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# Bamboozled! Blindsided! Rare Western Skepticism Toward Japan's Recession

Patrick O'Brien

While America has been focused for the last 45 years on containing world communism, Japan has been refining and implementing a style of capitalism which it has relied upon in its drive toward modernization. This catch-up form of capitalism has proved superior to the free-market capitalism favored by Anglo-Americans. . . . Currently, the majority of observers of Japan misread much of the activity taking place there politically, economically and socially. . . .

These words come from the abstract of my M.A. thesis in Asian Studies, "Understanding Japan's Frictions with the World, Including Cultural and Psychological Factors" (Cornell University, 1993). A few short years after writing those words, however, I was embarrassed to have believed them, since Japan by the middle of the 1990s seemed to be mired in a sluggish economy, while the Internet-fueled economy of the United States was basking in the prosperity of the Clinton years. In particular, my claim that Japan's form of capitalism "has proved superior to the free-market capitalism favored by Anglo-Americans" seemed wrong-headed on the face of it. Thereafter I tried not to think about what I had written.

Then, in 1998, I returned to Japan to begin teaching at a university in Sapporo. Asian Studies was no longer my field, as I had abandoned that endeavor in favor of American Studies. Because there was some lingering bitterness about my fate in Asian Studies, I perhaps went out

of my way to avoid reading more on Japan's economy, politics, and relationship with the United States. Still, it was impossible to escape all headlines and news reports, and from them I knew that Japan had been mired in recession since the "bubble" burst in 1993. In contrast, the American economy was the envy of the world. When the Asian Crisis hit in 1997, it served to confirm not the superiority of Japan's form of capitalism (which other Asian countries such as Korea were said to have imitated), but rather the claims by Anglo-American observers that in fact the free-market ideologies of England and America were a better prescription for sustained economic growth.

Essentially, there was no dissent from this view, either in the Western media or, significantly, in the Japanese media. The easiest course, then, was simply to believe that the consensus was correct. Still, by about the year 2001, three years after returning to Japan, I occasionally wondered *where* the recession was and who was suffering the brunt of it, other than scattered homeless men or job-seeking college graduates. To the extent I gave it much thought, I figured that Sapporo, a new city far from Japan's centers of power and industry, was merely an anomaly and that money from Tokyo was keeping Sapporo clean and prosperous. Soon, no doubt, the recession would catch up with Sapporo and signs of it would be visible in multiple areas. Oddly, that had yet to happen, even as we began the year 2003.

On the contrary, life continued to hum along here as though on autopilot. I could observe no great dislocations due to economic stress anywhere, save, perhaps, for the claim that the "baby bust" was hurting enrollments at junior and less-prestigious colleges. In fact, I could not escape the impression that materially life continued to *improve* with each passing year here in Sapporo. I unscientifically gauged this by looking at improvements in three areas: car ownership, building con-

struction, and consumer opportunities. To my eyes, all three areas were clearly much better than they were when I first arrived in Japan in 1985. Not only were they better, they were dramatically better. The straight-line improvement in these areas that I could see seemed to contradict the consensus about a Japan lost in an economic slump.

Though these observations are wholly impressionistic, I hope the reader will not dismiss them out of hand. After all, I lived here from 1985–1991, watching the swell of the Bubble Years, the robust strengthening of the yen vis-a-vis the U.S. dollar, and the perennial imbalance of Japanese trade figures with most of the Western world. After returning to the United States, I earned my Master's degree in Asian Studies by examining economic and trade relations between Japan and the U.S. As part of that process, I spent a summer as an intern at perhaps the leading think tank on these issues, Clyde Prestowitz's Economic Strategy Institute. I have read much of the literature in the field, so this, combined with over a decade of living in Japan, somewhat qualifies me to comment on the issues to follow.

Of course, this essay will not be composed of only my observations about economic life here in Sapporo. Instead, the core of this essay will concern two books published since 1995 which question prevailing wisdom about Japan's current economic condition. Both books are provocatively titled and both go some way toward explaining the contradictions between that prevailing wisdom and my on-the-street observations about Japan. The first, *Blindside: Why Japan is Still on Track to Overtake the U.S. by the Year 2000* was written by long-time Japan resident Eamonn Fingleton, a journalist. The second book is by scholar and Japan resident Ivan P. Hall. It is entitled *Bamboozled! How America Loses the Intellectual Game with Japan and Its Implications for Our Future in Asia*.<sup>1</sup> Since my own observations prompted

me to read these books in the first place, I feel it will be helpful to briefly detail what I have observed here in Japan and place them in their proper chronological order.

### **The Cars. The Mansions. The Low Prices.**

Japan's moribund economy is stirring to life, its finance minister said Saturday, but global leaders questioned whether the world's second largest economy can stomach the tough medicine it needs. . . . This restructuring will take two years to complete, and then Japan can return to a 2 percent annual growth rate and put 12 years of stagnation, deflation and recession behind it. . .<sup>2</sup>

This excerpt from a very recent article in a Japanese newspaper reflects, as we shall see below, the prevailing consensus on Japan's depressed economy. I, however, question the nature of these 12 years of "stagnation, deflation and recession." From my vantage point, it seems that in the material realm, Japan—including its individual citizens—has reaped the fruits of its post-war labor and has on a yearly basis improved its standard of living. For a bit of perspective on this view, let me go back seventeen or so years to my first encounter with Japan.

During my first few years in Japan, first in Tokyo in 1985, then in Sapporo, Japan was not a car-culture nation such as the United States. Private ownership rates were clearly a fraction of America's, and two important driver segments were almost unrepresented: women and young adults. If a family had a car, it was generally the father who drove, and I really cannot recall any two-car families from those years. Additionally, the category of expensive foreign car was stereotypically

limited to two major groups: members of criminal organizations and doctors/dentists. In other words, being involved in a traffic accident with a black Mercedes Benz ca. 1985 was a prospect most Japanese dreaded.

As Japan's economy grew dramatically from 1985 onward, I observed a corresponding rise in private car ownership as well as an increase in expensive Japanese and foreign models. Also, handfuls of college-age boys were beginning to acquire their own cars — usually relatively cheap used cars, if I recall correctly. And by the time I left Japan in 1991, I still did not have the impression that women were apt to drive a car, let alone own one. It was still common to see a mother on a bicycle with one — or perhaps two — young children perched in a child seat. As public transportation was extensive and convenient, this allowed for a continuation of the Japanese pattern of dense residential settlement.

When I returned to Japan in 1998, the situation had changed dramatically. Young men owned cars in high number and women were quickly being trained at the ubiquitous driving schools here. A whole segment of cars marketed toward women had appeared, and now it is more common to see a young mother chauffeuring her child around in a car than to see them on a bicycle. As for expensive cars, there is no shortage of these, particularly European luxury cars. Everywhere I can now observe large numbers not only of Mercedes Benzes and BMWs, but Volvos, Audis, and less costly Volkswagens as well. And due possibly to Japan's strict car inspections, I can go literally months without seeing a car with even a spot of rust. In other words, the overall condition of automobiles here must be rated as superb.

Recently I moved to a better part of town and here I can observe this phenomenon even more clearly. For example, in the parking

garage of a nearby “mansion” (apartment building or condominium), I can see three new Volvos in a row, followed by a BMW, followed by another Volvo.<sup>3</sup> This would have been unthinkable in the Japan of 1985, except, perhaps, at an elite resort town like Karuizawa during the summer.

