Japanese Miracle: Review Article of Chalmers Johnson MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925-75

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Japanese Miracle

CHALMERS JOHNSON, MITI AND THE JAPANESE MIRACLE: THE GROWTH OF INDUSTRIAL POLICY, 1925-75, University Press, Stanford, 1982.

I

CHALMERS JOHNSON is Professor of Political Science at the University of California, Berkeley. His book represents an example of the current of interest in political economy amongst North American political scientists, of which we have had some notable examples.[1] In spite of the mechanical character of Johnson's conception of political economy (to which wc shall later return) the book is valuable on four counts.

Firstly, Chalmers Johnson does not believe that any specifically "Japanese" miracle has taken place, and denies those explanations of Japan's very high growth rate which are broadly based on a peculiarly Japanese culture, or on the efficient functioning of the freely operating capitalist market, or on a unique system of relationship between Japanese capitalists and workers in individual enterprises ("lifetime" employment, for example), or on the more simple minded versions of the explanations of Japanese industrial development in terms of Japan's nexus with the U S. He believes that it is one *aspect* of the Japan-U S relationship, namely, the relatively cheap import of advanced technology, and the ability, largely of the Japanese Ministry of International Trade and Industry (MITI), to ensure the absorption of this technology, which transformed the Japanese industrial structure. The identification of strategic industrial sectors, and policies ensuring the growth of the *internal* market, helped the Japanese *export* strategy, and led to the Japanese "miracle".

This industrial development strategy was pushed through at a heavy cost to the people of Japan, and also to medium and small enterprises. It was the big firms, evolved from the Zaibatsu conglomerates, which were the beneficiaries of Japanese industrialisation strategies. both before and after the war. The second merit of Johnson's book is, therefore, the repeated references to what is evidence for the class character of Japanese industrialisation, although these are described in a way whereby the full price of the strategy is not made apparent.

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1 See, for example, Francine R Frankel *India's Green Revolution: Economic Gains and Political Costs*, Princeton, University Press, 1971, and *India's Political Economy, 1947-1977: The Gradual Revolution*, Princeton, University Press, 1978,

In other respects, however, Johnson is quite candid. A major chapter of the book is concerned with elaborating the political and administrative pre-requisites for any nation wishing to follow the Japanese example (he lists South Korea, Taiwan, Hong Kong and Singapore as countries following similar strategies). This chapter is particularly important for Johnson clearly expects to be read seriously. The specific provisions which he describes are, in fact, in a form where they can be parcelled into the "advice" accompanying credit given to countries of the Third World by institutions such as the World Bank and the International Monetary Fund. They bear similarities of assumption with policy prescriptions already familiar.

The final merit of Chalmers Johnson's book lies generally in the information he provides on the specific tools of Japanese industrial policy. However, to Indians (his book is clearly directed towards his North American opponents), familiar with the existence of the Industrial Development and Regulation Act, the Capital Issues Control Act, the Foreign Exchange Regulation Act, and potential controls on imports and exports, there is little conceptually novel in the Japanese system of guiding industrialisation.[2] India's limping industrial growth rate has continued in spite of all the tools the administration might want, with as heavy a burden imposed on the Indian people and with a huge amount of technological imports. The only answer to the inevitable question about the differential performance of the Japanese and Indian economies available from Johnson is the brief mention that in Japan there was the sustained realisation (and this realisation was politically sustainable) that it is the development of the *internal* market which is crucial to economic growth

This is largely due to Johnson's conception of political economy. He thinks that it comprises essentially the study of the relationships between governmental institutions and economic activity. Had he worked with Lenin's classic definition that "it is not with 'production' that political economy deals, but with the social relation of men in production, with the social system of production", he would have been better able to provide a true case study of industrialisation.[3]

II

Two points need to be made clear about Japan's economic performance. The first is the remarkable rise in industrial production

2 After a generally appreciative review of Johnson's book by one of *Fortune's* editors, a member of Reagan's Council of Economic Affairs, responded a full year later. He attempted to refute Johnson's propositions and claimed that Japanese economic growth was due to the operation of the capitalist market mechanism rather than to MITI's policy. See Robert Lubar, "Inside MITI", *Fortune* 106 (1982), 5, and David R Henderson, "A Differenes of Opinion: The Myth of MITI", *Fortune* 108 (1983), 3.

3 V I Lenin, "The Development of Capitalism in Russia", in *Collected Works*, Moscow, Progress ,1960, Vol 3, pp 62-63.

as shown in Table I; there *was* a "miracle" which requires some explanation.

TABLE I

INDEX NUMBER OF PRODUCTION (1975=100)

Year	*All manu-facturing*	*Iron and steel*	*Machinery*	*Chemicals*	*Textiles*	*Non-ferrous metals*	*Metal finished goods*
1930	5.3	2.1	1.4	2.5	21.8	4.8	—
1940	11·0	7.3	3.8	8.5	30.4	10.1	—
1950	5.1	5.1	1.8	4.7	12.6	7.3	—
1960	25.3	22.4	16.5	22.3	47.9	27.8	24.4
1970	92.2	94.2	87.7	86.8	105.2	93.8	96.9
1978	123.0	110.1	131.5	131.0	107.7	135.0	134.9

SOURCE: Mainichi Shimbun Sha (ed), *Dictionary of Showa History*, Tokyo, 1980, p 457 quoted in Johnson, pp 4-5.

