THE EMERGING JAPANESE SUPERSTATE: Challenge and Response

by Herman Kahn

Prentice-Hall, 274 pp., $7.95

THE JAPANESE CHALLENGE

by Robert Guillain
translated from the French by Patrick O'Brian

Lippincott, 352 pp., $8.50

Reviewed by Henry Rosovsky

■ During the late 1940s and early 1950s, before "futurology" had been elevated to its present status of a pseudo-science, most predictions concerning the economic and social future of Japan were pessimistic. Both Japanese and foreign observers tended to be obsessed by the defeat and devastation the country suffered in World War II, and even more by what seemed to be Japan's obvious natural disadvantage: a large population living in a land with sparse resources. We may feel that the errors of twenty years ago are unimportant, but I believe this would be wrong. The old forecasts erred because the majority of analysts extrapolated their picture of the future from current trends. Thus they grossly underestimated the gains made possible by rapid technological progress, which rendered Japan's resource endowment relatively insignificant and turned her large and educated labor force into a competitive advantage.

When I read what is being said now concerning Japan's future, it seems to me that we are again in danger of viewing tomorrow in the framework of today. Herman Kahn, author of *The Emerging Japanese Superstate* and dean of American futurologists, declares that the twenty-first century will be Japan's, that by the year 2000 Japan will in all probability have the largest gross national product in the world, that she will surpass even the United States in industrial productivity and standard of living, etc. And Robert Guillain, permanent correspondent for *Le Monde* in Tokyo, is equally extravagent in his new book, *The Japanese Challenge*: "In the West we are still too apt to look upon the Japanese as people who are coming along behind us on the road of progress, people who are still held back and handicapped by the remoteness and the strangeness of their islands. In short, we think of them as people who are doing their best to catch up with us, but who find it rather hard. But this is no longer true at all. They have overtaken us and gone on ahead."

Although I can see no basis for claiming that the Japanese have already overtaken us, it is certainly possible that they may do so by the year 2000. The prediction, however, relies on some crucial assumptions. For the past twenty years the Japanese economy has been expanding at the unprecedented rate of slightly over 10 per cent per year. That of most of the rest of the world has been growing much more slowly, on average at about one-half the Japanese pace. Even if Japanese growth slows down, there can be no question—as Kahn rightly points out—of her status as a major industrial nation or world power. To achieve the number one position, however, she will have to continue her present "economic miracle" for another thirty years or so. Somehow it is harder to believe she will.

What is at issue can be expressed most clearly in the perspective of modern Japanese history. Between the Meiji Restoration of 1868 and World War II, Japan developed at great speed, but there were other countries that had done nearly as well *e.g.*, the United States, Sweden, and Germany. Since World War II the Japanese have left most of the competition far behind. The key question is: Do the years from the early 1950s into the 1970s represent a transitory phase, in which economic and social factors were unusually favorable for economic growth, or will these factors sustain a "miracle" of fifty years' duration?

Kahn's interesting volume follows the method of previous Hudson Institute studies concerned with the future. He reviews the past and the present in an introductory chapter, adds a chapter on Japan's national character, devotes two chapters to the postwar economic miracle and possible "scenarios" for economic development up to the end of this century, and concludes with two chapters on "The Emerging Japanese Superstate" and "The Japanese Challenge."

It is impossible to summarize the arguments in a book so rich with conclusions and *obiter dicta*. Nevertheless, the following is, I think, a fair representation of Mr. Kahn's major beliefs: 1) Japan will be the number one economy in the world by the year 2000. 2) Between now and A.D. 2000 the Japanese economy will grow at an average rate of over 9 per cent per year. 3) The Japanese have consciously selected the target year 2000 for surpassing the most advanced Western countries. 4) "There is beginning to develop among the Japanese an almost manic enthusiasm for completing their self-appointed task of surpassing the West. To a remarkable degree, this enthusiasm is missed by many Western observers." 5) "Upon examining many of the social trends and cultural changes occurring in Japan, one finds they seem far more likely to reinforce the momentum of economic growth than to hurt it. . . . In some ways nothing succeeds like success—at least for a time." 6) All of the negative influences on Japanese economic growth so frequently stressed by Western experts are overstated or uncertain in their effects. 7) NOCPA (Non-Communist Pacific Asia) will become the economic equivalent of the old "co-prosperity sphere." 8) "The 'new Mediterranean' [the Pacific Basin] . . . might well be in the twenty-first century the creative center of the post-industrial culture and civilization: a true world-wide cosmopolitan culture that would put Europe and Africa into a peripheral position." 9) The Japanese challenge is the issue of her "proper place" in this new world. 10) "In the next two decades certain political and security goals will continue to bind to-

gether Japan and the United States. . . . it is now obvious that the United States has opted for an arrangement by which American might and Japanese economic power will be combined to rule the Pacific area." 11) The Japanese are full of confidence while the West seems to be losing its nerve.