As for buildings, Sapporo has been building bigger and higher since I arrived. The “recession” has not seemed to hurt this sector at all. For instance, while the Arthur Hotel next to Nakajima-koen was once one of the tallest buildings in Sapporo, it is now surrounded by a host of similar — if not taller — buildings, including a massive mansion across the park that rises to 29 floors. While that example is not the norm, it is true that larger, more spacious mansions are being built throughout this city. As I recently went through the process of finding a new apartment, I can attest to the high level of amenities now common to new mansions in Japan, including a small television mounted in the wall of the bath of one I saw. And the apartment that I finally found is comparable to the living quarters of a doctor I visited in Tokyo in 1985. Clearly, this represents progress.

Overlooking all of this new construction is the Sapporo Station Hotel, a solid structure rising 38 stories above the center of Sapporo. Atop this soon-to-open hotel is a heliport, and below a dazzling maze of new shopping arcades and high-tech consumer goods stores. While the old Sapporo Station was once a dreary affair located at ground level, the new station is an elevated oasis of prosperity and light. In fact, an upscale department store, Daimaru, will soon open in front of the station, which brings us to the issue of shopping.

As any visitor to Japan during the 1980s will tell you, Japan was no shopper’s paradise in terms of price. While I arrived when the dollar had spiked to roughly ¥260 to the dollar, I still felt it was a much more expensive place to shop than the America I had just left. Then, after

the 1985 Plaza Accord ushered in the era of a strong yen, one was best advised not to convert yen prices back into dollars because such a process would reveal costs measured in simple multiples — twice as expensive, three times as expensive, sometimes even six or seven times as expensive (blue jeans come to mind).

That has mostly changed now. Should one wish to shop cheaply, there are numerous opportunities to do so. Not only that, the sheer number of shopping outlets has increased dramatically. The transformation of a piece of unused land near the military base in my area exemplifies this. It seems that it took barely six months for it to be turned into a large shopping mall in which some of the stores feature prices that would not be rare at an American WalMart. Then there is the spread of the “Hyaku-en Shop,” or ¥100 per-item store. These can be found throughout Japan, and the quality and range of goods is impressive. That most items appear to be made in China will be a topic worth discussing later in this essay.

Finally, there is the very subjective issue of my fine dining during the last month of last year, a time in which the Japanese traditionally gather for *bonenkai* (forget the year) parties. I have experienced ten seasons of eating out at this time of year and occasionally there have been long waits to get into the restaurant of first or second choice. In each of those seasons, however, I was always successful in finding alternate restaurants, even without a reservation. During December of last year, however, I was consistently unable to get a seat at any of the wide range of restaurants I tried without a reservation. From *izakaya* to all-you-can-eat *kani* (crab) restaurants, reservations were required. Why, if Japan was more mired in recession than ever, would this particular *bonenkai* season find the greatest patronage of Susukino eateries that I had ever observed?



What we have, then, is a conceptual disjunction: conventional wisdom tells us that Japan's economic model has come up short, resulting in a nearly dysfunctional system that has had dire effects on the lives of all manner of Japanese citizens. My own experiences and observations, however, suggest that Japan's postwar economic model has worked well and continues to do so. That so many in the West, at any rate, miss this is no accident, at least according to the authors of the two books I now examine.

### Fingleton and Hall: the Arguments

Both Eamonn Fingleton and Ivan Hall go head to head with the prevailing view about contemporary economic life in Japan. As the titles to their respective books — *Blindside* and *Bamboozled* — suggest, it is no accident that Westerners — Americans in particular — have a deformed understanding of modern Japan. While both authors amply point to the coordinated efforts of various actors in Japan to nurture this misunderstanding, both are at pains to point out that Americans themselves are ultimately responsible for their own ignorance and false assumptions. Because the authors have detailed Japanese efforts to blur a clear image of Japan's inner workings, it is inevitable that some have characterized their work as “yellow peril” fare. What follows will show that this is hardly the case.

### The Conventional Wisdom on Japan's Economic Condition

A seemingly unstoppable Japanese economy was brought back to earth by the bursting of its bubble from roughly 1991–1993. From there on out, growth came to a halt, real estate depreciated, and banks found

themselves with massive loans that could not be served. This economic malaise was exacerbated by two events that rocked Japan in early 1995. First, a powerful earthquake struck the Kobe region early on the morning of January 17th, killing over 4,500 people and injuring nearly 15,000. Just two months after that, the Aum Shinrikyo religious group released deadly sarin gas in an attack on the Tokyo subway, killing twelve and injuring 5,500. To the Japanese and to the world, it appeared that their laboriously constructed social and economic system had developed fatal cracks. Coupled to this was the frenetic growth of the American economy, an unexpected phenomenon that seemed to cast doubt on the utility of Japan's version of capitalism. Finally, 1997 saw the meltdown of certain Asian economies, which became the "Asian Crisis" of that year. Japan also suffered further stock market setbacks. The 1990s, it was said, was a "lost decade."

Hall here takes up the story at the point of the Asian Crisis:

After the broader financial crisis broke out in Southeast Asia in the summer of 1997, too many American commentators were making the fatuous claim that the 'Asian,' meaning Japanese, economic model was now discredited. The family cronyism, consumer orientation, unbridled speculation, and dependence on foreign capital that drove the debacle in Thailand and Indonesia could not have been further from the tightly run financial self-reliance, alert government guidance, market protectionism, and postponed consumer gratification of the old Northeast Asian model that had propelled Japan, Korea, and Taiwan toward economic stardom.<sup>4</sup>

Realtor and media mogul Mortimer Zuckerman, Hall points out, summed up this attitude when he editorialized, "Let us celebrate an American triumph. . . . The mantra is privatize, deregulate and do not interfere with the market."<sup>5</sup>

Western critics, Hall notes, believe that Japan's crisis "will finally catalyze genuine enactment of the drastic regulatory, administrative, and political reforms promised but stalled ever since 1993. These, together with the combined pressures of a rapidly aging population and the need to outsource Japanese manufacturing abroad, will combine to erode established patterns of seniority-based lifetime employment, intercorporate *keiretsu* (affiliated group) solidarity, employee loyalty and deference, pursuit of market share over profitability, and the bureaucracy's leverage over the Japanese economy and parliamentary system." Hall concludes this overview of the conventional wisdom on Japan by noting succinctly, "So go our illusions."<sup>6</sup> If these are illusions, then what is the reality? To attempt to answer this, we now turn to the authors.

### Fingleton: Blindside

Eight years after its first publication, author Fingleton has been kind enough to post to his website a summary of his provocative 1995 book:

The book was a point-by-point rebuttal of the conventional view that the Japanese economy was a spent force. The book argued that Western commentators were greatly exaggerating the real economic damage done to the Japanese economy in the wake of the Tokyo stock market collapse in 1990. It went on to focus attention on Japan's many hidden economic strengths — most notably its world-beating manufacturing sector. The book argued that Japanese manufacturers had escaped unscathed from the whirlwind visited on the Japanese financial sector and as a result were continuing to make rapid progress — progress that was propelling Japan to an ever more powerful position in the world economy.<sup>7</sup>

Fingleton is a bold man. Not just anyone would have the courage to challenge consensus on Japan but also to consistently dismiss a figure as esteemed as Adam Smith. Yet he does this throughout his book. Two hundred years after Smith's seminal *The Wealth of Nations*, Fingleton sees a new form of wealth creation: "Capitalism has proved so successful that we tend to assume it will go on forever. But just as feudalism was eventually swept aside by breakthroughs in transportation, capitalism is now under threat from new economic forces at work in late-twentieth-century society."<sup>8</sup> Then, like I had done in my M.A. thesis, Fingleton makes the bold claim that Japan has invented a superior system for creating wealth. Certainly, both Fingleton and I could be wrong, but at least I will be in better company than had I gone down this road alone. Here is how he sums up Japan's modern rise to prosperity:

In essence, the Japanese have discovered that the basic assumptions underlying the West's economic thinking have been undermined by a sea change in the way wealth is created in advanced countries. Japanese government and business leaders spotted this sea change as early as the 1930s and, on the strength of radical economic experiments carried out by the Japanese military in Japan's then colony of Manchuria, they devised a new economic system better able to create growth in modern conditions than capitalism. This system was sketched out in a historic government manifesto in 1940 and was substantially implemented by the late 1940s. Labeled in English the Economic New Structure, this system quickly proved an extraordinary advantage in Japan's effort to catch up with the West. And today it is a bigger advantage than ever. Precisely because this system is so effective, Japanese leaders have shied away from discussing it frankly with Western policymakers and economists — and even with the Japanese people. But in the mid-1990s the outlines of this new system

are fully visible to those who can shed their Western hubris and evaluate it on its merits.<sup>9</sup>

While delineating this “Economic New Structure” is the meat of Fingleton’s book, he also explores how Japan carries out a sophisticated strategy of deception — or, as Fingleton and Hall both write, how Japan encourages America in its own self-deception (chapters nine and ten). This self-deception stems from America’s penchant for consistently underestimating Japan. “Some systematic flaw in Western psychology leads Westerners, and particularly Americans, to exaggerate Japan’s weaknesses and belittle its strengths.”<sup>10</sup>

To shake up his readers, Fingleton points to the following anomalies:

— Measured by current exchange rates, Japan surpassed the United States in 1993 to become the world’s largest manufacturing economy.

— Japan jumped from sixth to second in per capita income between 1989 and 1993.

— In 1992, Hitachi passed IBM, America’s largest high-technology company, in sales.

— Japan’s net national savings totaled \$819 billion in 1993 (56 percent of the entire industrial world’s savings).

— Japanese employers consistently invested two to three times as much per worker as American employers.

Further, he notes that in the four years following 1989 — a time when a rising yen should have hindered Japan’s exports — total value in fact

increased by 32 percent and “not a single significant employer collapsed.”<sup>11</sup>

## **The Japanese System Intact**

Fingleton notes that the major components of Japan's postwar system are still in place: *keiretsu*, the lifetime employment system, strict seniority promotion, cartels, ubiquitous government administrative guidance, tight financial regulations, and severe restrictions on land use. He covers new ground when he proffers a description of how Japanese post-capitalism works. Three crucial components, he argues, are the Cost Structure Revolution, Global Natural Monopoly, and the Good Cartel, which are “interlinked in complex ways; working with other economic forces unleashed by technical change, they are relentlessly undermining the rules of capitalism.”<sup>12</sup>

## **The Cost Structure Revolution, Global Natural Monopoly, and the Good Cartel**

Fingleton describes the Cost Structure Revolution as a process whereby the incredible cost of new equipment means that fixed costs have become a decisive factor in modern investment, leading to costs as high as \$1.5 million for new jobs created in Japan's high tech industry. Such costs mean that a miscalculation resulting in overcapacity will create either idled investments (which, given their short useful life, represent large costs that can never be recovered) or excess competition — what the Japanese call *kato kyoso* — in a struggle to find markets for products. Fingleton argues that Japan has largely succeeded in preventing this excess competition through coordinated economic pol-

icies, though, he notes, the Western press consistently misses this, seeing instead major instances of overcapacity.

Further, the Japanese have developed the practice of “strategic pricing,” meaning selling products abroad at prices much lower than in the home market. Looking suspiciously like traditional definitions of dumping, this practice is responsible for such things as one Japanese manufacturer of photographic paper selling its wares in America at one-quarter its price in Japan. Wedded to strategic pricing is, in Fingleton’s view, “an explosive increase in transaction costs,” meaning the costs involved in buying or selling something. These costs, “combined with unstable capacity utilization and the growth of predatory pricing have created major problems for Adam Smith’s model of a market economy.”

Next comes his description of a Global Natural Monopoly, a situation that arises when “an industry’s long-run average cost curve continues to fall *indefinitely* as production increases.” As the cost of procuring basic materials has become minuscule with respect to the manufacture of the end product, one country, “or even just one manufacturer, can now obtain a global lock on an industry.” Japan achieves this by organizing industry-wide research cartels which, because they dramatically lower costs, give Japanese industry an almost unbeatable advantage over individual competitors in the West. This creates a virtuous cycle in which strength in, say, electronics helps Japan in an area such as automobiles, and vice versa. As Japanese firms gain marketshare, Western firms tend to drop out, allowing the new monopolies to raise prices to cover costs and raise profits. Thus, Japanese “winners” such as Hitachi, Toshiba, and Matsushita continue to pull ahead of “losers” such as Zenith, RCA, and IBM. Concretely: “Hitachi has increased its work force by 5,000 since the mid-1980s. In the same

period IBM has cut its work force by 150,000. Meanwhile Fujitsu, a specialist computer company that was only one-fiftieth IBM's size two decades ago, now probably contributes more added value to the Japanese economy than IBM does to the American economy."

This finally leads to what Fingleton labels The Good Cartel, a grouping, with proper oversight provided by Japanese bureaucracy as well as by the cartel structure itself. True, Fingleton admits, this arrangement appears to exploit consumers because of high prices, but contra Western economists, "these high prices represent one of the great secrets of Japan's success" because these lush profits can be plowed back into improving research and the manufacturing process, while also subsidizing new markets. Despite this added cost to the consumer, most consumers eventually benefit: "Japan's living standards continue to double every ten to fifteen years, thanks in large measure to the reinvestment of cartel profits."<sup>13</sup>

It is exactly this improvement in living standards that I have observed in Japan since 1985. It is the anomaly that caused me to question the consensus that the Japanese system was broken and in dire need of repair. As Fingleton repeatedly notes, the Japanese are now about as affluent as Americans. "That Japan produces such affluence while also handsomely outinvesting and outexporting the United States is the ultimate proof that Japan now leads in overall productivity." Imagine, he suggests, the case of middle-aged Japanese bureaucrats looking out at this affluence: within their own lifetimes, they have witnessed "the most spectacular improvement in living standards in world history."<sup>14</sup>

Other factors addressed by Fingleton have been discussed at length by "Revisionists" Chalmers Johnson et al. — national purpose in ordering the economy, protecting the domestic market to provide a sanctu-



ary for Japanese producers, forced savings, and so on. Stage-managing this process is the all-powerful Ministry of Finance (MOF), which is “quite literally the most powerful economic organization on earth.” In contrast, Fingleton notes in passing, “Japan’s elected representatives are of little consequence,” which is why the Liberal Democratic Party’s brief fall from power in 1993 had few effects on the economy.<sup>15</sup>

Fingleton notes that in world politics, money helps in making friends. He claims that “Corporate Japan can now wield vast public relations budgets to influence Western scholars, authors, editors, publishers, lawyers, management consultants, and investment bankers.” In addition, Japan’s great amounts of foreign aid in some parts of the world enhances this ability to make friends and influence people.<sup>16</sup> While Fingleton certainly recognizes the political value of such influence peddling, it is Hall who has more seriously mined the subject, making it the backbone of his book *Bamboozled*.

#### Ivan P. Hall

*Bamboozled* is a much broader exposition of the mutual intellectual embrace held by Japan and America, with the economic nexus featured in Fingleton’s *Blindside* one of but many arenas of bilateral encounter. Even so, Hall is right to note that it is the results of the economic (mis)understandings by the Americans of Japan’s model of mercantilism that warrant our most immediate attention. Hall cites some concrete figures on the trade problem and the depth of Japan’s “recession” to make his point. While the total current-account surplus for the 1980s was \$416 billion, during the “depressed” 1990s it was \$987 billion, or 2.37 times that of a decade earlier. External assets jumped from \$294

billion to \$1.153 trillion in first nine years of the 1990s, while America's net external liabilities went from \$49 billion to \$1.537 trillion in the same period.

