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【寄　書】

The Japanese Experience of Economic Reforms

Edited by Juro Teranishi and Yutaka Kosai
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This volume reflects and represents a new generation of research by Japanese economists on Japan's early postwar transformation from chaos to stability, from a government-controlled economy to an increasingly market based economy, and from devastation to reconstruction and economic growth. At the same time it responds to the growing recognition that Japan's early post World War II experiences with economic stabilization, reconstruction and reform can provide significant "lessons," particularly for the currently transforming socialist economies but for many developing market economies as well.

The editors of this volume, two outstanding Japanese economists, under the auspices of the Japan Center for Economic Research assembled a team of scholars to evaluate and reassess in some 14 chapters Japan's postwar economic policies and performance to control inflation and achieve macroeconomic stability, to reform major markets for the factors of production (land, labor, finance), and to evaluate the role of the government in the postwar growth process as it unfolded following the reform period. In general the reforms were initiated under the Allied Occupation (1945-52), administered by the American-dominated SCAP with generally strong Japanese popular support, and were amplified and modified during the high growth era from the early 1950s to the early 1970s.

Several general points should be made. The authors have attempted to engage in a basic re-appraisal rather than simply repeating stereotypic or hitherto standard interpretations of these events and policies. In important respects these chapters represent and summarize much more detailed research by the authors and others available in Japanese. The new approach underway in Japanese scholarship on the early postwar period provides the benefits both of some detachment and hindsight by virtue of the passage of time and of newer methodologies of economic analysis. Some of the results are quite revisionist and in some cases still controversial. Accordingly this volume represents the latest scholarly thinking on a number of important issues.

Most authors agree that the role of the government in the postwar growth process was relatively less important than many earlier interpretations have stressed. I suspect this is in response in part to Western stereotypes concerning the Japanese government-led growth process. At the same time, the authors make clear that the government played a central role in what was a highly controlled economy in the initial years of postwar reconstruction and reform, and this role persisted for some time as the economy entered the high growth era. Only gradually and by differential time paths were government controls reduced :

price and quantity allocation controls for basic goods early on, but liberalization of foreign trade, payments, and capital flows and of financial markets has taken place much more gradually (and indeed is still underway). Nonetheless, the central thrust is that Japan has a private enterprise, competitive market economy as its core, both as the objective of policy and increasingly as the reality.

Teranishi and Kosai in an excellent introductory chapter provide an overview of the substance and process of stabilization and reform in the historical context of Japan's long-term growth performance, and a summary of the main themes in the successive chapters. They make the important point that the basic purposes of Occupation reforms were demilitarization and democratization. Economic efficiency and output growth were the objectives of Japanese government policymakers and business decisionmakers, and their emphasis was on micro and supply-side policies even in the initial highly inflationary environment.

This review article is organized as follows. In the next three sections, following the way the book is divided into three parts, I briefly discuss my understanding of the essence of the contributions of each of the chapters, though without doing full justice to any of the authors because of lack of space. In a final section I provide some overall evaluations and thoughts on certain issues either raised or not raised.

1. Stabilization Policies

The first task for Japanese when the Allied Occupation began in September 1945 was to restore the war-ravaged economy to operation. Output had declined precipitously (to pre-World War I levels); without fertilizer, the autumn rice crop was a disaster and only American aid prevented possible mass starvation; munitions industries had to be converted to civilian goods production; bottlenecks were all over the place. All this was in a highly inflationary environment emanating both from the war and from highly expansive government fiscal and monetary policies between 1945 and 1948 designed to allocate resources to priority sectors and activities. The official wholesale price index rose seventy times between 1945 and 1950. How to halt inflation and restore macroeconomic stability was an increasingly major challenge as immediate postwar disruption was ameliorated by some restoration of production, but it took some five years, though symbolically and in policy substance achieved through the Dodge Plan reforms of early 1949. Various aspects of the stabilization policies are addressed in the series of closely interrelated four chapters in Part I. While inevitably there is some overlap, the authors provide differentiated insights and points of view as well as information.

Kuroda (ch. 2) provides a chronology both of the inflationary process and the stabilization policies attempted to halt it. In effect the wartime system of price controls on basic items was continued while production subsidies were provided. Inevitably black (free) markets immediately appeared; the gap between free market and official prices narrowed gradually but persisted for five years. Price controls were supplemented by a freezing of bank deposits, but the restoration of production took precedence over inflation control until the Dodge Line forced an orthodox stabilization strategy of tighter monetary and especially fiscal policy from 1949.

