GOVERNMENT AND MARKET IN ECONOMIC DEVELOPMENT OF POSTWAR JAPAN

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戦後日本の経済成長にみる政府と市場

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現在進行しつつある，ソビエト連邦および東欧諸国における中央計画経済の破綻から市場経済の導入にいたる過程は，戦後日本を経済発展のモデルケースとして研究する重要性を高めていると言えよう。

戦後日本の経済成長に関して，日本政府の果たした役割については様々な論議がある。欧米の学者の間では，日本政府は産業政策に沿って必要な資源配分を行い，より効果的に経済成長を促進したとの見方が多い。その一方で，戦後日本の例が意味することは，急速な経済成長を促すには，中央計画経済のような集権的な体制が不可欠なのではなく，市場経済においてこそより高い経済成長を維持できる点であるとも考えられている。

したがって，本論では，こうした戦後日本の経済成長を例として，政府と市場の経済成長を促進する上での役割を明らかにする。

1. INTRODUCTION

All the students of economics have been taught that it is necessary to mobilize all the necessary resources in order to promote rapid economic growth and industrialization, and, in turn, to concentrate and centralize economic power in the hands of the government. Until recently, nobody has really questioned whether these necessities are mutual or contradictory.

As the recent development in communist nations of the Eastern Europe shows, the centrally directed, socialist economy does not promote economic growth and industrialization any faster

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than the market oriented, capitalist economy. Moreover, Asian NICS, namely, Korea, Taiwan, Hong Kong, and Singapore, who are said to have followed the similar route to postwar Japan, have been achieving enormous success in their promotion of economic growth and industrialization. All these developments in today's world clearly suggests two necessities, namely, the mobilization of all the necessary resources and the concentration and centralization of economic power, are not mutual, rather contradictory, in order to promote and sustain rapid economic growth and industrialization.

In the post World War II era, Japan is the most successful economy to promote economic growth and industrialization. Considering the world today, this fact itself makes the experience of postwar Japan an interesting and important case study. But to explain her economic success, more interestingly, many Western scholar often described the economy of postwar Japan like a contrally planned or a state guided economy, where the state takes the reins of the economy. Though often sensationally written or journalistically exaggerated, such a description is not totally wrong about describing the characteristics of postwar Japanese economy. Despite of it, postwar Japan undoubtedly shares the essential characteristics with other contemporary industrialized nations of the West in terms of economic system.

By reviewing her experience, the economy of postwar Japan may suggest the universal implication to the industrialization. Thus, the purpose of this paper is to review the economy of postwar Japan as an economic system, especially the roles of government and market, to promote economic growth and industrialization.

2. COMPARATIVE VIEWS ON GOVERNMENT ECONOMIC ROLE

Many scholars of the West have considered the role of the government as a key to the economic success of postwar Japan. Here, the role of the government in the the postwar Japnese economy will be discussed in contrast to one in the contemporary capitalism.

2-1 Western View on Roles of Government

From Adam Smith to John Steward Mills, the students of classical laissez-faire capitalism limited the role of the government in such areas as law and order, national defense, and public services. Assuming the perfect competition, the market, if left alone, leads to the ideal allocation of resources and production. Accordingly, the government intervention is considered to disturb the economy and its role is limited in the classical laissez-faire capitalism.

However, the size and role of the government were gradually changed and increased in the economy from the classical laissez-faire to the contemporary capitalism. Such change and increase in the government size and role in contemporary economy is generally considered to have been caused by the emergence and growth of large-scale corporations.

The emergence and growth of large-scale corporations naturally resulted in a considerable degree of concentration and centralization of economic power(1). This concentration and centralization of economic power includes control of traditionally market determined variables, such as prices of commodities and resources, and, to some extent, consumer tastes and preferences through sale promotion. In other words, large-scale corporations are considered to have some degree of monopoly (as well as monopsony) power. Because of their concentration and centralization of economic power, the emergence and growth of the large-scale corporations also brought the imbalance to the market mechanism and increased instability of the economy(2).

