

# THE JAPANESE ECONOMY AND THE ROLE OF THE GOVERNMENT

By ICHIRO NAKAYAMA

*Professor of Economics*

## I. *Evaluation of the Role of the Government.*

As a typical pattern of success in achieving rapid industrialization under circumstances of excess population with scarce resources, Japan's experience is now attracting worldwide attention. Her achievement has been pointed out by economists studying Japan and the evidence for it is easily available. It was not until the time when the economic development of underdeveloped countries came to the fore as a worldwide problem that Japan's experience in economic progress become popular among world economists as a subject for constructive study. In examining the developmental potentials of less-developed countries, Japan's case is to be regarded as a model. She was able to transform herself almost overnight from her previous condition of retarded agrarian capitalism to a modern industrial country. The growth of her economy averaged 4.5 percent annually from about the 15th or 16th year of Meiji, that saw the completion of this preparatory process, up to the end of World War II—a striking record, realized over a lengthy period and under difficult conditions. The record is an enviable but desirable level for under-developed countries to arrive at, especially for those in Asia which urgently need to accomplish political and economic growth at a faster pace than that, already fast, at which their populations are growing, and gives also a pertinent example even for somewhat developed countries suffering from a certain deadlock in saving formation, technical improvement and market cultivation. This is true not only from the angle of economic history but also from that of theoretical study.

Thus, the study of Japanese economic development is to-day becoming a boom among academic circles. At the same time, the role which has been played by government in the process of such economic development has become the subject of new studies. The Japanese government with its unique characteristics, attracted attention in its political as well as social aspects from its earlier stages following the Meiji Restoration. Despite such peculiar characteristics, however, the government has rarely been observed in connection with the results attained by Japan's economy. Naturally, the observations were often made to find the effects of industrial protection policies and of customs or taxation policies adopted by the government. But there have been relatively few attempts to evaluate from an overall point of view the role of the government as a subject of policy, including negative policy effects, caused by the inaction of the government, apart from the effects of policies actually adopted. It is over the so-called construction period of the economy in the earlier part of Meiji, or the period of preparation for modern industrialization, that the role of the government in Japanese economic growth has been most firmly

and clearly grasped and evaluated; to the role of government beyond this period, especially to government activities in general during what one might call the period of economic maturity, ranging from Taisho to Showa, relatively little attention has been paid. Needless to say, the government, like other institutions, is a subject moving always with society. It changes its forms and components from generation to generation. The government of early Meiji is one thing and that of Showa another. With changes in personnel, emphasis shifts from function to function and, especially in regard to responsibility for leadership and supervision of the economy, drastic changes appear. Such changes in the character of government may well be explained in part by the progress of the economy itself. However, to give a true picture of such changes, many other factors, to be explained as subjective changes, should also be reviewed in addition to the above factual explanation.

In brief, the role of government in Japanese economic development has been regarded as very important, on the whole. Those who accomplished the Meiji Restoration were a group of leaders, here referred to as "the government"; and the government in this sense laid a foundation for economic development simultaneously with the Restoration. It is clear that the successful result at this earlier stage soon served as a basis for subsequent economic development. In this context, one may hold that economic development in Japan is wholly attributable to strong guidance given by the government. Further, it may be insisted that the successful results should be attributed to the achievements of a few politicians who ruled the government from inside. In the case of Japan, it is easy to find facts to support this opinion. But is it right for us, on the strength of these facts, to stress particularly the importance of the government in economic development as having been greater than in other countries?

Consideration should not be confined to the role of the government in the initial stage, but extended to an overall period of several decades thereafter. During this lengthy period, the guiding principle of early Meiji certainly remained active and in a sense, functioned consistently, and yet it gradually changed its character in line with the development of the economy. As a whole, the brilliant role of the government tended to lie in coping with the special emergency of the earlier period, and should be regarded as having gradually become less spectacular after it had fulfilled its provisional mission. The question whether its role in the initial period represents the fundamental nature of the activity of the government, or whether the latter can only be grasped from a consideration of the government's role and its results over a long period—this requires further close study.

In other words, this only means that there has been no overall assessment of government activities. As will be easily admitted, such activities are not necessarily limited to directly economic ones. Even if confined to economic influence or function, there are two kinds, direct and indirect, within this limitation. If one lists the general contributions of government to economic development through policies, the following are, in the special case of Japan, the main features.