In order to differentiate among the real victims of the 1997 Asian Crisis, Hall then cites Japan and Glen Fukushima, adding perspective to these economies' relative sizes. We must keep in mind that "Japan constitutes seventy percent of the East Asian economy and its economy is seven times the size of China's, 10 times Korea's, 20 times Indonesia's and 53 times Thailand's." Further, Japan possesses world-class technology, a highly skilled work force, a \$130 billion current account surplus and \$240 billion in foreign currency reserves.<sup>17</sup>

Should the reader take this bait and accept Hall's invitation to explore these anomalies, the rewards will be great. First, there is the matter of his style. Hall's combination of insight, exasperation, apt analogies, and hilarious wordplay create a joyful stew of images that not only inform but delight. For example, on the first page of his introduction he chastises Japan's image creators for pushing a false picture of Japan on the Americans. Thus, Americans are "Bamboozled!" He then blames Americans who collude with the above image creators to charge that we are "Cobamboozled!" Finally, in a theme that is repeated throughout the book, Hall takes his fellow Americans to task for their laziness in trying to get a truly informed characterization of Japan, relying instead on self-delusion. We are, then, "Auto-bamboozled!"

For example, in lambasting conventional wisdom about Japan that with the bursting of the Japanese economic bubble ca. 1992 and the subsequent re-emergence of a dominant American economy Japan would abandon its form of "developmental state" capitalism and adopt the Anglo-American form of free-market capitalism, Hall rhetorically

asks if this is correct. His answer to this wishful thinking: "Alas, no."

Instead, here is the reality Hall sees:

From 1999 to 2001 it was clear to anyone with their feet on the ground in Tokyo that Japan was swinging to the right, digging in its heels against American economic prescriptions, and developing its own visions for post-Cold War Asia — that is to say, moving further and further away from, not toward, the United States in all but the narrow area of military cooperation. Yet all these trends remain counterintuitive to America's financial, governmental, and media elites back home, who continued to view Japan from the stratosphere of our reigning economic triumphalism. Wall Street, the Washington Beltway, and our national punditocracy showed no letup in their orthodox doctrine that Japan is slowly but surely falling into line as a U.S.-style free trader and liberal democracy eager to play the American proconsul in Asia.<sup>18</sup>

Like me, Hall employs his own varied experiences in Japan as the strongest point for his arguments, though in every case his credentials exceed my own (his three decades in Japan vs. my one; his Harvard Ph.D. vs. my Cornell M.A. and so on). Following three years of Foreign Service duty in late-1950s Afghanistan and East Pakistan, Hall earned a Ph.D. in Japanese history at Harvard University. After graduation, he spent six years as a foreign correspondent for an American newspaper, as Harvard's Japan representative for a major fundraising drive for a new Japan institute, and as a university liaison for ties throughout East and Southeast Asian.

From this range of experiences, he switched fields to become a cultural diplomat at the American Embassy in Tokyo, where he put in eight years representing the U.S. government's Japan-U.S. Friendship Commission. Next, it was back to academe, this time spending three years apiece as professor at these leading Japanese universities: Tsu-

kuba, Keio, and Gakushuin.<sup>19</sup> From this “Olympus of American Japanology and U.S. government cultural diplomacy” to the “Styx of journalism and university teaching in Japan,” he has amassed a priceless array of experiences and insights into Japanese history and culture, Japanese images of the United States, and, germane to this book, American impressions (and false impressions) of Japan spanning the last one and a half centuries.<sup>20</sup>

This broad base of personal experiences serves Hall's readers well as this “I was there” reportage takes us to various hubs of the Japan-U.S. nexus. For example, when Japanese money began finding its way into the coffers of leading American universities, Hall was there in the middle: “As Harvard's Tokyo representative for that fund drive, I watched as other schools rushed over with their own pails to milk the Japanese cash cow, their successes ranging from a few million for MIT to a token squirt of \$500,000 for San Francisco State. . . . The Tokyo stampede was on for U.S. ‘academic beggars — with me in the lead,’ as Professor Edwin O. Reischauer confessed to me in a pensive moment during one of the three fund-raising journeys to Japan that I arranged for him.”

In another instance of fundraising, Hall recalls attending a gala for right-wing philanthropist Ryoichi Sasakawa. The setting was “fit for Croesus, with three sitting and former prime ministers in attendance.” Much later, Hall was back at the Okura Hotel to mark the twentieth anniversary of Harvard's Japan-funded Program in U.S.-Japan Relations, as well as the retirement of Ezra Vogel, the program's founding director. “Having myself once been invited as one of the program's speakers — and freeloading off the Okura's exquisite buffet — I kept two wry thoughts to myself.”<sup>21</sup> Where else could we get such consistent first-hand accounts of the inner workings of U.S.-Japan relations?

Other recollections follow. For instance, during his eight years with the Friendship Commission, Hall attended hotel receptions in Tokyo, New York, and Washington, D.C. and caught himself wondering in which particular city he was that evening, as “it was almost always the same crowd.” Another time Hall was on a book tour organized by the National Association of Japan-America Societies [NAJAS] to promote his second book *Cartels of the Mind*. Having been warned that some of the chapters might find his arguments too controversial, Hall, recalling with irony how he had “helped to lobby for the initial Japanese and U.S. governments’ funding for NAJAS when I was with the Friendship Commission,” realized “how far the network had strayed from the chief purpose originally envisioned for it — precisely the discussion and working through of controversial issues!”<sup>22</sup> This kind of “institutional memory” that Hall possesses is one thing that he laments is lacking on the American side.

### Japan is Changing

One belief that Hall attacks — the American belief that Japan is changing in ways favorable to the world trade regime — is of special interest to me, since I was quite critical when I wrote my M. A. thesis of those who held this belief. I chastised many commentators because I believed they were grossly overestimating the nature and rate of change in Japan. Going back to my thesis, I then argued:

A stream of reports and white papers issued by government ministries and special commissions predicted change. Chief among them was the 1986 Maekawa Report, headed by former Bank of Japan president Haruo Maekawa. It called for broad structural changes in Japan in order to give the Japanese

people the world-class living standards they had worked so hard to achieve. It also suggested Japan make efforts to coexist with the rest of the world.

James Fallows, an *Atlantic* editor, tells of his embarrassment as Mr. Maekawa explained his report to Western reporters in Tokyo. It seems the reporters' overwhelming response was barely concealed cynicism. Fallows soon came to understand this cynicism; calls for change in Japan are radically different from change itself.

In hindsight, I would say the above needs some qualification. First, Mr. Maekawa's hopes for improved living standards have been realized in many important instances, as I have noted with respect to material possessions, housing standards, and purchasing power. Second, however, one has to realize that these improvements have come without the institutional changes that the West has deemed necessary for growth. This point, of course, is central to what both Fingleton and Hall have written: the Japanese system of bureaucratically-guided industrial and financial activity is still on track, but their efforts to conceal this have been successful given America's refusal to stay focused.

In 1993 I highlighted representative reports from the Western press predicting impending change:

The big story since the mid-1980's is how far Japan has come in so short a time from its protectionist ways of the 1960's and 1970's.

— Robert Reich, former Labor Secretary

In Japan, old values, such as the primacy of the group over the individual, are being eroded by capitalist success. The idea that Japan should be a rich nation of hardworking poor people no longer commands uncritical acceptance, and the Japanese

increasingly resent the bias against consumers in their domestic economic policies.

— Richard Barnet in *The New Yorker*

American pressure for change can thus, in principle, count on powerful domestic social forces to support its objectives. . . . The ‘internationalization’ of Japan has been a popular obsession for several years now, and public opinion reactions to the recent crisis in American-Japanese relations show considerable understanding of the need to make concessions to Washington.

