

The Development of Studies of the Japanese Economy in the United States:

A Personal Odyssey

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ABSTRACT

This is essentially a personal reminiscence rather than a comprehensive or objective evaluation of the development of the study of the Japanese economy in the United States since the end of World War II. As such, it reflects my own research odyssey. It is weighted more heavily toward the earlier years and most of the people mentioned are those active when the field was first developing in the 1950s and early '60s — that is, my generation and our teachers. (It is a pleasure to note many of us are still active. I apologize to those not mentioned, as well as those mentioned but not described adequately.) The expository style is deliberately informal. After all, I am writing about friends.

I trace five interrelated themes: the emergence of Japanese economic studies as a field; the development of core personnel engaged in teaching courses and doing research on the Japanese economy; the increasingly complex and beneficial interaction between Japan-based and US-based economists; the attracting of a number of outstanding American economists who are not specialists on the Japanese economy into comparative research; and the evolving research agenda of the past 50 years.

The Development of Studies of the Japanese Economy in the United States: A Personal Odyssey

Hugh Patrick¹

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1 How I Became Involved with the Japanese Economy

Following graduation from Yale in 1951 with a combined major in mathematics, economics, and philosophy, I found myself, thanks to the exigencies of the Korean War, working in Japan as a civilian for the US Army for almost two years from the beginning of 1952. I am now amazed at my own arrogance. I believed I knew a great deal, and it was an immense culture shock to be in Japan, about which I knew absolutely nothing, and so close to China, source of cultural traditions of great age and difference from my own upbringing and education. Following an initial period of intimidation, I became very interested in Japan in general and its economy in particular. I decided to pursue Japanese studies.

I considered the programs of major American universities that had both excellent graduate economics programs and excellent Japanese studies programs, with courses and especially a faculty advisor dealing with the Japanese economy. This was in late 1953. There were two schools that met these criteria: the University of Michigan and Columbia University. In fact, both offered only a half-semester course, the other half being on the Chinese economy. And both were taught by a China specialist, Professor Franklin Ho at Columbia and Professor Carl Remer at Michigan. (I had not yet heard of William Lockwood at Princeton; his affiliation was with the Woodrow Wilson School and the Political Science Department, not Economics.)

¹ I am indebted to Gary Saxonhouse for comments and to Larry Meissner for comments and editing.

I entered the Center on Japanese Studies at the University of Michigan. There, Professor Remer became my *sensei* in the best sense of the word. Completing the MA degree sooner than I had expected and realizing that it did not appear to lead to attractive job opportunities, I decided to get a masters in economics, an undergraduate love. At Michigan this interest was further nurtured by several faculty mentors, particularly Gardner Ackley in macroeconomics, Richard Musgrave in public finance, and Wolfgang Stolper in international trade. They encouraged me to go on for a PhD in economics.

In applying for a Ford Foundation dissertation fellowship in 1956 to do research in Japan the following year, the potential number of topics was virtually unlimited since there was almost no English-language research on the Japanese economy at the PhD level being done anywhere. One of the great delights of the field, even now, has been that there are so many under-researched topics, and hence always exciting new things to learn.

I was torn between a dissertation on Japanese trade and trade policy and one on Japanese monetary policy and the financial system. I opted for the latter. I was very fortunate. The Secretary of the Federal Reserve Board, a Michigan economics PhD, wrote a letter of introduction to Governor Masamichi Yamagiwa of the Bank of Japan, where I was accepted warmly and allowed to participate in a very exciting learning environment. At the same time, I was fortunate to have an academic affiliation with Hitotsubashi University, with Professor Shigeto Tsuru as my advisor. His first advice was to spend most of my time at the Bank of Japan if I really wanted to learn how the Japanese monetary system actually operated, as there was then virtually no Japanese academic research on these empirical issues.

In the 1950s the Japanese economic profession was divided into various groups. Approximately equal in size were the Marxists, who had long been particularly strong in economic history; the so-called "modern" economists, who were absorbing postwar Western Keynesian and neoclassical analysis; and the "eclectics," who combined a smattering of everything with a heavy emphasis on institutions and current policy. Of particular importance to the profession and to me personally was the small group of scholars at Hitotsubashi University, led by Professors Kazushi Ohkawa, Miyoei, Shinohara, and Mataji Umemura, who were engaged in the major statistical and analytical project of estimating the major components of Japan's economic performance since early Meiji. The Long-Term Economic Statistics (LTES) project produced some 14 volumes of statistical data and spawned a number of important historical studies by the scholars involved. This group, certainly not Marxists, were influenced by Colin Clark's and Simon Kuznet's focus on identifying and quantifying the major components of GNP; they applied the Western tools of economic analysis, and Ohkawa's non-neoclassical two-sector model, first developed in the mid-1950's to deal with the Japanese historical experience, came to have considerable influence on Western thinking about the economic development process. Ohkawa was to continue as my mentor, colleague, and good friend until his death in 1993.

