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BOOK REVIEW

THE ORIGIN OF THE PROLONGED ECONOMIC STAGNATION IN CONTEMPORARY JAPAN: THE FACTITIOUS DEFLATION AND MELTDOWN OF THE JAPANESE FIRM AS AN ENTITY

MASAYUKI OTAKI
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Economics writing has a reputation for stolidity unto soporiferousness. To be fair, prose that trades in margins, utils, and curves-named-after-other-economists is perhaps a bit difficult to jazz up enough to read like *For Whom the Bell Tolls*. If one asked the average undergrad to rate his or her econ textbook on spiciness, the response might clock in somewhere between "cell phone contract" and "house dust."

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That may be true, but let no one—and I mean no one—lay the blame for it at the feet of Masayuki Otaki. *The Origin of the Prolonged Economic Stagnation in Contemporary Japan: The Factitious Deflation and Meltdown of the Japanese Firm as an Entity* (whew!) is, hands down, the most raucous economics volume I have ever read. This is gripping, dramatic stuff, larded with high-flown moralizing about policy and theory that is sure to grab and hold the attention of even the most indifferent reader. In the Preface alone, a mere two pages, Otaki manages to deploy "grievous," "precarious," "vicious," "spurious," and even "egregious," a running of the "-ous" adjectives that is perhaps even more thrilling than the running of the Pamplona bulls. I was hooked. Otaki had me at "acute roundabout trespass"; I swooned at "substantively surcharged nominally on account of keeping the Japanese border from the menus of China"; I went all doe-eyed at "fanatic captives in the quantity theory of money". Who could put this book down? Not I. I read it in one sitting, straight through, anxiously, even rambunctiously, turning pages to find out what would happen next.

So, what happened? Well, to be honest, I'm not exactly sure. Otaki has a gift for making economics read like dispatches from the French and Indian War, but I confess I was a little too thick-headed to penetrate the meaning of some of the more esoteric passages (and there are many). Here are the main points, as near as I can tell. (Otaki very helpfully includes a "concluding remarks" section at the end of each of his seven chapters. Without those, I would have been quite lost.)

- Otaki does not like Japanese prime minister Abe Shinzō or, more specifically, his economic policies, which critics and supporters alike refer to as "Abenomics."

- One of the main reasons Otaki does not like Abenomics is that he sees it as an extension of "Koizuminomics" (a term that I just made up and which I do not expect to catch on, for obvious reasons). Koizumi Jun'ichirō was the prime minister of Japan from 2001 to 2006, and made it the centerpiece of his administration, at least in the early days, to privatize the financial arm of the Japanese postal service. Unlike the United States, where the post office is responsible mainly for delivering grocery store circulars while racking up billions of dollars in taxpayer-funded deficits and campaigning on the side for Democrats, the Japanese postal service is generally efficient and well-managed. So efficient and well-managed, in fact, that it also has its own bank. (US post offices provided this service, too, until about fifty years ago.) The postal bank remains in a state of semi-privatization almost two decades after Koizumi's initial attempts at reforms, but it still holds the equivalent of some three trillion dollars US in savings and insurance assets. Otaki argues that the Koizumi brand of "privatization" was really a kind of crony capitalism that Otaki calls "pseudo laissez faire."

- The Japanese people overall have been sold a bill of goods by the late-postwar pseudo laissez fairers. While early-postwar Japan still took seriously the firm as an entity that allowed for transactions not possible in the broader market (Otaki relies heavily here on Coase and Williamson, and also on the alternative firm theory of Uzawa Hirofumi and Edith Penrose), the advent of neo-liberalism and globalism, and in particular Japanese foreign direct investment (FDI) in other Asian countries, have combined to drive down wages for the average Japanese worker and hollow out the firm. Also, in the past, many Japanese companies held shares of one another's stock, which encouraged at least a modicum of regard for the wider social costs of corporate actions, but today the neo-liberal shareholder has taken the place of the worker and the firm as the beneficiary of corporate profits.
- The Japanese stock market (as well as the American stock market) has boomed following the Lehman shock of 2008 because of foreign investors, and has nothing to do with Abenomics except negatively, because investors are looking for something more profitable than the zero or even negative interest rates currently on offer by Japanese banks.

This is the basic scope and outline of the book. There are thus, according to Otaki, major structural problems with the Japanese economy. This much is clear, and even those who have not quite broken the code of Otaki's highly idiomatic English should have no trouble grasping that he is against crony capitalism (he calls the politically-connected president of Japan Railways Tokai "a pharaoh who decided to build his pyramid"), finds Prime Minister Abe and his "right-wing" ideas "appalling," and urges an "evacuation from the myopic policy decisions" such as zero-interest rates and the spending debacle of the Tokyo 2020 Olympics.

