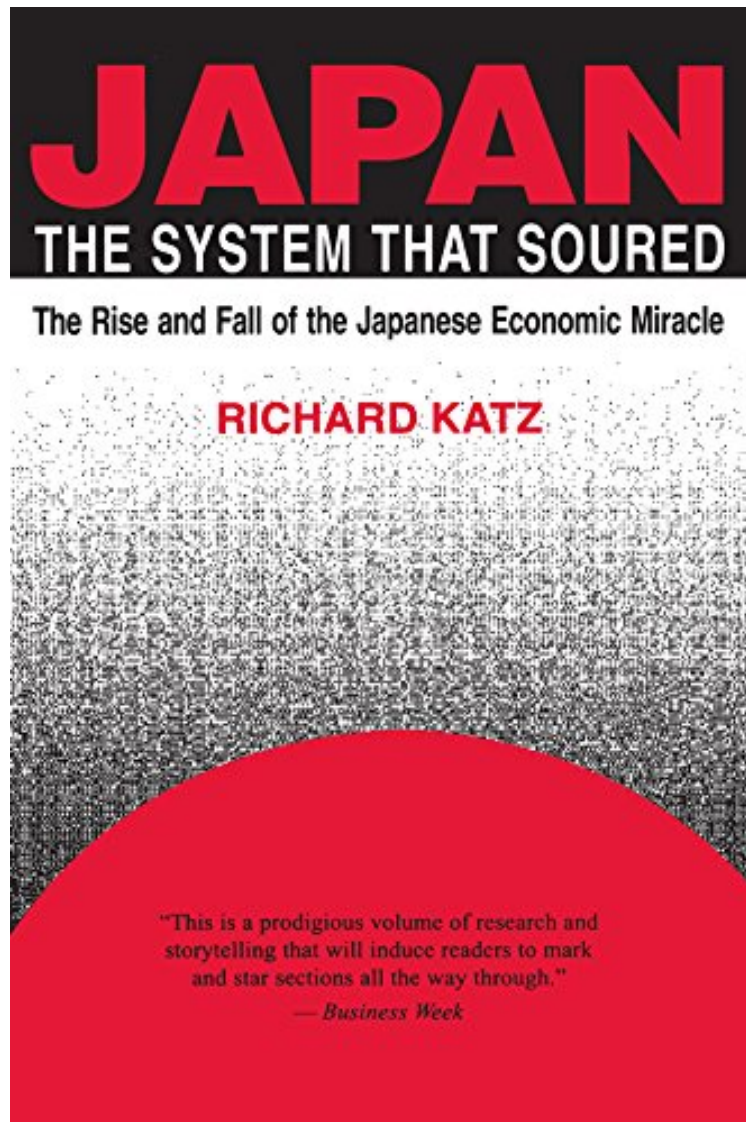


Japan, the System That Soured

Richard Katz

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Richard Katz : Japan, the System That Soured before purchasing it in order to gage whether or not it would be worth my time, and all praised Japan, the System That Soured:

14 of 15 people found the following review helpful. This book integrates colloquially a lot of solid research.By A CustomerThis book is essential for those who want to understand Japan's peculiar economy at one -- or perhaps a few -- sittings. It is not a "Japan bashing" book, but rather explains what Japan did right some decades ago, notes some failures, and -- most importantly -- spells out how Japan's 1970s-era switch to increasingly costly measures to shield its domestic economic losers set both Japan and the world up for big troubles down the line.The introductory chapter

sketches the terrain and the next seven chapters, starting with Japan's "Deformed Dual Economy," are easy to read, albeit redundantly written (redundancy is actually a plus for non-economists who need a lot of restatement to take points on board). Chapter 13 "Beyond Revisionism and Traditionalism" is worth the price of admission (to the paperback), giving a neat summary of two decades of American writing on Japan's economic miracle, the Japan justifiers and the "Japan bashing" revisionists. Anyone who missed this vast literature won't feel so guilty after reading Katz' marvelous summary/analysis. The last chapter ("Interregnum: Whither Japan") is a brave attempt, but Leaving aside the merits of Katz' argument that further electoral reform is absolutely essential to shake up Japan's system and open up its economy, the section on electoral reform (pp. 321-331) is extremely confusing for anyone not already steeped in recent Japanese domestic politics. The section skips back and forth in time, assumes too much knowledge, and rehashes Western (too idealistic?) faith in the eventual coming of a true and pure opposition party. Some aspects of Japan this reviewer would have liked to see more of are: why the tremendous resistance to inward foreign direct investment, and both more exceptions that disprove the rule and more examples of how foreigners came and bent their spears; some sense of whether there are significant schools of thought within Japan that mirror Katz' and the Western "neo-centrist" view; and some attention to the peculiar postal savings system and its distorting impact on the Japanese budget and economic choices. These are quibbles. Anyone thinking of buying, or anyone who has read Katz' book, needs absolutely to read a "companion" piece, a fine article about the troubles caused by Japan's (until very recently totally unreformed) banking system. See Peter Hartcher's "Can Japan Come Back" in "National Interest" Winter 1998/99 No. 54. Hartcher hits some of the same themes as Katz but goes into fascinating depth on the history of Japan's banking law/financial institutions, tracing back to WWII and on into the period when the system helped usefully mobilize domestic savings. Like Katz, Hartcher points out when Japan should have realized that "enough was enough" and spells out the terrible consequences both for Japan and the world. Again, no "Japan bashing," just telling it like it is. Now, it would be great to see a "colloquial" book like this one done on China, not the "system that soured," but "the enigma that seems to succeed."