In the late 1950's, the "modern" economists were particularly interested in learning Western theories and how Western institutions worked. At the Bank of Japan there was keen interest in the nature and effectiveness of US open market operations, reserve requirements, and monetary policy, while bemoaning the realities that no open market operations were possible because there were few Japanese government bonds outstanding and reserve requirements made little sense in a system in which city banks continually borrowed from the central bank. It was a period of great learning about and from the

United States but without deep attention yet being given to analysis of the Japanese economy itself — not just in monetary or fiscal policy, but for almost all aspects of the economy.

It was a considerable intellectual shock when I arrived in Tokyo in 1957 to find that the actual characteristics and institutional arrangements of the Japanese economy seemed to be almost the exact opposites of those that I had been learning in textbook economics and courses in the United States. The government budget was balanced and deficit spending was not assigned a major role in handling cyclical stability in the economy. Money supply was growing very rapidly — 15-20% a year — and while the inflation rate was somewhat higher than in the United States, it did not seem to be a major problem, and certainly was far below money supply growth. Moreover, export prices were constant. A system of industrial relations was being developed at large companies based on permanent employment, seniority wage increases, seniority (but highly competitive) promotion, and enterprise unionism. The economy was heavily protected from imports, yet domestic markets seemed quite competitive. The major operative constraint on growth was the balance of payments, despite rapid export growth.

Sorting out the causes of all these differences between American theory and Japanese practice has been a major intellectual challenge. It was the first step in my ongoing quest to understand and explain the differences as well as similarities between the US and Japanese economies as they — and economic theory — have evolved.

I returned to Ann Arbor in 1958, a year earlier than I had planned, because Carl Remer retired and I was offered a shot at his tenured position, which included teaching on the Japanese and Chinese economies. As there were so few such posts (no others available that I knew of), it was an offer I could not refuse, even though I would surely have benefitted from the second year in Japan. Although I was only a Lecturer at Michigan, I was assigned to teach graduate courses in international finance and in commercial policy as well — and I realized the best way to learn economics is to teach it. That is one reason teaching has always been important to me; another is that I have liked teaching.

When I received my PhD in 1960, a new regime had assumed responsibility for the Department and quite rationally, though to my chagrin, decided it should not hire its own PhDs directly. It was suggested I find a position elsewhere, and that I might be brought back to Michigan after several years of outside experience and suitable performance.

I was very lucky. The 1960 market was wonderful for new entrants and I had several excellent offers. Yale's, however, was the only one that allowed me to teach and do research on the Japanese economy. I have been fortunate that I have always been at universities where I could devote a considerable portion of my teaching to the Japanese economy, in undergraduate and graduate courses and research seminars — at Yale from 1960 and Columbia from 1984. And of course I was lucky that universities and economics departments were growing and expanding their range of interests in the 1960s and 1970s.

The development of a field occurs simultaneously in several dimensions: the work of individual scholars as they pursue their own research interests; their interaction with and cross-fertilization of each other through reading research papers, professional associations, and informal contacts; and the organized bringing together of these specialists for collaborative or joint research activities, or at least conferences focusing on a common theme.

In the very early postwar period there were several important economic studies of the Japanese economy leading up to World War II, the war's devastation, the Allied Occupation reforms, and the recovery, most notably Jerome Cohen's *The Japanese Economy in War and Reconstruction* (1949). However, these authors went on to other things. In an important sense the field in the United States really began with the publication of William W. Lockwood's seminal book *The Economic Development of Japan* (1954). Bill played the major leadership role, albeit in a somewhat reserved manner, in the development of the field in the 1950s and '60s and, indeed, until his untimely death in 1978. He organized panels at the Association for Asian Studies annual meetings, and especially the Estes Park conference.

The Estes Park conference in June 1963 was the economics component of the now famous "Modernization of Japan" series of conferences which generated six volumes. We economists had an advantage — we had Simon Kuznets to define for us what is meant by modern economic growth: the application of modern science and technology to the production process, epitomized by the modern factory. The conference theme became the title of the book: *The State and Economic Enterprise in Japan* (1965, edited by Lockwood). The conference was an extraordinarily exciting event. In addition to scholars in various disciplines from Japan and elsewhere, Bill invited all the economic specialists on Japan in the United States he could identify. They included as paper writers, besides himself, James Nakamura, Henry Rosovsky, Solomon Levine, Martin Bronfenbrenner, Harry Oshima, and myself; Jerry Cohen and Leon Hollerman were discussants. This was the first time we had all assembled. The conference made possible intellectual and personal interactions — a combination of substantive confrontation and agreement among one's peers — that in many respects established the field.

