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NOTE**

by

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ALEX KERR'S *DOGS AND DEMONS* AND THE PROBLEMS OF CONTEMPORARY JAPAN: A REVIEW NOTE

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Abstract

In his controversial new book Dogs and Demons: The Fall of Modern Japan, Alex Kerr (2001) maintains that modern Japan represents 'a case of failed modernization' due to a deep-seated 'cultural malaise' that arises 'because of a severe mismatch between Japan's bureaucratic systems and the realities of modern life'. Kerr argues this thesis by means of examples drawn from the arts, culture, economics, politics and other aspects of contemporary Japan. This review note attempts to provide a critical examination of Kerr's economic arguments. We contend that he has radically overstated his case, ignored much existing critical literature on Nippon, and 'exoticised' Japanese society unnecessarily.

Key Words: Dogs and Demons; Japan; Nihonjinron.

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1. Introduction

In his beautifully crafted *A Japanese Thread*, veteran American diplomat and lifelong Japanophile John Emmerson (1978) has likened the impact of Japan on foreign residents as akin to walking a tightrope. Sooner or later most expatriates fall metaphorically, and either become virulent critics of Nippon or obsequious apologists for all things Japanese. This tendency is still well illustrated in the English-language literature on contemporary Japanese economy and society. For instance, in his *Bamboozled*, Hall (2002) continues a familiar, if somewhat paranoid, tradition of allegations of Japanese subterfuge in international economic relations in the face of western, and especially American, naivete.

Alex Kerr's (2002) *Dogs and Demons: The Fall of Modern Japan* lies squarely in the tradition of pessimism over the future course of Japanese society. For all of Kerr's apparent agonizing over whether or not he should have written the book, it is neither novel in its basic thesis nor in its profoundly pessimistic overtones. The idea that the post-War Japanese economic 'miracle' was founded on feet of clay and the debunking of associated extravagant claims of social wellbeing are by no means new. For example, Frank Gibney advanced these ideas as far back as 1979 in his *Japan: The Fragile Superpower*. Moreover, numerous recent commentators, such as Gavan McCormack (1996) in *The Emptiness of Japanese Affluence*, have presented a similar picture.

The existence of this critical literature also serves to blunt Kerr's exaggerated claims surrounding the purported 'conspiracy' amongst scholars in the *nihonjinron* tradition to present Japanese society in an unrealistically good light for fear of material repercussions. At the very least, Kerr should acknowledge the numerous Japanese and foreign scholars and popular writers in various fields who critically analyse *nihonjinron* literature and who have done so since at least the middle of the 1980s (Befu, 2001; Dale, 1986; Miller, 1982; Mouer and Sugimoto, 1986; Yoshino, 1992, 1997). Given this robust critical strand of academic and popular literature, what are we to make of statements like 'many of my colleagues remain convinced that their job is to present Japan attractively to others' since 'a high proportion of them depend, one way or another, on Japan for their livelihood' (p. 6/7), or 'old-line Japanologists, in my view, are so convinced that their duty lies in preaching Japan's glory that these subjects

frighten them’ and they are ‘fearful too, lest the high-powered international forums they belong to do not invite them back to future meetings’ (p. 381).

In fairness to Kerr, it must be added that there is major Japanese government financial support for *ninhonjinron* literature, especially in the form of the Japan Foundation. Many scholars working in this tradition are indeed reliant on funding from these sources: Mouer and Sugimoto (1986, pp.158-181) provide an excellent summary of the mechanisms involved in this process. Moreover, *nihonjinron* has a significant commercial market within Japan itself, in popular non-fiction magazines and television. Nevertheless, this fact should not obscure the significance of the dissenting critical literature that coexists alongside *nihonjinron*.

Dogs and Demons itself consists of a prologue, fourteen substantive chapters that address various dimensions of modern Japanese society and a short concluding chapter. Not all of the volume focuses on questions of economic and social policy and Kerr’s personal interest in aesthetic matters is much in evidence, especially in cinematography. The essential thesis advanced by Kerr is laid out at the beginning of the book: starting from the *Meiji* restoration in the 1860’s, ‘the nation set out to resist the Western colonial powers, and later to vie with them for dominance – and even though Japan succeeded in becoming one of the world’s most powerful nations, the basic policy of sacrificing everything for industrial growth never changed’ (p. 5). In effect, the remainder of *Dogs and Demons* attempts to document the effects of this drive for economic growth on different segments of Japanese society and highlight the extraordinarily high costs it is imposing on the Japanese nation.

