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## EVALUATION OF THE JAPANESE ECONOMY

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### I. *Nucleus of the Problem*

It is more difficult than appears at the first glance to draw characteristically a living picture of a national economy. The causes of this difficulty are manifold, but the more important are the following three :

1. In economic matters, the evaluation even of actual conditions presents considerable difficulty.
2. To determine the various characteristics in them is a new task.
3. Future perspectives or policy-conscious ideas are liable to be confounded by facts.

Taking the first point, no one will dispute that the grasping of actual conditions is a difficult task, from the viewpoint that much remains to be done in the field of analytical and theoretical study in economic science, notwithstanding the advance that has taken place up to this day. To be sure, as will be stated later, great progress has been experienced in the study of theories. Statistics to explain actualities have been amassed, and the art of arranging them has seen a remarkable advance. But the mere amassing of data is not equivalent to the grasping of economic movements in life. Some thirty years ago, when Wesley C. Mitchell and others first advocated and pushed forward a statistical and positive study of business fluctuations, he remarked, pointing out the difference of a weather forecast and a business forecast, that while the weatherman can tell accurately at least whether it is fine or cloudy or raining at that instant, in forecasting

business trends, the very fact whether present business is going well or not is sure to be controversial. During the lapse of thirty years, progress in these matters has been achieved to a certain extent. However, when we ponder over the substance of what gave birth to controversies then, it may be said that there are enough reasons for the persistence of difficulties in dealing with business movements or economic dynamics, and that such difficulties cannot be put aside as a technical matter.

One of the reasons which complicates comprehension is due to the divergence of time at which a problem is contemplated. When speaking of the present, what stretch of time comes into view? Does it mean a short-range observation or a long-range one? And compared with the present, what period of time and what length of time shall be considered? For instance, supposing we adopt Schumpeter's theory that the waves of business movements are composed of the sum total of three waves consisting of Kondratief's 60-year major cycle, Jugler's 11-year cycle and Kichin's 40-months cycle, it may happen that a certain present is simultaneously located on the downward course in Kondratief's cycle, and on the upward course in Kichin's cycle. In such case, whether the observer's eye turns to the long-period cycle or the short-period cycle, different answers will naturally result to the same problem. The second reason is a more important one, that since all economic activities are based upon future perspectives, problems of the future necessarily creep into observations in evaluating the present. In other words, different pictures will be drawn of the present depending upon whether the observer sees the future in rosy colors or in darker hues. This explains, and there is no wonder, why the catchword theory of "Japan under the economic crisis" has persistently been able to recruit its advocates, regardless of how far and long her economy has shifted from an inflation to a deflation course. Leaving what kind of eye-glasses is to be used in this case to a later discussion when the third point is taken up, we must say that even the task to grasp actual conditions, pregnant as they are with future issues, is bound to be no easy matter.

To come to the second point, difficulties of a similar nature entail the grasping of characteristics, too. Characteristics in outward economic conditions, such as large population, narrow territory and diversified climate, may be amenable to evaluation in the way the facial contour is. But generally speaking, when we come to the inner phase of economic movements, such as the way money does its work, how capital is accumulated, and the reaction to changes of outward conditions, they are not easily grasped. The characteristics we thought we grasped as such may sometimes turn out to be no such characteristics, or else, even if they were, they may be found not functioning at all. The situation can be compared to the difference in the evaluation of realities between a talented artist and a

poor hand.

The situations which give rise to the difficulty under the second point are, roughly speaking, similar to those of the first point. Factors consisting of the problem of time, and especially the problem how the time factor of the future may be taken in, will exercise a powerful influence on the grasping of characteristics. Attention must also be paid to the fact that a new cause emphasizing such situations is added. This is the difference in the way of presenting the problem according to where the economic problem lies. Where there is no problem, there is no evaluation. This is clear enough. Only, when the facts are of an economic-social nature, they operate so vigorously as to affect even the most trifling details of the evaluation of actual conditions. Discussion of this issue now leads us to the third point.