One of the difficulties in any small field is that inevitably one almost never has fellow specialists on the same campus, so intellectual stimulus has to come from peers at other institutions. In response to that need, once Henry Rosovsky was at Harvard, Jim Nakamura at Columbia, and I at Yale, in 1966 we established the Japan Economic Seminar, an inter-university assemblage of faculty, advanced graduate students, and visiting scholars from Japan discussing members' papers on the Japanese economy. The Japan Economic Seminar has persisted, indeed, thrived, ever since. Initially we met eight times a year on Saturday afternoons. Early on we agreed to circulate the paper to be discussed in advance and not to allow the author to present it. In this way, we all had incentives to read the paper and to engage in the stimulating discussions that have almost inevitably resulted. In perhaps true Japanese fashion, we have then always adjourned for dinner together in an informal process of bonding and information exchange.

Over time the composition of participants has evolved, as has the focus of meetings. We came to realize that having two papers at each meeting while meeting four times a year was more efficient. Since the mid-1980s the Seminar has met twice a year at Columbia, once at Harvard, and once in Washington at either George Washington University or the Brookings Institution. In each locale there is a constituency of involved

participants in addition to those core members who make an effort to attend meetings in the other cities. Virtually every specialist on the Japanese economy in the United States who has spent time on the east coast has been a member of the Japan Economic Seminar at one time or another.

From time to time there have been similar regional organizations in other parts of the country bringing together specialists on Japanese economics, although because of scale and distance problems sometimes this has been done in conjunction with social scientists specializing on other aspects of Japan. Kozo Yamamura, certainly one of the *genro* in the field, has long had an active group in the Pacific Northwest, centered at the University of Washington. The PRISM group, based in Berkeley, embodies a broader social science constituency, with considerable focus on political economy and industrial policy issues. These and other more or less formal groupings reflect the growing development of the field and the ongoing benefits of intellectual cross-fertilization.

Our sense of self has been that we are economists first and specialists on Japan second. This is congruent with the way the discipline of economics itself has developed. Thus, there are few panels on the Japanese economy at the annual meetings of the Association for Asian Studies, and indeed a relatively small proportion of those who identify themselves as economists specializing on Japan are members of the Association, which I think is unfortunate. On the other hand, virtually all are members of the American Economic Association, and panels on some aspect of the Japanese economy are held regularly at AEA annual meetings. Within the past decade the interdisciplinary Association for Japanese Business Studies has become a vigorous, if still modest-sized institution. While some economists have been active in the AJBS, most of its members and leadership are in business management.

2.1 Group Projects on the Japanese Economy

Perhaps the most important activities furthering the development of the field, as well as interactions among scholars in the field, have been projects and conferences. These resulted in published volumes, which have had, in one way or another, a significant impact in moving the field forward. I cannot cover them all, but let me note three in which I have been involved and which I believe have been of particular importance.

First was the Brookings Institution study, begun in 1972, culminating in the 1976 multi-authored volume *Asia's New Giant — How the Japanese Economy Works*, edited by Henry Rosovsky and myself, who were the organizers of the project. At Brookings, Lawrence Krause, a hitherto European-oriented international economist who subsequently became a major specialist on the Asian economies, and Joseph Pechman, Director of Economic Studies, presciently recognized in the late 1960s that Japan was becoming increasingly important and that very little analysis of it was appearing in English. They initiated the project, which was extraordinarily expensive because it involved intensive collaboration and meetings, research periods in Japan, and multiple re-writings of chapters. The volume covered virtually all major topics — growth performance, factor markets and institutions, technology, industrial organization, taxation, macroeconomic policies and instruments, and urbanization and housing — in 13 chapters (two of which were expanded into books).

The research strategy was to bring together senior American specialists in their functional field but with limited knowledge of the Japanese economy with a (then) young

but excellent Japanese economist. On the whole, this collaborative effort was a great success. Particularly important were the commitments of both the American and Japanese scholars. The Americans spent substantial time in Japan and their Japanese colleagues worked closely with them. The chapter drafts were reviewed by us all (it seemed that almost every page initially referred to something that was "uniquely Japanese," a concept we editors sharply questioned), revised, and then further refined. *Asia's New Giant* became the standard in the field for some years as a textbook and as a reference work. Indeed, I believe it remains one of the best treatments of the postwar high-growth era. It also directed attention to Japan for comparative analysis as one of the advanced industrialized economies.

At about the same time, as a follow-on to the Modernization of Japan Project, the Joint Committee on Japanese Studies at the Social Science Research Council and the American Council of Learned Societies was established to stimulate a variety of joint research projects, in principle leading to published volumes. The topics covered a wide range but with the main emphasis on history and social sciences, including a number of projects on the economy. Over the years the Joint Committee engendered a number of studies which have added substantially to our understanding of the Japanese economy and have become standard items in the field's literature. I was active on the Committee as a member and eventually as its chair, and organized the inter-disciplinary project published as *Japanese Industrialization and its Social Consequences* (1976, with me as editor).

