

## BOOK REVIEWS

**GLOBAL INSECURITY: A STRATEGY FOR ENERGY AND ECONOMIC RENEWAL.** Daniel Yergin and Martin Hillenbrand, eds. Boston: Houghton-Mifflin Co. 1982. Pp. xiii, 427. Index \$15.95.

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Price and the availability of energy have proved to be the major determinant of the economic well-being of the Free World. When supplies were plentiful and prices low, economic growth occurred as a matter of course. Demand more or less expanded to meet supply. Countries reveled in the luxury of what seemed to be limitless energy.

Then came the events that probably foreshadow the rest of this century: the energy crises of 1973 and 1979 which caused huge relative and absolute increases in the price of energy. These events suddenly ushered in a new era of global insecurity, where cheap and plentiful energy was not assured and prosperity became a subject of nostalgia. This book attempts to be the first rough draft of future world energy use and world economic conditions.

Readers of this journal would probably be attracted to the two fine articles that examine both Japan's response to the crises and the future of Japan's industrial machine in the austere times ahead. The first is entitled "The Remarkable Adaptation of Japan's Economy" by Teruyasu Murakami, a senior consultant in the Energy Studies Department of Nomura Research Institute in Japan. The second is a socio-political piece by Joji Watanuki, Professor of Sociology at the Institute of International Relations of Sophia University in Tokyo, entitled "Japanese Society and the Limits of Growth."

The two articles, while not wholly optimistic in their examination of Japan's future, are not as pessimistic as those that examine other nations' economies. Whereas the sections devoted to the United States bear such titles as "The Bedeviled American Economy" and "America in the Strait of Stringency," and those

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covering Western Europe are plaintively titled "Europe's Farewell to Full Employment?" and "The Social Contract under Stress in Western Europe," the articles on Japan marvel at its "remarkable adaptation" and feel it necessary not to discuss whether the Japanese economy will grow but rather to delineate the limits of growth.

This disparity in treatment could be dismissed as merely the parochialism if only the authors' relative optimism was not warranted. America and Western Europe are correctly portrayed as reeling under the blows of the oil crisis, and as struggling to free themselves; in America's case, from the paralyzing heritage of an expanding frontier and an economy based on unlimited domestic energy supplies, and, in Europe's case, from a social system that refuses to recognize new, harsh and austere realities. Japan alone, possibly because it alone is placed so precariously in the world economy, ("Its only valuable resource is its 120 million rather well educated people," as Murakami<sup>1</sup> so cogently puts it.) has been able to adjust with some semblance of an efficient adjustment to crises and new opportunities. Experience in facing life with little but wits has shown the Japanese the wisdom of acting to improve the situation rather than merely striving to preserve the accepted way of life.

Generally, the book proceeds under two basic assumptions about the future and energy. Robert Stobaugh details two scenarios concerning the seminal condition, the supply of energy, which are labeled the Upper and Lower Bounds.

The Upper Bound is the more optimistic, though it can hardly be read to hearken back to the heady days before 1973. The Upper Bound supply of energy in the year 2000 would total 168.0 million barrels a day of oil equivalent (mbdoe), compared to 94.6 mbdoe in 1980, an average annual rate of growth of 2.6%. The cost of each of those barrels in 2000 (in 1980 dollars) would be \$45, up from \$30 in 1980. This scenario relies in large part on good luck.

The Lower Bound is not as rosy. Here the energy supply in 2000 is a mere 112.0 mbdoe, for an average annual increase of a paltry 0.8%. Each of these barrels would cost \$72, again in 1980 dollars. This scenario portends energy stringency. Disaster is only a catastrophe away<sup>2</sup> (for example, the loss of Saudi Arabian production.)

Murakami examines the economic responses to these conditions that the Japanese have adopted. A reader is compelled to

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1. D. YERGIN & M. HILLENBRAND, *GLOBAL INSECURITY: A STRATEGY FOR ENERGY AND ECONOMIC RENEWAL* at 138 (1982).

2. *Id.* at 160-62.

feel that what is being described is not a nation in the sense of the receptacle of various factions but a superbly functioning machine. The Japanese appeared to be blessed with an ability to divine the handwriting on the wall and to act correctly.

Their response to the 1973 crisis was classic. Although bothered by the panic buying of a population fearing a total oil cutoff, the government surveyed the situation and acted in a coordinated, planned fashion. First, the attack on inflation was given top priority, and inflationary expectations were dampened by governmental actions. Next came the cauterization of the balance of payments hemorrhage. After the initial shock wore off, the government began massive public works which reignited economic growth. Finally, unemployment was kept to a minimum throughout due to the unique relationship between labor and management that exists in Japan. The system of lifetime employment and seniority-based wages allowed sufficient labor flexibility to assure productivity gains to allow retention of workers through the trough of the cycle.

The 1979 crisis was handled even better. Panic buying was a casualty to experience. Price rises were contained at the manufacturing level. Productivity gains allowed economic growth to continue uninterrupted. In short, Japan adjusted very well to the crisis.