First, the government avoided subordination to foreign countries, and secured social order and political unification as a basis for economic activities. Second, it removed impediments to the freedom of changing employment by means of a sweeping reform of the existing institutions. Thirdly, it established a foundation for freer productive activities by carrying out fundamental reforms in law, education, the tax system, currency, etc. Listing these three merits, Lockwood asserted that the Meiji government was not necessarily

totalitarian, despite its politically dictatorial character. This is of some importance for an overall evaluation of the government role in the developing economy. For the fundamental role of the government in the development of the economy the three types of activity referred to above, and the actual policies that were carried out on this foundation for promoting direct development, did not always necessarily correspond. Such is the meaning of Lockwood's assertion. Previous overvaluations of the role of the government have been due to a concentration of attention on its work on laying the foundations for development. But this was not the only determinant that sustained progress. There must have been, in addition, a vital power to maintain progress upon this foundation. The effect of the establishment of the foundation should in fact be judged in association with the actual vitality which was strong enough to make good use of this foundation. The comprehensive evaluation of the government role is not to be restricted to the superficial evaluation of direct and indirect policies of the government.

There seems to be at present an epidemic of evaluating highly the roles that have been played by the government in the development of the economy. When a certain economy enters into a new phase of development, or, similarly, as Lockwood said, if a nation opens the door to modern technology and intends to apply it widely, it becomes a quite decisive problem for it how to organize the functions of initiatives and responsibilities. It is correct to hold that the greatest difficulties in economic development are, in the earlier stage, neither lack of capital nor shortage of resources. Assuming that labor is taken as latent productive power, the biggest problem is to locate and direct business functions to pertinent places with a view to making the best use of them. In this case, only the government can carry out the task of organizing the functions of initiatives and responsibilities most effectively. For expediting economic development, a government has, needless to say, a decisive position in this respect. It would be wrong to underestimate the role, in this sense, that has been played by the Japanese government. Moreover, as a more fundamental role of government related to this question, the effects of education diffusion, especially those of education for introducing radically modern technique and science, must deserve a higher valuation. Since these direct policy effects of a government on the economy are difficult to measure, we must be careful not to make any undervaluation in this respect.

Notwithstanding all these facts, we cannot necessarily support the generalization that the development of the Japanese economy is entirely attributable to the guidance given by the government. Those who support such a generalization tend, in the excess of their zeal in assessing positive policy effects that exerted a plus influence upon growth, to extend the government role of the earlier stage to the later, and are likely to underestimate the negative policy effects (of the absence of government action) which probably had a minus influence on growth. If we reexamine the activities of the government in the light of the entire process of economic development, correcting such bias in evaluation, a rather different conclusion will result. On this view, contrary to the simple generalization previously mentioned, the government was neither heroic nor authoritative. Unexpectedly, its actual behavior resembles that of an ordinary individual; and it is by this sort of behavior that it promoted the development of the economy. Considering the government role from the angle of policy effects, the Japanese government may well be regarded as having shown a mercantilistic or protectionistic color through all the policies it has adopted.

Doubtless, the encouragement of shipping in Japan might be mentioned as a typical pattern of mercantilism; and her import tariff was the highest of all the world at a certain period before the war. But these are facts of only partial significance or short duration, and the mere collection of such facts does not necessarily demonstrate the position of the Japanese government as a central functional body in charge of economic policies.

That the Meiji government was dictatorial but not totalitarian implies, as has already been pointed out by Lockwood, that even under this dictatorial principle, there was ample room for economic liberalism to operate; and such a free policy was admitted in a wide range of the economic field. This is the reason why the Japanese economy could enjoy to some extent the advantages of competitive doctrine without succumbing to the evils of monopolism or extreme protectionism. The importance of the government in economic development is usually judged by a great number of policies adopted by it, but in Japan, not a small discrepancy exists between the declared policies of the government and the way in which those policies were in fact administered. Within a strongly protectionistic policy framework, rather extended liberalistic economic activities were permitted in practice. If such liberalistic activities are taken as having supported the economy in a real sense of the word, the role of the government has been a far more limited one than usually supposed. Further concrete comparison will determine whether the limitation corresponded to that in developed countries such as England, Germany, France and the U.S.A., or whether, in so far as Japan is an industrial country that developed later, the role of the government was more vital than in the preceding cases. Whatever the results might be, it is generally accepted that the economic development of Japan should be attributed to the role of the government; yet there must still be a strong reservation. What is meant by this reservation will be explained below, together with a number of relevant facts.

