomes."[36]

The machine tool study indicates an inherent problem in the approach used by Mr. Johnson. Examinations of internal operations and selected case studies do not answer the questions of whether policies actually were implemented as planned and whether the results were different from what otherwise might have occurred. It is one thing to say that MITI had a policy. It requires a good deal more evidence and analysis to say that the relevant strategy was effective and necessary.

One compilation of all of MITI's policies from 1967 through 1971 showed overall agreement within the ministry on broad objectives but inconsistencies across the detailed plans of MITI divisions. Such a broad array of targets was proposed that any sense of strategic purpose was undermined. A statistical analysis of the actual growth of favored industries was compared with counterfactual projections of how these industries might have grown without policy interventions. The industries were chosen on the basis of those characteristics deemed to be important by MITI strategists: high income elasticity, technological progress, knowledge and information intensity, and import substitution. Virtually no evidence of shifts in output in the desired directions could be identified.

An analysis then was performed on two lists of industries, one of the favored as identified in MITI documents and the other of those that industrial policy planners felt should grow slowly or decline. When the actual historical record was compared with a policy-neutral simulation, the out-of-favor industries seemed to grow faster than did the targeted industries. The author concluded by noting that "industrial policy in the sense of a fully integrated, consistent approach to industrial structure has not really been tried. To a substantial degree, this is clear even from an examination of what policymakers have said. Those who have studied Japanese policy and found that policy to be effective have failed to consider the interindustry effects of policy and to be comprehensive in considering the relative size of different factors affecting a given industry."[37]

Gary Saxonhouse of the University of Michigan examined MITI's leadership in an important new industry, biotechnology, in the decade to 1985.[38] MITI targeted biotechnology as a knowledge-based industry that could replace resource- and labor-intensive heavy industries. Despite this identification, the government had trouble taking major, overt steps to aid the industry because of tight budgets. In 1984, for example, Tokyo allocated roughly $35 million to biotechnology compared with the U.S. government's $522 million. Moreover, a large proportion of the Japanese funds went to energy research, aid to companies in the structurally depressed chemicals, pulp and paper, and textile industries, and to the traditional area of fermentation.

Some observers believed that simply listing biotechnology as a targeted industry would act as a guide to Japanese business and finance to move into this new area. However, no new firms had entered the market by 1985 compared with 111 new American companies and 108 established firms that had branched out into this field. Moreover, equity markets had raised \$1.5 billion for small U.S. biotechnology firms (defined as companies with less than \$5 million in net worth). The four largest established Japanese firms spent less than \$100 million on biotechnology R&D through 1985; total estimated private R&D was about \$400 million, 15 percent less than the expenditures of just the top four U.S. firms. In every industrial policy objective usually attributed to MITI, its plan for biotechnology did not produce results.

Princeton University's Kent Calder examined the ability of Japanese government industrial policymakers to allocate credit strategically. He found that they lacked a wide-ranging ability to shape the financial system to their vision of priorities, although they did play an important role in orchestrating the early postwar recovery and the heavy industrialization of the next decade. After 1970, though, broader market forces intruded with increasing persistence to undermine the position of industrial policy planners. Mr. Calder concluded that state-directed credit allocation was successful only when a relatively unusual configuration of characteristics prevailed: state power was centralized; the private sector was disorganized; domestic and international interventions were limited; and credit demand was greater than supply at prevailing interest rates. This was achieved most clearly during the 1946-54 period.[39]

Examinations of whether Japan's approach to economic intervention should be recommended to other developing countries have produced a mixed record. The World Bank, for one, has conducted numerous studies on just this question, with some of the work financed by a Japanese government that was suspicious that the multilateral development agency may have a bias against industrial policy. Much of this research was brought together in the World Bank's 1997 *World Development Report*. The document noted that Japan's postwar development of the steel, coal, machinery, and shipbuilding industries illustrated the rationale for intervention—as well as the stringent institutional prerequisites for success. It concluded that "pursuing this style of investment coordination presupposes levels of public and private institutional capability that are beyond the reach of most developing countries." A warning also was attached: "Implemented badly, activist industrial policy can be a recipe for disaster."[40] Illustrative of the World Bank's ranking of industrial policy among all the functions performed by government is that this subject rates only four pages out of the report's 167 pages of text.