The emergence and growth of large-scale corporations thus induced the size and role of the government in the economy to have increased. In the micro level of the economy, the government enacted anti-monopoly act, legalized labor unions, and so on, in order to counterbalance the economic power of the large-scale corporations. In the macro level of the economy, the government employed the fiscal and monetary policies to guide or manage the aggregate level of economic activity. In the contemporary capitalism, the government constitutes a major, inseparable part of the economy and, in turn, plays a strategic role in coordinating an aggregate economy.

2-2 Difference of Japanese Government Role

It is true to say that the government of postwar Japan had consistently spent a lower percentage of Gross Domestic Product than other industrialized nations of the West. Until the early 1970's, moreover, the rate of growth in public expenditure had been kept lower than the general rate of economic growth in Japan. Theoretically speaking, these facts are supposed to indicate less involvement of the government in the economy, as well as less reliance of her upon monetary and fiscal policies to control aggregate demand (and supply).

Instead, the government of postwar Japan (or the Ministry of International Trade and Industry) forged so called the High-Growth System during the 1950's and had directly intervened in the private sector of the economy by temporarily seizing control of the allocation of investment capital and imported raw materials and technologies. The High-Growth System (hereinafter, HGS) consisted of three integral parts; (1) the overloaning system, (2) the Fiscal Investment and Loan Plan ("zaisei-toyushi-keikaku"), and (3) the foreign trade and exchange control system. Through the High Growth System, the government had controlled capital and other resources and allocated them "indirectly" and "indicatively" to those enterprises and industries with a high growth potential[3].

Moreover, the government played an important role in coordinating those industries facing possible over-capacity or seemingly depressed. Actually the government loosened the enforcement of antitrust law and legalized the formation of antirecession cartels. Actual measures of antirecession cartels, for example, are low interest loans, tax credits, liberal depreciation, and others. In order to maintain certain level of price and production, the government used these measures and guided the industry not only to reduce its overall production level, but also to scrap physically undepreciated productive capacity of its individual enterprises. Likewise, the government has promoted mergers in order to achieve economies of large-scale production.

2-3 Summery

While the role of the government in the contemporary capitalism is basically macro economy oriented and complement to market system, one of postwar Japanese government is basically micro economy oriented and an approach directly intervening the market system. In the contemporary capitalism, it is also discussed that the government relation with large-scale corporations is characterized by regulatory and countervailing. Contrary, the posture of the postwar Japanese government toward the industry is not regulatory but cooperative, not countervailing but fostering.

As a result, the approach of the postwar Japanese government to economic growth and industriazation is often described like "Neo-Mercantilism," and the cooperative relation between the government and the business circle had been described often as "Japan Inc."[4] But the question is why the government liberalized the economy or did not keep its rein, if she had been so successful to promote economic growth. Another question is why the large-scale enterprises in postwar Japan, despite of its cooperative with the government, constituted a fiercely competitive market as they have matured. But as an economy or industry matures, market competition and investment drive normally lessen among large-scale corporations. Thus, the comparative views discussed above necessarily raise these questions to be answered.

3. GOVERNMENT AND MARKET

The economy of postwar Japan are characterized by two almost contradictory phenomenon: One is as described above, the government direct intervention in the allocation of capital and other resources, and the other is a creation of fiercely competitive market consisting of large-scale enterprises as the economy grew. Here, the government and the market of postwar Japan will be discussed from this viewpoint.

3-1 Economic Environment of Postwar Japan

The postwar environment, both domestic and international, was too harsh to launch all-out economic recovery and, in turn, to promote major economic advancement only through the market system. Japan not only lost a significant part of the capital stock during the war, but also was isolated from the sources of raw materials which she once occupied before the war. Thus, the domestic environment was characterized by insufficient capital and natural resources. The international environment was represented by the IMF-GATT system, in which domestic industries would be exposed to competition from foreign large-scale capitals as her economy would develop. In addition, the technological gap appeared and widened between the United States and Japan during the war.

