While it is not surprising that fables of Japan Inc. and Keiretsu Capitalism dominate a media-fed public misunderstanding of Japan, it is astonishing that the great bulk of scholarly writing on the subject continues to view Japan’s postwar economic success as largely the product of government intervention. Strategic Capitalism, the new book by Princeton University Japan scholar, Kent Calder, is a much needed corrective to such myths.

Roughly a decade ago, Chalmers Johnson outlined his conception of Japan as a state-dominated economy—what he referred to as the Developmental State—arguing that the actions of Japan’s Ministry of International Trade and Industry (or MITI) lay behind that country’s dramatic ascent in industry after industry—steel, automobiles, and both consumer and high technology electronics. Johnson’s work informed a whole generation of so-called revisionist writings both inside and outside the academy—Clyde Prestowitz’s endless ruminations on Japan’s so-called “unfair” trade, James Fallows’ widely read magazine articles on economic benefits of powerful government control over the Japanese economy, and Pat Choate’s seemingly ceaseless diatribes about increasing Japanese—and foreign—control over American politics. Worse yet, this “revisionist” school of thought has held enormous sway in the corridors of political power—informing a good deal of the recent hard-line drift in recent U.S. policy regarding Japan including recent Clinton Administration forays into industrial policy, managed trade, numerical targeting, and the so-called leverage approach to opening Japanese markets.
Strategic Capitalism provides the foundation for a new and more accurate understanding of the business-government relation in Japan. Based upon more than a decade of intense research and drawing heavily from previously unexamined archival sources, Calder's book provides compelling evidence that key to Japan's economic success has been the dynamic leadership of private banks and industrial enterprise. In doing so, he shatters the myth that the Japanese government has orchestrated that nation's industrial success. He demonstrates with great skill how Japan's revered government bureaucrats made their share of mistakes, picking losers and failing to recognize winners on numerous occasions.

Banks--particularly Japan's system of long-term credit banks--are the centerpiece of Japan's brand of strategic capitalism. A political scientist by profession, Calder focuses his analytical eye on the intersection of state and market in Japanese development. And, following a path charted by Harvard economic historian, Alexander Gerschenkron, he zeroes in on the critical nexus of finance and the State, investigating the critical relationships between and among the long-term credit banks, other financial institutions, industrial corporations, government bureaucrats, public regulatory agencies and elected politicians. To situate his thinking and empirical analysis, Calder develops a four-part schema of state-market relationships: the Clientized State which plays a command and control role in economic affairs, the Developmental State ala Chalmers Johnson, Silicon Valley Capitalism where unbridled market principles dominate, and Corporate-led Strategic Capitalism where private firms and banks provide crucial strategic guidance functions for the economy. And, in roughly 300 pages of text and tables, Calder documents how the latter model best explains Japanese rapid ascent as an economic power. In fact, Calder's detailed historical research
suggests that Chalmers Johnson and revisionists have it reversed: Business has typically shaped and molded government policy, not government telling business what to do.

Calder’s historical argument and empirical evidence revolve around the process of credit allocation. In doing so, he directs attention to three central issues: (1) the nature of business-government relationships in Japan, (2) the nature of what he terms "intragovernmental relationships," struggles and conflicts between and among government agencies, and (3) the way that private industry responds to efforts at public control, looking at various attempts to channel credit to one section or another. Looking through this lens of credit allocation, argues Calder, "provides a useful vehicle for transcending state-centric models and understanding the deeper dynamics of national variants of capitalism." (p. 8).

Calder traces the pattern of credit allocation in the development of the key industrial sectors of the Japanese economy. Early government involvement in steel during the 1950s, gave way to an increasingly close interplay between that industry and long-term credit banks by the 1970s. While government direction played an important role in the development of the ship-building and oil-refining industries, government was much less centrally involved in key, dynamic sectors like automobiles, machine tools, and electronics. Both Toyota and Sony, Calder points out, "confronted substantial opposition to [their] early postwar development from central government authorities" [p. 118]. MITI completely missed the boat when it tried to use government influence and monies to try to force the industry into three large segments: "Japan’s large computer manufacturers were simply too powerful politically and had too many alternate sources of finance to be intimidated by bureaucratic sanctions" [p. 119]. And, Japan’s leading bureaucracies have consistently failed to generate
a significant pool of venture capital for fledgling high-technology enterprises. On top of all of this, the rapid globalization of financial markets and the emergence of transnational financial politics in the 1980s and 1990s is bringing about sweeping change in the Japanese political economy, as its leading banks and financial institutions become truly global players.

For these reasons and more, the Japanese experience, Calder concludes, best fits the model he refers to as corporate-led strategic capitalism, characterized by: (1) fragmented state administrative control over industry, (2) powerful and strategically-oriented industrial groups, (3) long-term credit banks which foster emerging industries, (4) a dominant political party (at least until very recently), and (5) a veritable "bankers kingdom" of banks, corporations, regulators and their political allies which both shape the allocation of capital and credit and constrain the activities of government bureaucracies. Japanese capitalism, Calder suggests, is far too complicated and complex for Johnson’s development state approach, the State being more the source of stability than control. "Industrial strategy," he notes, "must be seen in a social context transcending the pronouncements of the bureaucracy" [p. 245].

I have just two small quibbles with this otherwise outstanding book. One, casting his eye exclusively on government-business relationships, Calder neglects what may be the underlying source of Japan’s dynamism—the emergence of a whole new model for creating value and productivity improvement on the factory-floor through mechanisms such as self-directed work teams and continuous improvement which function to harness the knowledge and intelligence of its industrial workforce. And, two, the book portrays Japan as a unified national system of capitalism, failing to adequately address both the international and regional
dimensions of the Japanese political economy. But, these are minor quibbles with an otherwise excellent piece of historical, political-economic scholarship. We can use more books like these—both as invaluable source of information and ideas, and just as importantly as models of scholarship for others to follow.

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