The most ambitious and comprehensive collaboration between American and Japanese scholars of Japan took place under the auspices of the Japan Political Economy Research Committee (JPERC), established in 1982 under the initiative and leadership of Professor Yasusuke Murakami of the University of Tokyo. Somehow I became US co-director of this immense project. Organizing and executing JPERC took great effort and care; there were numerous planning meetings of a floating executive committee. The resulting 41 chapters in 3 volumes were written by 40 different authors, among whom were 21 economists, 12 specialists in political science or international relations, 3 anthropologists, 2 sociologists, a historian, and a legal specialist; some chapters were co-authored and several scholars participated in writing two chapters. Many others were involved as discussants.

JPERC was a major, complex, and extraordinary exciting interaction among peers from Japan and the United States. For each of the volumes, there were two formal conferences; papers were constructively criticized in some detail and substantially rewritten. The series, *The Political Economy of Japan*, was under the general editorship of Yasusuke Murakami and myself, with other executive committee members editing each volume. Volume One, *The Domestic Transformation* (1987), focused primarily on the Japanese domestic economy and, not surprisingly, its 14 chapters were written mainly by economists. Volume Two, *The Changing International Context* (1988), primarily dealt with Japan's international relations; 4 of the 15 chapters were written on international economic topics by economists. Volume Three, *Social and Cultural Dynamics* (1992), was by far the most challenging and difficult part of the project because underlying conceptual frameworks were less clear or well-developed and it involved far greater interdisciplinary interactions among scholars than we were used to. Of the 12 chapters, 5 were authored or co-authored by economists, mainly based in Japan.

The decade-long JPERC project was one of the most exciting intellectual ventures of my life. At the same time, it was among the most difficult, mainly because of the difficulties we all had as specialists in one social science discipline in being able to stretch

very far into other disciplines. What made it all possible was the high degree of mutual respect, friendship, and intellectual excitement among all who participated, regardless of nationality or discipline. Professor Murakami's intellectual and personal leadership of the project cannot be overstated.

Asia's New Giant and the *Political Economy of Japan* series were milestones in my professional and intellectual career development, and I believe they constitute milestones in the field. (Incidentally, they were translated into Japanese.)

These comments should in no way denigrate a number of other important projects and conference volumes that have been produced over the years that have enhanced our understanding of the Japanese economy. The Committee on Japanese Economic Studies, set-up in the mid 1970s to provide funding for students, has from time to time organized projects and conferences on various themes, under the leadership of one or more the Committee members. Accordingly, it became an alternative to the Social Science Research Council as a way of organizing and funding collaborative research projects. A book I edited, *Japan's High Technology Industries* (1986), was the result of one such project. Kozo Yamamura has been active in generating a series of multi-authored volumes on US-Japan trade relations and trade policies and, more recently, on explicit comparisons of the Japanese and German economies. Masahiko Aoki has edited several volumes, with Ronald Dore, with Hyung-Ki Kim, and with me. Our collaboration in organizing and editing the multi-authored volume *The Japanese Main Bank System* (1994) was an important forerunner to a number of the papers in this book.

2.2 Institutional Development

Besides research projects and conferences, two additional sorts of institutional support have been important for the development of Japanese economic studies: university programs and the creation of specialized journals to publish research.

At some universities, de facto institutionalization has resulted from the development of a critical mass of scholars and PhD students to create and sustain an ongoing set of research activities. That certainly has been the case at the University of Michigan under Gary Saxonhouse. Elsewhere, more formal institutions have been established. Masahiko Aoki set up the Economy of Japan Program of the Center for Economic Policy Research at Stanford University. The Stern School of Business at New York University established the Center for Japan-US Business and Economic Studies under the direction of Ryuzo Sato, noted for his work in theory; the Center has an active program of conferences, research, and publication. Wharton School at the University of Pennsylvania has a US-Japan Management Studies Center, and its activities are gradually developing. At Columbia University's Graduate School of Business, I established the Center on Japanese Economy and Business in 1986. The Center's 1996 annual report provides a comprehensive, if brief, review of the first decade of its faculty research, programs, conferences, activities, and other accomplishments. It has grown and done well, and I am proud of it.