The second point is that unlike the general impression, Japan's external trade does not play any significant role in its economy. "By the late 1960's Japan's exports were only 9.6 per cent of GNP, compared for example with Canada's 19.8 per cent. From 1953 to 1972 Japan had a consistently lower dependence on exports and imports as a percentage of GNP at constant prices than France, Germany, Italy, Britain or OECD Europe as a whole. Japan's exports ran at about 11.3 per cent of GNP, and its imports at 10.2 per cent, whereas the OECD European figures were 21.2 per cent and 20.9 per cent respectively" (p 16).

Johnson's explanation for this tremendous growth of the productive forces and, clearly, the matching growth of the internal market is couched in the following language. While pointing out that "I cannot prove that a particular Japanese industry would not or could not have grown and developed at all without the government's industrial policy" (p 30), "if it can be shown that the government's industrial policy made the difference in the rate of investment in certain economically strategic industries (for instance, in developing the production and successful marketing of petro-chemicals or automobiles), then perhaps we may say that its role has not been exaggerated. I believe this can be demonstrated and I shall attempt to do so later in this study"(p 9).

Actually, Johnson's major concern is to demarcate the historical-political context in which specific institutions of the state arose in Japan, and the reasons why they were able to induce a high rate of investment by big firms. "There was more to state intervention in the thirties than Keynesianism, and Arisawa (an important academic advisor on industrial policy) and his colleagues in the government learnt lessons in their formative years that are quite different from those that make up what has come to be known in the West as mainstream governmental fiscal policy" (p 6).

These lessons included the experience of coping with the absence of tariff autonomy until as late as 1911 (industrial planning had been attempted in Japan from 1886). Unable to aid developing industries by protective duties and other measures, the Meiji government came to the conclusion that it had to take a direct hand in economic development, if Japan were ever to achieve economic independence. In Johnson's conception, industrial policy is a reflection of economic nationalism, understood in the sense of giving priority to the interests of the nation, though not necessarily involving protectionism, trade controls or economic warfare. However, Johnson points out, the crucial aspect of industrial policy is the recognition that the global economic system is *never* to be understood in terms of the free competitive model. Neither labour nor technology moves freely between countries: "(Industrial policy) refers to a complex of those policies concerning protection of domestic industries, development of strategic industries, and adjustment of the economic structure in response to or in anticipation of internal or external changes which are formulated and pursued by MITI in the cause of national interest as the term national interest is understood by MITI officials" (p 26).

Following the rejection of the competitive model of the world capitalist system, the notion of a static international division of labour was also rejected by Japanese planners, In the 1970's, for example, Japan was expected to compete in the computer, aviation and space industries. A logical outcome of this view was the insistence that industrial policy (as opposed to "macro" economic policy) included direct governmental intervention at the micro level. Administratively this implied the need for vertical government bureaus dealing exclusively with specific industries.

In addition to this micro aspect known to the Japanese as "industrial rationalization policy" there is the "industrial structure policy", "which is more radical and more controversial. It concerns the proportions of agriculture, mining, manufacturing and services in the nation's total production; and within manufacturing it concerns the percentages of light and heavy and of labour intensive and knowledge intensive industries. The application of the policy comes in the government's attempts to change these proportions in ways it deems advantageous to the nation. Industrial structure policy is based on such standards as income elasticity of demand, comparative costs of production, labour absorptive power, environmental concerns, investment effects on related industries, and export prospects. The heart of the policy is the selection of strategic industries to be developed or converted to other lines of work" (p 28).

The key to the success of the industrial structure policy was the availability of new technology. MITI therefore made every effort to suppress imports of finished goods, particularly those that competed with domestic products, but encouraged the import of technology in general, and machinery in particular. The problem here was to keep the price down by untying the package in which the foreign technology normally came wrapped. Thus the technology had to be separated from foreign ownership, patent rights, know-how agreements, proposal for joint ventures, capital participation, voting rights and foreign managers on the boards of directors.

Before the period of capital liberalisation of the late 1960's and 1970's no technology entered the country without MITI's approval, nor were joint ventures agreed to without scrutiny and, frequently, changes in terms. Similarly, MITI would pressurise sellers of patent rights to lower royalties or make other changes advantageous to Japanese industry as a whole, and finally, no programme for the import of foreign technology was approved until MITI's advisory committees had agreed that the time was right.

The Ministry's control over the investment decisions of private enterprises is principally obtained through the peculiarly high percentage of term loans in the financial structure of enterprises. As late as 1972, the rate of owned capital was as low as 16 per cent, a rate that has persisted through the post-war period. Large enterprises obtain capital through loans from banks which are overloaned themselves and dependent on guarantees by the Central Bank of Japan. The Bank, after a fierce struggle with the Ministry of Finance, is now essentially an operating arm of the ministry. The point is that the Bank of Japan thereby became increasingly dependent on guidelines supplied by MITI on the amounts of capital various industries would need for specified periods. These were the industries that other branches of the government were protecting, and the Bank of Japan ran the risk of jeopardising the whole credit system if its support strayed too far from the "designated" industries.

