

Published in *Journal of Japanese Trade & Industry*: July / August 2002

## Economic Reform in Japan: Can the Japanese Change?

Edited by Craig Freedman, Edward Elgar, U.K., 2001, 231 Pages, £55.00

*Review By Prabhu Gupta*

In today's Japan, the old and the new are locked in mortal combat. Admirers of tradition cheer the old ways, while people who want change cheer the new.

It might be easier to decide which way to go if all the admirers of tradition were Japanese and all those urging change were Westerners. The fact is that Japan is caught in a worldwide culture war, between the radical capitalists and those who would like to retain some key elements of traditional cultures. That war is well illustrated by the essayists here, who are renowned professional economists, policy advisers and researchers in eminent institutions around the world (Japan, the United States, England and Australia) – though, the book has no contributions by Asian or Continental European scholars, who should have a more nuanced view of the subject, given that their values are closer to Japanese values than those of American, British and Australian scholars.

Surprisingly, it is the American Roman Catholic scholar, James Abegglen, who is the single strongest advocate of traditional Japan, arguing that there is considerable continuity with past practices but that “Japan presents an economy that has changed in industrial structure and technological level to a truly exceptional degree. ...(Yet the) fundamentals that have governed post-war Japan, including labour relations and corporate governance are still serviceable.”

By contrast, the strongest advocate of change is Hamada Koichi: “Nobody doubts that the Japanese management style was effective during the high-growth era. To exaggerate its past effectiveness and minimize the difficulty of continuing to employ it as a component of the current social system may involve ... a danger of encouraging the ‘unwarranted success syndrome.’”

So our scholars are utterly divided about whether Japan has changed fundamentally since the Meiji period

(1868-1912), as well as about whether Japan needs fundamental change today. After carefully considering both sides, the editor comments that “the reader may have a sneaking suspicion that necromancy would do just as well” in deciding the answers to such basic questions.

In my view, Japan has changed only when it has had no alternative, and has then changed to the minimum possible degree. Whether we call the resulting changes “fundamental” is a matter of definition.

What is also uncontroversial is that Japan has changed only when enormous external pressure has combined with the consent and guidance of its own elite. There is no short-age of external pressure today; what is lacking is a unified elite prepared to lead it in a single direction. No scholar has observed the fact that the divided nature of that elite is itself an indication of how far Japan has changed, specifically since World War II when American-style education started to bring in individualism.

Though socially- irresponsible individualism has not yet become completely dominant, every successive Japanese generation is more self-oriented than the last.

Those who take the individualistic free-market-oriented view forget that Japan was not, for example, the only

country pursuing the concept of development banking. Post-war Germany and France (to take only the major

European examples) followed practices very similar to Japan. What scholars don't ask is why Japan was not able, while these other countries were able, to switch to a hands-off, risk-graduated system. Nor do they observe that the Anglo-American banking model, which now dominates the global financial system, produces enormous booms and busts which frequently come close to wrecking the entire system.

The interests of capital would always like faster change. Societies are slower to move than capital, because of questions related to values. Are relationships worth more than money, or is money worth more than relationships? If one pursues financial interests too strongly, these eat up all of society – as they are in danger of doing in the United States and United Kingdom – and, more slowly, in the rest of the developed world. The same is true of science: if one pursues scientific interests too aggressively, that too can eat up society. Ultimately, it is society that has to decide how fast it wants to move and in which direction.

Japan finds itself torn and confused. The challenge for Japanese society is that it has never had to take this sort of culture-changing decision without the guidance of an elite that knew what it wanted. As Japan's elites are themselves divided for the first time in history, it is up to Japan's people to show the way. It is not yet clear whether Japan's people understand that the ball is firmly in their court and that they need to take responsibility for their own future. Perhaps they may care to consider what lessons they can learn from the Radical Reformation which enabled Europe to move, from a situation paralleling pre-Meiji Japan, to creating vibrant democracies as well as scientific and economic progress which define civilization even today.

*Prabhu Gupta is the Director of Executive and Organizational Development at the Wolfsberg Executive Development Center, Switzerland; and the non-executive Chairman of ADVANCE: Management Training Ltd., U.K.*