

Book Reviews

Why Did Japan Stumble? Causes and Cures, by CRAIG FREEDMAN (ed.) (Edward Elgar Publishing Limited, Cheltenham, UK, 1999), ISBN 1 85898 834 9.

Japan's economic woes began when it assumed that it had found an infallible key to economic growth [...]. Facing some almost insurmountable difficulties, it now realizes that its previous illusion of superiority created an economic trap from which it has been ineffectually trying to flee in the 1990s (Craig Freedman, p. 18).

For the Japanese economy, the 1990s has been a decade of decline. Since the bursting of the bubble economy at the end of 1989, reports on collapsing financial institutions, stagnating growth, inefficient management and failed Keynesian economic policy haven't let up. While adequate policy measures to escape from the crisis are still being argued, new menaces have emerged.

This conference volume, edited by Craig Freedman (Director of The Centre for Japanese Economic Studies, Macquarie University, Australia), addresses the challenges faced by the Japanese economy. It contains an introduction by Freedman, six essays and several comments, including contributions from outstanding specialists on the Japanese economy, like Hugh Patrick, Ryutaro Komiya, Peter Drysdale, Masaru Yoshitomi and Takatoshi Ito.

Part one of the book discusses the impending problems of the Japanese economy. Michio Morishima, who wrote the 1982 book *Why did Japan 'Succeed'?*, opens the discussion with an uncommon mixture of economic analysis, cultural perceptions and personal experience. He states that in Japan the birth of a new generation raised in an American type of education system resulted in a loss of elitism, growing anarchy, lack of work ethics and decadence (pp. 46–48). As a consequence, Japan will fall back into the position of an 'internationally insignificant country with a reasonably high standard of living' (pp. 54–55).

Ryutaro Komiya takes a more optimistic view in his theoretically and empirically well-founded chapter. Komiya singles out the

declining population, the need for a smaller government, and the burden of the rising public debt as the three main hurdles to be overcome within the next few decades. He shows in an impressive way the scope of these problems by pointing out that they could mutually aggravate each other. But nevertheless he concludes that 'it would not be difficult for Japan to remain in the top income group if it could achieve a number of necessary economic and social reforms' (p. 103).

Kyoko Sheridan's contribution on Japan's business culture and society is disappointing, because it focuses more on the history than – as promised in the chapter's headline – on the future. At the very end of the article, Sheridan expresses her own expectations for the Japanese economic policy: 'Ideally, social purpose should receive priority before economic growth. [...] In fact, industrial production must be undertaken actively but only within controlled conditions. [...] We fear capital funds will go instead to the most profitable industrial activities' (pp. 132–133). This can't be the solution. As Peter Drysdale remarks in his comment, Sheridan falls back on normative judgements more than she gives an intelligent response to the challenges facing Japan (p. 137).

The second part of the book addresses the current problems of the Japanese economy. Masaru Yoshitomi carefully analyses the economic policy in reaction to the financial crises. He gives the central reason for the failure of the Keynesian macroeconomic policy. Since the government did not clear up the cause of the problem, i.e. the banking system's non-performing assets, the expansive monetary and fiscal policy did not produce the expected effects. The strategy of growing out of the bad asset problem did not work out.

Michael Hutchison, Kathleen McDill and Rita Madrassy give an excellent survey of world-wide experience with banking crises. They remind us that – even if the implications were more serious than in other countries – banking crises are not a uniquely Japanese phenomenon. The book closes with Jenny Corbett's theoretically well-founded article on

the Japanese government's microeconomic measures in response to the banking crises. As Ito summarises in his comment, the government's reactions were 'in the right direction, but the progress was too little and too late' (p. 225).

Craig Freedman's volume about Japan's (economic) challenges unifies very different points of view with varying analytical and empirical depth. Some of the articles are inconclusive, but the book is well balanced, because it combines the micro- and macroeconomic levels. Further, the book is of special interest because it also considers the future path of the Japanese economy. However, when addressing the consequences of the Japanese bubble economy, Japanese monetary and exchange rate policies, as well as foreign pressure on economic policy, should not be omitted. Since the monetary policy has been a crucial factor for the rise and burst of the bubble economy, as well as a policy instrument for economic recovery, a paper analysing the decisions of the Bank of Japan would have been welcome.