Johnson points out that the resulting arrangements were very similar to the pre-war German banking groups with cross shareholdings between banks and affiliated industries. In the Japanese case, however, the government excercised much greater control over the "financial lineages" than in the German case. As far as the *enterprises* were concerned, while dividends on shares are paid after tax, interest on bank loans is deductable for tax purposes. It was thus far more profitable for enterprises to accept MITI's guidance and obtain bank finance than to raise money through equity issues. Although a capital market did develop slowly in Japan, and came to play an increasingly important role in industrial finance, it did not in any way rival bank lending as a source of capital until the 1970's.

One advantage of the overloaning system, Johnson claims, in that managers were not pressurised by shareholders. They could ignore short term profitability as a measure of performance, and concentrate on foreign market penetration, quality control and long term product development.

III

Underlying the post-war Japanese economic strategy was the clear realisation that except in the case of two items, transistor radios and cameras, export increases had taken place following the expansion of the domestic market. Interestingly, the link between growth of exports and growth of the domestic market had been provided by a prominent politician who was Finance Minister, MITI Minister and latter Prime Minister, Ishibashi Tanzan. While arguing that the key to exports lay in the lowering of costs brought about by effecting economies of scale, he insisted that in order to enlarge production, Japanese manufacturers needed more customers, and these could come only from amongst the Japanese people. He provided, therefore, a rationale for generally increasing incomes, while meeting the requirements of big business expansion in Japan.

Johnson provides extensive evidence for the pro-monopoly capital nature of Japan's industrialisation policies. The arguments were usually couched in terms of the necessity of increases in production, rationalisation of enterprises, and the raising of the technical level of industry. These *were* pre-requisites for the expansion of trade, but the ownership structure of Japanese enterprises implied that they were actually to accelerate centralisation and concentration of capital. In fact, from 1939, commercial and industrial policy was explicitly committed to the nurturing of large-scale enterprises.

Interestingly, some of the more far-sighted bureaucrats appear to have been aware of the political implications of furthering capital centralisation through enterprise rationalisation and modernisation but, for example, "With the cabinet council looking on and the Diet increasingly dubious about Tojo's (war time prime minister) leadership Kishi (ex-bureaucrat, future prime minister) could not go beyond the basic parameters of the capitalist system"(p 168).

In other words, nationalisation of enterprises in those cases where the operation of economies of scale dictated the replacement of several small enterprises by a few large ones was not a political option. Johnson points out that contrary to the widely held opinion that Japan is a classic case of the sustained role of small enterprises in development, MITI itself has never been very enthusiastic about its Medium and Smaller Enterprises Agency but "it had no choice other than to support it because of the political clout the small business sector wields" (p 223). The class interests served by the continuing presence of small enterprises in Japan is brought out by Johnson's statement that North American big business does not have "the extensive enterprise sector of medium and smaller subcontractors that his Japanese counterpart can squeeze in difficult times. Tomioka calls the subcontractors the shock absorbers of the Japanese business -- the smaller firms on the recieving end when large firms find that they can no longer carry the fixed costs of their labour force and must shift the strain" (p 13).

In the early 1920's, despite the strategic importance of the modern large enterprises owned by the Zaibatsu (large industrial empires), it was the medium and smaller factories which employed the bulk of industrial workers. Again, while the Zaibatsu firms produced for the internal market, the medium and smaller enterprises concentrated on production for export. With a few exceptions such as rayon, silk yarn and cotton textiles where big firms predominated in exports, medium and smaller enterprises manufacturing items such as bicycles, pottery, enamelware, canned goods, hats, silk textiles and so forth were contributing 50 to 65 per cent of Japan's exports. In fact they were losing money in doing so, for the big Zaibatsu trading companies which monopolised the marketing network, provided raw materials at high prices and took consignments of finished products at low prices.

Johnson argues that it was the 1927 financial panic which brought the Ministry of Commerce and Industry (MCI, predecessor of MITI) into prominence. As a result of the panic, loans to smaller and medium enterprises became much harder to get, while access to capital for big Zaibatsu enterprises was made easier. Simultaneously, the Japanese industrial structure was "reformed", a large number of competing banks and enterprises were "weeded" out and centralisation of capital took a big step forward. Johnson remarks: "However, the way it was done and the enrichment of the Zaibatsu in the process contributed to the radicalization of the whole society and brought forth demands that someone speak for the nation as a whole" (pp 101-102).

MCI's creation out of the earlier Ministry of Agriculture and Commerce (MAC) was itself the result of conflict between the ruling landlord and industrialist forces. During the boom which accompanied the first world war, agricultural prices went up and this was encouraged by MAC which hoped to increase production through this incentive. This was clearly what the landlords wanted, while the industrialists obviously wanted prices to fall, both to relieve the pressure on them for wage increases, and generally to promote industrial peace. However, rice riots in 1918 forced the resignation of the then government, and the succeeding government imported rice on a large scale, and introduced price controls. The landlord lobby, infuriated by this political setback, insisted on a separation of commercial and industrial interests from agricultural interests, and MAC was split to form a seperate Ministry of Agriculture and, of course, MCI.