Ideological doctrines or wishful perspectives, or sometimes more definite ideas on policies for the future, are liable to fuse into and affect the evaluation of present actualities, and this confusion obliterates the demarcation between science and non-science. This is so thoroughly discussed in the initial stage of the epistemology of science, that repetition is needless here. Speaking mainly about the objective evaluation of present actualities, it is sufficient to point out that, admitting that ideology sometimes a starting point and in many cases prompts the right one, ideology alone does not achieve its object after all. In regard to wishful perspectives, they must be deprecated in scientific reasoning as much as possible insofar as they belong to a speculation purely subjective as the term suggests. As for policy-conscious ideas, though it will be as difficult as for ideology, to completely escape from the influence of their objectives, conversely their divergence from actual facts should emphatically be pointed out, for accord in interpreting actualities does not always mean accord in policies to amend them.

In short, situations that render difficult the evaluation of economic actualities, and especially the grasping of their characteristics, are more complicated than seen at first sight and cannot be coped with in a simple way. Even in regard to each of the foregoing three points, the basic method of speculation is open to criticisms and, even if not, things considered "possible" in abstract speculation may sometimes turn out to be not possible in practice upon analysis and evaluation of actualities. To exaggerate, difficulties envisaged here are, as stated earlier, inherent in economics and will in that very sense remain problems forever. This must be kept in mind for, when forgotten, unnecessary confusion in the methods of evaluating peculiarities will occur.

The use of the expression, "problems for ever", should not be taken to suggest giving up these problems, nor that until these basic problems have been solved one cannot draw the visage of the Japanese economy.

On the contrary, firstly, the general tendency to economic planning, intensified through the experiences of the war, requires more than ever that the characteristics of the national economy should be clarified. In the case of the Japanese economy, the necessity of knowing its specific position in the world economy when it will be restored to form a link in it, is growing. Secondly, the solution of the basic problems pointed out above will be promoted through the development of a method of concrete evaluation. There is, of course, an important difference between a theoretical and practical method of solving problems. In natural science where, after a theoretical solution is achieved, it is applied in a practical way to work out a solution of concrete problems, this difference is most outstanding. In the case of social science, however, where experiments cannot be utilized forthwith as in natural science, the process is not so simple. Controlled economy may turn out to be an experiment which will never be repeated, yet from experiences of economic control or planning, clues to a solution of fundamental problems may surely be found. In this very sense, the system set up for a practical purpose to clarify characteristics, or the demonstration which develops from it, serves at the same time for the solution of fundamental problems. Methods proposed for economics have grown up in this way. Those proposed for economic analysis cover a number of schools, some extremely abstract and others extremely concrete. But the problem underlying all these apparently different methods is one. The reason why the fundamental difficulty underlying the method of evaluation has been discussed at the head of the present essay is to clearly point this out.

## II. *Two Ways of Evaluation*

The way to evaluate an economy is the method by which to understand an economy. When we discuss the evaluation of characteristics, something more concrete is meant, but there is no difference whatever in the substance of the problem. When characteristics concern outward economic factors, as for instance, the size of population of an area or territory, their evaluation and a knowledge of the economy itself may be looked upon from different planes. There were times when that way of evaluation passed as legitimate. But it is not the characteristics in a static economy, but in its dynamic process, that matters here. In that case attention will be concentrated mainly on the internal movements of the economy, and even in the case external data are looked for, emphasis must be laid on the co-relationship between changes in data and the adaptation of the economy to the former. Looking back on the history of economic science, one will find how the way to understand economy and, accordingly,

the way to evaluate its characteristics have been pushed ahead along this line. In this way, insofar as we seize problems on the plane where present-time economics stands, the problem is how to grasp economy which calls for digging deep into the innermost core of the theoretical system of today.