It is not that World Bank economists consider government to be unimportant. "An effective state is vital for the provision of the goods and services—and the rules and institutions—that allow markets to flourish and people to live healthier and happier lives. Without it, sustainable development, both economic and social, is impossible."[41] Essential functions include establishing a foundation of law, maintaining a nondistortionary policy environment, and investing in basic social services and infrastructure.

These seemingly routine tasks are extremely complex, however, and tax the capabilities of most governments. Some analysts speculate that an important source of modern Japan's economic growth was its heritage from the Tokugawa Shogunate of a capable civil service, a functioning bureaucracy, and a fairly literate society. On closer examination, therefore, the main contribution of the Japanese state could be its competence in the mundane job of getting the fundamentals right and not in the more heroic role of choosing and nurturing strategic industries.

A bit of evidence used by revisionist writers to demonstrate that economic forces just do not work in Japan is the fact that its huge trade surplus persists, even though the yen has appreciated more than 100 percent in value against the dollar since the gap between exports and imports first appeared in 1980 (85 percent when adjusted for relative inflation rates in the two countries). The reason for the yen's run-up in real terms over the long term is because of Japan's current account surplus, not in spite of it. Revisionist writers have got cause and effect backward. The capital outflow associated with a current account surplus builds up assets abroad. These assets generate income that flows back to the home country and drives up the price of its currency. The reverse has been happening to the value of the dollar. Therefore, the persistence of Japan's surplus in the face of an appreciating currency means that economic forces are working just as predicted by theory.

Likewise, the appreciating yen produced the results predicted by standard, Anglo-American economics on Japan's trade volumes (which adjust nominal values for price changes). In the ten years after 1986, when the yen went up sharply in the aftermath of the previous fall's Plaza Accord, import volume soared 100 percent. Exports, in contrast, grew in real terms by just 24 percent.

Some of the other predictions put forth by the revisionist school fare about as well as the notion of missing economic forces. Mr. Fallows commented that the United States should not expect much from the liberalization of beef imports. In fact, U.S. beef shipments to Japan rose from $356 million in 1985 to $1.7 billion ten years later.

Many of the revisionist writings had the misfortune to appear in the late 1980s, just as Japan's economic bubble was at its height. Predictions made at that time of unrelenting production growth and investment expansion at home and abroad often were based on simple extrapolation—an always dangerous approach to forecasting. Ten years after the publication dates of Mr. Fallows' "Containing Japan" and Mr. van Wolferen's "The Japan Problem Revisited," production remained at or below the levels of the earlier period. Likewise, Mr. Prestowitz's lost economic war takes on a different hue from a later perspective. In retrospect, many of the points made in the cited books and articles were reflective of America's image of itself rather than the result of a clear-eyed vision of Japan.

What should be made of proposals that the United States seriously consider the adoption of some form of Japan-style industrial policy. This is not the place to review the many arguments about industrial policy. Nonetheless, it should be noted that industrial policy might not have been as important for Japan's strong economic performance as proponents of this view have claimed. Japan up to the 1970s, like East Asian countries in the nest two decades and the America of Alexander Hamilton (prominently cited for his promotion of industrial policies), was small and backward. Small size permits policies denied to large countries. A small country, for example, can take advantage of the global trading system; however, if all countries or just the big ones were to do the same, the system would be destroyed.

This "fallacy of composition" is an easy trap to fall into when one has an overly narrow focus. American policy since 1945 has recognized the primacy of the system of free trade. Successive administrations, Democratic and Republican alike, have worked consistently to achieve that goal (despite occasional backsliding), with the understanding that temporary advantage should be eschewed in return for the greater long-term gains from openness. This is not a strategy based on vague moral principles or a peculiar brand of economics, as argued by Mr. Fallows, but one grounded on naked self-interest.