## II. *Organization of Enterprises*

To find a clue to the problem, let us discuss the organization of enterprises. For it is a natural subject of study in connection with the role of the government. It was already mentioned earlier that the success or failure of an economic "jump" aiming at industrialization is dependent upon the problems of organization and technique of how to concentrate the initiatives and responsibilities of a nation as a whole. This does not necessarily mean neglecting the importance of capital accumulation, not to mention the study of production technique; but no matter how imposing the objectives of a given political reform, if a government policy fails to mobilize or organize effectively the initiatives and responsibilities fundamentally necessary to progress, the dream may remain remote from realization. That the fundamental work of the government in early Meiji became specially popular among the public was ultimately because of its close contact with the initiatives and responsibilities of the private sector. The places wherein such initiatives are to be promoted or wherein business intentions are materialized in the private field are the enterprises themselves. In this respect, it may well be said that a final assessment of the extent of the government contribution toward progress necessitates a study of private enterprises and their activities. Obviously, to make further close examination of ways of functioning in these systems or activities, attention must be paid

to a variety of institutions with direct and indirect influence thereon, and to the policies of the government that operates these institutions. The composition of the taxation system, changes in tariff policies, ways of operation of general industrial protection policies including in their scope agriculture and small or medium scale businesses, are examples. For reasons of space, let us focus our principal attention upon problems of ways of functioning in enterprises.

One of the first policies of the government, as the historical evidence clearly shows, consisted in concentrating overall means of control over enterprises in the hands of the government. As explained previously, the government was in this way a powerful operator of national policies which were adopted to accomplish specific but mainly non-economic targets. Thus, its initial intention with regard to the private economy was primarily to obtain broad leadership of it. Judging from the example of manufacturing policy, which seems particularly relevant, such policy was rather akin to the German system, which admitted governmental control from the beginning to some extent and was not liberalistic like the governments of England and North America. The necessity of the guidance by the state was adopted as a premise, primarily with a view to developing the production of the country; close contact between the state and big enterprises, an intimate relation between major banks and giant industries, co-operation and the promotion of autonomous control in the entire field of industries, etc.—all of these originated in this premise. There was a clear intention to secure first of all the actual fruits of leadership in the sphere within which direct government influence was possible.

By contrast, the Meiji government made no attempt to interfere with or control smaller enterprises. It was only an exception that the government encouraged a style of autonomous control similar to that of big enterprises in connection with the production of silk and tea, which were staple exports during the initial stage. It is evident that the autonomous control in big enterprises and similar measures in small and medium ones differ in significance. For the former, the government not only promoted co-operation and autonomous control but even positively expedited the promotion of business mergers in some industries which were in need of large capital resources and technological improvements. Thus, a connection between the government and major enterprises developed rapidly. It is certain that this accelerated the appearance of the plutocracy in the long run. The *Zaibatsu* gradually increased their influence, and in general it became almost impossible to fulfil national policies in the economic field without recourse to their assistance. The word competition, as it was then used, referred only to the competition among a few plutocrats. Under the circumstances, a market economy naturally arose that was quite different from those resulting from free competition or liberalistic non-interference.

In view of these transitions in development, it is clear that the guidance given by the government to Japanese enterprises was, as noted above, very powerful. Considering such influential government guidance item by item, it may seem that the economic development of Japan was promoted simply by one-sided guidance from the government. But this, as we have repeatedly stated, is only half the true picture of the developing phenomena, deriving mainly from a study of the initial stage of industrialization. For the purpose of accomplishing the objects of such government policies as a whole, there must further be, in practice, forces that support or, in a sense, supplement or even enlarge them—the general enterprises of the private field.

Here, one should recall the relationship between challenge and response proposed by Toynbee. The government intentions that appeared in these series of policies were the response of the government to the challenging problems of industrialization. For the national economy to support, replenish or enlarge the response, however, a more powerful and fundamental response was essential in the civilian sector that receives government policies. An answer to the question of what kind of part was played by the government in economic development should in fact be derived from a study of such responses as a whole. In investigating the responses, it can clearly be seen that from time to time the policy of the government was not always the only factor determining economic development.