3 of 4 people found the following review helpful. Political economy of two Japans
By Suckwoo Lee
Over more than a decade, Japan has baffled not only its citizens but also foreigners with its inability to sort the mess out. They call it the Heisei depression. What is the problem of Japan?
The problem of Japan has been a daunting question. There have been numerous explanations. Those could be grouped into three camps in my view:
1. the problem is the financial macroeconomics not the fundamental disease of Japanese economy. Once the bad loans are cleared up, Japanese economy would be on the right track as before. (Posen at IIE: Cargill and his colleagues)
2. Japan is on the bad point at its long-term cycle. Each economy has its own long-term cycle of investment, determined by the level of sunk capital. In this view, ascendance of Japan and Germany over the States in the 70s and 80s could be attributed to this dynamic of cycle. In other words, the US was in a bad point at the time. Now Japan is on its own bad point. (Robert Brenner)
3. Depression or liquidity trap must be serious problems. But those are not the cause but the symptom of deep-seated malady. So-called Japanese miracle was propelled by the socioeconomic regime of the Japanese system, in Pempel's words. It was the key to Japan's epic story. But now it is the curse to Japanese economy. The vested interests of the regime's alliance, or iron triangle, has hamstrung the overall competitiveness of economy. (Pempel, Tilton, Porter, Bai Gao, Brookings Institute, OECD, and The Economist)
Richard Katz is on the side of the third camp. His argument is like this: Infamous industrial policy fostered various industries with policy pair of promotion/protection. But not all sectors succeeded in world market. Those sectors should be liquidated to free resources up to competitive sectors in the view of rational policy makers. But such massive exit or restructuring is not of political rationale. The first oil shock exacerbated things around exit options. Such an attempt would be political suicide. So Japanese government prop them up. But uncompetitive sectors have taxed out competitive sectors and consumers with artificially high prices far above international market prices. It has resulted in weakening competitiveness and aggregate demand in economy-wide. To make up for weak domestic demand, export-drive set in motion. Up to mid-1980s, competitive Japan like electronics, automobile industry could feed up uncompetitive Japan like petrochemicals, steel, service sector at the expense of overseas competitors' market share. But overdependence on overseas market invited super-strong yen in 1985. So export-drive hurts its very condition. There was 2 consequences: Competitive sectors responded with FDI, so-called the problem of hollowing out. Now overseas market couldn't make up for the feeble domestic demand. So there should be alternative demand in domestic side. Government boosted the demand with pouring down money. Bubble swelled. At last bubble busted. The problem of Japan is not financial mess but the political economy of two Japans. It has weakened the competitiveness and aggregate domestic demand. Deregulation is the answer. But it is near impossible for political reasons. So the problem lies not in economic side but in political side. Katz follows the mainstream line of Japanese studies. So His account of Japanese political economy is not that unheard-of. but he articulates the points with simple and clear economic modeling. The picture he draws up is amazingly lucid and plain. His work could be counted as the constellation of a decade's debates.

5 of 6 people found the following review helpful. Well-Written and Thoroughly-Researched Gem
By Reader from New York...
This is a thoroughly researched book backed by an extensive list of references, compiled over extensive period of time. "Useless" is not a fair adjective to qualify this book. Even disregarding all the author's argument about the

state of Japan economy as related to its need to adjust its "investment-led economy", the body of research and the related references and bibliographies about Japan post-war economy is amazing and could be used as a starting point for anyone doing a research thesis for its PhD program. While I am not a Japan specialist, I have learned a great deal not only about trade policies in Japan, but also about those policies elsewhere. So in a nutshell, this book is not just about "how the Japan economic system soured", but also about trade policies and productivities (author emphasizes the Total Factor Productivity) in any economy. This should be a must-read for any aspiring economist that want to learn about trade policies: what to do and what not to do. This book can also be used as a self-contained textbook for any graduate course on Japan and NIC economies. The reference section summarizes some of the arguments presented in the main body of the book (Appendix A: Why Industrial Policy Only Works in the Catch-Up Era), some of technical skills need to get the most out of the book (Appendix B: Reading the Econometric Tables), economic growth model (Appendix D: From Superstar to Laggard: The Growth Model), actual trade data (Appendix F: Japan's Peculiar Trade). Any negative? Too much information packed into this 463-page well-researched book, so this is not your typical bed-time story book. Yet if you want a book from an "ivory-tower economist" looks elsewhere, but how about one from a down to earth journalist publishing daily article on Japanese economic affairs?

After seven long years of economic malaise, it is clear that something has gone awry in Japan. Unless Japan undertakes sweeping reform, official forecasts now warn, growth will steadily dwindle. How could the world's most acclaimed economic miracle have stumbled so badly? As this important book explains, the root of the problem is that Japan is still mired in the structures, policies, and mental habits of the 1950s-1960s. Four decades ago while in the "catch-up" phase of its economic evolution, policies that gave rise to "Japan, Inc". made a lot of sense. By the 1970s and 1980s, when Japan had become a more mature economy, "catch-up economics" had become passe, even counterproductive. Even worse, in response to the oil shocks, Japan increasingly used its industrial policy tools. not to promote "winners", but to shield "losers" from competition at home and abroad. Japan's well-known aversion to imports is part and parcel of this politically understandable, but economically self-defeating, pattern. The end result is a deformed "dual economy" unique in the industrial world. Now this "dualism" is sapping the strength of the entire economy. The protection of the weak is driving Japan's most inefficient companies to invest offshore instead of at home. Without sweeping reform, real recovery will prove elusive. The challenging thesis articulated in this book is receiving widespread media attention in the United States and Japan and is sure to provoke continuing debate and controversy.

[Katz's] book does a careful job of linking Japan's stunning postwar rise to its later stagnation, pinpointing the moment at which its economic model started to sour and explaining how those changes produced what he calls Japan's "deformed dual economy." -- The Wall Street Journal, David P. Hamilton