One is inclined to agree with much of Otaki's diagnosis. Surely, the Japanese economy is in bad shape, and surely it should be obvious to everyone but government bankers by this point that more "stimulus" spending has as much chance of "reincarnat[ing]" (to use Otaki's term) the Japanese economy as a savings account at a Japanese bank has of generating interest. Otaki is right about all that, and I would argue that he is also right (I tend to agree with Uzawa) that one of the secrets to Japanese economic success was its very strong communal culture, which has been largely undermined in an age of crony-capitalist "rigging" (again, Otaki) of the labor market and the economy overall. There are things that firms in Japan have tended to do that have helped to humanize global competition and shield average workers from much of the destruction side of creative destruction. As the firm has changed and as Japanese business practices have been caught up in a political economy faced with major social and geopolitical upheavals, the old ways have faltered and younger workers have noticed that things just aren't what they used to be. Stimulus doesn't stimulate because the patient is, for all intents and purposes, already dead. Otaki is largely on the mark in this general assessment.

But here is also precisely where Otaki's analysis breaks down. For, while he has very nicely seen what the disease is, he has failed, in my view, to understand what fundamentally causes it. In fact, I think he may be very much misinformed. For, while Otaki sees the out-of-control government spending and jerry-rigged "disinflation" and "deflation" as creatures of the "fanatic advocates of the exorbitant expansionary monetary policy [who] are only naïve captives of the quantity theory of money that has been apparently rebutted by the recent experience both in Japan and the United States," he somehow, in a way that I just cannot figure out, at the same time manages to attribute all of this to a failure to follow the teachings of John Maynard Keynes. "Those who have common sense can hardly deny that the exorbitant expansionary policy fails in recovering the economy," Otaki swashbuckles in the closing chapter, the excellently titled "We still have time and power." Bravo! But wait. What's this? Otaki also seems to think that Keynes, of all people, supplies the antidote to this recklessness. Somehow this all begins to sound like the Atkins Diet.

Alas, Otaki's devotion to Keynes is apparently real. There's this passage, for example:

> […] the prominent disinflation in [the] Japanese economy is not a monetary phenomenon caused by the shortage of the quantity of money, but a real phenomenon which comes from the stagnation of the labor productivity progress.

Well, OK, labor and productivity are certainly very important. But the problem arises when Otaki next introduces a kind of ingrown Keynesianism to explain how "price stability" is the answer to stagnation in labor productivity. "In this sense," Otaki continues,

> the concurrent monetary policy by the BOJ [Bank of Japan], which unreasonably aims to promote inflation via perturbing the confidence of money, is quite precarious. Keynes [citing Keynes (2013)] asserts that "[a] policy of price stability is the very opposite of a policy of permanently cheap money." One of his reasons is that "[m]odern individualistic society, organized on lines of capitalistic industry, cannot support a violently fluctuating standard of value, whether the movement is upwards or downwards. Its arrangements presume and absolutely require a reasonably stable standard."

Keynes is half right. There must be a "reasonably stable standard" if an economy is not to fly off the rails and spiral out of control, as the Japanese economy did when it overheated at the end of the 1980s and then imploded just as Debbie Gibson was going out of style. The reason that Japan has not found its feet again is precisely because of the failure to find this "reasonably stable standard," coupled with the handicap of not having the advantage that the American economy has (and which Otaki also mentions) of being able to print the world's common currency.

But how can Otaki fail to see that the very problems he diagnoses in the Japanese economy are inherent in Keynesianism? For example, this "vicious cycle" which Otaki laments just three pages after citing Keynes could also be read as Keynesianism's calling card:

> The Busted Bubble and the Surge of FDI -> Stagnant Domestic Markets -> [Rising] Unemployment -> [Decreased] Labor Productivity -> Disinflation -> [Reduced] Consumption -> Stagnant Domestic Markets

"We consider that the current Japanese economy is entrapped by the vicious cycle," Otaki concludes. I concur. But this vicious cycle is the *creature* of Keynesianism, not something alien to Keynes's ideas.

An economy must have a "reasonably stable standard" because, as Mises proved in great detail in *Human Action*, people act for a myriad of reasons and there is really no way to index and organize the totality of their interactions—an economy—without a standard that is infinitely fungible and common to all. The problem with fiat money, such as that printed by the ream by the Bank of Japan, the Federal Reserve, and other Houses of Keynes around the world, is that it is not money at all, but so many admission tickets to a political con game.

So, of course the Japanese government is rigging the Japanese economy. What did Otaki expect? The Roman emperors debased their own currency (also covered at length in *Human Action*), and virtually every other sovereign, prime minister, president, and chief of the exchequer who could get away with it has done the same. If someone is OK with being a member of an organization which commits armed robbery from hundreds of millions of bank accounts once every April 15th, then he or she is probably also OK with purloining money in other ways, for example by setting up a monopoly on Gresham's Law and turning all of a given polity's money into political scrip. It's quite a racket. It's what central banks do. Otaki seems to think that the Bank of Japan will one day wake up and start acting morally and for the good of the country—perhaps in the same way that a python might one day start atoning for his past life by volunteering at the Small Mammals Nursing Home. This chicanery is the essence of Keynesianism, and there is no way to prescribe the doctrine without also administering the "fatal conceit" that goes along with it.