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The Economics of Saving and Growth: Theory, Evidence and Implications by KLAUS SCHMIDT-HEBBEL and LUIS SERVÉN (eds.).

This book is a collection of five essays sponsored by the World Bank on the important topic of savings and growth. The editors themselves contribute two of the essays: an overview of 'stylized facts' and a lengthy study of the relationship between income distribution and savings. The other three essays are: 'saving and growth' by Angus Deaton; 'financial policies and saving' by Patrick Honohan; and 'foreign resource inflows, saving, and growth' by Maurice Obstfeld.

The overwhelming fact about the stylised facts of saving is that there are not very many of them. Savings rates differ greatly across the globe and if anything the variance has tended to increase since 1965. Savings rates have declined somewhat in OECD countries (mainly because of reduced public saving), and also in less developed countries other than the 11 defined by the editors as 'take-off countries' (eight countries in East Asia, including China,

plus Botswana, Chile and Mauritius), but have doubled in these take-off countries. Developing countries tend to have lower saving rates than OECD countries on average, but with wide variation. Across countries there is a positive correlation of saving with both the level and growth rate of GDP, and with the rate of investment, and a negative correlation with foreign aid. With respect to most of these variables, however, the causation is ambiguous.

Deaton provides an excellent survey of the state of theory and empirical research on savings and growth. He notes that the permanent income hypothesis fares poorly, since anticipated growth should reduce current saving rather than increase it, as suggested by the international evidence. The life-cycle hypothesis emphasises income growth between age cohorts rather than within them, but also has problems when confronted with the data. The bequest motive, habit formation and liquidity constraints all appear to be important influences on savings behaviour.

Honohan's chapter discusses in greater detail the role of liquidity constraints and financial institutions, interest rates, tax incentives, social security issues and Ricardian equivalence. Liquidity constraints appear to be greater in developing countries, as one might expect given their lower levels of wealth and less developed financial markets, although according to the best estimates only a minority of households in developed countries are significantly affected by them. Obstfeld sets the empirical evidence on aid, saving and growth within the framework of some fully specified theoretical models, which is a valuable exercise. As he notes, the 'disappearance' of a significant slice of aid in additional consumption does not necessarily imply that aid is not growth-promoting, since this observation is quite consistent with the smoothing of consumption out of life-time earnings that are assumed to have been increased by the impact of aid on future growth. Finally, the editors provide a very useful survey of income distribution issues. They find that the impact of inequality on saving is theoretically ambiguous and empirically insignificant at the aggregate level. This conclusion is based on some new econometric results, together with replication of earlier studies (all reported in the chapter), that make use of a new World Bank database on income distribution.

This volume is an excellent overview of the current state of knowledge on the topic of saving. What I liked most about it was that issues and evidence from developing countries received their full weight: the reader was never allowed to forget that there are more than 100 countries in the world and not just 24. There are still too many economics books written in which the developing world represents no more than a footnote, if that.

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Unintended Consequences: The Impact of Factor Endowments, Culture, and Politics on Long-Run Economic Performance by DEEPAK LAL (Cambridge, Massachusetts, London: The MIT Press, 1998), pp. 275, £27.95 hardback, ISBN 0 262 12210 3.

Unfamiliar proportions – a text (178 pages), an appendix (17 pages), 682 footnotes (143 pages), references (25 pages) and index (11 pages) – warrant an unfamiliar approach. Start at the six-page conclusion and take the earlier chapters as a reference source rather than as ‘a read’. Otherwise, the patch-work of citations makes this a *staccato* ‘gallop through human history’ where the detail is generally insufficient to grip the interest.

The purpose of this ‘whirlwind tour of changing Western ideas’ is to show how economic performance is affected by the interaction between factor endowments, culture and politics; how humankind has adapted to a changing environment without genetic mutation. Instead, novel survival traits have become fixed in social customs. However, the cosmological (preferred to ‘ideological’) strictures that temper instinctive actions – *via* feelings of shame and guilt – vary across cultures.

