

1970s.³⁷ Steel did not confer important technological externalities. Creation of jobs did not represent an extra benefit in Japan, because the economy was already running at full employment. Unless a plausible source of marginal social benefits can be identified, we must conclude that the targeting of steel—despite the industry's growth—was a mistake. It diverted resources to an area where the return was lower than elsewhere and thus acted as a drag on Japan's growth.

The case of Japanese steel is an instructive one. It is a reminder that the economic success of an industrial policy cannot be measured simply by looking at the growth or market share of the targeted industry.

Let us return to the crucial question of whether Japan's industrial policy was really the key to rapid growth during the 1950s and 1960s. Might the economy have grown just as rapidly without the policy? In the light of the steel case study, we should be cautious about attributing success mostly to industrial policy.

First, it is not clear that the activities of Japan's government were actually pushing Japan's industrial policy faster than they would have gone under *laissez faire*. Japan's industrial policy was applied in a regulated economy. To make up for distortions caused by rationing foreign exchange, imports and credit, MITI/MOF turned around and allocated resources in a sensible way. In the end, Japan arrived at the outcome that it would have even if the government had stayed out of the picture throughout. The government may have been making sensible investment decisions, but the market would have made similar decisions if left to itself.

Second, there is the possibility that the dynamism of Japanese industry had its roots in factors other than industrial policy and that Japan would have done well in any case. Reasons for Japan's success are many: Japan had the highest savings rate in the world, an effective educational system, good labour-management relations, and an outward looking business orientation and corporate management. It is possible that industrial policy may have been a minor positive factor or even a drag on economic growth. Some of Japan's most successful industries, notably automobiles and consumer electronics, were not among those that received high government priority.

The Japanese industrial policy of the 1950s and 1960s remains the picture of Japan that many retain. Foreign exchange and credit rationing are history. Japan's industrial policy since the mid 1970s has aimed at encouraging a new set of industries, the "knowledge intensive", or high technology, industries. The tools of industrial policy have been a combination of modest

³⁷ Paul R. Krugman, in Dominick Salvatore, ed., *op. cit.*, 1987.