Based on the present level of economics, we perceive there are two different ways to grasp an economy. One is to understand all economic changes by means of changes in the system of principal variables in economic matters, represented by the positions taken by classical or neo-classical economists from Alfred Marshall down to A. C. Pigou. The other is the analyzing of national income, represented by the position of the so-called "New Economics" school (Harris) since John M. Keynes. The meaning of the former viewpoint will be immediately made clear if we substitute "the system of principal variables" with wages, prices and interest rates. Wages, prices and interest rates are generally nothing else than the monetary expression of relative values. The classical economists tried to explain the laws of economic changes through the instrumentality of changes in these systems of relative values. They say all changes of wage rates; all changes in the demand-supply relationship of products reflect themselves finally in prices; changes like equilibrium or disequilibrium in the demand and supply of money, or therefore capital, reflect themselves in changing rates of interest. Thus, if one can get hold of the movements of the factor of production (labor) by means of wages, see the flow and ebb of products by means of prices, and catch the process of capital accumulation by the trend of interest rates, the laws of basic movements of economy can be grasped through the movements of principal variables.

I once gave these principal variables the name of parameters. (By the way, Professor Shigeto Tsuru in his recent book, *National Income and Reproduction*, in Japanese, Tokyo, 1951, mentions barometers by which he means nearly the same.) For example, while wages as a parameter are said to be directly governed by the demand-supply relationships of labor, factors that influence the demand and the supply are numberless. It is almost needless to point out that the movements of population, changes in age structure, changes in occupation, changes in industrial structure, migrations, labor law reforms, the behavior of labor movements, social customs, ethical ideas toward labor, and any and every item conceivable affect the supply of labor. All these factors, in relation to the problems facing us, are respectively factors constituting the peculiarities of a national economy. If changes in these factors are reflected in the parameters and these parameters are so constructed that changes can be read from them by being organized into one mutually dependent system — this is the basic idea on which the equilibrium theory stands in its primitive form, — the theory of parameters will be the clearest method of grasping an economy.

To indicate that this viewpoint developed at a time when economics was born in England, we termed this theory "classical". But this is not a mere theory of the past. When, for example, it is explained that the fall in day-laborers wages in Japan's agriculture last year was due to an excess of labor supply caused by a migratory movement to farms, and that the fall in the price of iron and steel in March 1951 was a reflection of the price decline of the same commodity in overseas markets, the classical method of interpreting economic movements fully justifies itself and there is ample reason why this method should continue as a necessary foundation of economic theory. This is the more essential as modern economic theories and even the Marxian economics are drawing heavily from this ancient source. These classical theories are, of course, not the sole source for the study of economics today, and we do not deny that there have been a number of variations from the positions held before. What is important is that they play a very vital role as a method of evaluation of an economy.

The second method by means of national income dates back to Keynes' *General Theory* (London, 1936). Analysis in Gardner C. Means, *The Structure of the American Economy* (Washington, 1939), the analytical study of industrial structure by W. Leontief, and that of national income in the White Paper of the British Government, which latter attracted attention during the war, while each differing in detail and emphasis, had much in common in not contenting themselves with the so-called price-analysis, but in attempting to take one step closer toward matters more real and more structural. Arguments have already been raised against the price-analysis method or the analysis by the parameter system. Though the prestige of the method invented and expanded by the classical school still finds its place in contemporary economics, its superficial way of evaluation, its relative way of seeing things, and the way of grasping economic matters from what Dr. Shinshichi Miura termed "the nominalistic standpoint in English thought", was the target of criticisms levelled even by followers of the classical school. When Pigou in 1920 under the title of *Economics of Welfare* (1 ed., London, 1920) advocated a turn "from price-analysis to income-analysis", he had raised the first voice for the analysis of national income as we understand it today.

The method by means of national incomes, which we take up here as a second method alongside that by parameters, dates back to Keynes. Indeed, the notion of collective economy in contrast to the viewpoint of individual economy, the concept of the whole in contrast to the concept of each, the income analysis in contrast to price-analysis, and other necessary ways to grasp economy through national income, has been moulded and tempered by Keynes and a good number of Keynesians. It was since Keynes, too, that these weapons in combination with statistical data were developed quantitatively. The ease with which the Keynesian concept of

the whole can be combined with statistical figures throws a light never known before on the problem of characterizing a national economy, which is our subject matter, and this is why the second method has been adopted. We do not, of course, suggest that therefore this is the only way for the positive study of modern economy. For a while, it looked as if it were antagonistic to the first method, this being the fate common to every new theory, but at present, the new theory is with reason interpreted as the necessary development of the former.