Teranishi (ch. 3) while covering much of the same ground, stresses the importance of price controls anchored to relative prices expected to prevail in more normal times. He emphasizes the effectiveness of the priority production system in expanding output, though financed by inflationary measures. In his view relative price anchoring provided important incentives for firms to restore organizational efficiency.

Yoshikawa and Okazaki (ch. 4) provide a brief macroeconomic analysis of the sources of inflation, and delineate the effects of inflation as well as government policies in an equalizing redistribution of income and wealth. They succinctly summarize the substance of the Dodge Plan and make the important point that, with the advent of the cold war, Occupation policy shifted from reform to recovery, with stabilization deemed an essential prerequisite.

Controls over Japan's foreign economic relations initially were even more severe than over the domestic economy, due not only to international and domestic conditions but also to Occupation policy. Export production was minimal, and sales were handled by SCAP. Imports were financed mainly by US aid. Multiple exchange rates were utilized to sell whatever could be produced regardless of comparative advantage, and to subsidize imports. As Fukao, Oumi and Etoh (ch. 5) cogently discuss, the Dodge Plan establishment of a single exchange rate was an essential ingredient both to achieve macroeconomic stability and to allocate resources more efficiently. Even so, Japan was far from free trade. The yen was not convertible, foreign exchange controls were strong, imports were severely restricted, and private capital flows prohibited. It was from this highly restrictive base that trade and capital liberalization took place very gradually, as is treated in the chapter by Nakakita (see below).

2. Economic Reforms and Rapid Economic Growth

One important feature of Japan's high growth era was the development of highly competitive markets in most industries, epitomized by the consumer goods industries including auto and electronics. Miwa (ch. 6) emphasizes this was not primarily due to the anti-monopoly and deconcentration Occupation reforms; they restrained concentration but did not directly lead to competitive markets. These industries were highly competitive because entry was easy and encouraged by the combination of rapid growth of demand and protection from imports. Miwa controversially asserts, in contrast to the prevailing view, that the dissolution of family-owned zaibatsu holding companies, dispersion of their stock ownership, and ending of interlocking directorships had little effect on the competitiveness or performance of the economy. This important issue certainly is worthy of further analysis and publication in English, especially in light of the prevalence of family-owned business groups as a major form of big business industrial organization in many developing market economies today.

Unlike macroeconomic stabilization which was achieved by the early 1950s, financial reform was much more protracted and the transformation to a truly deregulated, market-based financial system gained headway only from the mid-1970s. During the high growth era the emphasis was on building a quite regulated, safe, yet quite effective banking system which successfully transferred household savings in the form of deposits to productive business investment financed by loans. Teranishi (ch. 7) provides a sophisticated, comprehensive yet compact explanation and analysis of the wartime system of direct controls over finance and the transition to postwar indirect controls, in which the banks were given the power and responsibility to make most credit allocation decisions to businesses. This was important because of the high business reliance on bank borrowing to finance rapid growth, especially in capital-intensive industries. He traces the development of segmented financial markets and specialized banking institutions, including the important role of the main bank as the monitor of large corporations.

Japan's postwar farm land reform has to be understood in the context of the historical patterns of essentially small-scale landlordism and tenant farmers. Kawagoe (ch. 8) does that very nicely as well as describing the details of the land reform. Building upon pre-existing Japanese government bureaucracy plans, SCAP imposed a drastic program to force the sale of farm land to the tillers, with the landlords compensated with government bonds (the real value of which was sharply reduced by the rampant inflation). Agricultural landlordism was abolished, and the more equal distribution of rural income and wealth had profound positive political and social consequences. But how about the economic effects? There was no change in scale of operation, and no significant changes in productivity that can be attributed definitively to the changes in ownership patterns. In the longer run, moreover, the freezing of the agricultural land market severely retarded structural reform in agricultural production, inhibiting subsequent farm consolidation to more efficient scale while non-farm employment opportunities rose dramatically and technological innovations and farm mechanization proceeded. Comparative advantage in agriculture at low per capita income levels became increasing comparative disadvantage. In a companion chapter (ch. 14), Kawagoe analyzes how these forces, together with government policies of protection, subsidy and price support epitomized by rice policy, created what has become today by far the most inefficient and most highly protected sector in the Japanese economy, despite the sharp decline in its share of GNP and employment and the controlled increase in agricultural imports.