— Hanns Maull in *Foreign Affairs*

Our relationship is based on ties of democracy, but as we cooperate, we also compete. . . . [I will] insist on fair play. As we put our own economic house in order, Japan must open the doors of its economic house, or our partnership will be imperiled with consequences for all the world.

— Bill Clinton in speech at Georgetown University

The developments since 1985 imply that U.S. pressure will be more successful in opening Japanese markets to imports than it has been in the past because domestic groups in Japan favoring greater openness have become stronger and more vociferous.

— Bruce MacLaury, in foreword to *Japan's Unequal Trade*

In 1990 and 1991, when the economic bubble burst, up went a collective sigh of relief. Commentators saw this as a sign of imminent change. A *Wall Street Journal* article stated that the decline in the Nikkei Stock Average as well as endless political scandals have been: “Enough to suggest that maybe the Japanese are not about to take over the world after all. . . . The notion that the Japanese are fallible could herald a healthier approach world-wide to the mechanics of trade and economic growth.”

Inconveniently, Japan's trade surplus with the world reached \$130 billion in 1992, the highest recorded in history. It seems *The Wall Street Journal* may have been premature in its prediction. Chalmers Johnson spares fewer words on the subject: "Japan's slump is a fake invented by American ideologues. It reflects the *schadenfreude* of economists who propound discredited theories."<sup>23</sup>

Now, nearly ten years later, Hall repeats my exercise in listing the voices heralding change in Japan's mercantile economic behavior. "On the eve of Prime Minister Keizo Obuchi's visit to the United States in May 1999, the *New York Times* pronounced that — no laughing anymore — 'Japan is really opening up its economy this time.'" Hall next chides *Times* reporter Thomas Friedman, who wrote, "After visiting Tokyo a few weeks ago, I left convinced that Japan has indeed begun its third great modernization." Ranking it with Commodore Perry's 1853 arrival in Japan and Douglas MacArthur's reign beginning in 1945, Friedman wrote that "the third is being driven now by the invisible hands of globalization: the Internet and global capital flows are breaking the shell around Japan like a nutcracker."

Finally, Hall mocks a *Newsweek* article that pointed to the success of Masayuki Suo's popular film *Shall We Dance?* *Newsweek* represented this as a growing challenge to the corporate norms of Japanese business insofar as the protagonist declines to continue business as usual during after-hours drinking sessions with colleagues, opting instead to satisfy his individual passion for ballroom dancing. Illusions all, in Hall's opinion. After all, the office worker in *Shall We Dance?* never challenges the group mores during working hours, an admission that in fact challenging the political and social order is still largely an exercise in futility.<sup>24</sup>



Hall assures us that anyone now on the ground in Japan realizes that such changes are not afoot, just as I had written in 1993. This message was most loudly broadcast in the late 1980s and early 1990s by a group of Japan hands critical of the “Reischauer rubric” all-is-well-with-The-Relationship brand of thinking. These critics, who came to be known as “Revisionists,” included a group of commentators I also took time to read and understand, so it was with particular interest that I read Hall’s chapter on them.

The Reischauer rubric, or the idea that the overall world security arrangements between Japan and the United States took precedence over the more narrow economic difficulties, Hall admits, served both Japan and America well from the earlier 1960s but clearly had outlived its usefulness by the time of Ambassador Michael Mansfield’s marathon tenure (1977–1989). Under the rubric, Japan apologists were likely to blame American industry for lack of success in cracking the Japan market — lower productivity, low worker morale paired with excessive management perks, trying to export cars with steering wheels on the left side, etc. These explanations went only so far, however, to explain Japan’s economic behavior, and this became most apparent after the dramatic rise of the yen following the Plaza Accord of September 1985, after which the dollar dropped from 235 yen down to 85 yen a decade later.<sup>25</sup> With those intractable trade deficits actually getting worse, the time was ripe for a heterodox explanation of Japan’s economic behavior. Enter the Revisionists.

University of California professor Chalmers Johnson, whose ground-breaking study of the power of Japan’s bureaucracy *MITI and the Japanese Miracle: The Growth of Industrial Policy 1925–1975* explained the concept of Japan’s “capitalist development state,” was dubbed the leader of this informal group, which was soon to number

others such as journalists James Fallows and Karel von Wolferen, veteran trade negotiator Clyde Prestowitz, and Beltway insider Pat Choate.<sup>26</sup> Hall deftly integrates their critiques into his own in chapter eighteen.

## Flying Geese

One area that many of the Revisionists, as well as Fingleton and Hall, address is the Japanese desire to hierarchically structure Asia into a great manufacturing base with Japan positioned at the pinnacle, providing research and technical knowledge, training, capital, and markets integrated through its own *keiretsu* system. This was colloquially known as the “flying geese model” of Japanese development. Hall perceptively includes this topic in his account of Japan’s operations, beginning with an anecdote from a top American executive discouraged by the generally cavalier attitude of Americans toward Asia. The executive noted that Japanese corporations were actively networking throughout Asia, to the point that “A Bamboo Curtain *is* emerging.”

Hall turns to a leading writer and consultant for an update on Japan’s actions in greater Asia. From her report he finds that Japan has created a “vast, largely closed production loop across Asia” whereby Japan has replicated its domestic *keiretsu* ties, making it “virtually impervious to outside suppliers.” As a concrete figure, Hall finds that “Japanese firms had invested \$111 billion in Asia” in the ten years leading up to 1998. This certainly suggests that Japan’s “flying geese” model remains on track.<sup>27</sup>

Oddly, Hall believes that this system prevents Japan from importing these Asian products, where the truth would more likely be that they are selectively importing Asian-produced products lower on the

technology scale. My recent experiences in Japan strongly suggest this. Since my return to Japan five years ago, I have bought a handful of household appliances, and by coincidence perhaps, all were Japanese brands manufactured elsewhere in Asia. For example, the two Victor video cassette recorders and a Victor CD-cassette player I bought were made in China (though both remote controls were made in Malaysia), a small fan built for Daiei was a Chinese product, and the small cordless Sanyo vacuum I bought was manufactured in Indonesia.

Since moving into my new apartment three months ago, I have purchased a variety of new items; most are Japanese brands manufactured elsewhere in Asia. One thing that pleasantly surprised me was that the quality and functions appear much superior to products available during the 1980s, while the prices are uniformly reasonable. Here is what I bought:

| <u>Item</u>                      | <u>Price (yen)</u> | <u>Made in</u> |
|----------------------------------|--------------------|----------------|
| Sharp Refrigerator (225 liters)  | 37,800             | Thailand       |
| Sanyo Rice Cooker                | 7,980              | China          |
| Sanyo Washing Machine            | 24,800             | Japan          |
| LG Vacuum Cleaner (Korean Brand) | 9,980              | Korea          |
| Dining Room Table/Four Chairs    | 39,900             | Thailand       |
| Rocking Chair                    | 12,000             | Malaysia       |
| Futon and Pillow Set             | 9,990              | China          |
| Wooden Floor Covering            | 12,900             | China          |
| Coat Rack                        | 1,990              | Vietnam        |

With my own personal, limited experiences, I have tried to buttress the arguments of Fingleton and Hall that America indeed “gets Japan wrong.” Now is the time to see who is responsible for that.

### **Who is to Blame?**

As mentioned, both Fingleton and Hall explore in depth the reasons for

why the West — again, America in particular — get it so wrong when it comes to Japan. While each author lays out the tactics Japan has adopted to promote their own interests, in the end it is their consensus that America has itself to blame. Fingleton, for his part, cites three main reasons for American misunderstanding: Cultural misunderstanding, Japanese public relations strategy, and finally, Western hubris.<sup>28</sup> Hall goes to much greater lengths to explain the above, subsuming it all under a generic umbrella he calls “The Mutual Understanding Industry” (hereafter the MUI).