Lal distinguishes a Smithian (division of labour) and a Promethean (fossil fuels) basis for growth. From cursory sketches of Chinese, Indian and European civilisations, he concludes that, although ‘the interactions of changing factor endowments with technology can provide an explanation of changing rural institutions ... the problem of tying scarce labour down to the land was dealt with in different ways, mainly due to differences in the polity ... [which] ... were partly the result of the different ecological – geographical –

circumstances in the three areas’. There are anomalies to be explained: for example, the stagnation of the Chinese economy is related to ‘atavistic attitudes to trade and commerce’ that were encouraged by the official doctrine that the Empire was a single household; and science was retarded by a Confucian philosophy that could readily conjure an explanation for any puzzle.

Lal gives no warning that any rationalisation of adaptive processes within an open system relies upon truisms. For example; that China was ‘more peopled’ is congruent with a group-oriented social ethic; that Egypt was self-confident is congruent with the benevolence of the Nile; that Mesopotamia was pessimistic is congruent with a harsh and uncertain environment. Where the poverty of natural resources invokes no trade, then presumably it invokes poverty; and where social activity is irrelevant to shaping the climate or geography, then it is the climate or geography that must shape the social realm. Although speculations of these kinds are potentially endless, some catch the interest better than others; for example, Communism translated a Confucian aversion to excessive wealth into a disdain for merchants and markets.

Lal’s ‘stories’ – of material and cosmological influences upon the polity and the economy – tell that China, India and the Islamic Middle East ‘probably’ had periods of intensive Smithian growth to reach a ‘high level equilibrium trap’ by the Middle Ages. However, Promethean growth ‘remains a European miracle’, explanations for which converge – unsurprisingly – upon ‘material factors and cosmological beliefs’.

Different factor endowments around (and trade across) the ‘European lake’ promoted Greek and then Roman ascendancy; but diminishing agricultural returns at the extensive margin combined with growing military requirements to exhaust the taxation base. Political fragmentation followed with a continuing agricultural and an emerging industrial revolution. The latter made ‘Promethean intensive growth ... the norm in the West’ and gave unique institutional features: city states (Greece and Italy) hospitable to merchants; commercial law (Italy) protective of ‘arm’s-length transactions’; private property rights repellent of ‘predatory governments’; and the inquisitiveness of the ‘Greek spirit’. The Greek legacy is thrice

important: democracy within the self-governing state; an 'ecologically determined permissiveness in the degree of social control' that nurtured an acceptance of a 'multiplicity of answers to the ultimate questions'; and a morality based on shame rather than guilt.

After the collapse of the western Roman empire, the proselytisation of Christianity spread the 'in-worldly' individualism of the Western economic dynamic. The wealth of the church derived from sixth-century papal injunctions – against close marriage, adoption, divorce and remarriage – that raised the volume of legacies. The power of the church derived from the eleventh-century papal declaration of supremacy. These two revolutions – of Gregory I on the family (which avoided Malthusian immiserisation) and of Gregory VII in respect of legal institutions (especially *lex mercatoria*) – gave the institutional infrastructure for self-generating expansion. By contrast, the absence of property rights before serf emancipation in the mid-nineteenth century, set the East on a path of recurrent 'catch-up'.

In surviving twentieth-century challenges to the LIEO (liberal international economic order), 'the world economy is again knit as tightly as in the high noon of the first LIEO'. Yet a paradox/warning is muted: 'the very beliefs that engendered Promethean growth may eventually have eroded the cement of society'. Guilt and shame and "'manners" based on deference' have been undermined by 'the secularization and democratization that individualism has bred'. So, Lal is pessimistic about the West; he can find nothing that might replace the 'fear of God and of burning in Hell'. But 'the Rest' can have hope: in refusing to have Western individualism thrust upon them, it might still prove 'possible for these non-Western societies to adopt the West's means to attain prosperity without given up their souls'.

