Book Review

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Japan's remarkable economic and cultural achievements over the last 100 years, and in economic matters especially in the 1950s and 1960s, have captured worldwide attention. For some people the centre of interest lies in the "miraculous" economic growth rate, for others in Japan's intelligent economic planning and in the effectiveness of structural policies or in the flexibility of the economy, while for a third group of people the interest is in the impact of rapid growth in ecological, social and political terms, both in- and outside of Japan. Denison and Chung's book definitely belongs to the first category.

In order to answer the question of what accounts for the extraordinarily rapid growth of Japan's economy, the authors try to analyze and measure the sources of economic growth in the period from 1953 to 1971 and compare the results with those of the Western industrialized countries. The study puts Japan into the framework of estimates previously set out in Denison's well-known work "Why Growth Rates Differ"¹, and it applies to Japan the analytical techniques (growth accounting) developed in his "Accounting for United States Economic Growth"². It is at the same time a sequel to a chapter both authors contributed to the comprehensive investigation of the Japanese economy by a group of American and Japanese analysts organized by Brookings in 1972 and edited in 1976³.

Throughout, the approach of the book is predominantly macroeconomic and the analysis relies heavily on official data and statistics, leaving non-economic characteristics out of consideration. After comparing Japan's level of output with other countries (Chap. 2) and presenting the record of growth (Chap. 3), the sources of growth are estimated (Chap. 4) and an overview is given on the main theme of the book (Chap. 5), focussing on the sources of growth of national income per person employed. In the following chapters the presumed separate sources of growth are examined in more detail (labour input, capital input, advances in knowledge, reallocation of resources, economies of scale), and in the final chapter the question is put as to whether the growth rate can be sustained. In 15 separate appendices the data sources and estimation procedures used are described in detail (pp. 129 sqq.).

Turning to the main theme of the book, Denison and Chung find that no single factor was responsible for Japan's high growth rate in the period

under review. Rather, all the five separated sources contributed to the growth rate, and more so than in any other industrialized country. Given the standardized growth rate of national income 1961–1971 of 9.56 per cent, the contributions in percentage points are thought to be: labour 1.78; capital 2.57; advances in knowledge 2.43; economies of scale 1.14; contraction of agricultural inputs 0.62, contraction of non-agricultural self-employment 0.19; reduction in international trade barriers 0.01. The authors emphasize the relation between Japan’s (still fairly) low level of output per worker and its high growth rate, i.e., fast growth is produced by “catching up” with the more advanced countries. Accordingly, Denison and Chung would probably agree upon the first and disagree upon the second half of K. Bieda’s hypothesis: “Japan is the most exciting and ex ante the most improbable case of rapid rate of economic growth in history”.

Starting from the premise that insofar as there is continuity between the past and the future, the examination of the postwar sources of growth can bring perspective to the outlook, Denison and Chung approach the politically and otherwise interesting question “Can the Growth Rate Be Sustained?” (Chap. 12). For this, they divide the contribution made by each (separated) determinant to the 1961–71 growth rate into two parts: one which they call the “transitional” component, being defined as the amount that was possible only because Japan was a latecomer to economic growth or was eliminating a cause of inefficiency; while the remainder of the contribution is called the “sustainable” portion (which, however, may not necessarily contribute the same amounts in the future as in the past but where changes are unlikely to be large). According to this (quick) procedure, Denison and Chung estimate that of the standardized 1961–71 growth rate of national income of 9.56 per cent a year, the “sustainable” sources contributed 3.24 percentage points, and the “transitional” sources 6.32 points. (For details see Table 12–1, p. 115.)

Identifying transitional growth sources, quantifying their separate importance and appraising the prospects for their continuance is certainly of relevance, not only for theoretical but also for practical reasons. Yet, how can this convincingly be done when characteristics of political, social and economic institutions and processes that are peculiar to Japan are not being examined at the same time? To be fair one must add that Denison and Chung in the Introduction admit that “almost all series are approximations and some are subject to the possibility of considerable percentage error.” This is said on page 3 of the book, the calculations, however, are presented on page 115 and beyond and then up to two places behind the decimal point — thus asserting a persuasive power they do not possess.

