

Craig Freedman (ed.) **Japanese Economic Policy Reconsidered**, Edward Elgar, Cheltenham UK, 1998, xviii + 276pp.

Reviewed by John Lodewijks\*

**T**his volume is the result of a conference held in August 1996 by the Macquarie University Centre for Japanese Economic Studies aimed at taking a fresh look at Japanese economic policy. The nine papers are grouped into three parts – Main issues facing Japan’s economy, Foreign trade and investment, and the Financial sector.

The editor’s introductory summary of the chapters to follow is a valuable addition in its own right and discusses the issues with a clarity and conciseness that is missing in some of the later contributions. The issue at stake is whether the Japanese approach to economic matters is really distinctive after all and follows on the heels of Paul Krugman’s provocative essay on ‘The Myth of Asia’s Miracle’ written in 1994. The contributors to this volume find that economic fundamentals, rather than distinctive policy interventions or institutional factors, adequately explain Japan’s economic performance.

A brief opening chapter notes that after 18 years of high growth averaging ten per cent per annum, the Japanese economy’s annual growth rate declined to four per cent over the 1976 and 1990 period and during the current decade has barely exceeded one to two per cent growth. Despite considerable fiscal stimulus and interest rates of 0.5 per cent, economic stagnation continues. Suzuki claims that ‘Japan is now at a historical crossroads comparable to the Meiji Restoration ... and its defeat in World War II’ (p. 20). Conversely to the Australian policy discussion, the author argues that Japan continues to need high public sector deficits to counteract the high saving rate and the corresponding current account surplus. Although, in this context, I fail to see the justification in Japan for a consumption tax increase, as argued by the author (p. 24).

The first substantive chapter by Kaneko usefully summarizes the major developments in the Japanese economy, particularly those associated with globalization. I found the demographic transition most interesting. Those aged 65 and over are projected to constitute 25.5 per cent of the population by 2020. Correspondingly, the proportion of the working population to the

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elderly is projected to decrease from 3.6 to 1 in 2000 to 2.1 to 1 in 2020 (pp. 31-33). Surprisingly, male workers aged 65 and over had a labour force participation rate in 1993 of 37.7 per cent, which is about three times higher than comparable countries.

In my view, the most fascinating chapter in the book is by Okimoto on the 'Japan-American Security Alliance'. This piece examines the evolution of the Alliance, the tensions and confrontations over cost sharing, and the security implications. This is an absorbing story and almost justifies the author's opening statement that the alliance 'will go down in history as one of the most seminal developments to have taken place in the second half of the twentieth century' (p. 46).

The chapters on foreign investment and trade are a mixed bag. There is an excellent, clearly written piece by Saxonhouse repeating his well-known critique of the popularly accepted views about Japanese protectionism and hostility to foreign investment. Saxonhouse methodically demolishes the 1994 Council of Economic Adviser's Report which was highly critical of Japan's trade policies. The following chapter looks at the low level of foreign investment in Japan. The first half of this piece provides useful factual information about the nature of foreign investment in Japan (pp. 114-135). The final chapter adds little value to this section.

The final part of the book deals with the financial sector. There is a chapter on Japanese monetary policy that argues that the Bank of Japan basically acts no differently than the US Federal Reserve or the German Bundesbank. Another paper deals with asset prices and consumption. Both papers go overboard on technical detail and fail to communicate with the reader in terms of intuitive understanding or policy relevance.

The saving grace is a paper by Kuroda on 'Prudential Policy in Japan' which outlines the fragility of financial markets in that country and recommends a number of detailed institutional changes to strengthen this sector. The discussion is sensible and highlights the magnitude of the bad loan situation, the excessive risk-taking environment, the non disclosure of information, the problems associated with the valuation of financial derivatives, and the inherent market failure. Perhaps if some of the suggestions made in this chapter had been implemented the financial crisis of 1997-98 in Japan and elsewhere may have been considerably mitigated.

In sum, five or so of the nine chapters in this collection are well worth reading, and since this is a higher percentage than in most collected volumes of conference proceedings, the editor should be congratulated for his efforts.