government, collective action, etc. At first, the data shows that the paradox gets even deeper. Americans, if anything, have slightly more positive attitudes than Canadians toward unions. But when it comes to deeper values, Lipset and Meltz find that, as expected, Canadians tend to be more favorably inclined toward collective action, while Americans display a more individualistic attitude. As a result, Lipset and Meltz point out that Canadians have regularly elected "left-wing" parties at the provincial level where most legislation regarding unions tend to be enacted, making it easier for unions to organize and exert their power. For instance, in several Canadian provinces, a union can be certified without an election, provided that enough workers just sign a membership card. Many of these left-wing parties have also enacted antiscab legislations over the years, making it easier for unions to go on strike in Canada than in the United States.

My first reaction after reading this book was that the authors were perhaps a little bold in their assertions about the source of the "paradox" of American unionism. On the one hand, their thesis is certainly plausible, the new data collection has to be commanded, and these two authors are extremely knowledgeable about the subject matter. On the other hand, the distinction between attitudes and values remains a little nebulous. I would have thought that, if Americans were so opposed to collective action, some of this would have filtered out in terms of negative attitudes toward unions.

I was also at first a little uneasy about some of the conclusions reached in the book, wondering whether the empirical evidence presented in the book was strong enough to support the authors' conclusions. More research following up on the thesis presented in the book would make me more confident that differences in values on the two sides of the border are really the source of difference in unionization rates. In the mean time, however, Lipset and Meltz have intrigued me with their view that we need to go beyond demand and supply and add factors such as values, beliefs, and attitudes if we really want to understand a phenomena as complex as unionism. As economics keeps exploring how nontraditional factors such as values, beliefs, or identity shape important economic decisions, the book can rightly be viewed as a wonderful example of how some theoretical boldness, combined with careful empirical evidence, can open up new and innovative ways of better understanding complex social and economic phenomena.

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The Fable of the Keiretsu: Urban Legends of the Japanese Economy. By Yoshiro Miwa and J. Mark Ramseyer. Chicago and London: University of Chicago Press, 2006. Pp. xiii, 181. $32.50. ISBN 0–226–53270–4.

JEL 2006–1389

This is a remarkable book in many ways. Its basic point is fair: the popular image of Japanese business has a large overlay of jibber-jabber. In the 1980s, some wide-eyed "Japan experts" took the apologetics of government bureaucrats and rent-seeking executives seriously, and conjured up a largely imaginary economy of selfless workers, frugal CEOs, socially responsible bankers, and prescient bureaucrats. Alas, data shattered this spell. The Japanese do not, in the infamous words of French Prime Minister Édith Cresson "live like the ants" (see "World Notes France," *Time* on-line edition, April 13, 1992), and their economy works much like most others. That is, managers entrench themselves against corporate raiders (Paul Sheard 1991, 1994), bankers mainly worry about borrowers' liquidity (Randall Morck and Masao Nakamura 1999; Morck, Nakamura, and Anil Shivdasani 2000), and state subsidies prop up weak firms (Richard Beason and David E. Weinstein 1996). All this is now well known to serious students of Japanese economics.

Had Miwa and Ramseyer explained all this in their clear and delightfully readable style, Fable of the Keiretsu would have been a must for libraries and bookshelves. Sadly, they cannot restrain themselves, but press on, declaiming that "the tales in the West about the Japanese economy are not exaggerated. Nor are they biased or misleading. They are simply wrong, fictitious accounts with no basis (not little basis, but no basis) in anything on the ground" (p. 3). In pursuit of unconditional victory, *Fable of the Keiretsu* becomes remarkable for its misapprehension of the data and of basic economics.

To appreciate these problems, first consider the data. *Business groups,* structures in which listed firms hold equity blocks in other listed firms, are important in Japan, as in most every country except the United States, where tax and regulatory issues force most listed firms to be freestanding entities (Morck and Yeung 2005). Business groups have different structures in different countries, and some in modern Japan, called *horizontal keiretsu,* share a unique structure wherein relatively small intercorporate equity stakes sum to de facto control blocks (Morck and Nakamura 2005). But Miwa and Ramseyer, apparently innocent of business groups' prominence in any vanilla economy (Rafael La Porta, Florencio López-de-Silanes, and Andrei Shleifer 1999; Morck, Daniel Wolfenzon, and Yeung 2005; Tarun Khanna and Yishey Yafeh 2007), argue for Japan's "normalcy" by aspersing that "The *keiretsu* do not exist.... They never did" (p. 2).