The reform and democratization of labor by the SCAP-induced creation of the union movement, and its transformation from radical national federations in confrontation with corporate management to a system of cooperative enterprise-based unions, are treated indirectly rather than directly but nonetheless quite effectively by Yonekura (ch. 9) in a case study of the reform and development of the Japanese steel industry. The rapid evolution of the Japanese postwar industrial relations system from chaos to order over a decade represented the triumph of job security over ideology, the unification of white collar and blue collar worker interests at the firm level, and the creation of a positive-sum game of worker and management cooperation over conflict. This chapter provides a fascinating analysis of the combined effects of Occupation-induced reforms: the break-up of Japan Steel Company; the in-house replacement of purged top management by highly competent engineers and other managers; strategic decisions of three new firms to integrate into pig iron production (thereby creating the Big 6 integrated steel firms); and the transformation, not without trauma, to enterprise unionism.

3. The Role of the Government

How did Japan achieve national economic independence, which Yonezawa (chapter 10) defines as the combination of the economy ending dependence on US economic aid, and companies ending dependence on government fiscal subsidies? Yonezawa nicely analyzes this process in an excellent overview of the government policies of industrial rationalization. The termination of aid was an American government decision underlying the Dodge Plan of 1949. The painful process of balance of payment adjustment was greatly eased for Japan by the windfall foreign exchange earnings gained from the Korean war. Beyond that however, the key was industrial rationalization: creating management incentives to cut costs, expand production, and increase productivity. The government's industrial rationalization policy had its genesis in the immediate postwar support at virtually any cost of a few key industries, notably coal (for energy), iron and steel (as a basic input to overcome bottlenecks and support industrial growth), fertilizers (to restore agriculture production), and textiles (resuming prewar export comparative advantage.) In the early 1950s the government designated some 32 producers goods industries, later 50, to receive preferential government support: credit; tax allowances; foreign exchange for needed imports; access to foreign technology licenses. At the same time firms were closely monitored for performance, especially productivity improvement but also price competitiveness and profitability. This was really the beginning of Japanese industrial policy. Yonezawa notes the subsequent debate in the literature about this mercantilist strategy——in the sense of restricting imports and promoting exports——and a free trade strategy. He concludes the free trade option was quite limited because of the adverse world environment (still disrupted world markets, dollar shortages, hostility to Japan) and the government acceptance as a given of the Dodge-imposed exchange rate of 360 yen per dollar (more on this below).

One of the most important, and impressive, ingredients in Japan's rapid postwar growth has been its extensive importation and effective utilization of foreign technology, particularly in manufacturing. Goto (chapter 11) describes and analyzes this process and the governments' role in a very nice, comprehensive, balanced, compact essay. There are many channels for importing technology and, with the major exception of foreign direct investment which was restricted, all were used. What is particularly notable was Japanese extensive reliance on licensing, reflecting mainly the capability of Japanese companies to absorb foreign technology but government technology-related policies as well. Imported technology was very profitable, and indeed essential for a firm to maintain its competitiveness in the burgeoning (and protected) domestic market; fundamentally, then, licensing was market driven. At the same time government policy was important. It made licensing more attractive to foreign owners (by restricting imports and foreign direct investment). On the basis of foreign exchange controls, until 1968 MITI through its granting of license approvals influenced which technology to import, which firm could import it, and the terms (intervening in the negotiating process to benefit the Japanese industry or firm). It is Goto's considered judgment that government oversight of technology importation did not have much impact on the overall pattern of technology importation, though it certainly was important for individual firms. In my view perhaps the most significant government contribution was that it used access to technology, combined with policies encouraging the building of optimal scale plants, as a means to increase the number of producers in certain oligopolistic industries, thereby enhancing competition and, over the longer run, creating a number of strong firms.