In the first place, notwithstanding the fact that the contact between the government and business circles became quite intimate, in the strong desire of the government to guide enterprises, and the emergence of the Zaibatsu, an entrepreneur or a business man could not occupy the chief positions in politics himself. This may possibly be applicable to other countries as well besides Japan. In an account of the history of the rise and fall of the bourgeoisie, Schumpeter remarked that the bourgeoisie always needed a political patron. In other words, the bourgeoisie themselves are ineligible for positions of political power. This may have been true in Western countries, but not in Japan. In Japan, entrepreneurs of big industries who had close contact with the government came, in most cases, of Samurai families. They belonged entirely to the same category, in social standing or culture, as the high echelons of the government. None the less, they could not at once occupy authoritative positions in politics in their capacity of entrepreneurs. This suggests that the connection between the government and big enterprises was maintained in fact within a far narrower frame than might have been expected from a consideration of the political objectives in view. In other words, the scope for the display of initiative among non-official circles and for competition between enterprises had not yet been greatly limited.

As judged from the character of the industrial policy at the infant stage of the Meiji government, the business activities of the civilian sector might have been expected to have been subjected to far more powerful interference and control than was actually the case; and a brief look at the phenomena as they developed actually seems to bear out such an expectation. Ways and means of control were spread like a network over every segment of the industry. Although smaller enterprises and agriculture were not the subject of any particularly positive policy, they came under indirect control through many financial media. In connection with the autonomous control encouraged by the government, there appeared more than 50 cartels of selected industries in 1936, just before the China Incident. By listing these examples one by one, one may easily assume that there remained almost no room for displaying initiative or for carrying out business intentions freely. But such an assumption does not give a true picture of the facts. In spite of the strong desire of the government to give guidance and the variety of the controlling measures at its disposal, the Japanese economy still had a firm basis for competition. This was true for the segment of the economy taken up by smaller enterprises, which are the overwhelming majority numerically, and also true for the field of agriculture, which retained a strong sense of autonomy. Control measures created mainly in favor of big enterprises were surely advantageous for them to some extent. But this was not necessarily so in the strict sense of the term, even in the case of big enterprises, and was often only nominally so from the

angle of the business world as a whole, including smaller enterprises. In this sense, the free competition of private enterprise circles was not dead yet.

Far from it, it was precisely the private enterprises which willingly permitted the government to lay a foundation for industrialization, and performed daring activities upon that foundation. It was previously mentioned that the control and interference of the government as a whole was considerable, but, in fact, only a few industries were under the immediate control of the government until the economy began to be placed on a quasi-war time footing. The connection with the *Zaibatsu* as well was in most part restricted to the financial sector, and the development of industries (excluding military and kindred ones) was subject entirely to a framework of freer initiatives and responsibilities. Paradoxically, it may be safe to say that Japanese enterprises have enjoyed quite free competition in the very circumstances of powerful control enforced by the government. Further, it can be said that the government devoted great efforts to creating favourable conditions for free enterprise, and was eager for the appearance of the effects of free competition. This may be taken as corresponding to a new policy principle of free competition advanced by Professor Röpke after the recent War. But it is inherently difficult to make a uniform valuation of the extent of the contribution made by the Japanese government to economic progress from the angle of such a principle. As the example of the taxation system shows, Japanese governmental control systems have been accumulated somewhat haphazardly to meet current requirements. If we try to extract a consistent principle from them, we would be in danger of excessive abstraction, and our final conclusion might be far from the true facts.

It may sound somewhat absurd to say that a policy prevailed which was in fact, because of the very plethora of policies, no real policy at all.

Such a statement, however, is broadly true as a description of the period after the Japanese economy had actually entered the growing phase, leaving behind the initial stage of preparation for the switch to industrialization. In its infant period, the object—to enrich the nation and to strengthen the army—was crude enough to blur a full consciousness of the contradictory character of these two elements; but because of that very crudity or vagueness it could be maintained consistently as an objective. In the subsequent period, however, specifically during its growing stage after 1890, as each segment of industry increased its influence with the expansion of productive power, the adjustment of interests gradually became difficult, and the resulting policies even seem in some cases to have had almost no principle owing to the amount of compromising between various interests. Let us examine how important decisions were made in regard to the budget, tariffs or financing during the above period and subsequently. Experience proved often that it was difficult even to extract such a common abstract element as the interest of the nation because of repeated compromises between very many competing interests behind the scenes. If one were to list the economic policies of the government one after the other as in a school text book, they might appear at first sight to be elaborately planned and co-ordinated; but in fact many of them make one suspect that they were meaningless or ineffective from the beginning, judging from an itemwise examination of the contents, in which a variety of complicated advantages and disadvantages, as between the army, bureaucracy and business, were left unadjusted. This is the reason why, in practice, free competition was operated in conditions amounting to an absence of any government

policy at all,—in spite of the great number of actual 'policies'.