To affirm this nonexistence, they refer repeatedly to Toyota Motors' arbitrary consignment to the Mitsui business group by the Economic Research Institute's *Research on Keiretsu* (ROK) reports. In fact, Toyota owns little or no stock in the typical Mitsui group firm, and Mitsui group firms own little or no stock in Toyota. Miwa and Ramseyer rightly debunk the ROK, vastly exaggerated definitions of business groups with little relationship to actual corporate ties, which researchers should avoid in the future.

But Japanese financial statements clearly show *keiretsu.* For example, the 1988 annual financial statements for Mitsui Chemicals show Toyo Rayon holding a stake of 11.93 percent, the Mitsui Trust Bank with 6.95 percent, the Mitsui Bank with 4.77 percent, Mitsui & Co. with 4.32 percent, Mitsui Life with 3.67 percent, Koa Sekiyu Oil with 3.52 percent, the Sumitomo Trust Bank with 3.46 percent, the Mitsubishi Trust Bank with 3.4 percent, Mitsui Engineering and Shipbuilding with 3.38 percent, and Mitsui Chemicals with a 2.71 percent stake. A little work reading through Japanese financial statements for intercorporate equity stakes would have shown that, although they are have fewer member firms than the ROK allege, webs of intercorporate crossholdings clearly demarcate a few dozen very large firms in each of the traditional keiretsu business groups. Miwa and Ramseyer roar that "few scholars have bothered to check the facts" (p. 20). But had they gone to financial disclosure statements, rather than relying on ROK lists, they would have seen these intercorporate blocks, which are the defining feature of a *keiretsu.* The keiretsu do exist, but contain far fewer firms than the ROK indicates; and many firms, large and small, are independent players.

Some, like Toyota, are actually best envisioned as lead firms in their own business groups. This became apparent to the American corporate raider T. Boone Pickens in 1988 when he launched a hostile takeover of one of Toyota's suppliers, Koito Co. Koito's 1987 financial statements show its largest shareholder, Toyota Motors, holding 19.06 percent, and a raft of other firms holding stakes ranging from 5.96 percent (Nissan Motors) down to 1.53 percent (Mitsubishi Bank). Overall, 34.46 percent of Koito's stock was listed as held by banks and insurance companies, 15.63 percent was in the hands of other financial corporations, and 40.17 percent was held by nonfinancial corporations. Collectively, intercorporate equity blocks accounted for the majority of Koito's market capitalization. By 1989, Pickens held 26.44 percent—essentially all of the company's real public float—but could neither buy more stock nor even secure a seat on the board. Koito's corporate blockholders shunned Pickens, and his raid ultimately failed. Although the ROK assigns Koito's blockholders to various *keiretsu,* they nonetheless united to protect Koito's management—an impressive feat for a fable! Pickens's misadventures underscore both the solid power and vague boundaries of business groups in Japan.

But the most remarkable aspect of the *Fable of the Keiretsu* is its economic reasoning. Its explanation of why state-subsidized loan programs "need not (and in Japan almost certainly did not) increase investment" (p. 142) is worth quoting verbatim from pp. 142 and 143:

> To see why the programs would not have increased investment, take Figure 6.1 [reproduced as figure 1 below]. The downward sloping line gives the investment function for a hypothetical firm—$I(\rho)$, the amount of which depends on the imagined rate of return on investment. At the market interest rate, r_m, for example, it will invest I^*. With access to cheaper funds, [the firm] will invest more. Hence the obvious intuition: by lending money at submarket rates, the Japanese government could promote investment in targeted industries.

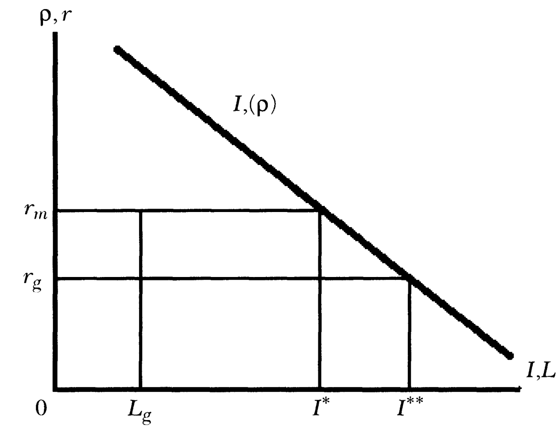

Figure 1. Investment Relative to Interest Rate for a Hypothetical Firm

> Unless the government either lends all the funds a firm needs or makes its loans explicitly conditional on a firm making investments it would otherwise find unprofitable (and the Japanese government seldom did either), the intuition is wrong. Suppose the government agreed to lend a firm all amounts it wanted at rate r_g (below r_m). The firms would expand its planned investment from I^* to I^{**}. Suppose instead, that the government will lend only L_g (below I^*) at r_g. The firm will happily borrow the cheap money from the government, but it will merely pocket the savings (given by $[r_m - r_g] \times L_g$). It will not expand investment and thereby its productive capacity. Because it cannot borrow all the money it needs from the government, to expand it must borrow on the market. For that money, however, it must pay r_m. Because it borrows on the margin at r_m, it still invests only I^*.