Following the 1927 panic and MCI's greater prominence, what has been called the beginning of modern Japanese industrial policy began, with the introduction into Japan of the concept of "industrial rationalisation". *German* industrial rationalisation, like elsewhere, was devoted to the technological innovation of industries, to the installation of the most up-to-date machines and equipment and to general measures to increase efficiency. While the Japanese followed the German example of emphasising government sponsored trusts and cartels as a means of implementing these reforms, they also concluded that rationalisation implied reduction in competition. In the smaller and medium enterprises sector, there was certainly cut-throat competition and export dumping, but the authorities appeared to understand that even amongst big business "cut throat oligopoly" should be replaced by "cordial oligopoly" through government encouraged cartels. The government also drew up plans for the control of enterprises, implementation of "scientific management" principles, improvements in industrial finance, standardisation of products, simplification of production processes, and subsidies to support the production and consumption of domestically manufactured goods. Big business leaders were involved in these planning activities and even given official accommodation. In return, they helped considerably in promoting MCI's ideas amongst the big business community and in the Diet.

Johnson points out that the implications of the rationalisation movement were clear to all the democratic forces in Japan. Rationalisation implied wage cuts, reduction in employment and longer working hours. He says, in fact the Zaibatsu firms were the greatest beneficiaries of rationalisation.

In the period leading upto the second world war, the question of converting lines of production in small and medium enterprises towards munitions, or closing them altogether, became a concrete problem. On finding that a large amount of the imports were consumed by smaller enterprises for domestic use, rather than for munitions production or for export purposes by large enterprises, the government cut down imports, driving many enterprises to bankruptcy, thereby raising the "politically sensitive" question of the future prospects for workers employed in these enterprises. In answer to this problem the government decided, through a combination of subsidies and pressure, to shift production in smaller enterprises to munitions, exportable commodities, or import substitutes. However, some 390 000 bankruptcies took place during August 1938 alone. The centralisation of capital created by these measures increased further the power of the Zaibatsu, while shifting the industrial structure in favour of heavy and chemical-based industries.

In fact, the second world war produced a profound change of industrial structure at the cost of the decimation of smaller enterprises, and the textile industry as a whole. Johnson mentions that "the immediate cause of this shift was the enterprise readjustment...movement, a set of government policies that came to be so heartily disliked by the public that after the war even the phrase was dropped from the lexicon of trade and industry bureaucrats, although they of course invented new euphemisms for the same thing" (pp 157-158).

These policies were made possible because of the takeover of the institution of the state, both directly and through terrorist actions by military officers and their ultra-nationalist civilian allies. Using the co-opted legitimacy of imperial institutions, and weakening and discrediting elected political leaders, they attempted to gain complete power. However, Johnson points out, "they could not destroy the interests the politicians represented—primarily those of the Zaibatsu—and the Zaibatsu undertook, in self-defence, to enter the government and represent themselves; they stopped working through politicians" (p 155).

The enduring nature of big business power over the state is brought out by the fact that it was considered useful to continue a facade of civilian rule in order to prolong friendly trading relations with the United States and Great Britain (of course, before the Pacific War began). Dividends were therefore paid to the Zaibatsu almost to the end of the war, when the Zaibatsu "no longer objected to the nationalisation of their destroyed factories. The Zaibatsu ownership rights turned out to be virtually the only civilian rights that were respected throughout the wartime period" (p 139).

In the post-war period, reforms introduced by the US occupation administration modernised the Zaibatsu enterprises, freeing them of their earlier family domination. Johnson points out that "rentier" elements were removed and "entrepreneurial" and qualified managers encouraged, both to take over established enterprises, and to promote new ones.

IV

Japan's industrialisation strategy caused hardships of unbelievable severity to the people. If the price level in August 1945 is taken to be 100, it rose to 346.8 in September, 584.9 in December, and to 1184.5 the following March. Perhaps the best way of bringing out the harshness of conditions is to provide a few examples of the oligarchic unconcern for the mass of the people.

"It (Reconstruction Finance Committee) was one of a set of institutions that the Japanese created after the war to try and pull themselves out of the post-war economic collapse and to restore production to pre-war levels regardless of the fierce inflation it generated" (p 179).

"The Japanese public paid a heavy price for this shift in industrial structure. Jerome B Cohen argues that the Japanese consumer was hit harder by war than civilians in any other belligerant country for which data is (sic) available" (p 165).

"Priority production was a scheme to concentrate all of the economy's assets in a few strategic sectors, regardness of the effects this might have on civilian consumption or inflation" (p 182).

"Although no Japanese official doubts that the RFB (Reconstruction Finance Bank) inflation inflicted enormous hardships on the people and that the ultimately had to be stopped, priority production had an important effect on later bureaucratic attitudes as a precedent for bolder rather than more cautious, fiscally responsibly courses of action" (p 186).