Fortunately, there is a "reasonably stable standard" which has long proven capable of thwarting the designs of evil men "enamored with the supposed beauty of his own ideal plan of government": gold. Gold is real money. Gold works as money precisely because nobody can make gold but God. (The reason

Isaac Newton spent so much time on alchemy experiments was not because he was kooky, but because as the Master of the Royal Mint he spent decades fighting counterfeiters and wanted to be sure that they could not reproduce the coin of the realm.) Government bankers, who have never been known to scruple about any possible differences between themselves and the Deity, elide this one sticking point and end up running a nationwide—even, in the case of the Fed, a worldwide—counterfeiting scheme of their very own, to enormous profits for themselves. But with gold, this is not possible. Governments and their bankers are kept on a gilded leash. The bad that a state would do—and, boy, would it do it if it could—is caged up by an eternally sound currency. Keynesianism is the Houdini act that lets governments wriggle out of this pen and do whatever they please with the people's cash.

But Otaki is having none of this. He wants Keynesianism both ways. For example, he compares the collapse of the Japanese bubble economy in the early 90s and the subsequent lost decades to the Showa Depression, when the Great Depression in the United States began to affect the Japanese economy in the early 1930s. Otaki attributes the worsening of the Showa Depression to the *return* to the gold standard, something that Otaki says was "genetically infeasible for Japan judging from the incessant current account deficits adjacent to huge fiscal deficits." Investors saw the return to gold coming and cashed out, thus triggering an avalanche of defaults and business closings.

> […] the rejoining at the excessively high parity only triggered the tremendous outflow of the fiducial currency. Every subtle speculator foresaw the embargo in the near future (December 1931) at the very beginning of return to gold standard. They purchased huge amounts of USD in exchange for fiducial currency, and thus severe domestic monetary contraction occurred.
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> To summarize, the most prominent feature of the Showa Depression is the appalling domestic monetary contraction owing to the unreasonable return to gold standard. Such contraction choked bank loans especially towards small and fragile firms in the fabric industry. [Japan's economy had relied especially heavily on silk production in the early days of Meiji industrialization.] Facing the hardship, these entrepreneurs were forced to sell their products at damping prices, cut wages and fire some parts of their employees. Consequently, prominent deflation progressed.

Otaki sees the return to the gold standard as the problem, then. Like Keynes quoted above, Otaki is half right. Yes, returning to the gold standard can wreak havoc on an economy, but only in the way that restoring law and order occasionally wreaked havoc in Tombstone. Wyatt Earp had to crack a few heads to get folks to settle down. When "subtle investors" saw the sheriff on the horizon, they stuffed their carpetbags full of the locals' flatware and hightailed it out of town. But this is hardly the sheriff's fault.

Amazingly, in the very next paragraph after the one quoted above, Otaki blames the "current prolonged stagnation" in Japan on "easy monetary policy." Otaki wants to contrast this with the Showa Depression, but on closer analysis it is obvious that the two things are the same. Keynesianism is the hocus pocus that seeks to cover over naked theft with highfalutin words. It is hard to see how Otaki can reconcile his support for Keynes with statements such as this:

> The stimulations to the economy, which only involve the maintenance of the current spurious prosperity, are immoral, because such policies and projects gravely disturb the income distribution of the future generations via the debt-management policy. The imprudence in the fiscal policy and the huge scale project of the private sector stems [sic] not only from moral hazard in the limited liability but also from the illusion based on the rootless *expansionism* [emphasis in original] that is a negative inheritance of the High Growth Era.

Otaki seeks to accomplish this with an appeal to Burke, and to measured reform overall. But as Otaki's own telling of just recent Japanese history makes clear (and as a wider survey of Japanese history, or of any other country's history, will confirm), it is not reform that is the problem, but the so-called reformers. The weakness of any economy boils down essentially to just this: some people will try to hijack it via its money system and turn the entire thing to their own ends. There is no way to prevent this with laws and policies. There must be a sound currency, impregnable to human folly. That currency is gold.

A Japanese economy on the gold standard would be insulated from the endless boom-and-bust cycle of the Keynesian shell game. There would have been no bubble, no collapse, and no lost decades. Japanese firms would be healthy and diversified, and there would be no tax-guzzling boondoggles like World's Fairs and Olympic

Games to dazzle the very populace which has been railroaded by the captains of crony capitalism, who always grow rich while the economy and everyone else within it grow poor.

The Origin of the Prolonged Economic Stagnation in Japan is a very good overview of one theory of why the Japanese economy has been in the doldrums for so long. Masayuki Otaki is certainly sincere in his belief that Keynesianism is the cure for what ails Japan. But he is also wrong. I recommend this book as a very helpful primer on some of the more esoteric aspects of Japanese economics, and also as a foil for figuring out what Keynesianism is, and why it offers no future for any economy besides more of the same.

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