Facing these domestic and international economic environment, the government of postwar Japan had to concern with such major issues as 1) optimum use of scarce resources, 2) economies of large-scale production, 3) international competitiveness, 4) overall efficiency and productivity, and so on, in order to promote economic recovery and growth effectively in a short period of time. So it can be said that the postwar economic environment was too severe to let the market system to hangle, and made the government intervention essential for the allocation of capital and resources and, in turn, the promotion of economic recovery and growth.

3-2 Definition of Industrial Policy

Given the major issues stated above, the industrial policy has cffn formulated because it was widely considered among the government bureaucracy of Japan that market system was considered unreliable or imperfect in terms of an allocation system and, thereby, it was better to supplement it by consciously intervention. In 1983, Keiichi Konaga, then Director-General of Industrial Policy Bureau, MITI, explained the adequacy of the industrial policy in relation to the imperfection and unreliability of market system as follows:[5]

First, the market is not the perfect mechanism economic theories like to make out.
Second, the existence of external economies and diseconomies must be taken into account.
Third, from the viewpoint of long-term, dynamic industrial development the market does not and cannot provide accurate information, even though overall market performance can be improved by technological innovation, investment and research and development on the part of individual ausinesses.
Finally, coordination between countries of international economic relations–and in the areas of trade and investment, for example–cannot be left to the market forces alone.

For these reasons the market mechanism leaves much to be desired, especially from the viewpoint of long-term, dynamic industrial development. Therefore, it must be complemented or improved. This is precisely where industrial policy comes in.

3-3 Industrial Policy and Industrial Organization

In contrast to Konaga's explanation, the Western scholars have been describing the industrial policy more aggressively. For example, Robert Ozaki stated that the industrial policy is "an indigenous Japanese term not to be found in the lexicon of Western economic terminology," and consequently refers to a complex of micro/macro economic policies formulated and pursued in the cause of the national interest[6]. Also Chalmers Johnson stated "The very existence of an industrial policy implies an strategic, or goal oriented, approach to the economy."[7]

There are two basic industrial policies representing both views of Ozaki and Johnson. They are 1) Industrial Rationalization Policy ("sangyo-gorika-seisaku"), and 2) Industrial Structure Policy ("sangyo-kozo-seisaku"). The first policy is concerned with micro level of the economy. Through it, the government attempts to discover the most efficient procedures and techniques for a particular industry, and then to cause all the firms of an industry to adopt them. The second policy is concerned with the mccro level of the economy. It indicates the government's attempts to change the proportions of Gross National Product's components, that is, agriculture mining, manufacturing, and service, "In ways it deems advantageous to the nation." To summarize, it can be said that the purpose of the purpose of the first policy is to establish large-scale technological efficient production in the economy, and of the second policy is to build the nation as a highly industrial economy[(8)].

As discussed early, the HGS of the 1950's and 1960's gave the government (or MITI) the power to control the allocation of capital and other resources and, in turn, promote the economic development according to its industrial policy. As a result, the Japanese industry has been structured as what the Japanese called "competitive oligopoly." In simple terms, "competitive oligopoly" can be befined as a type of industrial organization consisting several large-scale enterprises, none of which has clear advantages in terms of scale of production, technological efficiency, and, thereby, cost performance.

3-4 COMPETITIVE OLIGOPOLY AND EXCESS COMPETITION

The reason for the formation of competitive oligopoly is that the HGS was open for or indiscriminatory against any enterprises according to the industrial policy. This means two things: One is that the industrial policy not only forced participation of all the enterprises in a particular industry, but also induced those of enterprises from other industries. The other is that MITI's industrial policy encourages all the participating enterprises to use the most efficient processes and technology available in the world and, thereby, often the same process and technology. To summarize, there are more enterprises participating in a industry than otherwise, while all of them have similar economies of large-scale production and cost performance. Thus, it is easy to assume that several large-scale enterprises constituting "competitive oligopoly" and up to engage in severe marken competition.