Hall characterizes this “Industry” as the collective activities of Japanese governmental and corporate sponsors, along with a wide array of American academics, writers, and others with an interest in the Japan-America relationship. While applauding some of the helpful programs such as language training and arts festival, he is on the whole wary of things such as

the buying into our university and research establishments; the wooing of American opinion by Japan's chosen intellectual propagandists speaking with one voice at lavishly staged international conferences or at exclusive, elite seminars; the proliferation of glossy English-language publications specifically tailored for foreign readers and not always reflecting the fuller spectrum of Japanese views; the promotion of Tokyo's economic politics in the guise of cultural information; and the subtle ostracism of Americans critical of Japanese economic or political behavior.

If one is to accept the axiom that money is power (and can buy friends and influence people), then that aspect of the MUI is staggering. Though Hall writes in depth about the amounts involved, the organizations that disburse and receive the money, and how individuals have played important roles in the process, I will only point to some of the

figures to give an impression of the money involved. In the political realm, Japan has been annually pouring \$100 million into Washington lobbying and another \$300 million into grass-roots politicking at the local level in America. One study found that in the 1986-1991 period, Japanese money given to American universities amounted to some \$175 million. Hall found fifteen teaching positions at Harvard funded by Japanese money and thirty funded by Japanese corporations at MIT. As the flagship in Japanese giving, Hall identifies the Center for Global Partnership, whose endowment by 1998 had reached half a billion dollars. Hall calls this partnership “Tokyo’s official arm for cultivating goodwill and favorable opinion among America’s political, business, civic, and intellectual leaders at both the national and grassroots levels.”<sup>29</sup>

In chapter eight, Hall describes how MUI types have succeeded in pushing to the margins those who report outside the boundaries of accepted discussion on Japan. Hall likens this to the Japanese *mura-hachibu* tradition of banishing from the village anyone who will not accept the reigning consensus. With respect to modern times, such skeptics can be effectively silenced by “targeting their writings, their reputations, and their pocketbooks.” His exposition of how this was done to Chinese American Iris Chang, author of the best-seller *The Rape of Nanking: The Forgotten Holocaust of World War II*, is chilling.<sup>30</sup> In contrast to this active form of ostracism comes *mokusatsu*, which Hall translates as “killing by silence.” This, he indignantly notes, was precisely the treatment afforded Eamonn Fingleton — a journalist — when he tried to present his book *Blindside* at the Foreign Correspondents Club of Japan in 1995. Here, it should be noted, it was Western journalists themselves who played the role of gatekeeper and censor.<sup>31</sup>

One of the most effective means of silencing critics of Japanese economic behavior has been to apply the label of “Japan basher,” a term suggesting a racial bias against the Japanese. This label has been surprisingly successful in ending otherwise needed discussion. The origin of this term, Hall finds, is an interesting one. American Robert Angel, as president of the Japan Economic Institute, an organization funded and supervised by Tokyo’s Foreign Ministry, wished to find an effective counter to rational American arguments critical of Japan trade. Recognizing the potency of the label of anti-Semite when applied to rational critics of Israel’s behavior, Angel coined the term “Japan bashing.” Though this term has been accepted by both the American and Japanese side as an effective rebuttal of what critics of Japan might say, Angel later regretted coining the term and admitted that “Those people who use [the term] have the distinction of being my intellectual dupes.”<sup>32</sup>

Hall and Fingleton both go on to describe America’s almost willful role in this one-sided massaging of the Japan-U.S. relationship, and it would do readers well to consider their arguments. On the whole, I have great respect for what both authors have written but would now like to add a few minor criticisms.

### **A Minor Critique of Fingleton and Hall**

I am in agreement with Fingleton about the great strides Japan has made in raising its standards of living, but I wonder if he is not overly pessimistic on one area. On page 64, Fingleton writes that “There is only one significant area where the Japanese are clearly worse off than Americans: housing.” This, of course, is a truism, but it is important to see what it means. For Fingleton, the government is largely respon-

sible because it uses this as one means of enforcing savings. Perhaps it was too obvious to mention, but the sheer space available in America makes it impossible to provide in Japan the kind of spacious, relatively cheap housing found abroad. What intrigues me about housing in Japan, however, are the rapid *improvements* I have observed since 1985, at which time so many couples (with their two children) lived in small “railroad” rooms divided by a sliding door. Much housing then still did not have private baths, making a trip to the *senjo* a common sight.

Fingleton’s figures on housing strike me as slightly suspect, even for the early 1990s. He points to the size of average new privately rented apartments in Tokyo — only 38.9 square meters, “the equivalent of a large bedroom in a middle-class home in America or Europe.” Are apartments there still that small? Perhaps Tokyo (or Osaka) apartments are smaller than here in Sapporo; it is hard to say. Of more interest than the rental market, though, is the subject of privately owned houses and mansions. In general, private houses and mansions are not part of the rental market, though of course some do come to be rented for a variety of reasons. In both cases, private ownership is the norm, or at least the goal of most Japanese. Young couples may live in rented apartments or municipal housing until they have saved enough for a down payment on their own home, but they move into a residence of their own once they are able. Improvements in these homes and mansions interest me.

First, Sapporo’s municipal housing, which can be found throughout the city, is aging and can either be “reformed” or torn down and replaced. I have watched both options here in Sapporo. For example, crews began to methodically tear down sets of old apartment blocks near my university and replace them with taller, more modern buildings. I regret not having figures at hand, but we can be almost certain

that each unit will offer more space than the previous units. The case of mansions is even more stark. As mentioned in the beginning of this essay, I searched for a 3-bedroom mansion last year and would say the average size I saw was about 75 square meters, which turned out to be the size of the mansion I finally rented. The rooms featured in fliers for the many new mansions being built throughout the city, however, are closer to the 90-100 square meter range. In addition, they are filled with previously unimaginable amenities like glass-top stoves, computer-controlled bathtubs that fill automatically to a pre-selected depth and temperature, and, as mentioned earlier, even a small flat-panel television mounted above one bathtub.

I also have one more quibble with Fingleton: in 1995 he could write that because the Japanese were forced to spend so much on housing, they had less disposable income for items like French wine or American tableware. As any resident of Japan since at least 1998 can tell you, the Japanese appetite for and ability to buy French (and Italian, Spanish, Chilean, South African, and American) wine is little short of astounding. I never would have predicted a decade ago that this import market would be allowed by the Japanese government, or that consumers would respond so enthusiastically even if it were, but the fact is, there is now a thriving business in foreign wines in Japan. In this sense, Japan *can* change, though in the overall scheme of things (computers, machine tools, etc.) wine is still a minor commodity.

With respect to Hall, I find remarkably little to challenge. He has touched all the bases, provided a seamless exposition of them, and even added a few recommendations at the end. The only issue I saw that was missing as part of the Mutual Understanding Industry was the JET program. The Japan Exchange and Teaching (JET) program was established in 1987 as an international exchange and teaching program,



with a primary focus on English. Young university graduates from English-speaking countries (America, Canada, the U.K., Australia, New Zealand and Ireland primarily) assist Japanese English teachers in what has become one of the Japan's largest cultural exchange programs. These young assistants serve in both public and private junior and senior high schools, and also at local government organizations.

