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Japanese Capitalism in Crisis: A Regulationist Interpretation (Book Review)

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Japanese Capitalism in Crisis: A Regulationist Interpretation. Edited by Robert Boyer and Toshio Yamada. London, New York: Routledge, 2000. ISBN 9780415205597.

In the 1980s, Japan burst onto the global scene as a formidable economic power. Experts predicted that it would dominate every industry from steel, automobiles and television sets to semiconductors and computers. For a substantial time that forecast appeared accurate; Japan was the envy of the industrialized West. In the 1990s, however, Japan limped through its worst economic performance since the end of WWII.

This volume argues that the "lost decade" stems from a crisis in Japanese capitalism, and it analyzes the nature and causes of the crisis using regulation theory. Regulation theory employs three principles to analyze the crisis. First, it identifies the mode of regulation guiding Japanese postwar development. This consists of five major institutional forms-the wage-labor nexus, monetary and financial relations, interfirm relations, forms of state, and the international regime. Second, it determines the nature of the over-arching mode of regulation that these five institutional forms create. Finally, it identifies the regimes of accumulation or growth generated by the mode of regulation [19].

Part I analyzes the major institutions that regulated the development of the Japanese economy in the postwar era. Chapter 1 focuses on "companyism," which rests on a labor-management compromise (an unspoken agreement between labor and capital to provide employment security for labor) and a financial compromise (an accord between companies and banks to provide management security by ensuring the longterm survival of companies). Furthermore, companyism involves a complementarity between the two institutions (the compatibility of the structural relationship that exists between the labor-management compromise and the financial compromise). Chapter 2 reveals that the hierarchical organization of Japanese firms has shaped competition and has influenced the incentive system in Japan. Chapter 3 investigates the dynamics of capital accumulation and explains how productivity growth differs in different sectors of the Japanese economy.

Part II analyzes the major structural transformations affecting post-War Japanese institutions. Chapter 4 concentrates on the changing hierarchy in the capital/ labor compromise and the financial system. Chapter 5 deals with the eroding complementarity between industrial welfare and the companyist regulation. Finally, Chapter 6 examines the demise of the financial mode of regulation in Japan. The financial mode of regulation is a concept that examines the postwar Japanese financial system in terms of the relationship among three elements: "(a) intervention and regulation by the financial authorities; (b) the structure of corporate finance; and (c) the structure of corporate governance" [105].

The chapter concludes that the financial mode of regulation in postwar Japan began to collapse during the transition from a high-growth economy to a low-growth economy. The collapse was caused by the disappearance of "the institutional complement-and regulation by the financial authorities, the bank-based corporate finance, and the corporate monitoring by main banks" [115].

Part III offers valuable insights into the Japanese crisis and proposes some policy prescriptions. Chapter 7 observes that the Japanese employment system is in a state of flux and concludes that this is an effect rather than a cause of the Japanese crisis. Chapter 8 uses regulation theory to explain the growth, distribution, and structural changes in the Japanese postwar period. Chapter 9 concludes that the 1997 East-- Asian crisis was a structural one, precipitated by monetary disorder related to an export-led growth and Japanese regulation itself. Finally, Chapter 10 examines the changing dynamics of Japanese competitiveness.

Toshio Yamada's "Japanese Capitalism and the Companyist Compromise" is one of the volume's seminal essays. It convincingly argues for three main conclusions. First, companyism is key to understanding the Japanese economy. Second, partial financial deregulation and risky banking investments in the 1990s left the banking system with a staggering amount of non-performing loans, which forced the Japanese main bank system to curtail its lending and created a credit crunch. Finally, the plight of the financial system led to a further crisis of companyist employment relations.

Overall, the book builds a strong and largely successful case buttressing its institutionalist analysis of the Japanese crisis. However, the case is at times overstated. For example, there are claims that only regulatory theory provides an acceptable explanation of the crisis; alternates are rejected as "contradictory explanations that are not really convincing" [6]. The book thus disallows that poor economic policies might have played a significant role in the disruption of the Japanese economy. To advance such an argument is to be dismissed as superficial, perhaps even erroneous.

On balance, no single interpretation can account completely for the decade-long paralysis of the Japanese economy. And policy mistakes do matter. Still, the reader need not accept the book's regulationist perspective in order to benefit from its reasoned, thought-provoking insights. In sum, a must-read for serious followers of the Japanese economy.

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