"The priority production scheme was proving to be very hard on ordinary citizens since it subsidised producers but ruined households through inflation, rigged prices, and shortages" (p 184).

"The first few years of the occupation were a period of immense complexity, extremely rapid social change, and for the Japanese people a bitter struggle for survival—the time of the 'prison of hunger', as they spoke of it then" (p 177).

"During the winter of 1949-50 the Japanese people faced some of the harshest economic conditions they had seen since the war ended, and the threat of revolution came perilously close" (p 200)

"...imports outran exports whenever the people's economic conditions improved even slightly" (p 219).

In December 1948 the US government ordered the occupation administration to make the quick attainment of Japanese economic self-sufficiency its primary objective. On December 19, 1948, "General MacArthur transmitted to the Japanese government his nine point Economic Stabilisation Plan. This called for...several other reforms that were intended to bring Japan back into international commerce but that would also impose very harsh conditions on the Japanese people until the exports began to flow....

"The US government sent an advisor in early 1949 whose most important achievement was the sudden drastic curtailment of inflation through unemployment" (p 190).

This however seemed to be the turning point, and with the outbreak of the Korean war the US armed forces placed an order for over 7000 lorries with Japanese firms, worth nearly 13 million dollars. Johnson mentions that this was the key to the revival of the Japanese motor industry. The 'cold war' had begun, in China the Communist Party had successfully led the revolution, and "the US now saw Japan as strategic territory of critical importance to its own security and not just as an object for political reform policies that had grown out of the ideological confrontations of World War II" (p 189). Special procurements and the expenditures of US troops made up 37 per cent of foreign exchange receipts in 1952-53 and as much as 11 per cent in 1959-60. With this political support and economic stimulus, the Japnnese "miracle" was set into motion.

V

By the late 1950's MITI's system of developing a new industry consisted of the following types of measures. Firstly, an investigation, followed by a basic policy statement on the need for the industry, and its future prospects was drafted in the Ministry. Foreign exchange was then allocated by MITI and funding provided by the Development Bank for the industry. Licences for the import of technology and the designation of the industry as "strategic", which allowed for accelerated depreciation, followed, together with the provision of developed land at a nominal cost or even entirely free. Finally the industry was given important tax concessions and an "administrative guidance cartel" was established to regulate competition, and coordinate investment among the firms in the industry.

In more general terms, tools of implementation of industrial policy included discriminatory tariffs, preferential commodity taxes on national products, import restrictions based on foreign currency allocations, and foreign currency control. On the "developmental" side, they consisted of low interest funds to targeted industries, exclusion from import duties of designated critical equipment, and the other measures mentioned earlier.

However, just as MITI's tools of industrial development policies were being perfected, the IMF and GATT began to demand that Japan "liberalise" its controls on currency convertibility and on imports. Johnson points out that the ingenuity displayed by MITI in response to these pressures emanated essentially from the bureaucracy, for administrators realised that without a sophisticated response, liberalisation held dangers of making their jobs redundant. The response came in the form of the concept of "industrial structure", and of the Industrial Structure Investigation Council. The concept involved a comparison of Japanese industry with those of North America and Europe in terms of capital intensity, export ratios, concentration, economies of scale and other indicators of international competitive ability. After such comparisons, the concept was used further to assert that while Japanese industry was fully capable of competing internationally, competition within the industry had to be reduced by mergers and investment coordination cartels. The basic problem, as seen though the eyes of the *administration*, was similar to that faced in the late 1920's and early 1930's. There were too many protected enterprises in too many small factories engaged in "too vigorous and economically unproductive competition" (p 256). Liberalisation would expose them to international pressure; some of them might pass into foreign ownership and worst of all, MITI might have no continuing function to play. The answers to this, though couched in euphemisms such as "public-private cooperation", "consolidation of the industrial order", and "structural finance", were cartels, enforced mergers, pressure on medium and smaller enterprises, and conversion of some businesses to other lines of activity.

Notwithstanding these policies towards, essentially, smaller enterprises, MITI continued to protect larger enterprises from foreign competition. Johnson quotes the case of IBM which had organised itself as a yen company in order to overcome the restrictions on the use of foreign exehange and repatriation of profits. IBM held on to its basic patents on computer technology, and effectively blocked the development of the Japanese computer industry. However, MITI made it clear that IBM must sell its patented technology, and accept the Ministry's guidance over the number of computers it could market domestically, if it wished to continue in Japan. To overcome IBM's strategy of leasing, rather than selling, computers, MITI established a leasing company, which bought indigenous computers and leased them to customers.