Endless discussions will ensue if we enter into the details of the first and second methods or ways of thinking, and many problems remain to be solved as regards their interrelation. We shall not deal with these issues here, but merely point out that these two are the only basic methods that contemporary economics has devised. The problem is how to combine them for the evaluation of the Japanese economy. Speaking conclusively, as the development from the first to the second is considered more natural and in a sense necessary, we must emphasize the second one. As will be shown later by example, the profits to be gained through the use of this method will not be small. The most important merit is that the evaluation of characteristics can be made more substantial. The first method is too abstract and general as its phenomenistic character naturally suggests. It is possible that, if we take the standpoint of stability according to the price-centered parameter system, one will see no difference as a matter of form between the mammoth economy of America and the pygmy economy of Japan. Of course, when we look into detail, we find a great difference in the manner the economy reacts, and the extent it adapts itself to the changes of data, and through this difference we can grasp the characteristics of each economy. But the abstractness of a method is apt to force the analytical process to remain abstract and not to go any further, leaving concrete differences to be combined with extra-economic data directly, instead of through the method itself. The analysis of national income, on the other hand, can shake itself free from such abstraction in that it deals with concrete and statistical data.

This possibility must be highly estimated. Frankly speaking, however, it is doubtful whether the method by national income as at present, is sufficiently concrete. National income, as well as price in the first method, are general and abstract ideas, and by themselves can never be called concrete. Against the advantage of embodying all problems, their weakness is that they often lack focus in analysis. The criticism that the most recent development in the analysis of national income is too technical, reminds one that at a certain stage the price analysis was said to be nothing better than exercises in pure mathematics. Such weakness seems to emanate from the generality of these methods in grasping economy. For an evaluation of the Japanese economy, these methods should be more

concrete and should be provided with a focus. This can be done by making those specific problems a focus which characterize the Japanese economy. Once these specific problems are made a focus, both methods will show their real value. These methods may also serve to test if the problems chosen for the focus are true or false. This test is now being offered on a world-wide scale. What problems of the Japanese economy may be used in this connection? Our consideration starts from this.

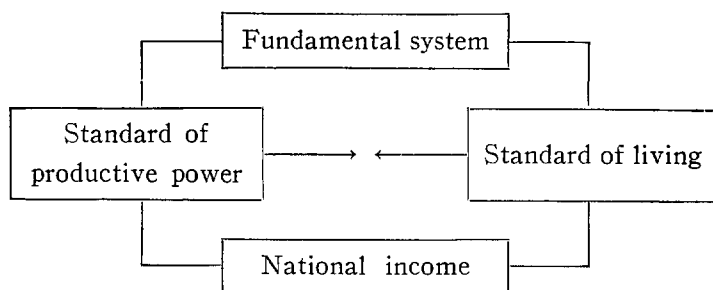
### III. *First Method — Foundation*

It needs no repeating here that an economy is the social order of production and consumption. The relationship between production and consumption is most vital in an economy. If the characteristics of a national economy are defined by this relationship, they will be fundamental in the national economy. Reversely, overpopulation, the shortage of natural resources, the volume of foreign trade, or any other condition that is commonly mentioned as a characteristic of the Japanese economy, will reflect themselves on this vital relationship if they really characterize it. In fact, such characteristics do actually exist and are being subjected to study from various angles. Let us curtly call it *the contradiction between the standard of productive power and the standard of living*. We may say, the problem arises where the standard of living cannot catch up with a rise of productive power, or where a rise of productive power is hindered by low standards of living. The most important characteristics are revealed in this vital relationship.