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Rural Labour Relations in India by T.J. BYRES, KARIN KAPADIA and JENS LERCHE (eds.) (London: Frank Cass, 1999), pp. 369, ISBN 0-7146-4983-X (cloth), ISBN 0-7146-8046-X (pbk.).

The 1970s and '80s witnessed significant agricultural growth in several parts of India, both within and outside the classical Green

Revolution belt of Punjab, Haryana and western Uttar Pradesh. This growth seems to have been generally associated with an expansion in non-agricultural employment (in which government spending on infrastructure, anti-poverty and employment generation programmes played an important role) and a reduction in rural poverty. While men have tended to move out of agricultural labour, women have tended to move in. However, there is also some evidence that the reduction in state spending on infrastructure and rural anti-poverty programmes in the '90s led to a decline in non-farm employment in many areas, with a consequent increase in rural poverty. Additionally, the last two decades have witnessed important changes in the political consciousness and organisation of rural workers and an increase in the intensity of agrarian class conflict in many areas. This book presents a collection of essays, originally published in a Special Issue of *The Journal of Peasant Studies* (26/2 and 3: January/April 1999), that seek to analyse trends in agrarian labour relations and rural class struggles against such a backdrop. Apart from the editorial introduction by Kapadia and Lerche, an overview by Byres and a theoretical intervention by Mohan Rao, the remaining essays focus on developments in particular states.

Sheila Bhalla's paper on developments in the agricultural workers' movement in Haryana in the '90s argues that communist-led unions (in particular, the All India Agricultural Workers' Union affiliated to the Communist Party of India (Marxist)) achieved important gains in their organisational and agitational initiatives. However, direct confrontations with employers were successful only when the unions succeeded in influencing the government to mediate on their behalf. In an interesting, but often convoluted and opaque, article, Lucia da Corta and Davuluri Venkateswarlu suggest that redistributive state programmes in Andhra Pradesh primarily benefited male agricultural workers. The main argument appears to be the following. These programmes allowed men to move to petty commodity production and non-agricultural employment, which in turn led to more opportunities for women, in the agricultural labour market. Women, however, did not benefit because men reduced their contributions to household expenses. The basic thesis of K.P. Kannan's study of Kerala seems to be that

confrontational union strategy in the past has served to restrict capital accumulation and technological change in the state in general, and agriculture in particular, leading to stagnation. The argument is somewhat commonplace, as are the policy dilemmas the paper mentions; counter-arguments and alternative explanations (which the author does not seriously engage with) being well known as well. Uttar Pradesh is the subject of papers by Jens Lerche and Ravi Srivastava. Both papers are interesting and reach broadly similar conclusions. Expansion of employment opportunities outside agriculture, combined with increased labour mobility, has served to put upward pressure on agricultural wage rates. Rural workers have become more willing, and able, to challenge traditional forms of social and economic oppression. This has been associated with a decline in the pervasiveness of customary relationships. In spite of counter-offensives, often violent, by dominant land-owning groups, rural workers have been able to achieve significant gains, both economic and social. Lerche argues that the rise of the Bahujan Samaj Party has contributed to this process by checking the traditional upper caste bias of the state machinery, while Srivastava's

conclusions are more tentative on this issue. Kalpana Wilson's paper focuses on agrarian relations in a study village in Central Bihar, a region where activists of the Communist Party of India (Marxist Leninist Liberation) and other left groups have been engaged in regular armed confrontations with landowners' private armies since the early '80s. The reader would have benefited from a more comprehensive discussion of broad regional trends and the organisational strategy and tactics of the CPI(ML), in particular its attempts to broaden its base among the middle peasantry belonging to intermediate castes. J. Mohan Rao's paper offers a theoretical analysis of free and unfree employment relations and revisits the debate on the status of rural attached labour. Some incorporation of the recent, and burgeoning, analytical literature on freedom and rights in political philosophy and welfare economics could possibly have been useful in this context. The essay by T.J. Byres provides a helpful overview.

Overall, the collection is a welcome addition to the literature.

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