The continuing pressure from international agencies for "liberalisation" implied that MITI was not able to provide a legal basis for its administrative guidance activities. It relied heavtly on the influence it could exert through former officials who had retired and joined the boards of private companies. However, some of the firms in the very biggest stratum of Japanese enterprises were unwilling to accept pre-emption of their investment decisions by MITI. It was the Mitsubishi group, as Johnson says, that should be "given the credit" for the "liberalisation" of the Japanese economy. Mitsubishi was powerful enough to become the dominant (65:35) partner in a joint venture with Chrysler Corporation, whereby Mitsubishi's small car was to be sold in the US market by Chrysler dealers. Following this, Isuzu independently accepted another 65:35 joint venture with General Motors, although in this case MITI was able to rewrite the agreement to ensure that General Motors did not gain control of the jointly held company. The late 1960's and early 1970s, in fact, saw a challenge to MITI's supremacy, and Johnson gives, as an example, the instance where the MITI vice-minister (administrative head) actually had to call *on* business leaders "and say that if private enterprise wanted to enter into tie-ups with foreigners, MITI would offer no objection" (p 288). Although this was symbolic, the power implications were clear to all.

MITI's ability to respond to critics in a sophisticated manner was again made evident in the new industrial policy announced in 1971. MITI acknowledged that "high speed growth" had led to problems of pollution, inadequate investment in public facilities, rural depopulation aud urban overcrowding. It proposed the addition of two new standards for determining which industries were appropriate for the evolving industrial structure: to the high income elasticity of demand and high growth rate of productivity, were added an "overcrowding and environmental standard" and a "labour content standard". These new standards meant that the ministry would try to phase out industries that contributed to overcrowding and pollution, and attempt to replace them with high technology, smokeless, "knowledge intensive" industries. However, the 1973 oil price "shock" led to a 29 per cent inflation rate; and this, combined with MITI's indictment by another government agency, for forcibly reducing competition and serving big business interests through "administrative guidance", led to questions of whether MITI served "national interests" or only big business interests. However irritating it might be, a former MITI vice-minister ruminated, in a lecture to his juniors in the bureaucracy, that officials are duty bound to act within the law, and on the basis of law.

VI

Although Chalmers Johnson's book has the merit of including a great deal of information, his theoretical framework betrays his philistine approach. His conception of the state brings home vividly Lenin's warnings about the confusions sown by bourgeois theorists of the state, but this case is even more remarkable for the theorist here, as we shall show, has confused himself.[4] In Johnson's own words (though in another context), "years of disputation with Marxist-Leninists" has led Western political scientists to ignore Marx and Lenin except evidently through chance acquaintanceship gained through second hand sources.

Johnson's explanation of the Japanese "miracle" is based on a distinction he makes between the Japanese "developmenal state", the North American "regulatory state", the "bureaucratic-authoritarian regimes of South America" and the "communist dictatorships of development". The very fact of his counterposing these four political and social systems brings out clearly his conception of state as limited to specific forms of relationship between the bureaucracy, the legislature and the judiciary. Johnson quotes approvingly the view of an author that "the notion that the 'modern state power is merely a committee which manages the common business of the bourgeoisie' is one of the historically least adequate generalizations that Marx ever made" (p 24). Johnson goes on to say that in addition to its "historical inadequacy", it obscures the "fact that in the developmental state economic interests are explicitly subordinated to political objectives" (p 24). It is clear, though scarcely believable, that Johnson has interpreted the word "business" in the quotation from Marx literally, i e, as purely "commercial". Johnson adds his own criticism that Marx's formulation is not merely "historically inadequate; it obscures the fact that in the developmental state economic interests are explicitly subordinated to political objectives. The very idea of the developmental state originated in the situational nationalism of the late industrializers, and the goals of the developmental state were invariably derived from comparisons with external reference economies" (p 24).

Johnson evidently does not understand that theoritically the bourgeoisie, particularly the bourgeoisie of the "late industrializers", may have political as well as commercial "business". This is all the more confounding when Johnson provides many examples of the ways in which Japanese political strategies consistently strengthened the economic base of the Japanese bourgeoisie. The clue to the theoretical reason for Johnson's amazing incapacity to "read" his data in what would appear to be the most straightforward (and scientific) manner is provided by another of his approving quotations: "As Henry Jacoby puts it, 'once capitalism transformed the traditional way of life, factors

4 V I Lenin, "The State: A Lecture Delivered at the Sverdlov University, July 11, 1919", in *Collected Works*, Progress, 1965, Vol 29, pp 470-472.

such as the effectiveness of competition, freedom of movement, and the absence of any of social security compelled the state to assume responsibility for the protection and welfare of the individual. Because each man was responsible for himself, and because that individualism became a social principle, the state remained as almost the only regulatory authority' " (p 19).

It is Johonson's allegiance to these Ayn Rand formulations that led him to the coldblooded recommendations that we shall discuss shortly. Essentially, his view is that the state stands up, above social conflict, attempting all the while to alleviate suffering, and mediating conflict when it approches an extreme.

Johnson analyses the Japanese "developmental state" by comparison, as we have mentioned, with three other "states". Arguing that the developmental state is often confused with the regulatory state by observers from "market rational systems", he adds that as the developmental state has a political and not an economic basis, it is not just a question of state intervention that distinguishes between the two: while the Untited States government has many regulations concerning the anti-trust implications of the size of firms, it does not, for instance, concern itself with what industries ought to exist, and what industries are no longer needed. The developmental, or plan-rational state, by contrast, has the dominant goal of setting substantive social and economic goals. Johnson believes that economists dominate policy making in market rational states, while "nationalistic political officials" dominate it in the latter. While the Congress controls the budget in the U.S, and most economic decisions are made there, reflecting "the market-rational emphasis on procedures rather than outcomes", in Japan budget appropriations *precede* authorisations. "With the single exception of 1972, when a combination of government mishandling and opposition unity led to a small reduction in defense spending, the budget has not been amended in the Diet since 1955" (p 10). Before this time there was no pretence that the Diet did anything more than rubber stamp the bureaucracy's budget.