In criticizing Malthus, Pigou once said (*Economics of Welfare*, Part 1) that Malthus thought that as the income of society increases, it will be absorbed into an increased population and will leave mankind as poor as ever. Pigou countered that though a part of the increase of income goes to stimulate marriage and is absorbed into the increase of population, other parts do not reveal their effect on the increase of children but on the elevation of living standards. Pigou argued that Malthus saw only one side of things at the cost of the other. Certainly, the history of Europe demonstrates his theory. For, it is generally agreed that one of the important reasons why in the nineteenth century, and especially in the latter half, the rate of population increase sharply declined, was the improvement of living standards. That is to say, Malthus' theory was refuted by the facts as revealed by statistics. But in the case of Japan the situation is different. No one denies that the Japanese economy has shown great progress in productive power, though not without weakness in other respects. For instance, Colin Clark points out that the advance of productive power of the Japanese economy in thirty years is comparable with that of India



in one hundred and fifty years. Though some questions may be raised about the adequacy of the periods compared and the way of comparison, it is evident that the expansion of the Japanese economy experienced in the last seventy years compares by no means unfavorably with that of many European countries. To use simpler language, this can be proved by the fact that during the same period her population more than doubled, or increased from 35 million to 80 million. Obviously, the advance of productive power means an increase in *national income*, which may suggest an ensuing higher standard of national life. Japan here has taken a course entirely different from that of European countries. Almost the whole of the increase of national income has been absorbed to boost the population, and not to elevate the living standard of individuals, and, therefore, the standard of national consumption. Hence the tragic persistence of advancing accumulation of industrial capital in parallel with cheap labor. To clarify the root-cause and conditions will at the same time be nothing short of revealing the most important characteristics of the Japanese economy. This contradiction between the standard of productive power and the standard of living has hitherto been taken up in various forms of study. A variety of devices may be worked out to carry on an analysis. On our part, reverting to the general discussion developed in the previous section, we recommend the method of analysis of national income as most useful and workable. The fundamental diagram may be drawn here as below.



In characterizing the Japanese economy according to the above simple diagram, we shall have to combine productive power and the standard of living with national income as a medium. For we are shown that the inaccurate grasping of the concept or substance have blocked the road to our basic problem against the separate study of the problems.

First, the sociological concept of the living standard must be replaced by the more definite economic concept of the standard of consumption. For the living standard which emerges only by taking into account the whole of family relations, climate and social customs, is different from the

standard of consumption which permits objective measurement by price and the volume of goods. Naturally, there is a close relation between them. Through this medium of close relationship, the characteristics of the Japanese economy are naturally related to those of Japanese society.

But economic analysis will not always explain sociological phenomena. In the process of analysis it will be found that if we consciously restrict problems of the living standard and substitute national consumption, we shall be able to connect effectively with the analysis of national income.

There are other problems in regard to the standard of productive power. Here, labor and capital as factors of productive power will each be subjected to analysis. What calls for our attention in this connection is the fact that the serious problem is not the fixing of the standard but rather the measurement of its movements. This has been made clear in the foregoing argument that the characteristics of an economy are none other than the characteristics of motion, but, in contrast to former characteristics studies that have been static, this point needs special emphasis. In respect to labor, the process of the increase of population and of the reproduction of labor power, and, in respect to capital, the dynamic phases of the formation and accumulation of capital, rather than structural and specific items like land, natural resources and equipment, must be paid attention to. For, this is not only required by the method intended to grasp characteristics, but what is worth emphasis, this viewpoint will render analyses by these means and by national income possible and feasible. This will be clear from the explanation that the analysis of national income is a means, termed "flow analysis", to catch the flow of productive value (income) produced annually. As against this method of flow analysis, a more comprehensive "stock analysis" is being proposed as necessary even among advocates of national income; and flow analysis alone can not do all that national-income analysis does. But it is nevertheless clear that the fundamental factor is the grasping and understanding of income in the state of flux. It can be said therefore that its combination with dynamic analysis is possible. Even on this point, it is doubtful whether national-income analysis as at present can answer the questions posed. More is needed to clarify its character as an analysis-weapon from the angle we have proposed.