Within the confines of this review I cannot comment on all these assertions—and many more might have been listed. Instead, I will restrict myself to a few more general observations. In the first instance, one's confidence in Kahn's views is slightly undermined by his highly idiosyncratic historical observations. For example, I think that most Japanese historians would be astonished to read that Tokugawa farmers tended *on the average* to be somewhat better off financially than the samurai, that Dutch studies (*rangaku*) were clandestine, or that *mabiki* (infanticide) was common in rural Japan at the time of the Restoration. People who have lived in Japan may be equally surprised by the statement that if a child continuously misbehaves his wrist is often burned with moxa, or that the frequency of abortions is explained by a reluctance on the part of the population to use drugs.

Kahn's analyses are also characterized by sweeping statements and casual empiricism. To take just one typical example, we are told quite categorically that Japanese are extremely offhand about written documents. While Americans insist on a careful examination of records and contracts, Japanese are more concerned about the "ambience of the situation," "the present and past emotional background of a relationship," etc. Kahn provides some evidence for this view, but it is far too easy to cite counter-examples. The following passage from a recent RAND Corporation study (G. R. Hall and R. E. Johnson, *Aircraft Co-Production and Procurement Strategy*, 1967) should make clear what I mean:

> The Japanese take specification figures seriously, regarding them as inviolate, while the American aerospace industry takes a more pragmatic approach, regarding them as goals for which to strive. If a part or component performs satisfactorily, a U.S. firm is apt to accept it whether or not it meets specifications precisely; a Japanese firm is not. The predominant U.S. view is that most specifications are tighter than necessary. A Japanese firm, on the other hand, will be most displeased with a part that fails to meet specifications, even when it performs satisfactorily.

So, who is uptight about the written word now?

More important for an evaluation of Kahn's predictions is the question of his methodology. Here I am unable to discern any over-all framework, theory, or clearly stated behavioral relations. Kahn seems to have little faith in rigorous econometric and input-output projections, and he may well be right. Instead, he substitutes a listing of various strategic quantitative and qualitative factors whose probable impact is then evaluated. The system, however, is never really "closed" and one can too easily disagree with the weights attached to individual factors or to projections concerning their future path. In other words, we can without difficulty continue to differ about the year 2000.

Let me illustrate this by briefly discussing two factors that Kahn would dismiss as overstated or uncertain in their impact on Japan's growth some ten or fifteen years from now: the possibilities of continued rapid technological progress and the effects of relatively greater social investments.

Everyone agrees that postwar economic development in Japan has relied on the inflow and absorption of foreign (primarily American and German) technology. There seems to be general agreement on the following additional points: that in the 1950s and 1960s Japan lagged behind the technological leaders, that since the middle 1960s this technological gap has been rapidly growing smaller, that Japanese business is now making great efforts through increased research and development expenditures to create its own advanced technology. I agree with Kahn when he says, "If and when Japanese government research and development programs become very big, one can confidently predict that Japanese research and development will in many ways be comparable to that of the United States and the Soviet Union."

Yet, it seems to me that the long-run implications of the present situation are frequently misunderstood. I can see many reasons for believing that Japan will in the coming decades create numerous significant and profitable technological advances. No doubt Japan will also continue to avail herself of progress made elsewhere. There is, however, a fundamental difference between closing a gap (or eliminating a lag) and depending on the extension of a domestic or foreign technological frontier. In the former case one can—if other conditions are right—proceed at great speed. Gains can accrue in a relatively short time. In the latter case one may face serious bottlenecks. The technological frontier is inevitably surrounded by uncertainties, hesitations, and false starts (soon an element of "cheapness" in Japanese development may disappear). It would be fruitless to attempt to quantify the effect of Japan's attaining technological parity sometime in the 1970s. On balance, however, it seems to me clear that reaching this point will make continued extraordinarily high-speed growth more difficult.