This does not necessarily mean that such free competition was perfect in nature. From this point of view, attention should be paid again to the negative aspect of the government policy. As was mentioned previously, a policy has two aspects, positive and negative. The negative aspect of policy in the period we are considering includes the effect of government policy on farmers and workers. This might be a natural outcome of the concept of a prosperous nation and powerful army. Aside from political and military considerations, it is undeniable that, frankly speaking, the do-nothing policy toward this sector affected economic development adversely. As for agriculture, production was increased by means of farm-land readjustment and improvement of seeds resulting from a systematic increase in the number of farm experimental stations and other institutions, inspired simply by the importance of agriculture as the industry responsible for food production.

However, apart from such tiny assistance in technique and money, it is certain that the fate of agriculture and farmers was exposed throughout the Meiji era to the wind and rain of free competition. Moreover, in spite of being an inevitable concomitant of the process of industrialization, the labor problem was typical of those which were left untouched for a long time. It was not until 1921 that a rough frame-work was at last accomplished for laws relating to employment exchanges and health insurance, etc., with the Factory Law as their central feature. The attitude of the government toward public enterprises and utilities remained very out-of-date in comparison with other industrial countries. It would be practically true to say that the government concentrated too much of its ability upon the expansion of direct production power to be able to give proper guidance and policy direction over these wide areas.

It must be stressed again that this indifference to such policy over these areas had a negative effect on the economic development. Even so, however, this does not necessarily justify an undue stress on the reverse aspect of the facts just mentioned, to support the idea that the economic development of Japan was attributable, above all else, to her imperialistic ambition, or more concretely, to the deliberate fostering of her military productive power. Obviously, the lack of interest in social welfare represents the obverse side of the devotion to an expansion of such power. At the same time it is wrong to think that this expansion has made much contribution to economic development. Needless to say, a war is not a paying business. As for Japanese colonial policy, which is often mentioned as having constituted a kind of preliminary to war, it is quite difficult for us to form a definite judgment whether such policy is advantageous or not for economic development as a whole; and it is perhaps more difficult for us to attest its plus effects, than it is to assess its minus effects. Japan's trading relations with countries in which her influence increased would probably have existed, even if her colonial policy in these areas had been administered without the threat of military potential in the background. It follows that even if we assume that the expansion of colonial territories was merely an outcome of the accumulation of military power, such expansion need not necessarily be regarded as having been profitable. Besides, it was only a limited number of industries that were subsidized directly, with the specific purpose of fostering military power. Yet the rate of growth of these subsidized industries often stayed below the average level of growth for industry as a whole, in spite of such careful protection given by the government. The concept that an imperialistic policy was an actual motive power in the economic development in Japan is wrong, and



so is the idea that war was a similar motive power. These may be merely historical coincidences. It may well be proved generally that, if the progress of her economy deserved the term 'development', it need not necessarily have always required such a destructive momentum as that which war might provide.

### III. *Government in a Sack-suit*

The government played a decisive role in the development of Japan's economy at its earliest stage. But this does not directly mean that a main motive power in developing the economy has always been maintained by the government as a leader. Rather, the real force that sustained the development has, in fact, resided in numerous private industries which the policy of the government did not reach directly, or was not expected to reach. It is this force that supported government policy silently and enabled the government to accomplish its purpose of industrialization. In Chapter I it was emphasized that a primary task for a government facing the problem of a leap to industrialization is to establish an organization to assemble and mobilize initiatives and responsibilities. Throughout the historical development of Japan's economy, it is because of the efficiency of governmental guidance in assembling and organizing these forces that the role of the government has attracted much attention. But however efficiently such guidance has been performed, if the initiatives and business spirit that the government was attempting to mobilize had been inactive, such government policy would have been ineffective. In this context, it is clear that the original forces that sustained the development have been found on the side of the receivers of guidance.