As stated above, when productive power and the living standard, though in contradiction with each other, can be theoretically connected through national income as a medium common to both, the foundation by which to tackle the contradiction can be conclusively said as having been laid. The advantage of national income as a common denominator is due to repercussions from fiscal interference like taxes and levies as well as international relations — which are, as will later be touched upon, indices to be operated from another side-angle in characterizing the Japanese

economy, — can be considered simultaneously, so far as the repercussions concern the formation and fluctuations of national income. Especially, an enhanced position of fiscal activities in a national economy, as advocated by A. Hansen, can be taken as a sufficient basis for a diagram which characterizes a national economy. If its importance to the production-consumption relationship can be seen on this basis, the primary requirement of such diagram should be met. In this way the fundamental system, as mentioned above, would be established.

#### IV. *Second Method — Circulation*

The means of expressing in economic usage the fundamental order of production and consumption is, needless to say, circulation. It has already been pointed out that the parameter system represented by price was developed as the most common method to grasp economic movements. As also pointed out then, circulation as a means of expressing the fundamental order, will be the problem for us who are concerned with the characteristics of the Japanese economy.

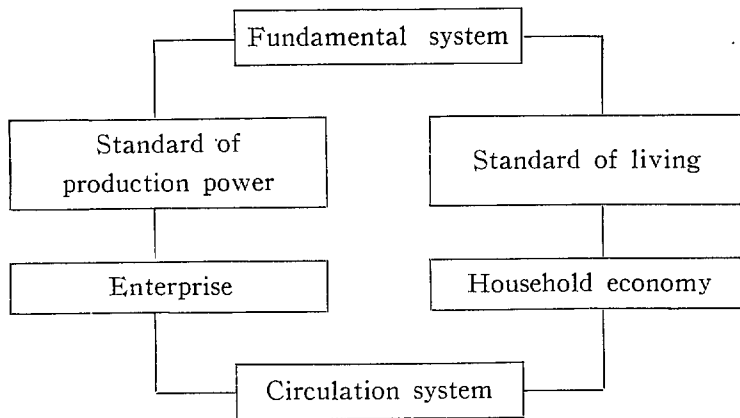
The greatest problem in the Japanese economy, viewed from the standpoint of circulation, is its limited flexibility and its vulnerability to changes in environment. This was most keenly felt in the inflation stage immediately after the war, and can be fully noticed in the recent tendency of rising prices mirroring the world-wide rearmament trend. During about ten months since the outbreak of the Korean war in June of last year, the price advance in Japan exceeded 30% in terms of the general index number, while that in America was only about 17%. This evidences the weak resisting power of the economic circulation system of Japan in regard to the vicissitudes of environment. High dependence on the world economy is one of the reasons; the fragility of the foundation of national life is another. Anyway, these weaknesses, in combination with the above mentioned fundamental system, are part of the characteristics of the Japanese economy. In connection with the living standard, individuals are greatly affected by the fluctuation of the price structure. The living standard of the nation during the last twenty years may not be adequately explained without taking into account this standard itself, but also the amplitude of its fluctuations. This is why not only volume, but stability is an important issue. The same may be said of productive power. Nay, in this case the degree it is affected by the prices will be greater, as it is directly related to the international economy. It affects vitally the volume and trend of the formation and accumulation of capital. One can consider this as an instance in which the sensitiveness of the parameter system rather tends to impede the visualization of economic stability in connection

with the realities of the Japanese economy.

This trait in the circulation system in the economy of Japan not only reflects the fundamental system. More important is that the change of the circulation system centering round prices sometimes evens up the fundamental contradiction between production and consumption, and sometimes makes it keener. It is common sense in theoretical economics that prices denote equilibrium of various factors in the economy on the one hand and constitute a starting point toward a new equilibrium of these factors on the other. As long as free calculation is dominant in forming prices, the price of rice in the market denotes the equilibrium between the demand and supply of rice. This price of rice, however, is a requisite in farmers' plans, upon which are planned next year's production, and at the same time is a requisite upon which general consumers base their calculation of consumption in the household economy. Because of these double factors, the price system is generally known as a nucleus of the economic order. This double function of prices has an important bearing upon production and livelihood, between which a contradictory relationship exists. Firstly, when equalization in the price system works upon the standard of national life through a change of national income, the tendency is toward the lowest standard, just as water flows into the lowest place until resistance grows at last to halt the equilibrizing movement. The importance circulation bears on the problem of living standards will thus be seen. This problem has recently been taken into consideration in assessing the tax burden. However, for an inquiry into the importance in national life of the taxation problem, it will be necessary to discuss the fundamental function of circulation. Needless to say, lack of equilibrium in prices tends to enlarge the fundamental contradiction between production and living standards. This fact can be seen, above all, in the peculiarity of capital accumulation in the economy of Japan. Where and how has new capital been accumulated through the period of inflation? How has the profit urge been realized in the course of rising prices? The assertion that inflation to some extent should be rather encouraged for the sake of production expansion and the assertion that stability should be maintained for the sake of the security of living, — these two different assertions with which we are frequently faced indicate after all the nucleus of the problem.

