

Japan Academy Prize to:

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for *Economic Development in Comparative
 and Historical Perspective*

Outline of the work:

This empirically-grounded, tightly-argued volume delineates, unlike many other economic history books, the early modern and modern economic history as one process of economic development, not as a discontinuous process punctuated by a set of events that clustered around the time of an industrial revolution, while paying full attention to the stylised fact that the early modern and modern industrialisation processes did not lead industrialisers at both ends of Eurasia to converge.

Economic development is not a product of the modern era. Recent research has shown that in both Japan and north-western Europe (i.e. England and the Low Countries) before the industrial revolution their economies grew at an annual rate of 0.1% and 0.2% respectively over a century or two, a fact that impels us to see both pre-modern and modern growth as a continuous, cumulative process. Professor Osamu Saito takes on this challenge by referring to Adam Smith's theory of the division of labour and its interpretations provided later by Alfred Marshall and Allyn Young. This tradition in economics focuses on the increased division of labour at inter-industry levels: When a manufacturing process is divided up, each becomes a specialised, independent branch of the industry with new markets emerging between the branches. This indirect, roundabout method of production leads to economies of increasing returns. Given another theorem by Smith, as 'the division of labour is limited by the extent of the market', it is likely that a sizable rate of increase in population or development of overseas markets, or both, will broaden the extent of the market, leading to economies of roundabout production, i.e. what the author calls 'Smithian growth'. This approach, therefore, makes it possible to connect the concept of the market with the history of output growth and living standards. Moreover, it enables us to understand why proto-industrialisation begun in the manufacturing sector of intermediate goods, in what sense the classical industrial revolution—which took place in much the same sector—was 'revolutionary', and why growth accelerated in the subsequent phases of industrialisation.

As for the issue of why the development path was multiple, the author attaches particular importance to, first, the ways in which factor markets in land and labour evolved in pre-modern periods. The contrast between England and Japan, for example, can be explained by the role waged employment played in the whole economic structure and the timing of the emergence of well-functioning labour markets before the factory. The second factor is in what form Smithian growth took in the industrialisation process. Mass production is one form in which economies of increasing returns manifested themselves, and another can be the Marshallian industrial district within which external economies were at work through the clustering of small- and medium-scale firms, thus accounting for a different path in industrial development. The third factor is how the formation of skills was institutionalised in society. The author argues persuasively that skill intensity is a concept that should be distinguished from labour intensity, giving us a better understanding of the difference between the labour-intensive but skill-intensive mode and the cheap labour-using mode, and between the capital-intensive but skill-intensive mode and the skill-saving and mass-producing mode of

industrialisation in modern economic history.

With this multi-layered framework, the author has explored issues that have been actively discussed since the publication of Kenneth Pomeranz's *The Great Divergence* in 2000. Based on his own new estimates as well as his re-working of oft-used data, the author examines both propositions made by Pomeranz himself and findings made against his thesis, especially those by R.C. Allen and collaborators. In so doing, Saito stresses that real differences between East and West cannot be properly understood unless household income, not just real wages, and income inequality, not just per-capita income, are compared; and that due attention should be given, not only to product markets, but to factor markets as well. His empirical endeavour is directed, for example, to the computation of average household incomes by social class for the Japanese region of Chōshū in the 1840s and to the comparison of the estimates with those for Stuart England and Mughal India. The results suggest that income inequality was substantially narrower in Tokugawa Japan than in Stuart England and in Mughal India. This contrast with England was likely to have resulted in higher per-capita output growth in England than in Japan; however, it is also likely that Smithian growth characterised both England and Japan, but not India. Such findings led the author to more fundamental contrasts between Japan and north-western Europe, i.e. in factor markets and ways in which their household economies worked.

Professor Osamu Saito has thus demonstrated that deeper analysis of the ways in which contrasting modes of pre-modern economy worked can, on the one hand, shed light on how under certain circumstances both could show broadly similar achievements, while, on the other, show how the contrasting pre-modern systems exerted profound influences on the different paths the two groups of industrialisers took in the modern period.