The Japanese government has been one of the few in advanced market economies to develop and propound macroeconomic plans of five years or longer, a process which began in the early postwar period and has continued to the present. Between 1946-1955 planning was a key ingredient in the process of transformation from early postwar devastation, chaos, and inflation. Since 1955, however, planning has been indicative. Komine (chapter 13) surveys the objectives and performance of the eleven overlapping plans, and provides an evaluation of their role in Japan's successful growth. (Table 12.2 provides a nice summary of the evolution of policy objectives for economic growth, price stability, employment and other major objectives.) Since plans were really little more than consistent macro projections, how could they have had a substantial impact? The key, well stressed by Komine and now better appreciated as the theory of imperfect information has developed, is that the plans provided information and signals to business of the government's expectations and policy intentions. Moreover, the Economic Planning Agency professional staff in the planning process interacted with a variety of leading private sector representatives and specialists which enhanced understanding and credibility, as well as information sharing. The first five overlapping plans between 1956-71 consistently underestimated the (unanticipatedly) rapid GNP growth, enhanced the credibility of the process and came to be taken as a lower estimate by many, increasingly optimistic businessmen; that probably contributed significantly to the business investment boom of the high growth era. Subsequently, the plans have been much less effective. In part this is because the oil crises of the 1970s meant that the four plans between 1970-85 overestimated growth (though the much more cautious most recent two plans have slightly underestimated it). Equally important, perhaps, the plans have taken on the broader task of enumerating broad, nice if somewhat vaguely articulated, social goals and international objectives. With much better information, a much stronger business sector, and the expansion of government objectives beyond its earlier single-minded pursuit of growth, it is not surprising that indicative planning in Japan today plays a modest role.

One of the most significant legacies of strict Occupation controls and Japanese government early postwar economic policy was the high degree of insulation of the Japanese economy from the world through severe import quotas and tariffs, foreign exchange and portfolio capital controls, and restrictions on both inward and outward foreign direct investment. Yet Japan, given its national resource base and technology level, had to import raw materials and sophisticated machinery to sustain rapid industrial development. Once US aid ended, since world capital markets were underdeveloped and Japan's credit rating low, Japan had to export to pay for essential imports. Moreover, the policy perspective was that, while protection supported domestic industrial development, in the longer run trade, payments, and capital flows restrictions had to be (gradually and slowly) ended so as to benefit from globally competitive markets and to achieve advanced country status as a member of OECD and an IMF Article 8 nation. Foreign pressures have also been significant; the IMF was an important early player as was GATT (especially as Japan participated in the Kennedy and subsequent rounds of multilateral trade negotiations) while the US, as Japan's patron and largest trading partner, took an increasingly active role from the mid-1960s. Nakakida (chapter 13) usefully summarizes this process, including a nice discussion of the formal liberalization of inward foreign direct investment while simultaneously companies strengthened mechanisms to prevent the much feared hostile take-overs by capital-rich foreign firms. He makes three important points. First, Japan's import restrictions were designed to protect infant industries until they became healthy, competitive adults; and often succeeded. Second, while the postponement of liberalization "helped strengthen domestic industries it also led to a worsening of international economic relations ...giving rise to the present day image of Japan as an exclusive country" (p. 354). Third, with the gradual elimination of import quotas, foreign exchange, technology licensing, and foreign direct investment controls, MITI's power to intervene declined dramatically, and it has had to seek a new role. He ends by noting a number of areas in which Japan's avowed free trade policy remains incomplete, including agriculture, government procurement, complicated import and standards procedures, lack of transparency in procedures, and other items on the ongoing agenda of international negotiations.

4. Concluding Thoughts

This book is an excellent new introduction to Japan's early postwar economy, treating the major topics of stabilization, early economic reforms, and the role of the government as the economy made the transition from the reconstruction of a war-ravaged economy to one that unexpectedly achieved increasingly rapid growth from the mid-1950s until the 1973 oil crisis. The purpose is not to describe and explain the high growth era——that has been well done in a variety of studies available in English——but to examine major institutional and policy conditions that made that subsequent success possible. This book will reinforce the view, which I strongly share, that halting inflation and achieving macroeconomic stability, essentially by bringing the government budget and lending by government financial institutions under control, was an essential prerequisite for growth. Price stability, especially of export prices under the Bretton Woods fixed exchange rate regime, not only provided appropriate signals and incentives, but made it possible over time to overcome the balance of payments constraint on growth through export expansion.