The price system tends to cause the contradictory relationship between production and living to be absorbed in the individual economics of the entrepreneur and household economy on the one hand, and works to enlarge this contradictory relationship through a change in prices on the other hand. This relation will be shown in the diagram on the next page. This diagram aims to take up the problems in the economy of Japan more unitedly in connection with the fundamental system, these problems arising separately through an analysis of inflation and taxation.

It may not be possible to understand this diagram because it merely shows the general relationship. To understand it, it is necessary to examine the flexibility of the household economy in regard to prices through analysis of the current situation of the economy of Japan, and to do so attention must be paid to the difference on this point between the farmer and the laborer. The same is true with enterprise. Here we must examine for each industry to what degree the productive structure of the enterprise



is sensitive to the change of prices and how this reacts on the productivity of the enterprise. As mentioned the foundation common to the above relationship is the price system, but this system must be classified into the three categories of wages, prices and interest, which must be established concretely for each industry, occupation and market. To grasp this relationship as circulation, one will not be able to neglect finance and currency which are a concrete part of circulation. However, as far as the first method which we have classified above is concerned, these have been fully developed through practice in the long history of economics and it will suffice to say here that our main objective is to grasp these matters in combination for the purpose of greater clarification of the fundamental system. It goes without saying that the influence of the public economy acting mainly through activities of financing, and the influence resulting from a change in international economic relations are perhaps most easily discernible in this circulation system. Thus, the diagram of the second fundamental system as well as that of the first fundamental system should be accepted in evaluating the economy of Japan.

In a similar way, a third and fourth system, and a third and fourth diagram may be contemplated. As a complement of the above, we can easily suggest, for instance, "relationship in industrial structure", "re-

lationship between public and private economy" and "relationship of the national economy to international economy". First, as regards relationship in industrial structure, anyone will recognize that the largest problem in the economy of Japan is the relationship between agriculture and industry. This relationship is a characteristic of the economy of Japan viewed from both angles, that is of the problem of migration of labor on the one hand, and the circulation of products against food on the other. In other words, the contradiction between production and living, generally spoken of as fundamental, is expressed more concretely through the foregoing double-faced contacts between industry and agriculture. The contradiction is not only expressed, but is sometimes softened and sometimes strengthened by these contacts, which circumstances are not different from those mentioned in regard to the circulation system. Therefore, an analysis of this relationship will mean more than a mere complementary diagram. Secondly, the relationship between public and private economy, since it has been often referred to, will not be discussed again. In short, the importance this relationship holds to our problem can be conjectured from the increasing attempts to grasp the characteristics of the modern economy based on this relationship. Thirdly, international economic relations in the economy of Japan with both the fundamental and the circulation system, are, as already explained, characterized by great dependence on foreign trade. Furthermore, since this relationship is, in a way, the final conclusion of an evaluation of the characteristics of the Japanese economy, special attention should be paid to it. Our task was to give a picture of the "face of the Japanese economy" in order to grasp the characteristics of its flow. The methodology which has been developed for this purpose is still in skeleton and is susceptible of future development. Such development, I presume, should be in the direction of international comparison. I have been proceeding with this task by degrees since the end of last year in cooperation with some tens of young scholars. The above is a mere preliminary program for further study.