What about the consequences of a growing proportion of social investments? Over the past twenty years the Japanese have accumulated an impressive list of what they call "agonies of a growing economy." The best known of these is the lag in social overhead capital. Measured in terms of number of rooms per person, diffusion of water supply and sewage, ratio of paved roads, or area of city parks, Japan falls sadly behind countries with which she likes to compare herself. Modern economic growth has also led to an ever more unpleasant and dangerous set of public hazards or nuisances. To understand the problem, one only needs to know that Japan has the largest per-area gross national product in the world. More economic activity takes place in less space than in any other country, and the consequences in terms of noise, water, and air pollution are not hard to imagine. The Japanese are acutely aware of this, and "growth at any cost" has now become a dirty word.

"Take back what you said about my motorcycle!"

Kahn does not seem to believe that correcting these conditions will have much of an impact on Japan's economic performance, but I think that in reaching this conclusion he does not sufficiently examine the nature of the problem and the impact of public expenditures on private investment.

The agonies and benefits of growth are related to different aspects of the economy. Benefits are closely correlated with the level of income per capita: other things being equal, the richest countries have the highest standards of living. Agonies or adverse side-effects also bear some relation to the level of income. However, they are equally closely tied to the rate of income growth, the progress of technology, and to a variety of non-economic factors, such as geography. I have not made a systematic comparison of Japan with the rest of the industrialized world. Nevertheless, it seems to me that Japanese-style growth has produced a lengthy and worrisome list of adverse side-effects at comparatively low levels of income per capita. Partly this can be ascribed to the speed of economic development—no doubt the lag in social overhead capital was in some measure due to the steep rise in demand for low-paid services. Partly it is a consequence of resources and physical configuration—air and water pollution are more severe because of population concentration and enforced reliance on certain types of fuel. When Western Europe and the United States were at Japanese levels of income, one heard rather little concerning these unpleasant side-effects. True, another historical era was involved, society was organized along different lines, and current social priorities were as yet insignificant. It is also true that the

difficulties at these lower levels were less severe in the United States and Europe: in the United States the vastness of our country allowed more leeway, and in Europe both the slower pace of growth and an earlier start permitted some problems to be postponed. But, whatever the reasons, we come back to the same conclusion: Japan faces the so-called agonies of growth at lower levels of income per capita than her predecessors in the development race—and postponement of solutions may be neither possible nor desirable.

Japanese planners are well aware of the trade-off issues posed by these problems. In simple terms, the following propositions hold: the lower the rate of interest, the higher the rate of expansion of private investment and economic growth; the more public investments and social expenditures, the better the quality of life; the lighter the "people's burden" (taxes, etc.), the greater their consumption. Unfortunately, it is not possible simultaneously to lower interest rates, to increase social expenditures, and to cut taxes. All these factors are interrelated, and they all affect the rate of growth of aggregate output. If needed improvement is to come about in the quantity and quality of social overhead investment, the ratio of social expenditures to GNP will have to rise. To achieve this aim, either the rate of interest will have to rise in order to curb private investments, which will reduce the rate of economic growth, or the burdens of the population will have to be increased, as with heavier taxes, thereby reducing the level of private consumption. (This could also have an adverse effect on growth, although probably of a lesser magnitude.)

Undoubtedly these trade-offs have been stated in naïve form. An improvement of the social overhead capital stock should raise the efficiency of private investment. Other types of social expenditures may favorably affect labor force quality. Offsetting possibilities, however, are not likely to change the net trade-offs: the choice of the future lies in curbing either private investment or private consumption. It is this latter alternative that I find especially difficult to imagine as Japanese policy, for it would entail asking the population to make consumption sacrifices while their income per capita was still low. This is just the period when desires for more and better consumption are great, and they are growing greater. Japan is on the threshhold of becoming a mass-consumption society, a time when no politician in or out of office will advocate a large dose of austerity on behalf of the public good.

Any curb on private investment will exact a price in terms of the aggregate rate of growth. Using a very simple model, the Economic Planning Agency suggests that a 5-per-cent increase in fiscal expenditures, with the tax burden unchanged and a 0.6-per-cent rise in interest rates, might reduce the real growth rate by 3 per cent per year. Admittedly this is an extreme case, but it does put the issue in perspective.