As was touched on above, the policies of the government were far more generous than might have been generally expected in view of the general tenor of these policies and of the drastic measures used. What was given by the government was a fixed framework within which moved innumerable energies exerting their powers through competition. The search for the motive power of economic development must naturally include a study of the origin of these energies. Perhaps it should also inquire into problems of the fundamental attitudes of human beings toward labor and of their personalities, beyond mere problems of production and accumulation measured physically or objectively. Ultimately, the investigation will involve studies over a wide range of human sciences, including sociology, jurisprudence and psychology, in addition to the study of economics in the strict sense of the term. Such a final treatment is, of course, beyond the scope of this paper.

To regard the role of the government as limited, as suggested above, does not necessarily imply a discounting of the role of the government in development. As was explained above, in Japan, there were various conditions which were especially favorable for government policies aimed at promoting economic development. First, of considerable importance was the fact that the national political policy in the broader sense of the term happened to coincide perfectly with the process of industrialization from the purely economic point of view, in regard to both objectives and the processes required to reach them, throughout the period of economic upsurge from the Meiji era onwards. The elements which made up the national policy were many; for example, national defence, reform of the social structure, the establishment of educational principles; more concretely, measures for

increasing production, the introduction of technology, the reform of administrative organization, etc. In case of Japan, such a simple slogan as "a prosperous nation and powerful army" covered all of these needs, and there might even be contradictions between the respective needs. None the less, the idea of an industrialized nation underlying the national policy harmonized almost perfectly with that of industrialization in the more strictly economic sense of the term. All the foundations which were laid during more than a decade beginning from the first years of the Meiji era, had a common target—the promotion of industrialization. Despite the fact that the policies as actually administered along the lines of the national policy were often confused or contradictory and were subject to a process of trial and error, they did serve to encourage industrialization generally.

One of the ways in which Japan was in some sense lucky in her period of industrialization was that, as previously mentioned, her early 'economic miracle' was performed only by Japanese, with little foreign interference. How advantageous this was for economic development is clearly seen by a comparison with the present state of less-developed Asian countries. The economic development of under-developed countries is generally carried out under the slogan of nationalism. The latter is a movement of these newly rising countries that are trying to win not only political but also economic independence by their own hands, by getting rid of the old colonial control. On the one hand, it gives a spiritual foundation on which to base the development, and on the other, it sometimes makes the road to industrialization difficult. The agonies of the present Asian rising countries originate from their twin need to solve the problem of rapid economic development and to escape from colonial control at the same time. It may well be said that the industrialization of Japan was also carried out under the spur of nationalism. But, in Japan, there were never such complicated relations with foreign countries as is the case to-day with other Asian countries. This has evidently given Japan a large advantage in the promotion of industrialization.

In this case it is probably necessary to ascertain how the establishment of national defence forces or militarism, which became a central factor in Japanese policy in the broader sense of the term, was tied in with economic development. On the assumption that a war feeds capitalism, the importance of the question is to be stressed still further. As a matter of fact, it is undeniable that a war, or a concentration upon armaments in preparation for a war, has a powerful influence upon economic development. Inoue, President of the Bank of Japan, once remarked that, for Japan, a war always served to save her gold standard system whenever her economy ran into a deadlock. Too much emphasis on such an interpretation may lead to error, just as does undue emphasis on the effects of government policy on economic development. As was mentioned before, a war or the process of armament has a favorable as well as unfavorable bearing upon economic development. The net balance of such positive and negative effects is hard to estimate instantly. Rather, serious attention is to be paid to its wave-like influence on the waves of economic development. Taking into account the powerful influence of such a wave-like movement on an economy, it may well be admitted that an economy with limited business cycles generally achieves greater fruits of development than one with drastic cycles.