One of the problems for research on the Japanese economy has been to find adequate publication outlets. There are, of course, the economic profession's major journals, which occasionally publish articles relating to Japan. However, space in them is very limited and selection is extremely competitive. In response both to the increasing

interest in the Japanese economy and to the increasing number of high-quality papers on Japanese topics, Masahiko Aoki established the *Journal of the Japanese and International Economies* (JJIE), a quarterly first appearing in 1989. It has become the premier journal specializing on the Japanese economy. Note should also be made of *Japan and the World Economy*, edited by Ryuzo Sato, which first appeared in 1988. In addition, area journals, including the *Journal of Japanese Studies*, *Pacific Affairs*, and *Asian Survey*, attract articles on the Japanese economy from time to time, some of them quite useful. That said, many of the best articles on the Japanese economy do appear in either the top tier of economic journals or in the quality journals more specialized in certain functional fields, such as international trade, banking, finance, and industrial organization.

2.3 Further on the Literature

When I first started to teach about the Japanese economy in 1958, the big problem was to find materials in English to assign students, particularly on the contemporary economy, but within a decade that was no longer so. Over the past 20 years, the problem increasingly has been how to select, from a very large and continuously expanding body of English-language research, those items that are most appropriate. It is no easy choice — and it means that I have to revise my Japan course syllabus and readings every year. Those who took my course 10 years ago would find only a few of the things they read on the current list, though I would contend that most of the dropped items remain worth reading, especially when they provide historical context.

Much of the research on the Japanese economy is published in book form, both multi-authored volumes and individually authored studies. I have already mentioned some of the books that I regard as major contributors to understanding of the Japanese economy. Let me note a few others I regard as classics in the field, and those that have served me well as textbooks on the postwar period.

In different ways, James Abegglen's *The Japanese Factory* and Solomon Levine's *Industrial Relations of Postwar Japan*, both published in 1958, signaled that a new and different system of industrial relations was developing in postwar Japan. Their research stimulated further analysis by (now senior) labor economists in the United States, including Koji Taira, Robert Evans, and Masanori Hashimoto.

Eleanor Hadley's *Antitrust in Japan* (1970) carefully explained the Allied Occupation *zaibatsu* dissolution process (in which she played a direct policy role), the early postwar development (and weakening) of antitrust policy, and the emergence and prewar origins of the Big Six (financial and horizontal) keiretsu.

Although there is a rich abundance of readings on most topics, it is useful to have a textbook for coherence and core assignments while teaching. For me, there was no suitable textbook until *Asia's New Giant* (1976). Next I used Takafusa Nakamura's *The Postwar Japanese Economy — Its Development and Structure* (1981), followed by Kozo Yamamura and Yasukichi Yasuba, *The Political Economy of Japan: The Domestic Transformation* (1987), and now Takatoshi Ito's *The Japanese Economy* (1992). The dilemma with all textbooks on the contemporary Japanese economy is that its conditions, structure, problems, and prospects change so rapidly that within a few years even an excellent book becomes outdated. I await the publication of the next good,

comprehensive textbook on the Japanese economy, and in particular how it treats the 1990s decade.

3 Development of Japanese Economy Specialists in the United States

The development of any field depends first and foremost on the qualities and numbers of those who have made the professional commitment of specialization — most particularly, on scholars who are teaching courses or doing research on it. Since I entered the field there has been a significant expansion in the number of specialists on the Japanese economy based in the United States, though the group is still quite small relative to the size and importance of Japan. (I define specialists as those who have expertise on the Japanese economy and the capability to do research in Japan and utilize Japanese-language sources.)

A number of major universities with excellent programs in Japanese studies have added expertise on the Japanese economy in their economics departments. This probably has not been fortuitous. Japanese specialists in other areas have always lobbied within their universities to have economists on the faculty. They have been successful at some major universities, though by no means all. In many cases, it has depended on the creation of an endowed professorship focusing on Japan or East Asia since economics departments generally regard the study of particular countries or regions other than the United States as a low priority.

Despite the interest and importance, it is perhaps not surprising there are so few specialists on the Japanese economy in the United States. There are few direct economic and career incentives to earn a PhD on the Japanese economy rather than doing a standard economics PhD. Such specialization requires additional language training in most cases and typically involves a year or more of research in Japan. One can argue that job opportunities for specialists on the Japanese economy are marginally better than those of economists at large, but there is not a sufficient difference to provide an economic rationale for investing in becoming one. What has driven most of the specialists has been some strong personal interest in Japan and an intellectual excitement about the particular characteristics of the Japanese economy and its performance. Quite often, PhD economists spent some time in Japan earlier in the lives and had become deeply interested in the country as well as its economy.

In the mid 1970s, in order to expand the supply of PhD-level specialists in the United States, a group of us set up the Committee on Japanese Economic Studies, chaired and led by Gary Saxonhouse, the pre-eminent specialist on the Japanese economy in his second generation. The Committee's initial and ongoing purpose has been to provide matching fellowship support for students doing PhDs on the Japanese economy prior to their going to Japan for dissertation research. This has made it possible for students to undertake the language and area training essential to become true specialists.