At least here, your reviewer finds terms like "exaggerated," "biased," and "misleading" not quite up to the job.

Miwa and Ramseyer also show remarkable self-esteem. After a review of the literature, they explain the ubiquity of econometric results orthogonal to theirs as "one of the by-products of editors who insist on statistical significance: authors build their articles around the 1 in 20 results that come in significant at the 5% level." Some empirical results, especially on the role of Japanese banks, have not withstood robustness checks, but this is the essential dynamic of empirical research, not an indictment of it. Such over-the-top rhetoric does clinch the case though—just not the way Miwa and Ramseyer think.

This is profoundly unfortunate, for Miwa and Ramseyer are right in their fundamental premise that the standard economic historiography of Japan needs redrawing. Sadly, the exasperating shrillness of their invective subverts this core truth. *Fable of the Keiretsu* reads despairingly like a one-sided legal brief by an overzealous prosecutor doing whatever it takes to convict. Legal scholarship often posits such unbalanced positions as debating points; but economists are likely to perceive only a disingenuous rant. By overstating and (no doubt accidentally) miscomprehending, these esteemed legal scholars unwittingly lose a case that was easily winnable by summary judgment had they pursued lesser charges.

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Monetary Theory and Bretton Woods: The Construction of an International Monetary Order. By Filippo Cesarano. Historical Perspectives on Modern Economics. Cambridge and New York: Cambridge University Press, 2006. Pp. xiii, 248. $80.00. ISBN 978–0–521–86759–7. *JEL 2007–0221*

This book is fundamentally an intellectual history of economists' reflections on the functioning of the international monetary system. It focuses especially on the period 1920–45, with a lengthy backward look at the pre-1914 period and a briefer forward look at the period 1945–73. The preoccupation in the early 1920s was with reestablishment of the pre-1914 gold standard, as it was understood by contemporaries, but with adaptation to allow for postwar changes, especially the differential rise in national price levels and the proliferation of new countries (and new currencies, and new central banks) following the breakup of the Austro–Hungarian, Russian, and Ottoman Empires. The preoccupation in the early 1940s was with establishing a brand new international monetary system, what became the Bretton Woods agreement of 1944, that would allow, indeed encourage, the national pursuit of what we would now call macroeconomic objectives—full employment and price stability—while at the same time recreating a liberal international economic order that encouraged multilateral trade. That effort of course took place against the background of the breakdown of the gold exchange standard and the near collapse of industrial capitalism in the Great Depression of 1929–33. It is unsurprising that a new system designed from the ground up should reflect the intellectual currents of the time, the thesis of the book.

Filippo Cesarano, head of historical research at the Bank of Italy, skillfully reviews the extensive relevant writings of British, American, and Austrian economists, drawing in others (especially Swedish Gustav Cassell) as appropriate, first on the requirements for reestablishing a gold standard after the disruptions of World War I, epitomized by the return of the British pound to gold convertibility at its prewar parity in April 1925, under leadership of Chancellor of the Exchequer Winston Churchill (who later came to regret it).

Cesarano divides his characters into three broad categories: the radicals, led by John Maynard Keynes, who already in the early 1920s wanted to reject the rule-bound classical gold standard in favor of greater national monetary freedom to stabilize prices; the conservatives, represented mainly by Friedrich Hayek, who so distrusted human monetary management that he urged full restoration of the automatic gold standard, as he conceived it; and the moderates, a larger and more diverse group represented here mainly by Ralph Hawtrey, who sought to preserve a key role for gold convertibility but transform the monetary system to what became known as the gold exchange standard, to conserve on limited supplies of monetary gold (in view of higher prices and more national currencies), and to foster active cooperation among central banks, still then largely in private hands. (An enduring legacy of this period is the Bank for International Settlements, set up in 1930 to administer the Young Loan to Germany, but with an explicit injunction to foster cooperation among central banks.)

The main protagonists in the early 1940s are Keynes and Harry Dexter White, lead authors respectively of the British and American blueprints for a postwar monetary system, but with a host of commentators from both sides of the Atlantic, including continental Europeans who