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T. J. Pempel. *Regime Shift: Comparative Dynamics of the Japanese Political Economy*. Ithaca, N.Y. and London: Cornell University Press, 1998. xi + 263 pp. \$21.95 (paper), ISBN 978-0-8014-8529-9; \$73.50 (cloth), ISBN 978-0-8014-3532-4.

Reviewed by Alexander Roy (ESRC Centre for Research on Innovation & Competition (CRIC), University of Manchester and UMIST)  
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In the 1980s, Thatcher's Britain, in the midst of privatisation, pro-business deregulation, and extensive foreign acquisition of British assets, was lampooned as "UK plc," where anything and everything was up for sale to the highest bidder. On the other side of the world, "Japan Inc." was an Oriental mystery of Government, business, and labour cooperation toward the common goal of Japan's dazzling economic success, beguiling Britain's left and manufacturers alike. But come the end of the 1990s, it is Japan that is mired in a seemingly intractable recession, whilst Britain and its mentor, the United States, ride high on an IT-fueled economic boom. The unexpected question that Japan now finds itself struggling to answer is whether to move away from the closed, regulated "Japan Inc." towards a more open and economically liberal "Japan plc."

Professor Pempel's ambitious new book addresses all of these issues. Why did the United States and United Kingdom go into relative but steady decline after World War II, whilst Japan managed to manufacture an "economic miracle" out of the ashes of defeat and atomic destruction? Then, how and why did these stable but divergent systems break down, to be reconfigured in new forms and with startlingly different results? And finally, what does the new millennium hold in store for Japan—continued stagnation or resurgence?

Pempel introduces the concept of "regime" to explain these shifts. Chapter One argues that "regimes"

are comprised of three interacting variables: "socioeconomic coalitions, political institutions, and public policy profiles" (p. 14). He then argues that these variables were typically mutually reinforcing and stable in most industrialised economies during the postwar boom, albeit different from country to country. The widely divergent examples of "corporatist Sweden, pluralist United States, two-party parliamentary Britain, and coalition party-driven Italy" are coherently used to illustrate this point.

Pempel argues, however, that it was Japan that exhibited the greatest difference from other industrial democracies, and Chapter Two describes the confluence of actors and Government policies that successfully targeted export sectors to achieve spectacular national growth. In many ways, this chapter is familiar territory, covering a story well known to students of Japan's political economy. However, Pempel marks out the key contrast of Japan from other postwar regimes as its marginalisation of the power and role of labour. As such, he provides a far more nuanced and subtle description of Japan's postwar miracle than many Western stereotypes of "Japan Inc." (a term he himself disparages). In a nice rhetorical flourish, Pempel then uses Chapter Three to argue that a more plausible outcome for postwar Japan was actually the development of the multiparty, leftist, state apparatus of the other post-Axis powers. His candid description of the rise of militant trade unions immediately after the War and their subsequent, often brutal, repression—

enabled by the U.S. occupiers' policy volte-face—is an oft-forgotten, even denied period of Japanese history.

Pempel argues that though the struggle with the left divided conservatives, they managed to coalesce behind Premier Ikeda's 1960 promise to double the GDP in ten years. The new "politics of productivity" were good for business, the bureaucracy, and the regions, whilst income growth and Government support for the "special interests" of small business and agriculture meant it was a "policy with no losers." It also allowed Japan—in a pattern that became entrenched into the political economy—to avoid the issues of trade liberalisation and low social welfare, the negative effects of which could be sidestepped by overall economic growth.

In Part II of the book, Pempel moves on to describe the critical junctures reached by all his example regimes following the long boom, how stability broke down, and how they are being reconfigured into new forms. Pempel emphasises that "regime shift" is not simply the result of changes in any one (or two) of the three underpinnings to a regime, but rather is a "third order" change in all three variables (arguing, for example, that the election of Clinton was more a more significant change for the United States than the election of Reagan or Bush). Moreover, he emphasises that whilst regime shift can be destructive, reconfiguration into new, stable regimes may be protracted and is not an inevitable outcome of the process. Thus Chapter Four describes the reconfiguration of the U.S. and U.K. regimes into new forms, whilst the final outcome of Swedish and Italian restructuring remains uncertain.