The government concerned with that competitive oligopoly resulted in what is called "excess competition (kato-kyoso)." Since the word "excess" is illogical, it has not been used any more. But during the 60's, the government attempted a few times to define it. Acoording to Yoshihiko Morozumi, "excess competition" is the market situation in which the losses to the national economy exceed the gains that arise from that competition.[(9)] This definition is too vague. Certainly, the openness of the HGS according to the industrial policy has clearly posed a danger of creating productive capacity well beyond the market to absorb and, thereby, price war among enterprises. Thus, the market competition, if left alone, would become excessive and cause tremendous waste in the allocation of resources harmful to economic government. If excess competition means such waste and harm, then the definition of Morozumi may be understood easier.

As discussed above, the government formed the antirecession cartels for the industry facing possible over capacity of production, that is, exactly "excess competition." Daniel Okimoto states the government intention on antirecession cartel as follows:[10]

> ... The rational for antirecession cartelization is that it preempts fratricidal warfare; it keeps the level of market concentration from increasing;... In the Iong run, MITI officials used to argue, the imposition of some control over excessive competition through temporary antirecession cartels was necessary to ensure that healthy competition would be sustained.

Here, the question is not whether antirecession cartels in general have been actually effective to keep healthy market competition. Abegglen and Stalk described a bias of the Japanese corporations toward growth as follows:[11]

> ... Companies with a bias toward growth add physical and human capacity head demand. Prices are set not at the level that the jarket will bear, but as low as necessary to expand the market fit the available capacity. Costs are programmed to come down to support the pricing policies and investment are made in anticipation of increased demand.

This scenario will fit in a recession time. For large-scale enterprises or oligololists of the Japanese, the recession period will provide an great opportunity to increase market share, if they can invest for the future. Thus, it can be said that, at least, the actual government measures taken for antirecession cartels may have resulted in enhancing and sustaining the situation of competitive oligopoly.

4. CONCLUSION

What does the experience of postwar Japan implies for the promotion of economic growth and industrialization in general? There are two implications postwar Japan presenting for the promotion of economic growth and induitrialization: One is that it is necessary for the promotion of rapid economic growth and industrialization to mobilize necessary capital and other necessary resources, but not to concentrate and centralize economic power in terms of resource allocation. And the other is that economic growth and industrialization can be promoted under a market directed economy as well as or more vigorously than under a centrally directed economy.

For the promotion of economic growth and industrializatin, it can be said that the government of postwar Japan thus constituted probably the most comprehensive system to guide the market oriented economy. Certainly, the postwar environment, both domestic and international, was too harsh for her to promote major economic advancement only through the market system. Thus, she had to play an essential role in the allocation of capital and other resources, and, thereby, established the High-Growth System to promote economic growth and industrialization accordind to the industrial policy. But her control has been neither extensive nor intensive in comparison with one in a centrally directed economy. Moreover, the government of postwar Japan did not intend to eliminate, but to reinforce the market system by establishing large-scale, technologically effifient enterprises and, in turn, encouraging those enterprises to engage in market competition. Establishing a unique industrial organization, namely, competitive oligopoly, a fiercely competitive domestic market, the economy of postwar Japan institutionalized fierce competition and strong investment drive among those large-scale, technologically efficient enterprise, as bases of rapid economic growth and industrialization.

FOOTNOTES

(1) According the estimationby Barle and Means, 200 largest corporations in the United States of the early 1930's controlled about 50 percent of corporate assets, 38 percent of the total business, and 22percent of total national wealth. It is considered that these figures have not changed drastically since then. See Adolf A. Berle and Gardineer C. Means, C. Means, The *Modern corporation and Private Property,* Revised Edition, Harcourt, Brace and World, Inc., 1967, pp. 74-84.

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(5) Keiichi Konaga, *Industrial Policy: The Japanese Version of a Universal Trend,* Journal of Japanese

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(8) Ibid., p. 28.

(9) Yoshihiko Morozumi, *Sangyo Seisaku no Riron (Theory of Industrial Policy),* Nihon Keizai Shibunsha, 1966.

(10) Danial I. Okimoto, *Between MITI and the Market: Japanese Industrial Policy For High Technology,* Stanford University Press, 1989, P. 7.

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