This program, according to the official website, is conducted by local authorities and other organizations "in cooperation with the Ministry of Foreign Affairs, the Ministry of Education, Culture, Sports, Science and Technology, the Ministry of Public Management, Home Affairs, Posts and Telecommunications and the Council of Local Authorities for International Relations." Beginning with fewer than 900 foreign participants in 1987, as of this year there were over 6,000, and the program now draws teachers from approximately 40 countries. A total of over 30,000 foreigners have taken part in the JET program.<sup>33</sup> With such a large budget and number of Americans involved, it would have been instructive to have heard Hall's slant on the program.

### Blindside Redux

Here we are, eight years after the initial publication of Fingleton's book, and clearly Japan has yet to overtake the United States in overall economic activity. Has Fingleton issued a *mea culpa*? Far from it. In fact, here is what he writes on his website: "Given the torrential flows of bad economic news we have had from Japan in the last six years, shouldn't I now concede I was wrong? Actually no — not a bit of it. Strange as it may seem to those who have not read the book, I am more convinced than ever that *Blindside*'s highly counterintuitive analysis was right."

Fingleton repeats his charge that in order to avoid Washington's wrath over an intractable trade problem, "Japanese bureaucratic and business leaders have in the last decade systematically cultivated the impression of economic dysfunction. They have thus generally both greatly exaggerated the country's difficulties and understated its successes." He continues to maintain that Japanese rulers (rightly) retain the mechanisms that keep Japan strong — *keiretsu* structures, the cartel system, etc. — because they are better than the American capitalist system at creating wealth. Further, he argues, in the most critical aspect of economic activity — manufacturing — Japan actually manufactures \$50 billion more than the United States.<sup>34</sup>

Of Japan's well-publicized government deficits, Fingleton pronounces them "a press myth" fanned by Japanese strategies to fend off foreign demands to increase imports. Prime evidence for Japan's economic vigor comes in its improved living standards, which I was pleased to see attributed by Fingleton in large part to falling prices, which supports my own modest experiences.<sup>35</sup>

### **Does the Bamboozlement Continue?**

Finally, to bring this essay to a close, I will sample some of the most recent reports on Japan's economic activity. Looking at my own narrow window onto Japanese press reports on the economy, my English-language *Daily Yomiuri* confirms that the Japanese press is consistent in portraying Japan's financial condition as grim. Here are some recent headlines and comments from the new year:

January 3: In "Weaker yen may be cure to lead nation to fiscal health," Yomiuri Research Institute deputy chief officer Hiro-

shi Ota outlines Japan's present condition: "With the administration of Prime Minister Junichiro Koizumi having been unable to stem the ever-worsening deflation, which may lead to a full-fledged financial crisis, the economy is enveloped in a sense of stalemate." This was joined by "Japan must grasp free-trade lesson," in which an Australian trade consultant supports conventional wisdom with respect to Japan's economy when he writes "Japan itself was mired in a 'lost decade,'" where its growth had collapsed from an average annual rate of 4.1 percent in the 1982-1991 period to "just over 1 percent in the 10 years ending in 2001." In contrast, America's rates during the same period were 2.9 percent and 3.4 percent, respectively" (p.9); and "Nation's banking problems started to affect everyday life," which glumly notes that bad loan problems at banks continue to cause instability in Japan's financial system. Three ill effects noted are the rise in cost for bank transactions, a squeeze for home buyers, and the prospect of a record-high unemployment rate of 5.6 percent in 2003.

January 5: An editorial titled "Change Economic Policy" begins: "The nation marked the third New Year of the new century with its economy remaining in the doldrums and in critical condition" (p.8).

January 7: A headline reads: "Business bosses pessimistic: Nippon Keidanren's Okuda expects meager growth in 2003" (p. 16).

January 11: The domestic business page for this day was filled with pessimistic indicators, ranging from a drop in a key economic gauge indicating a contraction in the economy; to an increase in unused office space in Tokyo (7.36 percent in December, a monthly rise of 0.14); to Seibu Department Store's quest for a ¥220-billion debt waiver; to a U.N. report predicting anemic economic growth for Japan in 2003 of only 1 percent (vs. a predicted 3 percent for the United States) (p.16).

January 13: This day's paper opened with a depressing set of

opinion columns on the editorial page. In the “Japan Perspective” slot, Akihiko Misawa, an editor of the *Yomiuri Shinbun*, writes about how hard economic times in Japan are being represented in movies and plays. In “Tasogare Seibei,” for instance, many in the middle-aged audience for this film were observed sobbing over the financial straits of the Edo Period samurai named in the film’s title: “Twilight Seibei.” The film is “a huge box-office hit, and has already attracted an audience in excess of 800,000. . . . The film has won the hearts of company employees who are living in fear of losing their jobs through corporate restructuring amid the current economic doldrums.” In the musical “Papa no Ashita wa Wakaranai” (I don’t know what will become of father tomorrow), the narrative follows the life of a devoted worker who has been dismissed from his job and struggles to meet the needs of his family. Misawa backs up the stories in these two works of fiction by noting that roughly 20,000 Japanese now commit suicide over financial problems, while the growing number of homeless point to an exacerbated recession. (“Movies, plays reflect hard times nation facing,” p.8). Below this article can be found an editorial from *The Economist* which begins, “With prices still falling and the economy on the brink of its fourth downturn in a decade, it is hard to summon up much optimism about Japan” (“Can a new Bank of Japan governor drag Japan out of its economic rut?”).

January 14: A report with a byline from Basel, Switzerland, begins “Bank of Japan Gov. Masaru Hayami said Monday that Japan’s financial system was not stable and nonperforming loans must be tackled as soon as possible.”

January 16 (Front page): U.S. investment bank Goldman Sachs Group Inc. raises its stake in Japan’s second-largest banking group, Sumitomo Mitsui Financial Group Inc. to the equivalent of 7 percent of the Japanese group’s shares. The incentive from the Japanese side is the ability to “boost bad-loan disposal by improving its capital base” (Goldman Sachs to invest Y150.3 billion in SMFG.) In the same day’s paper (p.18),

articles noted that troubled Seibu Department Store Inc. would slash full-time employment by about half and would close four regional stores, while struggling supermarket chain Daiei Inc. would sell four hotels, with Goldman Sachs again being the buyer. (“Seibu to restructure under transparent guidelines” and “Daiei to sell 4 hotels to U.S. bank,” respectively).

January 18: Under the headline “Economic assessment lowered,” this article reads: “The government downgraded its economic assessment for the third straight month Friday, citing a slowdown in production that had been fueling a fragile economic recovery” (p.18).

January 21: “’02 bankruptcies hit post-bubble high” begins: “Corporate bankruptcies totaled 19,458 in 2002, the second-largest figure in the postwar period. . .” The article quotes a spokesman for Teikoku Databank Ltd. as saying, “The nation’s bankruptcy-related situation is about to see a new phase, given the present situation where even megabanks are names as companies at risk of failure” (p.16).

January 22: This headline — “Mizuho to boost loan-loss charges to ¥2 tril” — introduces the news that Mizuho Financial Group’s holding firm would post a net loss of ¥1.95 trillion for fiscal 2002.” A second article titled “Council struggles to overcome deflationary crisis” begins: “The Council on Economic and Fiscal Policy is still struggling to overcome the ongoing deflationary crisis, replenish the depleted state coffers and promote other structural reforms” (p.10).

January 23: “MFG’s bad-loan woes not over” — This article continues the previous day’s warnings about Mizuho Financial Group’s near-term prospects, hinting that the Japanese government may have to inject funds into the bank and take control of management (p.18).

January 24: The editorial headline reads “Implement fiscal steps now” and begins by asking, “Is Prime Minister Junichiro

Koizumi fully aware of the trauma that Japan is undergoing because of the ongoing deflationary crisis?" This crisis, the editorial avers, "could develop into a panic comparable to the nation's depression of the 1930s" if left unaddressed (p.12).