Most certainly, Denison and Chung’s book makes valuable reading on Japan’s economy, especially to those interested in the growth rate and accordingly in quantitative economics. However, it is necessary to point out that apart from the possible deficiencies of a basically non-institutional

approach to the (very specific) features of the Japanese economy, there are a number of grave shortcomings in this book: The reader will look in vain — not only in the index but also in the text of the book — for such topics (and the related hypotheses) as: cartels, dualism, infrastructure, pollution, welfare, just to name a few. Further reading is commendable when a more thorough answer to the question is looked for of how Japan's economy grew so fast.

Can Boltho's book give such an answer? This book, part of a series for readers in universities, business and government, and providing reviews of economic developments during the last 20—25 years in countries of obvious importance in the world economy or noteworthy because of particular features in their economic structure, is less ambitious. It is (also) rather selective than comprehensive, yet it is (also) very worth reading.

In Part I Boltho gives a short summary picture of the economy's development, structure and performance during the period 1953—1973. It starts with the growth record and cyclical fluctuations which have occurred and then describes some features of the industrial structure which have attracted attention in Japan and abroad (especially economic dualism and employment practices), and concludes with a tentative assessment of the weakness and strength of the development processes in those twenty years. Like Denison and Chung, but different in approach, Boltho in Part II tries to isolate those factors which have (or are believed to have) contributed most to Japan's exceptional growth rate. Here, too, the discussion centres on labour and capital inputs, but some attention is also devoted to the rather elusive role of government interventions in the development process. In addition, foreign trade and income distribution and their respective bearings on the economic growth are examined.

Boltho's analysis shows that for the period under investigation the aim pursued in Japan was growth maximization. For twenty years or more "Japan's economic strategy was highly successful by its own standards. Yet seen with hindsight and in a broader perspective, one cannot fail to be struck by some of its limitations. Rapid growth achieved many aims; but twenty years of neglect of some basic issues have created problems which are difficult to solve in the framework of a market economy. Pollution is one example ... and land utilization and social infrastructure others." (p. 70). He thinks that it will be "extremely difficult to reverse an established order of priorities in the field of social versus private goods in a basically capitalist economic structure" and concludes: "An apparently successful growth strategy was pursued for too long" (p. 71). More than many other authors on Japan, Boltho observes various imbalances; and the real imbalance for him is "between the huge direct and indirect claims on resources made by the private sector and the residual which was left over to satisfy the demand for social goods and most forms of public consumption" (p. 66). The resources the government obtained through taxation were overwhelmingly devoted to creating an infrastructure not of a social nature but for the benefit of private business; and in epitomizing Japan's growth strategy he quotes from an official publication(1) by the Economic Planning Agency of Japan: "It is impossible to
produce 3,000 tons of pig iron in a blast-furnace capable of producing only 1,000 tons, but it is possible to crowd in three times the passenger capacity in an electric train, a phenomenon which is being witnessed on the Yamate Loop Line in Tokyo" (p. 67).

Boltho concludes by saying that criticism of Japan's performance based on its "failures" in these fields is perhaps unfair, and he points to the fact that the whole industrial world has developed imbalances, for instance, in assuming that natural resources would always remain cheap and, similarly, that the stress on measurable growth meant that pollution and environmental issues were hardly ever an important consideration in the minds of policy-makers.

As with the book by Denison and Chung, a few critical comments should be added regarding the omission of certain non-economic factors which should definitely play a more important part in any explanation of the Japanese economic growth process, including institutional arrangements peculiar to Japan and not easily explainable in Western categories.

As with most books on the Japanese economy written in English, Boltho (and also Denison and Chung) makes no reference to the European literature on Japan, which contrary to the author's opinion is not scanty but plenty.

It may be wise to conclude this review of the two books with the warning of the then president of the Japan Economic Research Centre, Saburo Okita, who in the Foreword of K. Bieda's book said: "The views of eminent foreign economists on Japan's economy can be enlightening to us Japanese in many ways . . . . Japan's economic system, while apparently similar to that of Western Europe, has in reality many features that have been modified to suit Japan's culture. Judging merely from the documents and statistics on the Japanese economy, foreign economists may draw false conclusions."

Udo E. Simonis