Unlike Dr. Kahn, I believe the two themes that have been stressed are correct: 1) that there are certain factors inherent in a higher level of economic maturity which will make it increasingly difficult for Japan to maintain a real annual growth rate of 9 or 10 per cent, and 2) that a government-financed improvement in the quality of life will have the same result. I find no cause for pessimism in these conclusions. If the rate of growth is reduced for the right reasons, Japan may not surpass us in aggregate income by the year 2000. It may, however, surpass us in aggregate happiness, and this might yet be the real meaning of the "Japanese century" when it arrives.

I would like to conclude with a few words about Robert Guillain's *The Japanese Challenge: The Race to the Year 2000*—a rather typical journalist's account of the current scene and its background. On the credit side is Guillain's obvious sympathy for and understanding of his subject matter and his talent for describing the changing socio-economic landscape and its inhabitants. Any first-time traveler to Japan, particularly a person with political and economic interests, will find this book a welcome going-away present, until a more up-to-date version is written by someone else. On the debit side, one must mention a sometimes inappropriate translation (for example, neither "the formation rate of capital" nor "double structure" are correct English terms) and some rather curious historical and economic judgments. Thus I was surprised to read that the Meiji land tax cruelly diminished the resources of the countryside, and that between 1900 and 1940 the growth of the economy was almost entirely nullified by human inflation. Japanese manufacturers will surely be flabbergasted by the statement "They do not try to make a profit out of their exports."

M. Guillain does not present the reader with a broad unifying theme. In general, however, it is clear that he agrees rather more with Dr. Kahn than with me. Both of these books are valuable additions to the Japan bookshelf, despite my feeling that they are part of a literature of euphoria that could soon be dated.

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THE POTENTATES: Business and Businessmen in American History

by Ben B. Seligman

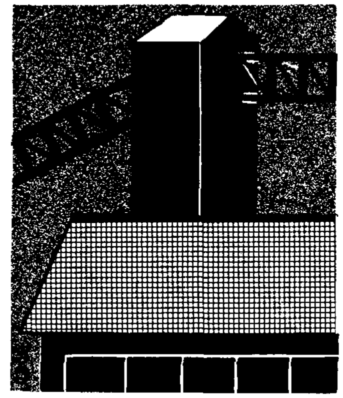
Dial, 402 pp., $10

Reviewed by Robert Lekachman

■ According to who tells the tale, American businessmen have been either the leading heroes or the outstanding villains of our national history. Writers like Allan Nevins, Louis Hacker, and John Chamberlain identify the country's economic growth with the competitive vigor and organizational ingenuity of the captains of industry. Muckrakers and radicals, from Upton Sinclair and Ida Tarbell to Matthew Josephson and Ferdinand Lundberg, have emphasized the waste, disruption, and sheer exploitation of customers, competitors, and general public which the Goulds, Morgans, Carnegies, and Rockefellers inflicted as the usual corollaries of their triumphs.

The late Ben Seligman, a veteran historian of poverty, automation, and economic ideas, here conducts readers on a brisk tour of American economic history that decidedly fails to idealize past or present businessmen. Early on, such "patriotic" merchants as Robert Morris enriched themselves provisioning the Continental armies and, more than once, withheld supplies the better to raise prices. During the Civil War the elder J. P. Morgan turned many pretty pennies by financing defective firearms destined for Union soldiers. For Seligman, chicanery, unmitigated avarice, and unrelenting egotism were the defining qualities of successful nineteenth-century businessmen.

When these magnates paused to read, their favorite doctrine was social Darwinism, a convenient blend of Darwinian evolution and competitive market theory. Led by Herbert Spencer, the social Darwinists demonstrated to their satisfaction that, in capitalist as in other jungles, only the fittest survive. Seligman retells with relish many good robber-baron anecdotes about these predators. He reminds us of the pious elder Rockefeller, who never flagged either in private charity or in determination to obliterate commercial rivals by any method necessary. And even today Seligman's sketch of Henry Ford's ignorance, anti-Semitism, and totalitarian managerial methods is chilling. Ford amply deserved the Iron Cross which the grateful Nazis awarded him in 1938.



Other twentieth-century capitalists come off little better. The financial scandals featured in the 1907 panic were followed by oil thefts and the gaudy stock market manipulations that preceded and intensified the Great Crash. Seligman's implicit question is inevitable: How much did these buccaneers really contribute to the general welfare?

The true contributors, Seligman's heroes, are the makers, the inventors and designers who created American technology and flooded the market with cheap, mass-produced goods. Far too often the speculators have bested the constructors. Seligman is haunted by the conflict, stressed by Thorstein