Johnson notes that any country wishing to match Japan's economic achievements must adopt the same priorities that the Japanese did. "(The state) must first of all be a developmental state—and only then a regulatory state, a welfare state, an equality state or whatever other kind of functional state a society may wish to adopt. This commitment to development does not, of course, guarantee any particular degree of success; it is merely pre-requisite" (p 306).

In the "bureaucratic-authoritarian" regimes of South America the "ruling elites", according to Johnson, promote industrialisation while excluding from power previously mobilised economic groups (workers, peasants and the middle class, presumably) through the development of collaborative relationships with transnational corporations. A technocratic political arrangement relying heavily on coercion enforces the rules of the game in these countries. Japan on the other hand is a democracy (albeit one where legislative and judicial functions are restricted to "safety valve" operations) in which politicians "are chosen by the votes of the majority". Japanese political stability "has rested on the ability of the ruling political party to forge a coalition of voters committed to economic growth and effective management"(pp 316-317).

Johnson does not approve of the political arrangements in the socialist conntries ("communist dictatorships of development") because he feels that while capitalist development states ignore non-strategic sectors of the society, the "communist state attempts directly and forcibly to demobilize them" (p 316). His reasons are pragmatic (though in a deeper sense, disturbingly frivolous in regard to crucial issues). "The first (capitalist development state) is preferable because it avoids the unintended consequences of the presence of large numbers of police and the full apparatus of repression, which is not only wasteful of resources but is also incompatible with effective international commerce" (p 316).

Johnson characterises "Soviet type economies" as *plan ideological* as opposed to *plan rational* for he believes that in such societies, "state ownership of the means of production, state planning and bureaucratic goal setting" are fundamental values in themselves, "not to be challenged by evidence of inefficiency or ineffectiveness" (p 18). Japan, on the other hand, is *plan rational* for here state planning and bureaucratic goal setting are "rational means to a developmental goal".

In Japan, the legislatiure, even though a "puppet diet", has worked through the majority held by the Liberal Democratic Party, as a mediator between "the state" (here Johnson seems to imply the bureaucracy) and "society". It has forced the bureaucracy to accommodate interests such as those of agriculure, medium and smaller enterprises which could "not be ignored", and also to focus on issues such as pollution. At the same time "it has held off or forced compromises from those groups whose claims might interfere with the development programme" (p 50). Johnson believes that it has performed its task equitably leaving a "comparatively level pattern of income distribution and of hardships" (p 50). This is difficult to reconcile with his own data on the effects of development policy on small and medium enterprises, and on the people in general.

Johnson notes that the political division of labour observed in Japan where the politicians "reign" and the bureaucrats "rule" is typical of developmental states. He soothes outraged liberal sentiment by denying that this formulation is either a "cynical comment on modern government or a counsel of despair concerning the realities of democracy" (p 154). Both sides, he tells us, have a role to play. Both legislature and judiciary must be ready to intervene when bureaucracy goes too far ("which it undoubtedly will"), "but their more important overall function is to fend off the numerous interest groups in the society, which if catered to would distort the priorities of the development state. In the case of interests that cannot be ignored, deflected, or satisfied in symbolic ways—*or upon which the perpetuation of the political system depends*—the political leaders must compel the bureaucracy *to serve and manipulate them*"(pp 315-316, emphasis aded).

Having settled the question of the "inadequacy" of Marx's formulation of the nature of the state, Johnson proceeds to analyse precisely the problem of the nature of relationship between the state and big business. He agrees that there is collaboration between the two essentially taking the form of preferential access to government by "prime contractors" and "vital political support groups". Less strategically placed groups have little access though more, Johnson feels, than under the admittedly oligarchic Meiji constitution. Entrepreneurs in strategic industries gain preferential access, Johnson emphasises, not unintentionally, but through the post-retirement placing of senior bureaucrats on the boards of big enterprises.

The fruits of the state-big business collaboration are selective access to government guaranteed financing, targeted tax reliefs, government sponsored investment coordination which ensures that all participants remain profitable, and enquitable allocation of burdens during recessionary conditions (something, Johnson notes, that private cartels find hard to do). The government also helps in the commercialisation and sale of products, and provides assistance when an industry as a whole begins to decline.

Johnson lists with seeming ingenuity the negative features of the developmental state. Preferential access may tempt some to use it to private advantage. There may be "protest" demonstrations. Periodic corruption scandals may arise because of the separation of those who are reigning and those who are ruling and the opportunities "this condition gives some insiders to exploit the developmental programme". Johnson has his travelling kit bag however, and tells us that if scandals occur amongst politicians and not bureaucrats, and the development effort is proceeding to the benefit of all, these scandals will be tolerated as unfortunate but not too serious imperfections in the overall system". However, corruption amongst the bureaucracy is more serious and "quick surgery and reconstitution of the system" is called for. Johnson confirms that occasional abuse of office by a senior official is not a "serious" issue in Japan. The cooperation between government and big business "may however have unintended consequences" and Japan has experienced a series of major governmental corruption scandals in its recent past.