This review note is divided into two main parts. Section 2 examines some of the more important arguments advanced by Kerr in the realm of economic and social policy. A caveat should be added to the effect that the review note does not attempt to address Kerr’s observations on artistic and cultural life in contemporary Japan since this largely revolves around *de gustibus non est disputandum* argumentation. The note ends with some brief concluding comments in section 2.

2. Evaluation of Economic Arguments

In his discussion of economic and social trends in modern Japan, Kerr employs the thematic paradigm of immoderation to characterize 'Japan at the extremes' (p. 10). Thus, 'once it has been set on a particular path, Japan tends to continue on that path until it reach excesses that would be unthinkable in most other nations' (p.11). In the final analysis, this is due to a deep-seated 'cultural malaise' that arises 'because of a severe mismatch between Japan's bureaucratic systems and the realities of modern life' (p. 12). Accordingly, Kerr seeks to recount 'the story of that mismatch, and of how Japan wandered so far off the lonely side of the road, removed not only from the world at large but from her own true self' (p. 12). Notwithstanding the melodramatic connotations of this explanatory vehicle and the fact that Kerr may be justly accused of pushing the metaphor to extremes himself, this paradigm nevertheless serves his polemical purposes surprisingly well. He can also be accused of 'exoticising' Japanese society by focusing on its extremes rather than on its many commonalities with other advanced countries. This latter theme will be taken up in section 3.

Perhaps the most interesting chapter in *Dogs and Demons* deals with the 'construction state' (*doken kokka*): this refers to a rentseeking coalition made up of politicians, public bureaucracies and private companies that organize and build public works in Japan far in excess of the needs of the nation. Bureaucrats who arrange and decide on public contracts typically find employment after their bureaucratic careers end with the very companies they were earlier hired to regulate. Using a parable, Kerr (p. 20/21) describes the process as follows: 'The River Bureau of the Construction Ministry builds a dam, then hands its operation over to an agency called the Water Resources Public Corporation (WRPC), many of whose directors are retired officials of the River Bureau'. After a closed-bid auction 'the WRPC subcontracts the work to a company called Friends of the Rivers, a very profitable arrangement for the WRPC'S directors, since they own 90 percent of the stock'. This explains 'the ever-growing appetite at the River Bureau for more dam contracts'. For their part, the politicians who secure policy permission for public construction projects are rewarded with bribes of around 1 to 3 percent of the total budget (Kerr, p. 20).

According to Kerr (p. 10), the results of the construction state are grotesque: 'the native forest cover has been clear-cut and replaced by industrial cedar, rivers are dammed and the seashore

lined with cement, hills have been leveled to provide gravel fill for bays and harbors, mountains are honeycombed with destructive and useless roads, and rural villages have been submerged in a sea of industrial waste'. Moreover, the consequent misallocation of resources has been severe, with Japan spending almost 9 percent of GDP on public works in 2000 (as opposed to only 1 percent in the United States) and employing around 10 percent of the workforce in construction (or more than double the American figure) (Kerr, pp.19-21).

In assessing Kerr's arguments on the Japanese *doken kokka*, it should be observed immediately that none of this is at all new. Both the existence and malevolence of distributional coalitions in the Japanese public works program are well known to Japanese commentators and has been thoroughly documented in English-language accounts of contemporary Japan, especially by Brian Woodall (1996) in his *Japan Under Construction*, whom Kerr cites freely. Indeed, the Japanese media regularly publicize the criminal proceedings that often surround bid-rigging and other illegal activities uncovered in official investigations of public works contracts, with the 2002 trial of former Hokkaido Diet member Suzuki Muneo a case in point. The general public is thus well aware of the linkages between politicians, bureaucrats and companies that benefit from public contracts or other special treatment. In fact, ex-bureaucrats who take up positions in the private sector are referred to wryly as *amakudari* ('those descended from heaven').