The program has been extraordinarily successful. The roster of those supported since the inauguration of the Committee includes virtually every eligible PhD student at major US universities, and the dissertation completion rate has been extraordinarily high. In all cases, those awarded fellowships by the Committee have been able to do field research in Japan, typically being awarded a Fulbright, Japan Foundation, or similar research fellowship.

Most American PhDs on the Japanese economy are from a small number of institutions that combine an excellent economics department, a strong program in Japanese studies, and a tenured specialist on the Japanese economy. Not surprisingly, therefore, most have been trained at Michigan, Yale, or Harvard, with a sprinkling of others from Columbia and Stanford, and a few from other institutions.

While most have pursued academic careers, others have made contributions in US government service, including the Federal Reserve System, and at institutions such as the World Bank, IMF, the Brookings Institution, Rand Corporation, and Japan Economic Institute. Particularly in the mid 1980s when good academic opportunities were somewhat more scarce and lucrative career opportunities with investment banks and other financial institutions relating to Japan burgeoned, some very talented PhDs ended up in Tokyo (or elsewhere) doing high-quality, business-oriented research on macroeconomic conditions, monetary policy, interest rate movements, exchange rate movements, and the like. Many continue to interact constructively with their academic colleagues, bringing to bear deep insights and institutional and policy knowledge, especially about Japanese financial markets.

Major US universities have trained a number of Japanese who have earned PhDs in economics. Most did not specialize on the Japanese economy in their graduate program, though in some cases their dissertations were on a Japanese topic. Most have returned to successful careers at Japanese universities.

A few Japanese have chosen to pursue permanent academic careers in the United States, which has been particularly beneficial to the field. The most important first-generation scholars include Kazuo Sato at Rutgers since 1984, who joined the State University of New York after a stint at the United Nations, and Koji Taira who has long been at the University of Illinois. And there are instances of Japanese economists who have taught and done research on the Japan economy at US universities for some years before returning to senior academic positions at major Japanese universities. Among others, these include Takatoshi Ito, formerly at Minnesota and now at Hitotsubashi, and Fumio Hayashi, formerly at Columbia and now at the University of Tokyo.

There are a few remarkable cases in which Japanese scholars left senior tenured positions at major Japanese universities to accept posts at major US universities. One thinks immediately of Masahiko Aoki, now of Stanford, formerly at Kyoto University, and Koichi Hamada, now at Yale, formerly at the University of Tokyo. Both are theorists, and both have made important theoretical and empirical contributions to our understanding of the Japanese economy in domestic and comparative contexts, by developing and utilizing analytically rigorous frameworks.

Study of the Japanese economy in the United States has benefited immensely from these inflows and cross flows of talented Japanese economists, who bring their own perspectives and knowledge to the issues. To that contribution must be added the many Japanese economists who come to the United States as visiting professors or postdoctoral fellows for one or two years.

Specialists on the Japanese economy in the United States owe an immense debt to our counterparts in Japan. For most of us, the initial debt accrued when we were doing dissertation research in Japan, and is owed to our Japanese academic mentors and host institutions, which so hospitably accepted us and provided us guidance and opportunities for interaction with faculty and fellow graduate students. Moreover, as "modern economics" developed in Japan, in economic history as well as in analysis of the contemporary economy, Japanese scholarly contributions to global knowledge of the Japanese economy have grown significantly.

The 1970s marked a dramatic transformation of the Japanese economic profession as many young scholars achieved domestic and international status that placed them on equal footing with their Western counterparts. At the same time, the study of contemporary economics in Japan came to be dominated by teaching, research, and analysis of the Japanese economy. This, after all, is like economists in the United States teaching about the United States. In both cases, domestic policies, institutional structures, and historical experiences and time-series evidence are used to illustrate and enrich the theoretical and empirical economic analysis. Thus, Japanese economists began exploring a whole host of empirical issues relating to the Japanese economy that hitherto had not been subject to sophisticated hypothesizing, model building, econometric testing, and other forms of analysis.

This meant both that opportunities for collaboration between American and Japanese economists have increased substantially and that the nature of the relationship has altered significantly. Some Japanese anxieties in the 1950s and early '60s over American exploitation of their unpublished data bases and scholarship have dissipated. Indeed, given the large amount of quality research being done in Japan on a variety of economic topics, and the still relatively small size of the US academic community doing research on the Japanese economy, most of the contributions are coming from Japan, and much of that research is being made available in English. As early as 1971, Kazuo Sato founded and has continuously edited the valuable journal *Japanese Economic Studies* which provides English translations of major Japanese articles and chapters from books. I found it fascinating that several years ago the major Japanese economics journal *Riron Keizai Gakkai* was renamed the *Japan Economic Review* and published entirely in English. At the same time American and other non-Japanese economists continue to explore new topics and to bring new approaches to them.