Moving on to the institutional content of the "developmental state", Johnson points out that industrial policy, although the *raison d'etre* of such a state, remains a controversial subject—both what it is and how it is done. He argues that the leaders of MITI and its predecessor ministries had no preconceived plan and realised quite late that they were developing "an implicit theory of the developmental state". The language of all bureaucracies is "euphemistic and often opaque" and Johnson's attempt in the book has been to reveal the intentions and concepts often hidden behind these euphemisms and slogans. In one specific case, that of MITI's Special Measures Law for the Promotion of Designated Industries of 1962-63, the problem lay precisely in the fact that it made "explicit what had long been implicit in MITI's industrial policy". The law became controversial because of jurisdictional disputes between MITI and the Ministry of Finance, the Fair Trade Commission and Keidanren (Federation of Economic Organisations). The Finance Ministry opposed the law's attempt to bring the banks within the purview of MITI's proposed "discussion groups". The Fair Trade Commission felt that the occupation inspired anti-monopoly law would be made totally redundant, and Keidanren wanted "self control" rather than "MITI control". The bill incorporating the law was never, under this combined opposition and the controversy raised, brought to the vote in the Diet. However, Johnson argues, it was precisely the confrontations of this kind which brought home to the "state" (i e, the bureaucracy) the need for the capitalist market mechanism, and to the private enterprise the need for bureaucratic coordination. "Once both sides recognised this, cooperation was possible and high speed growth occurred."

VII

Johnson's study is essentially an institutional one, institutions being defined here as "formal and informal, explicit and implicit social structures developed to coordinate activities within large formal organisations such as corporations, governmental bodies and universities, and to link these organisations to one another" (p 238).

In the Japanese case, the institutions form a system which developed over time and which are "a formidable set of institutions for promoting economic growth" (p 12). Taken separately, however, they make little sense, and the importance of the concept of institution mentioned above is that it allows for the interconnections to be brought out. Johnson believes that the result is a developmental state "much softer and more tolerable (sic) than the communist-dominated command economies...but with considerably greater goal setting and goal achieving capability than the market rational system" (p 51).

The core of the system is the bureaucracy which early in recent Japanese history gained an ascendency over political parties as representatives of dominant propertied interests. In that fractional dispute with political organisations, the bureaucracy claimed to speak for the entire nation while characterising their rivals as representing sectional or local interests. Johnson recognises that *both* the bureaucracy and politicians deal in power "and struggles for power are an inextricable part of bureaucratic life, regardless of what models organisation theorists may have favoured from Weber to the present" (p 106). He also agrees with another author that direct participation by the people in politics had to be forestalled if bureaucratic power was to be preserved in the post-war period and that the bureaucracy fully realised this. It is his ingenuity, the obverse to his hard headedness therefore, when he wonders: "For reasons that are none too clear the occupation authorities...never singled out the civilian bureaucracy as needing basic reform" (p 41).

Can it be arrogance that makes it "none too clear" that the occupation authorities may have realised 30 years before him that the bureaucratic system was crucial to the stability of the Japanese political system? He is clear that both "government" (could *this* be the inadequately conceptualised "committee to manage the business of the bourgeois"?) and industry recognised the need for a political division of labour in the post-war democratic political system. There was also a need to "forestall disruption" of the positive "development" by the newly enfranchised groups in the society. Thus the division between the "reign" of politicians and the "rule" of the bureaucracy came about. The bureaucracy itself has been, until recently, above the law, in the sense of independent judicial review. In fact, "rather than a rule of law, a rule of bureaucracy prevails". Administration is "for the sake of the citizenry" rather than carried out "with the participation of the citizenry". While this was true for the people at large, Johnson is clear that after the war the bureaucracy began to consult big business on all important issues and blurred "the distinction between the state and the private sector by insinuating (sic) numerous ex-bureaucrats into the board rooms of the economically strategic industries" (p 196).

It is perhaps appropriate to end with two quotations which bring out clearly the political implications of the Japanese, Taiwanese, South Korean and Singapore model of economic growth. "Although it is influenced by pressure groups and political claimants, the elite bureaucracy of Japan makes most major decisions, drafts virtually all legislation, controls the national budget, and is the source of all major policy innovations in the system" (p 20). "Nevertheless, it must be pointed out that the effective operation of the developmental state requires that the bureaucracy directing economic development *be protected from all but the most powerful interest groups* so that it can set and achieve long-range industrial priorities. A system in which the full range of pressure and interest groups existing in a modern, open society has effective access to the government *will surely not achieve economic development, at least under official auspices, whatever other values it may fulfil*" (p 44; emphasis added).

This is surely a cheerful message for "nationalist political officials" attending courses on "developmental administrations".

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