If *Dogs and Demons* had sought to contribute positively to the debate over the role of the construction state in the Japanese economy, then it should have addressed the following kinds of questions. For instance, in a period of low economic growth, how should stimulatory fiscal policy be directed? In other words, do Kerr's claims about the zero or even negative marginal efficiency of capital in Japanese public works programs have any empirical basis? What are the multiplier effects of public works expenditures? Considered answers to these questions surely require more than simply aesthetic revulsion at visual and environmental impact of construction projects. From a public choice perspective, what should be done about destroying the power of rentseeking coalitions? Will the present program of public sector reform have any reasonable chance of enhancing public sector accountability and efficiency? In the political sphere, what should be done about pork-barrel politics and why has it proved so successful to vote-maximizing 'insiders' in the Liberal Democratic Party? These are

difficult problems that seek urgent solution. It is not enough to simply repeat a litany of well-known ills without offering any tangible solutions.

Kerr's analysis of the 'bubble economy' in Japan in the 1980s and early nineties in Chapter 3 suffers from similar problems. In particular, the weight he places on the role of the charlatan investment 'prophet' Madame Onoe Nui and her pet ceramic toad in the stock market boom of that period represents perhaps the worst instance of 'exoticisation' in *Dogs and Demons*. While it is a matter of historical fact that Nui's bizarre predictions did influence some significant investment decision makers, including a large merchant bank, and she herself was a substantial financial player, this hardly passes as serious analysis. Indeed, Kerr (p. 81) later points to a much more plausible explanation: 'Japan's financial system rests on bureaucratic fiat, not on something that has intrinsic value'. Western observers of the Japanese banking crisis generally argue that lax accounting procedures enforced by the Ministry of Finance allow Japanese banks to obscure bad loans and poor investments by valuing them at cost, the estimation of 'latent profits', and reassignment to subsidiary companies within *keiretsu* (industrial groups). The problem of the misallocation of capital resulting from poor regulation and inefficient financial markets is endemic in several industrialised nations, perhaps most notoriously in Germany, and the cure seems to reside in the imposition of the Anglo-American model. Moreover, the Koizumi government is presently engaged in reducing the volume of bad loans held by Japanese banks in order to revitalize the financial system. However, in common with other attempts at reform, it is being trenchantly opposed by vested interests. The real question in this and many other areas of Japanese political economy is simply: How are these entrenched interest groups best overcome? Kerr offers no meaningful answers.

Kerr's thematic paradigm of 'extremism' also forms the basis of his discussion of Japanese bureaucracy in Chapter 5. In essence, he argues that Japanese bureaucracy is characterized by a 'paradox of control versus regulation' (p. 138). Under this business is tightly controlled but largely unregulated: 'The point of Japan's red tape is bureaucratic control – the restriction of business to routine paths along which officials may profit'. This conceptualization of government regulation appears to be the opposite of the familiar 'capture' theory of regulation espoused by the Chicago School since here bureaucrats dominate corporations rather than the converse. However, it does fit neatly with Olsonite notions of distributional coalitions

comprised of bureaucracies, firms and politicians that engage in rentseeking activities with severe social consequences. But Kerr once again pushes his argument to implausible extremes, arguing, for example, that ‘the fact that officials enrich themselves at public expense is not considered to be more than a minor evil in Japan’ (p. 143), highly publicized and frequent criminal trials notwithstanding. Moreover, the analysis contained in the book is not new. For instance, the problematic nature of Japanese bureaucracy has been examined exhaustively in Gibney (1998).

3. Concluding Remarks

The fundamental problem with *Dogs and Demons* seems to derive from its author’s belief that his critique of contemporary Japan breaks new ground. Like many advocates of controversial ideas, Kerr’s confidence in the novelty of his opinions appears to have led him to radically overstate his case. Japan is most assuredly not ‘a case of failed modernization’ (p. 383). On almost every measure of developmental wellbeing, from life expectancy, literacy, and crime rates through to per capita incomes, Japan remains one of the most successful and spectacular examples of economic development in the modern era (Lomborg, 2001). It is thus impossible to accept Kerr’s conclusion that ‘Japan’s twentieth century history is not that of a nation that has successfully adapted to modernity but one that has twice maladapted, with calamitous results’ (p. 382).

