

## Japan, The West and The Rest

*John P. Powelson, Centuries of Economic Endeavor: Parallel Paths in Japan and Europe and Their Contrast with the Third World, The University of Michigan Press, Ann Arbor, 1994*

*Reviewed by Pierre van der Eng*

**W**HY did Japan and the West do so much better than the rest of the world in terms of long-term economic development? What hope do the reforming former communist countries and Asia's rapidly growing economies have of emulating Japan and the West? A substantial answer to these simple questions could unlock the shackles which keep the rest of the world underdeveloped.

John Powelson, Professor Emeritus in Economics at the University of Colorado, has an answer, which he gives at the beginning of his book. He argues that in Japan, Northwest Europe and the latter's 'cultural descendants' the 'institutions of economic development' (the methods, rules and instruments of policy and exchange) were fashioned at an early stage, primarily by bargaining among the involved parties (peasants, landowners, producers and traders, but also nobility and church). Thus, these parties 'built into their systems ways of holding each other accountable for performance and for efficient use of resources, both public and private' (p. 1). Participation in processes of political decision making, or democracy, is therefore part and parcel of these societies.

In other parts of the world, equivalent institutions of economic *underdevelopment* were fashioned by autocratic rulers, the military or the elites which ruled a weakened citizenry. Here, the absence of a balance of power among interest groups discouraged an efficient use of resources and ultimately entrenched a condition of underdevelopment. In short, Powelson argues that the explanation of development lies ultimately not in economic factors, but in politics: in the creation of institutions that facilitate the diffusion of power in societies, and in the commitment of all factions in society to sustaining these institutions, on the understanding that it is in their best interests to do so.

Having given his answer, the author sets out to underpin his thesis. He starts with Japan, perhaps to emphasise that the country did not emulate the West. Japan developed its own liberal institutions well before the Tokugawa era (1603-1868); these have evolved in parallel with those in Northwest Europe since the Middle Ages. Powelson notes that feudal relations in Japan and Europe represented 'contract feudalism', based on the mutual benefit they yielded for lords and peasants. The institutions that facilitated power diffusion (such as the monetary system, the legal framework, trading practices, and parliamentary democracy) evolved when guilds and peasant groups formed vertical alliances with factions of the nobility in order to manipulate the balance of power in their favour. Leaders were held accountable for their actions, a principle which was maintained when the bases of power later shifted away from military and religious elites towards economic and political institutions. But why only Ja-

pan and Northwest Europe? Powelson's tentative answer is that relatively high population density and the geographical unsuitability of long-distance trade forced landlords and peasants to cooperate, a condition not found elsewhere.

After six chapters on Japan and Northwest Europe, Powelson devotes 16 chapters to most of the rest of the world. These chapters discuss countries which seemed set for sustained economic growth, but which faltered because power-sharing arrangements akin to those in Japan and Northwest Europe did not emerge: as happened in Africa, India, China, Russia, Spain and Portugal, Latin America, the Middle East, European city states and the 'Four Dragons' in East Asia. In Germany, they emerged only at a later stage, because the periodically recurring forces of 'Easternness' kept the country from emulating the rest of Northwest Europe until after World War II.

The main implication of the book is that sustained development is not possible without the mechanisms of power diffusion. Colonial governments ventured to introduce them in Africa and India. Success depended on the cooperation of local rulers, whose power was confirmed or enhanced in return for their willingness to adopt some of the organisations — not 'institutions', in Powelson's terminology — from the colonising countries. These efforts failed because the 'institutions' were not the result of the careful crafting which would have made them 'respected, trusted and even demanded' (p. 6). There was no commitment to sustaining them.

In other countries, where economic growth did take place, Powelson contends that development eventually had to falter because of the absence of processes of power diffusion. For instance, Russia experienced 'command growth'. Spain and Portugal under (respectively) Franco and Salazar underwent 'reflected growth' by merely absorbing 'institutions of economic growth from neighbouring areas of related culture' (p. 243), but without developing native institutions to facilitate power sharing. The author is also pessimistic about the rapidly growing economies of Asia. Powelson maintains that China's economic achievement in recent years is due not to the government's success in managing economic development, but to the demise of the key role of the central government as economic development has compelled it to share its power, in particular with provincial governments. China too can look forward only to a bumpy ride ('crisis'), when its 'elites' will have to negotiate with 'lower interest groups' (p. 188) about further power diffusion.

Surprisingly, Powelson groups the 'Four Dragons' (Hong Kong, Singapore, South Korea and Taiwan) together with Novgorod in the later Middle Ages and the North Italian city states of the 15th century. He maintains that all these states experienced rapid development because their autocratic governments chose growth on the basis of free market conditions, not because their institutions were crafted through lengthy processes of compromise and negotiation. Although the author is cautious, his comparison implies that the 'Four Dragons' will eventually follow these European city states into oblivion unless they do not find ways of creating the institutions of power diffusion.

Looking ahead, Powelson postulates that the less developed countries which are now implementing structural reforms in order to achieve 'the beneficent objectives of liberalisation, privatisation, and a market economy' (p. 330) are doing so merely to

please international agencies. Unless such organisations are carefully crafted in a 'free market in institutions' (p. 339), he expects the reforms to fail eventually.

Although thought-provoking, Powelson's thesis smacks of historicism, an overt belief in immutable historical laws. This is due mainly to the author's use of an upfront model of the relation between economic and political change, which is followed by a selection of historical details arranged in support of the thesis. For this exercise to be successful, the thesis has to be conveniently vague enough to accommodate all such details. For instance, power diffusion is clearly a matter of degree, given that not one but a range of 'institutions of economic development' will have to develop to sustain economic growth. This raises the question whether there is a critical minimum degree of power diffusion without which no economic development occurs at all. There are also the questions of which institutions will have to develop first, and who should take the initiative in developing them. If the interaction of farmers, landlords and guilds is the necessary prerequisite in the model, there indeed is no role for other actors.

At the other end of the scale, it is possible to be less exhilarated about the development of power-sharing arrangements in developed countries. One may wonder whether there is a critical maximum of power diffusion, beyond which the costs involved in maintaining the relevant institutions will start to stifle development. Solving issues through parliamentary democracy or through the courts may produce compromises which appeases most parties, but reaching the compromises can be costly.

There is also the problem of gauging power diffusion to establish the critical minimum or maximum. For instance, modern Japan may display the trappings of democracy, but could it be regarded as a society in which people exercise their constitutional rights to the full, and in which in which power is entirely diffuse? Can elected Japanese ministers really stand up against bureaucratic ministries? Does the Japanese electorate really determine government?

Powelson provides no answers to these questions. By keeping the thesis vague, he is able to shoehorn most cases in his mould. The consequence of using an upfront model is that, in Powelson's view, the former communist countries and the less developed countries cannot, because of their pasts, hope to emulate Japan and the West. They can look forward only to extended (a matter of centuries rather than decades) strife and confusion, and possibly the accompanying economic set-back as parties with an interest in sustaining economic development eventually work out ways of holding each other responsible and thus create the mechanisms of power diffusion. Weak governments have to shape up, strong governments have to tone down. The practical questions remain: how and to what degree?

Despite these criticisms, the book is thought-provoking and deserves to be widely read, if only because Powelson dares to chastise his economist colleagues for treating economic development as 'a mathematical exercise' resulting in a 'plethora of growth models' (p. 4), thus neglecting other fields of study and the evidence which the past can yield to substantiate or disprove theoretical approaches.

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