Murakami sees no reason why this "remarkable adaptation" cannot continue to serve Japan well. Any future minor oil shortages will be met by an economy that "will exhibit a healthy resilience to oil crises of this type." Current economic growth will be maintained. But most importantly, structural adaptation will take place:

Energy conservation measures and new sources of energy will be developed through privately led structural adaptation, and growth in less energy-intensive industries, notably those that are technology and knowledge intensive, will take place. In addition, the flexibility in Japanese industrial relations will be preserved, and it will support the general confidence of foreign investors in Japan.<sup>3</sup>

The Lower Bound is more serious. It "presumes a major oil shortage. Moreover, it is not a single crisis but a series of successive crises."<sup>4</sup> The market will not be able to function efficiently in such an atmosphere, so Murakami sees a need for government-controlled structural adaptation. This will be assisted immeasurably by the existence of an expected wartime consensus within the country that will allow immediate responses. Such adaptation

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3. *Id.* at 166-67.

4. *Id.* at 167.

will not be easy under crisis conditions, and Murakami warns that it must be completed before the consensus deteriorates and the country factionalizes. But given the commitment and direction exhibited by the government, it is hard to visualize such a condition. And even at its worst such a deterioration would seem like a bad head cold compared to the pneumonia that would infect the rest of the world.

Murakami envisions a real change in the structure of the Japanese economy. Watanuki describes the likely changes such an adaptation is likely to cause within the society and political system.

After first describing the halcyon days before the 1973 crisis, Watanuki examines the social changes wrought by that crisis. He states:

The 1973 energy crisis delivered a strong blow to the attitudes formed during the period of economic growth embodied in such slogans as 'Consumption is a virtue' and 'Material affluence has the top priority.' . . . After the oil crisis, the traditional Japanese values of frugality and savings regained their position.<sup>5</sup>

Of course, once the crisis passed, Japanese consumers, as did consumers elsewhere, found their addiction a difficult one to restrain. However, the price explosions have had a telling effect on energy consumption. Less was used and what was used was used more efficiently.

Watanuki also explores the various factions present in Japanese politics that are apparently overlooked by many Western observers who see only a culturally and politically homogeneous Japan. What emerges is a country that politically resembles West Germany without its Social Democratic Party. The conservative ruling party is hounded externally by the Japanese "Greens" and leftists, and internally by its contradictory rural-Big Business representation. The saving grace in this combination are the technocrats of the Ministry of International Trade and Industry (MITI). MITI is charged with nothing less than planning the future of the Japanese economy. MITI formulates and implements the plans for investment and structural adaptation. It is this bureaucracy that offers the chance for coordinated and relatively painless preparations for possible future severe energy shocks. Through MITI Japan can react to crises and survive to prosper.

Watanuki sees some dangers, however. First, it is not likely that the economy will top a 4% annual growth rate in the energy-short next two decades. This will not be enough to provide the million or so new jobs necessary to maintain present employment.

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5. *Id.* at 178.

As the work force ages, provisions must be made for workers over 55, whose unemployment could exacerbate social tensions. Such an aging population also drives up social welfare costs, with the tax burden being placed on the younger generation. Another struggle will be over nuclear power. Watanuki warns that the society is preparing for an Upper Bound lifestyle and is not seeking to avoid a potentially devastating Lower Bound predicament.

If the Upper Bound results, Watanuki sees the Japanese strengths ensuring a comfortable life for its people.

Being free of any serious ethnic or religious cleavages, and having become more egalitarian as a result of the post-war reforms and through the period of high-economic growth, Japanese society is—and would remain—more stable than those of the other OECD countries. . . . Japan will have fewer problems than other societies.<sup>6</sup>

The Lower Bound would be more problematical. Watanuki envisions a possible 20th-Century version of Hobbesian economic despair if energy supplies do not allow sufficient economic growth. Polarization in Japanese society becomes a serious possibility under those circumstances, and solutions will become harder to implement. In sum, Watanuki sees Japan far better able to handle the Upper Bound than the Lower Bound. This is a rather obvious conclusion. One who has observed the Japanese is hard pressed to accept Watanuki's vision of social disintegration, particularly in light of the ability demonstrated by that country in the last decade to restrain passions and selfishness for the greater good of the economy. Such interfactional trust and consideration seems to be a rock not easily shattered by external shocks.

From "Global Insecurity" comes a greater appreciation for the manifold adaptations that the new era of limited energy supplies mandates. For the Third World, Western Europe and the United States, such adaptation will be very hard and socially divisive. Although the Japanese are in a much more precarious economic position, they have continually demonstrated an ability to take advantage of situations and to shape solutions. One only has to remember the influx of Datsuns, Hondas, Toyotas and Sonys into this country to see the entrepreneurial and cooperative strengths of Japan. Japan seems an Asian Switzerland, a country with many handicaps but the ability to work together and take advantage of opportunities. Murakami wonders about the ability of the Japanese to attract long-term capital, but Japan probably has the will to continue its remarkable economic record.

In this time of recession (depression?) it is easy to forget the energy crisis. Without frequent reminders of the precarious na-

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6. *Id.* at 197-98.

ture of the present energy supply situation the notion of an energy crisis can be ignored. This book is one such remainder.

The book also suggests a clear preference for the type of governmental policies that are now required. Even the best of the energy scenarios is rife with problems. Temporary market signals of "gluts" must be disregarded, and preparations must be made for the crises that lie ahead, or the social fabrics will be devastated. America has staked its future on pure and unrestrained market forces. The Japanese, cognizant of the blind alleys and shortsightedness of the market, are more willing to direct the future rather than hope the invisible hand will solve the many difficult problems that may occur within the next decade. Only the future can judge which is correct.