Indeed, cross-fertilization has increased substantially. American economists continue to spend research time in Japan at the post-doctoral level as well as for their dissertations, though living costs have risen sharply while the availability of research funding has declined. The trebling of the yen from 360 yen/dollar to its current level, combined with rising Japanese absolute and relative real incomes, have enhanced substantially the flow of Japanese scholars to the United States and elsewhere to spend a year or two, quite aside from the PhD level training they receive here.

Also important have been the international conferences which bring Japanese economists together with specialists from other parts of the world to discuss international themes of common interest. Japan has thus very much entered the mainstream of economics as regards both Japanese scholars and Japanese topics as fields of research. The field has become deeper, richer, and more complex as a consequence.

5 Beyond Japan Specialists

Given Japan's huge economic size and many apparent differences, not only analytical and empirical, but policy interest about the characteristics and performance of the Japanese economy has increased dramatically in the United States and elsewhere over the past two decades. While there are still too few true experts on the Japanese economy, many excellent economists who are not specialists on Japan now include Japan in their comparative analysis or use Japanese data to test hypotheses. This is very good for the field and for knowledge generally as they bring new comparative, analytical and theoretical approaches. There is now a whole host of papers, particularly on Japan's international economic transactions, but also some focusing on comparisons of markets and institutions, being written by non-Japan specialists, and many are of high quality.

Over the past decade, the National Bureau of Economic Research has organized and supported a series of Japan-related projects, mainly by bringing together US economists not specialists on Japan, a few US-based Japan specialists, and economists based in Japan. These efforts have resulted in a series of useful projects and books, typically comparing Japan and the United States, on such topics as demographic transition, labor markets, housing, international trade practices and policies, and macroeconomic policies.

6 The Evolving Research Agenda

Over the course of time since the end of World War II, the US research agenda on the Japanese economy has changed dramatically, reflecting both changing interests and the evolving realities of the Japanese economy, in both its domestic and international dimensions. Only some general thoughts; the nature, causes and implications of these evolving research themes merit an essay of their own.

It is probably fair to say that US postwar research interest started by considering Japan as a historical case study in economic development. That theme has persisted, though over time it evolved from "late follower", only slightly behind continental Europe, to "early follower", chronologically earlier than South Korea and the other newly industrializing Asian economies.

Rather early on attention became increasingly focused on attempting to understand the process of postwar macroeconomic performance. The two decades of exceptionally rapid growth riveted our attention, as did the very good growth (by OECD standards) from the mid 1970s to 1990. So too has the creation and bursting of the stock and real estate bubbles in the early 1990s, and the subsequent dismal economic performance. Japan's postwar economic performance has engendered a number of important studies on various aspects of the sources of growth, including saving behavior and performance; human capital formation; the dynamics of business investment; technology importation, adaptation, diffusion, and improvement; and financial and labor markets. Analysis of the role of the government in Japan's growth process, particularly but not limited to industrial policy, has attracted the attention of political science specialists on Japan even more than economists.

The rise of Japan as a big economy in the early 1970s, in the international economic sense, combined with the persistent series of economic tensions with its sponsor

and ally, the United States, generated attention to Japan's global and bilateral balance of payments, trade structure and performance, trade barriers, exchange rate and (from the mid-1980s) dramatically increasing global creditor position and foreign direct investment huge outflows and limited inflows. One key issue was whether Japan is, or was, an outlier: were its pattern of trade and share of imports in GNP reflective of underlying economic structures and factors, or did they reflect an economic system so different from the rest of the world that it should be treated differently from the general GATT and WTO rules. In my view, every economy has its specific differences and Japan is not exceptional.

As Japan's initially high external barriers to trade have been virtually removed (at least in manufactures), the focus of foreign policy attention and research has shifted to Japan's domestic barriers, competition policy, and deregulation. With increasing international capital market integration and free financial flows into and out of Japan, macroeconomic policies and exchange rate movements have become of major analytical and policy importance.

Within this evolutionary process of new "big" themes, research proceeded throughout the postwar period in two further ways. One was on domestic institutional arrangements and policies. These included such topics as labor markets and the industrial relations system; the various forms of keiretsu and antitrust; banking and financial markets; and the evolving nature and role of the large Japanese corporation, including (in no particular order) industrial relations, technology and R&D, investment behavior, internal organization, alliance arrangements, corporate strategy, and corporate governance.

The second ongoing research strand has been the comparison of Japan with other economies, initially usually only implicit but now usually explicit. Far too often the comparison has been with the United States, even though the two countries in some respects are at opposite ends of a spectrum. But Japan-US comparison was inevitable since so much of the foreign research on the Japanese economy has been by American economists. Moreover, the United States has many good, available data bases. Fortunately, as the number of economists doing research on Japan has increased in Australia, Europe, and, more recently, other Asian countries, there is a widening range of comparative studies involving Japan and countries other than the United States.