All the authors take the Dodge Line exchange rate of 360 yen per dollar as a given, even though in my view the yen was certainly overvalued throughout the 1950s and well into the 1960s, as indicated by the persistence of severe import restrictions. (As several authors mention, initial yen overvaluation or undervaluation was retrospectively debated by Japanese scholars in the 1980s.) As I understand it, initially this exchange rate was an externally-imposed political reality, given foreign (especially Asian and European) fears of resurgent Japanese exports. Indeed, as Nakakita notes, UK and other European hostility was reflected in the difficulty Japan had to become accepted into GATT (not until 1955), and their invocation of Article 35 limiting access of Japanese exports to their markets. The fixed exchange rate also came to be a matter both of government pride in its macroeconomic management ability relative to some other countries that did have to devalue, and of business benefit as rapid supply expansion and export price stability gradually made the yen substantially undervalued by the late 1960s. Reading this book, particularly Yonezawa's and Nakakita's chapters, made me realize anew how this early policy of yen overvaluation prevented the early development of a free trade strategy, and indeed reinforced the government's strategy of industrial policy, import restriction, and export promotion.

An implicit purpose of this book is to seek relevant "lessons" for transforming socialist economies, and to some extent developing market economies, from Japan's experience with early postwar reconstruction and reform. Certain conditions are similar, including high rates of inflation; the need to shift to civilian from military goods production; highly imperfect information, especially in what initially was a very uncertain Occupation policy environment; high degrees of government economic control carried over from the wartime. But Japan's postwar initial conditions were in many respects quite different. Its managers and government officials had deep experience in the prewar, market-based private enterprise economy; the wartime controlled economy was a relatively brief aberration. And by 1945 Japan had some 70 years of industrial, institutional, and human capital development.

The editors and authors wisely refrained from attempting to draw general or specific lessons for other countries. After all, it is very difficult to know which elements of the Japanese experience are relevant; relevance depends essentially upon the specific initial conditions, policy objectives and socio-economic-political constraints in each potential recipient country. What this book effectively does is to present major aspects of the Japanese experience to, among others, an audience of foreign policymakers who know their own country well and are able themselves to derive policy insights from the Japanese experience of economic reform.

Inevitably there are differences in the comprehensiveness and depth of coverage among the various chapters, reflecting presumably the preferences of authors given the relatively short space assigned to each. In general the chapters are complementary; to the editors' credit, they did not attempt to force unanimity of views, and differences in interpretation certainly occur. Because the chapters evidently were written independently, the chapters on macroeconomic stabilization do overlap too much in describing the process of inflation and general policies to halt it.

No single book can treat fully all the topics important in understanding Japan's experience in economic reforms and their effects. Since they are well covered elsewhere, this book does not delve deeply into the growth of a range of industries following the Occupation period, nor the ways in which at the micro level firms developed new methods of organizing production and sub-contracting. For similar reasons perhaps it does not tackle the controversial topic of the nature, instruments and effectiveness (or lack thereof) of government industrial policy in the high growth era.

Perhaps more interesting are certain topics not discussed because the authors take the Japanese experience with them for granted. Two interrelated problems many countries face are pervasive institutional corruption and lack of the ordinary people's trust in those in power, whether politicians, government bureaucrats, bankers, or business leaders. What Japanese may not appreciate sufficiently is the relative lack of corrupt behavior, compared to some countries today, by their government officials in the economic ministries or by bankers in the Japanese economic policy-making and implementation process, particularly in the earlier years of recovery and growth. Basically, Japanese trusted those engaged in policy-making and in resource allocation (credit, foreign exchange, import licenses, etc.) to behave objectively, rationally and honestly——and they did. There were, of course, severe sanctions for those caught in occasional instances of corruption; but the ethos was one of service to firm, ministry, and nation, and not to take advantage of opportunities for personal gain. It is remarkable that the Japanese government bureaucracy and business management were left largely intact, while the military were completely discredited for having led Japan to disastrous defeat and occupation. And in almost all instances they lived up to the trust given them. They were the best graduates of the most elite universities; and their assumed success and high social (and in due course economic) rewards could be sustained only by impeccably honest and honorable behavior. How, with the passage of time and economic success, that ethos became diluted, and in the case of the financing of politics broke down (if it ever existed in the first place), is fascinating in itself——but the appropriate subject for another book.

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