Backwardness provides the dubious luxury of having others to follow. A guide is immensely valuable. Neither Mr. Hamilton nor Japanese planners faced much uncertainty in identifying iron and steel and shipbuilding as worthwhile industries because they had precedents. (Both countries since have faced numerous political obstacles in moving out of these nineteenth-century industries.) The Japanese government has proved to be an incompetent player when technology and markets are fluid and changing rapidly. The difficulties faced when a nation reaches the technological frontier are different in kind from those produced by backwardness. Japan, as the most advanced Asian economy, illustrates the pitfalls. Although it demonstrated truly miraculous gains in productivity during its nearly century-long period of economic catch-up, the last quarter-century tells a different story. The evidence for the generalization and the transference of the economics of backwardness suggests that the revisionists' ideas require some revising.

Notes

1. Chalmers Johnson, "Introduction," in *Japan: Who Governs?* (New York: W.W. Norton, 1995), 12.

2. The next chapter explores the notion of differences among economies.

3. Johnson, "Comparative Capitalism: The Japanese Difference," in *Japan: Who Governs?,* 105.

4. Alexander Gerschenkron, "Economic Backwardness in Historical Perspective," in *Economic Backwardness in Historical Perspective* (Cambridge, Mass.: Harvard University Press, 1966), 7.

5. Gerschenkron, "Economic Backwardness in Historical Perspective," 11.

6. Gerschenkron, "Economic Backwardness in Historical Perspective," 10.

7. Gerschenkron, "The Approach to European Industrialization: A Postscript," in *Economic Backwardness,* 354.

8. Henry Rosovsky, *Capital Formation in Japan: 1868-1940* (Glencoe, Ill.: The Free Press, 1961), 102-104.

9. Johnson, "Social Values and the Theory of Late Economic Development in East Asia," in *Japan: Who Governs?* 45.

10. Johnson, "Social Values and the Theory of Late Economic Development in East Asia," 46.

11. Chalmers Johnson, *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925-1975* (Stanford, Cal.: Stanford University Press, 1982), 19, 27, 315.

12. Johnson, *MITI and the Japanese Miracle*, 306, 314.

13. Johnson, "Trade, Revisionism, and the Future of Japanese-American Relations," in *Japan: Who Governs?,* 71.

14. Johnson, "Trade, Revisionism, and the Future of Japanese-American Relations," 89, 95.

15. Johnson, "The Foundation of Japan's Wealth and Power," in *Japan: Who Governs?*, 98.

16. Johnson, "The Foundation of Japan's Wealth and Power," 111-112.

17. Karel van Wolferen, "The Japan Problem Revisited," *Foreign Affairs*, Fall 1990, 49.

18. Karel van Wolferen, *The Enigma of Japanese Power: People and Politics in a Stateless Nation* (New York, Alfred A. Knopf, 1989), 6.

19. van Wolferen, *The Enigma of Japanese Power*, 2, 6.

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21. van Wolferen, "The Japan Problem Revisited," 50-51

22. Karel van Wolferen, "The Japan Problem," *Foreign Affairs*, Spring 1986, 288.

23. James Fallows, "Containing Japan," *Atlantic Monthly*, May 1989, 41.

24. James Fallows, *Looking at the Sun* (New York: Pantheon Books, 1994), 19.

25. Fallows, *Looking at the Sun*, 412, 422.

26. Fallows, *Looking at the Sun*, 208.

27. Fallows, *Looking at the Sun*, 445-446.

28. Fallows, *Looking at the Sun*, 450.

29. Fallows, "Containing Japan," 41.

30. Fallows, "Containing Japan," 42-44, 54.

31. Clyde Prestowitz, *Trading Places: How We Allowed Japan to Take the Lead* (New York: Basic Books, 1988), 6.

32. Prestowitz, *Trading Places,* 13.

33. Prestowitz, *Trading Places,* 19, 22.

34. Prestowitz, *Trading Places,* 322, 324.

35. Michael A. Cusumano, *The Japanese Automobile Industry: Technology and Management at Nissan and Toyota* (Cambridge, Massachusetts: Harvard University Press, 1985), 299.

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37. Douglas Ostrom, "Postwar Japanese Industrial Policy and Changes in Industrial Structure" (Ph.D. diss., University of Michigan, 1984), 274-275.

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40. World Bank, *World Development Report, 1997: The State in a Changing World* (New York: Oxford University Press, 1997), 73-74.

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