Since much of these developments in the research agenda are relatively recent, or at least well known, they do not require further elaboration here. Accordingly, I focus my attention on the early years.

In the 1950s and '60s, a significant proportion of the small amount of US research was on Japan's prewar development and performance. Part of this had to do with growing general interest in the field of economic development and the relevance of Japan as the first successful non-Western case. Part was because, as already noted, from the late 1950s the massive multi-volume project at Hitotsubashi University on *The Long-Term Economic Statistics of Japan* under the direction of Professor Kazushi Ohkawa and his colleagues was providing a much deeper and more comprehensive data basis for the analysis of the historical performance of the Japanese economy.

In addition, several important figures in the early postwar development of the field in the United States were themselves economic historians, not only William Lockwood,

but especially Henry Rosovsky and James Nakamura. Some of us, not economic historians but interested in the lessons of history, did research on historical topics. I wrote on the development of the Japanese banking system in the Meiji and Taisho eras, and did an essay on the interwar Japanese economy. Kozo Yamamura, the polymath among us all, began publishing on a wide range of topics, not only on the contemporary economy and the prewar economy, but on the Tokugawa economy, and even extended his research back to the 13th century. Gary Saxonhouse did a wonderful dissertation on the development of the cotton spinning industry in prewar Japan, emphasizing the technological and human capital factors particularly, which has spun off a series of related projects over the years.

In general, however, the study of Japanese economic history by American economists has tended to decline since the early 1970s. A major part of the reason is that excellent historical research is now being done in Japan by Japanese economists who are applying modern theory and methodologies. Part has been that US research interest has been attracted to understanding the process of Japan's dynamic growth and structural change in the postwar period, and its institutions and particular characteristics. Finally, so many years have passed since the end of World War II that study of the first two or three decades of the postwar economy is now classified as economic history, so we are now studying economic history after all!

Incidentally, I learned the difference between an economic historian and an economist in a discussion with Henry Rosovsky many years ago. I argued that the Matsukata deflation of 1879-81 was a policy mistake because it went too far. It did not simply halt the inflation, it actually generated a decline in prices, and that decline had very adverse effects on many farmers and on income and wealth distribution. Henry's response was that the policy worked: it halted the inflation and established the basis for policy programs and market activities that resulted in modern economic growth. I learned that economists think in terms of what would be an optimal policy (with less consideration of feasibility) while economic historians have a more realistic standard — whether the policy worked.

7 Conclusion

In 1957 when I was just embarking on my career as a student of Japan, I was struck by all the differences between the Japanese economy and the US economy. Over time I have come to realize that most of these reflect institutional and policy responses that were conditioned on Japan's state of development and rapidity of growth. As part of that, one thing I realized early on was that the Japanese are just as rational, competitive, and out to maximize their self-interest as Americans, so "culture" (whatever that means) has never seemed a very good explanation (Patrick, 1961). This is not to say that there is inevitable convergence among Japan and other advanced industrial economies — though I would argue that is the case in the large.

Many of the economic institutions being created in the 1950s and '60s — the industrial relations system, keiretsu, main banks — made economic sense for Japan, especially Japanese producers. They were rational responses to the requirements and the opportunities of the time. After all, Japan was a follower country, but in a very unusual way. Although its per capita income in the 1950s was about equal to that of Malaya (as it was then called) its underlying human resource capabilities — the education, managerial and engineering training and experience, and entrepreneurial experience — were at the

levels of Europe and the United States. Many of the patterns established in the 1950s and '60s represent, to me, a combination of Japan as a follower nation (in terms of GDP per capita and of technology gaps relative to world best practice) and an exceptionally high-growth country (as savings and investment rates increased, the government pursued accommodating policies, and the restrictive global environment improved steadily over time).

It took time for the profession to sort these issues out. At the time of the high-growth era, which lasted until the early 1970s, we simply were unable to absorb fully the facts and implications of this first case of extremely rapid, sustained growth in a peacetime economy.

Although there has been convergence and will be more, because one country's values or objectives are not identical to those of others and, given the specifics of historical context (path dependency, in current jargon), substantial differences among economies are inevitable. In my view, Japan and several continental European countries resemble each other rather more closely than they resemble the United States. In many ways, it is English-speaking countries that are the outliers, or at least an end of the continuum.

One of the wonderful characteristics of the field is a great deal of cordiality, mutual support, and intellectual cross fertilization, regardless of ages, other specializations, and base (academic or not; Japan, United States, or elsewhere). The writers and participants in this volume are an excellent, though by no means fully representative, sample of the research activities underway on the Japanese economy. My wish for all in the field is that we continue to embrace our understanding of the Japanese economy with ever-greater depth and breadth — in the spirit of the camaraderie and intellectual challenge that my odyssey has had the good fortune to share.

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