## A Healthy Japan?

Despite this steady diet of negative reporting on Japan's economy, there are the occasional glimpses of things far more positive, though they are rarely developed into full stories. For example, on January 11th, the *Daily Yomiuri* briefly mentioned that Japan's foreign exchange reserves had risen to \$469.73 billion at the end of December 2003, a rise of \$9.26 billion over the previous month (p.18). Then, on January 16th came the headline "Brisk exports push surplus up in Nov." The current account, it was noted, rose by 9 percent compared to a year earlier, and the trade surplus was up 62.7 percent (imports increasing by 10.2 percent vs. an increase of 19.4 percent in exports — p.18). This news contradicted fears that "one of the last props supporting a fragile economic recovery may have fallen away." Two days later, the paper noted that America's trade deficit had reached an all-time monthly high — \$40.1 billion — of which \$10.5 billion was due to a deficit with China and \$6.5 billion with Japan (p.19).

Finally, at the end of January came a small but intriguing story about Japan's world trade: "Trade surplus jumps 51%, China Japan's top supplier." This brief article noted the briskness of export trade as exports increased 6.4 percent to a record Y52.1 trillion (including a 8.6 percent larger surplus with the U.S.), while imports slipped slightly. Surging exports to Asia, coupled with a record trade deficit with China, suggest the flying geese model may be on track.<sup>36</sup> The following day's

paper again briefly addressed these figures, but by January 28 it was back to gloomy news: “Major banks fear having to dispose of more bad loans,” “Industrial output down for 2nd straight year,” and “Govt lowers economic assessment” being three of the headlines (p.18).

I thought this stream of bad news might abate in February, but if anything, it has increased. A headline on page one of the February 1 issue reads “2002 average jobless rate reaches record of 5.4%” and a large article on the top of page two (Japan domestic news) warns, “Ailing economy pains localities (there is also a photo of cardboard shelters for the homeless). On the business page, amid gloomy headlines about the economy, there appears one sliver of hope — at least for consumers — “CPI falls record 0.9% for 3rd yearly decline.” This fall in consumer prices is precisely the phenomenon alluded to by Fingleton.

## **Conclusion**

I think the standard of living in Japan has steadily increased and I am happy for the Japanese people. The number of holidays given both workers and school children has increased, which is in evidence during the various seasonal outings. Sadly, because Japan’s image handlers have been so successfully engaged in a project to underplay Japan’s success, Japanese, who also consume these messages, are denied the psychological pleasure of savoring their hard-won gains, leaving, in Hall’s words, “the taste of victory bittersweet.”<sup>37</sup> This leaves open the question, for whom is the economy working?

Finishing again with a personal story, I can reflect back on what I had written in 1993 and think perhaps I was not so wrong to follow the Revisionists and their contrarian take on Japan. One big difference

from those days, however, is that now I am much more relaxed about what Japan may or may not be doing, how she may or may not be presenting it, and how various American actors interpret and respond to it. Along with lower prices and a wider selection of consumer goods has come a more open attitude toward foreigners here in Japan, so my life these last five years has ranged from comfortable to very good. And for that I am grateful. Still, as in intellectual exercise, considering the arguments of Fingleton and Hall was a most pleasant workout. Their views deserve our attention.

1. Eamonn Fingleton, *Blindside: Why Japan is Still on Track to Overtake the U.S. by the Year 2000* (New York: Houghton Mifflin, 1995; Tokyo: Kodansha International LTD., 1997), and Ivan P. Hall, *Bamboozled! How America Loses the Intellectual Game with Japan and Its Implications for Our Future in Asia* (New York: M.E. Sharpe, Inc., 2002).
2. *Daily Yomiuri*, January 27, 2003, 15.
3. Of the 277,065 vehicles imported into Japan in 2002 (a 0.6 percent rise over the previous year), 260,599 were foreign-brand models. Volkswagen led with 59,882 units, followed by Mercedes-Benz with 47,983 units, which in turn was followed by BMW with 35,728 units. ("Imported vehicle sales post 1st rise in 3 years," *Daily Yomiuri*, January 10, 2003, 18.)
4. Hall, *Bamboozled*, 9.
5. In Hall, *Bamboozled*, 10.
6. Hall, *Bamboozled*, 11-17.
7. see <http://www.fingleton.net/blind2.htm>.
8. Fingleton, *Blindside*, 12.
9. Fingleton, *Blindside*, 4.
10. Fingleton, *Blindside*, 1.
11. Fingleton, *Blindside*, 5.
12. Fingleton, *Blindside*, 11-14.
13. Fingleton, *Blindside*, 17-24.
14. Fingleton, *Blindside*, 63-65.



15. Fingleton, *Blindside*, 32.
16. Fingleton, *Blindside*, 7.
17. Hall, *Bamboozled*, 22-23.
18. Hall, *Bamboozled*, xv-xvi.
19. Hall, *Bamboozled*, xxvi-xxvii.
20. Hall, *Bamboozled*, 216.
21. Hall, *Bamboozled*, 163-171.
22. Hall, *Bamboozled*, 206.
23. Citations can be found here: Robert Reich, "Solving the U.S.-Japan Equation," the Los Angeles *Daily News*, May 6, 1992, 2; Richard Barnet, "Reflections," *The New Yorker*, July 16, 1990, 55; Hanns Maull, "Germany and Japan: The New Civilian Power," *Foreign Affairs*, Winter 90/91, Vol. 69 No. 5, 99; Bill Clinton, "A New Covenant for American Security," Speech at Georgetown University, December 12, 1991; Editorial, "Land of the Sinking Stocks," *The Wall Street Journal*, July 1, 1992, A14. Johnson is quoted in the same article.
24. Hall, *Bamboozled*, 14-25.
25. Hall takes up this theme in chapters sixteen and seventeen.
26. See Chalmers Johnson, *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925-1975*, (Stanford: Stanford University Press, 1982); Karel van Wolferen, *The Enigma of Japanese Power: People and Politics in a Stateless Nation*, (New York: Knopf, 1989); James Fallows, "The Japanese are Different From You and Me," *Atlantic Monthly*, Sept. 1986, "The Hard Life," *Atlantic Monthly*, March 1989, "Containing Japan," *Atlantic Monthly*, May 1989; Clyde Prestowitz, *Trading Places: How We Allowed Japan to Take the Lead*, (New York: Basic Books, 1988); and Pat Choate, *Agents of Influence: How Japan's Lobbyists in the United States Manipulate America's Political and Economic System* (New York: Touchstone, 1990).
27. Hall, *Bamboozled*, 31.
28. Fingleton, *Blindside*, 2-3.
29. See all of Hall's chapter nine for discussion on the use of Japanese money.
30. Hall, *Bamboozled*, 148-150. For the book in question, see Iris Chang,

*The Rape of Nanking: The Forgotten Holocaust of World War II* (New York: Basic Books, 1997).

31. Hall, *Bamboozled*, 153-155.
32. Hall, *Bamboozled*, 140. Angel's entire story is well worth reading. See John B. Judis, "Campaign Issues: Trade," *Columbia Journalism Review*, November-December 1992.
33. At 2,669 participants last year, Americans made up the largest contingent at 23.5 percent. For the last sixteen years, Americans have comprised approximately 20 percent. See [http://www.mofa.go.jp/j\\_info/visit/jet/outline.html](http://www.mofa.go.jp/j_info/visit/jet/outline.html) for further details.
34. See Eamonn Fingleton, *In Praise of Hard Industries* (New York: Houghton Mifflin, 1999) for an in-depth discussion of the relative merits of this kind of economic activity.
35. <http://www.fingleton.net/blind2.htm>.
36. *Daily Yomiuri*, January 28, 2003, 16.
37. Hall, *Bamboozled*, 125.