

Explaining Economic Policy Failure: Japan In The 1969-71 International Monetary Crisis

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Explaining Economic Policy Failure: Japan in the 1969-71 International Monetary Crisis. By Robert C. Angel. New York: Columbia University Press, 1991. 333pp. \$37.50.

The United States and Japan together comprise nearly 40% of the world's gross national product. And the U.S.-Japanese (Nichibei) economy—the sum total of trade and direct investment between the two countries—now contributes more than \$150 billion to both economies. Because of the critical importance of the bilateral relationship, its condition and future health are matters of deep concern. Although some in both countries, mainly government officials, continue to argue that the overall relationship remains healthy, there are enough danger signals to warrant close examination of the political economy of the U.S.-Japanese relationship.

Indeed, the problematic growing economic interdependence between Japan and the United States is only one of the more visible manifestations of the collision between the two most powerful social currents of our time: the globalization of local, national economies and the imperative to preserve or enhance cultural or national identity.

Unfortunately, the intellectual architecture necessary to advance our understanding of how "domestic" and "international" political economy forces interact is underdeveloped. Under such conditions, a number of research strategies are appropriate, among them the case study approach used in this book, which gives promise of providing useful guidance for subsequent work. The goal in such work is to use a particular instance as a search strategy to uncover underlying dimensions that may warrant further study. The work under review more than fulfills this goal by providing an efficient description of how Japan responded to the "dollar shock" issue of 1969-71. The author not only weaves disparate material together to illuminate the particular crisis but also succeeds in making a strong contribution to how we should think about the present and future condition of the bilateral relationship.

The issue Angel selected for study presents similarities and differences between 1969-71 and the present. Then, as now, Japan's current trade account with the United States was in surplus. Then, as now, the United States applied pressure on Japan to respond to American demands for Japan to make changes in its international monetary policies. The demands, then as now, were made because of domestic American difficulties. Japanese decision makers proved inflexible and only unilateral American action forced Japan into changes. However, the domestic problems of the U.S. economy are far greater in the 1990s than the late 1960s; and Japan's current account trade surplus with the United States is far greater, as well. In fact, Washington and Tokyo have been negotiating over trade related issues on virtually an annual basis since the 1969-71 crisis, but to little avail. Even after additional yen revaluations, wave after wave of reductions of tariff barriers, and now agreements by both countries to reduce structural impediments in their domestic economies for mutual advantage, Japan's cur-

rent account trade surplus with the United States and the rest of the world increase.

The author focuses on the development and implementation of Japan's international monetary policy in response to American pressure to revalue the yen. Angel selects this issue because he questions the "received wisdom" of economists and political scientists, who tend to see national-level economic and political decision making in Japan as smooth, coordinated, and successful. He sets out to (1) identify the participants in the decision-making process, including what accounted for their access in the decision-making process; (2) identify the positions of the participants and how they arrived at their positions; (3) determine who decided Japan's policy response with what level of influence; and (4) decide how all these factors combined to produce Japan's response.

To answer these questions, Angel places the period before the American challenge to Japan in context. By the late 1960s the Japanese had clearly begun to succeed in their effort to catch up with other advanced industrial economies. But their single-minded focus on export-led economic growth precluded much attention, on their part, to Japan's impact on the other societies Japan traded with. Consequently, when the Nixon administration placed a 10% import tax on all imports entering the United States and called for a yen revaluation, the Japanese government was unprepared to respond. Angel does an excellent job of tracing the Japanese inability to respond to a need for a reassessment of international monetary policies designed to maximize the ability of Japanese companies to compete abroad. He is convincing in arguing that the institutional structures put in place during the American Occupation appear to have been associated with the pattern of Japanese leaders' becoming comfortable with the idea of using foreign pressure (*yo-ritsu*) as a means to undertake important domestic reforms. He also notes the somewhat paradoxical legacy of resentment among Japanese elites left by the "dollar shock" case, which was to be only the first in a line of cases in which American policymakers would make unilateral demands and the Japanese would be forced to respond.

The detailed answers to the questions Angel poses is important for comparative political economy theory development in general and state-centered theory development in particular. Japan, like the United States, is a capitalist state; but the resemblance may end there. Angel reminds us that viewing the concept of the state as a social institution anchored in cultural and historical context, rather than as another, albeit powerful, interest group yields important insights about how capitalist states differ. Angel presents a powerful analysis suggesting why it is unlikely that any particular institution in the carefully balanced system of Japanese decision-making institutions will step forward to deal with American pressures in a positive manner. Angel wrote about the 1969-71 crisis, but his analysis is strikingly apt today.

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