Several other more specific problems can be identified in *Dogs and Demons*. Kerr’s constant emphasis on the ‘extremes’ evident in contemporary Japanese society represents an unwarranted instance of ‘exoticising’ Japan – a common fault in the cultural analysis of many non-Western countries. While it is of course true that the Japanese economy has experienced ongoing stagnation since the burst of the ‘Bubble Economy’, as Kerr contends, the present recession should nevertheless be kept in historical and international perspective. Thus, while the Japanese economy grew at a phenomenal annual average rate of 10 percent between 1950 and 1973, after the ‘oil-price shock’ its growth then began converging with other developed economies at 4.2 percent to 1986 and then from 5 percent until 1990 (Ito, 1992). Moreover, even after the asset price crash in 1991, the Japanese economy has still experienced positive net growth, albeit at a paltry 0.96 percent per year. This is not drastically different from the indifferent economic performance of several countries in the European Union, mostly notably

France and Germany, which share the Japanese problems of sluggish growth, chronically high unemployment, excessive regulation and inefficient capital markets. It is not markedly different either from the British experience in the 1970's, with its stagflation. The 1997 Asian 'contagion' with its malevolent effects on the Asian 'tiger' economies of Singapore, South Korea, Taiwan and Thailand represents yet another example.

Kerr's depiction of Japanese society as an exotic 'other' also serves to obscure the causes as well as the symptoms of the present malaise. Drastic and ongoing asset price depreciations cannot be a unique consequence of Japan's financial market arrangements, as Kerr argues, since developed market economies elsewhere have fallen foul of the same problem. Moreover, the present deflationary spiral evident in Japan has its historical antecedents in other countries, not least the United States in the 1930s. Similarly, excessive government intervention and stultifying bureaucratic control of markets are not an exclusively Japanese problem. Post-war Britain experienced much the same with a bipartisan consensus on a 'mixed' economy in a welfare state resulting in relatively low growth rates and other characteristics of its 'economic decline' at that stage.

If the symptoms of Japan's economic problems have manifested themselves in other countries at other times, then it is conceivable that the solutions too have been tried successfully elsewhere. This also appears to have been the case. For instance, expansionary fiscal policies, including rearmament, seem to have played a significant role in the economic recovery of American society in the late 1930s. More recently, rapid monetary policy responses to the US banking crisis in the 1980s satisfactorily resolved the problem. In a similar vein, the Thatcherite 'revolution' in the United Kingdom curtailed government intervention, reformed the public sector and deregulated and privatized the British economy, with invigorating results.

Since the economic problems presently confronting Japanese policy makers have been overcome in other countries by means of well-documented policy initiatives, it would thus seem that they could be deployed in the Japanese case too. Accordingly, a crucial question that should be posed is: why have not the Japanese authorities embarked on deregulation, monetary inflation, public sector reform and other promising policy measures? Put differently, 'why have the Japanese put up with stagnation for so long?' (Schoppa, 2001, p.

77). To argue, as Kerr does, that this is due to the *sui generis* nature of Japanese institutions, seems to us again to rely too heavily on the purportedly unique characteristics of Japanese society. After all, other societies afflicted with similar economic problems have also often taken long periods of time to resolve them. Thus, the British polity dealt ineffectually with a poorly performing economy for almost twenty years before taking decisive action. Similarly, the American economy may have been rescued more by the exigencies of World War Two than by sound policy action.

Alternative explanations for such policy inertia are not difficult to find (Friedman, 2001). In the first place, there is much truth in popular claims that Japan is experiencing a ‘golden recession’, exemplified by media reports of continuing conspicuous consumption. After all, consumer prices seem to be falling faster than per capita incomes thus raising real incomes. Secondly, Shoppa (2001) has argued that the huge increases in personal wealth accumulated by the Japanese public have served to insulate them from the economic downturn and mute their political responses. Finally, Prime Minister Koizumi is engaged in an ongoing struggle to implement reforms with entrenched interest groups that are resisting change, not least in the government bureaucracies. These explanations not only have plausibility, but also historical antecedents in other countries that have grappled with policy gridlock. It is therefore both unnecessary and misleading to rely on mystifying and extreme caricatures of an exotic ‘other’, as Kerr does, to explain the situation Japan finds itself in economically.

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