Neither does he see the process of regime shift as leading to a single global norm. He strongly argues, at the beginning of Chapter Five, that those who see change in Japan as only the *tatamae* (facade) in front of the *honne* (true picture) of continuity are making the mistaken assumption that only movement towards a U.S.-style model of liberal economics and two party democracy constitutes real change. Pempel draws influence from evolutionary economic theory in noting that economic and political change is path dependent, meaning that Japan cannot simply reinvent itself (even if it so desired), but must move forward on the basis of the position in which it currently occupies. And this is the well-known situation of minimal GDP and productivity growth, large-scale business failures, spiraling public debt, the foreign penetration of domestic markets and "hollowing out" of Japanese manufacturing, and bureaucratic scandals and inefficiency.

Pempel argues that the reason Japan has been unable to turn itself around as it did after the oil crises is a product of intra-conservative fragmentation. Whilst Japan's conservative vote has actually increased, the split of the LDP and the re-emergence of bureaucratic in-fighting have reduced Government policy to ad hoc, sometimes contradictory, firefighting measures. Moreover, the economy itself has bifurcated into international manufacturers and domestically orientated sectors, such as construction and finance. The latter want continued domestic protectionism, whilst the former, at the least, resent the cost and international implications of such a policy, if not actively encouraging increased openness. As a result, Japan has moved from its previous positive sum macroeconomic growth to a zero sum situation, in which measures to increase growth in some sectors will have negative consequences for other sectors.

Pempel then reruns his rhetorical technique of Chapter Three to plot the historical "erosion of the old regime" in Chapter Six. Unfortunately, the effect is lost in this case, and he ends up largely re-covering ground from the preceding chapter. He does, however, introduce a very coherent account of the political economic underpinnings of the apparent insanity of the "bubble economy"—in particular, the negative effect that *endaka* (yen appreciation) had upon the financial sector's holdings of U.S. Government debt being a key driver behind the Bank of Japan's easy money policy.

Pempel's Conclusion is that liberalisation is not currently a politically viable strategy in Japan, because the forces against it are better mobilised than the forces in favour. Instead, he offers two plausible scenario alternatives. The first is that Japan continues its embedded course of regulation, nationalism, and mercantilism, tempered by deregulation, internationalism, and openness in certain areas, leading to a bifurcation of internationally competitive industries and domestically oriented, protected industries. The problem any such Government would face would be how to compensate the losers of the system, in the absence of high growth rates to support side payments. The alternative, of Thatcherite or Eastern European-style "shock therapy," he argues is implausible in the Japanese context. The alternative scenario is a proliferation of political parties all supporting particularist protectionist agendas (in a similar manner to the Italian system). Big business could decouple itself from any such system by forming joint ventures with foreign firms and raising capital globally. The result would be bifurcation again, and slow overall growth, but as long as the relatively high growth firms were not overly burdened by

the regime, a very British practice of muddling through could become entrenched for an extended period.

Almost inevitably, the conclusion is the weakest part of the book. Scenario planning is inherently difficult and uncertain, denying Pempel the confident exposition he produces of historical record. But more than this, the conclusion loses the very measured, balanced approach of the historical sections. Having made the case that change is not only necessary, but also inevitable, he then firmly throws his hat into the ring of the move to openness, deregulation and economic liberalisation, without explicitly stating the rationale behind this. Whereas Pempel carefully constructs alternative perspectives and potential outcomes of various dichotomies in Japan's historical development, the desirability of liberalisation is taken as given, rather than being made explicit. And given his own argument that swingeing liberalisation is not actually going to occur, and that any such liberalisation will be distinct from that witnessed in other economies, such an omission is somewhat surprising.