Thus, the role that has been played by the government as an enterpriser in Japanese economic development, in its initial period at least, is to be highly evaluated. But after

industrialization had been successfully promoted to some extent, there appeared an important problem for the Japanese economy, a problem which Japan, as an industrialized country, had to face. This was the problem of the contradiction between the achievement of complete industrialization and the realization of a welfare society. In promoting industrialization a step further, it is a duty of all industrial countries to solve the problem of social welfare; and how discharge this duty will in the long run determine the fate of their economies as industrial countries. Sadly enough, Japan has often forgotten this important problem throughout her rapid industrializing process, and has long been content with few reliable counter-measures, if any. This has already been pointed out above as a negative policy of the government. There are, of course, reasons why this problem was not, in the earlier period of development, fully realized in all its important implications. The most important reason is that the very promotion of development became increasingly dependent upon free activities of the private sector, and the policies of the government were by no means fully effective. No such problem is likely to be solved by means of free private activities; what is involved is a further radical development—the change from an industrialized to a welfare state. Although economic development in Japan had been carried out in its later stage by the assembling and organizing of initiatives and responsibilities of the private sector, the method of development itself resulted, on the contrary, in a postponement of the problem of the welfare state. The problem still remains for current solution some two decades after World War II.

So far, attention has been concentrated upon the role of the government mainly during the prewar years. The same interpretation, however, is not inapplicable to its postwar role. There may be a variety of factors promoting a rapid economic development in postwar Japan: first, the recovery of the technical level which was retarded during the war; second, the favorable trend of worldwide circumstances affecting Japan; third, various forms of foreign aid given just after the war; and fourth, curtailment of defence expenditures. There are the causes usually cited, but they imply a relative neglect of the role of the government. Instead, it is not too much to say that it is rather severely underestimated in contrast to the efforts of the other free nations. This does not mean that there has been any reduction of the government role in economic development. Aside from wartime or quasi-wartime conditions when direct control was quite pervasive, direct government leadership was previously already growing substantially weaker. The fact that this functioned as one of the determinants for economic development throughout a lengthy period was referred to before. In the postwar period too, it is true to say that liberalization of governmental assembling and organizing of private initiatives and responsibilities has been one of the largest factors in the striking postwar development of the economy. It is in the context of this process that we may consider the role of the government before and after the war.

But it is worthy of notice that, in postwar years, the obligation to progress towards a welfare state, as an industrialized country, has added to the importance of the government role more and more, relatively to the pre-war period. The obligation is not only recognized generally; the demand has come to be made that the government incorporate it in its duties, in the form of social insurance, welfare facilities, etc. As we have frequently maintained, the concept of welfare is not something standing outside the problem of economic development. In the earlier stages of the development of industrial countries, it was regarded as a kind of remedial measure, or as something to be dealt with after development. For

somewhat industrialized countries, however, it is to be taken rather as one of the fundamental supports for development than as a secondary problem as in the former case. Considering that forces for development are lying latent all over a nation as a whole, this is perfectly natural.

Thus far in our survey of the role of the government, we have referred to its behavior, or more concretely, to its positive and negative policies. Finally, let us consider the government as a whole, as the subject of this behavior. It is a giant, bestriding the national economy with powerful forces and organizations in its hands. The giant stands amid economic life, possessing both authority and organization. It is equipped with complicated administrative organs and bureaucratic systems, and its influence permeates to every nook and corner of the economy.

Thus far, the description would seem to fit a government of any period to some extent. But this is nothing but a description of a government as being responsible for each item of its behavior, described, so to speak, in abstract intellectual terms. By taking a closer look at this giant, one may find a very marked difference between the former government and the present one. The difference can be expressed in one word—the present government is coming to resemble an ordinary human being more and more closely. The dignity of government that made it look mysterious is disappearing to-day in various ways. In the field of economic life, in particular, a government is often an enterpriser who may be less skilled than enterprisers in the private sector, or sometimes simply a consumer, in danger of becoming an unintelligent one. Even in the field of administration, the tasks of a government to-day are, in so far as they require much special technical knowledge, extremely specialized. The work of officials comes to be more and more just office-work, and that office-work is becoming more and more rationalized. In a word, rationality in lieu of authority characterizes the current government. This may be regarded as one of the desirable features for a government of an industrialized country. The progress of industrialization expedites rationalization of all phases of life and particularly those of economic life. In so far as the government exists amid a series waves of industrialization, it is itself becoming technically specialized and rationalized as a matter of course. Comparing the government of the early Meiji era with the current one from this point of view, one may well express the above change as a change from a government in an old-fashioned coat and a pleated skirt to a government wearing an up-to-date sack-suit. It is a government lying among the people. It is a government living with the people. And it is a government which together with the people, is required to find an approach to a fundamental problem thrown up by the process of industrialization.