Japan’s Economic Dilemma

The Japanese economy, after decades of seemingly unsurpassable competitiveness, experienced a major crisis in the 1990s. The depth of the crisis has been as remarkable as Japan’s renowned meteoric success. Economies rise and fall, to be sure; but the magnitude of the Japanese economy’s swing within such a short time, and in the absence of major wars, is unprecedented. Observers of Japan are faced with a challenging question: How can one explain Japan’s seemingly abrupt reversal from stunning prosperity to dismal stagnation?

Bai Gao, in this most illuminating and broadly comprehensive analysis of Japan’s economic story, not only explains the reversion but also goes beyond other analyses to demonstrate how the same economic institutions could produce both stunning international economic success and the subsequent, intractable slump of the 1990s.

As with several recent studies of Japan’s economic reversal, Gao finds seeds of the dilemma in Japan’s failure to adjust the emphases of its postwar economic policy-making to changing world market conditions in the 1970s. But that account alone fails to explain why the path of Japanese economic growth has not been one long decline since the 1970s. Unlike other analyses, Gao’s institutional explanation accommodates the inconvenient fact of Japan’s spectacular growth spurt in the 1980s. By comparing the internal and external factors that sustained miracle growth in Japan in the 1960s and 1970s with the factors that led to the bubble economy of the late 1980s, Gao sheds new light on the long-term internal tensions in the Japanese economic system and describes how and why they came to create problems and finally to “burst the bubble” in the 1990s.

Scholars and students of the Japanese economy and politics, economic sociologists, economic analysts, and observers of globalization will find much useful and important information in this book. Those who have been following the lively debate over “What became of the Japanese miracle?” will be rewarded by Gao’s richly detailed, historically informed, and multilayered contribution. More generally, his explanation of the ways in which Japan’s internal economic policies and structures have clashed and merged with global economic developments enriches our understanding of the recent history of capitalism.

Bai Gao is Associate Professor in the Department of Sociology at Duke University. He is the author of Economic Ideology and Japanese Industrial Policy: Developmentalism from 1931 to 1965 (Cambridge University Press, 1997), which received the 1998 Hiromi Arisawa Memorial Award for Best Book in Japanese Studies from the Association of American University Presses.
JAPAN’S ECONOMIC DILEMMA

THE INSTITUTIONAL ORIGINS OF PROSPERITY AND STAGNATION

BAI GAO

Duke University
To the Memory of Marius B. Jansen (1922–2000)
# CONTENTS

**Acknowledgments**

1. Introduction.............. page ix
2. Three Theoretical Issues........... 1
3. The Rise of the Principles of Coordination and Stability........... 22
4. Coordination, Excessive Competition, and High-Speed Economic Growth........... 48
5. Stability, Total Employment, and the Welfare Society........... 114
6. The Roads to the Bubble........... 152
7. The Struggle of the Welfare Society........... 203
8. Fighting the Stagnation........... 243

**References**........... 275

**Index**........... 294
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