Pempel's argument also contains a false distinction between the "economic" need for reform, and the "political" necessity of protecting certain losers from the process. Even within the narrow confines of positive neo-classical economics, the concept of Pareto efficiency suggests that economic change is *objectively* beneficial only if, in making some people better off, it does not make anybody worse off. In many respects, past Japanese policies of pursuing economic gains and using these to compensate the losers from change—thereby reaping a net improvement for Japan as a whole in comparison to not pursuing these gains—is closer to the spirit of Pareto efficiency than subsequent neoliberal reforms in countries such as the United States and United Kingdom.

The murkier political realities behind Japanese policy and how such policy needs to be reformulated are legitimate concerns for a political economist, but this cannot be separated from "economics" in the manner that Pempel seems to suggest. Similarly, Pempel's central dichotomy between internationally and domestically oriented sectors is clear and powerful, but ultimately too neat and somewhat simplistic. He falls back on the strong manufacturing but weak services stereotype of Japan (most famously espoused by Porter, 1990), which can be criticised from both ends. First, Japanese services have not always been universally uncompetitive (e.g. Enderwick, 1990). Services have been in the vanguard of Japan's economic internationalisation, both historically (e.g. Mason, 1990), and as part of the wider

manufacturing globalisation of the 1980s (e.g. Dicken et al., 1997). Insofar as services *are* now internationally weak, similar charges could now also be laid at the doors of even Japan's "leading-edge" manufacturing sectors. Moreover, the nature of services means that overseas investment is often the only viable way to serve foreign markets, whilst the idiosyncratic nature of national service markets makes foreign incursion problematic. As such, economic openness may, in some circumstances, be both more desirable and less problematic for Japan's services than for some goods industries.

Possibly the key weakness for Japan is not in "traditional" service areas (though some of these are a problem), but in the burgeoning hi-tech, computer-related service industries, such as software, where the United States has stolen a significant advantage. And it is in the development of these sectors that Japan's structural strength presents its greatest rigidity. In other words, whilst dichotomies abound in the Japanese economy, they are more complicated than the international/domestic, manufacturing/services, low-tech/hi-tech divides that Pempel explicitly addresses. Indeed, these structural shifts have played an important part in undermining the extant regimes of all industrial economies, and thus far, even semi-stable solutions appear to have evaded all but the United States and United Kingdom.

Possibly the biggest single criticism of the book, however, is the extent to which it provides new understanding to the existing expert on Japan's political economy. Pempel makes great play of the use of "regime" as a novel explanatory construct, but arguably French "regulation" theory covers very similar ground and has itself focused extensively on Japan.[1] Given that Pempel is aware of the literature, referring to it in passing in Chapter One, it is a shame that any differences of substance or focus between "regimes" and "modes of regulation" are not made explicit.[2]

Nevertheless, these specific criticisms should in no way detract from the overall quality of Pempel's book. The book synthesises a very wide body of literature (both English and Japanese language) on Japan's modern political economy, especially less well-known or heterodox ideas overlooked by many Western texts. As such, it deserves to become a standard in bringing students (in the widest sense of the term) up to a graduate, if not higher, level understanding. It would definitely also make enlightening reading to those Western policy makers and commentators on Japan who have yet to grasp the sub-

tleties of Japan's rise and the even more complicated factors behind its current decline.

#### Notes

[1]. Much of this work has come from CEPREMAP in Paris. For example, Boyer and Juillard (1998) is the latest in a long line of regulation theory offerings, in both French and English, on the Japanese economy. The paper is available at (<http://www.cepremap.cnrs.fr>) and includes references to numerous earlier works.

[2]. It is worth noting at this point that the French term "regulation" is spelt with an e acute, and has a wider meaning than the non-accented English term's concern with rules (see Tickell, 1992).

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