BOOK REVIEWS

THE ECONOMIST, "CONSIDER JAPAN"

The London Economist, in its issues of 1st and 8th September, 1962 published an article under the title 'Consider Japan', in which the writer attempted to explain the high rate of growth of the Japanese economy since the war. It hopes apparently, reviewing Japan's example, to encourage the low rate of growth of the English economy. It was natural, therefore, for Japan's economic policies to be compared with those of Britain's. What *The Economist* aimed at was, in effect, to study Britain's economic defects in the light of Japan.

This article, however, has received much attention from Japanese people for quite a different reason. The economic growth of postwar Japan was far more rapid than the Japanese people themselves had expected. Japan's first economic programme after the war estimated a growth rate of some five per cent a year. It was assessed at 7.2 per cent in 1959 after several revisions, which was, then, regarded as a very ambitious figure. But, in fact, the gross national product in real terms increased at the average annual rate of more than 9 per cent in the last ten years. This surprised even the Japanese people, and the question of what caused this rapid increase has evoked much controversy in Japan. It was interesting to find out how the foreigners' interpretations composed with Japanese views on this matter. The article under review offers the most comprehensive and critical comment of all the articles by foreigners dealing with this problem. But the opinions expressed in it differ on several points from the popular views held in Japan on this problem. Therefore the article aroused a certain amount of controversy among economists in Japan.

1. Factors behind the High Rate of Growth

The author takes note of the fact that Japan has achieved a remarkable success in spite of adopting unorthodox economic policies. The opening paragraph reads:

"At the end of 1951 Mr Joseph M. Dodge, the Detroit banker who had tried (without consistent success) to impose stern policies of demand restraint upon the Japanese government during the dynasty of General MacArthur, shook the dust of a once more independent Tokyo off his feet. His parting message was not designed further to endear him to the Japanese people. 'At present,' declared Mr Dodge severely, 'Japan is suffering from a plague of false legends, which include some dangerous delusions.' He then listed fifteen of these delusions, in language which will strike familiar chords for connoisseurs of recent British cabinet ministers' speeches. The delusions included:

"That increased production without a parallel increase in exports represents sound progress......That inflation can easily be offset by increased production......That a nation that must export to live can afford to price itself out of its exports with a domestic inflation......That granting progressively larger amounts of commercial bank credit for capital purposes can be substituted for the normal processes of capital accumulation......"

"'The progress and present favourable status of Japan.' concluded Mr Dodge, 'has been the result of extremely favourable external circumstances, which cannot be expected to be repeated and continued indefinitely.' He then returned to the United States (average growth rate since then about $2^1/_2$ per cent per annum), and sat down in his Detroit bank awaiting Japan's inevitable crash."

"In the decade since then Japan, continuing and following almost precisely the policies which Mr Dodge had castigated and opposed, has seen its real national product increase at an average pace of 9 per cent a year," On the other hand, "Britain, by following an almost diametrically opposite policy, has marked up one of the slowest rates of increase in both of production and exports." What has brought about the difference between the two?

The Economist's answers to the question can be summarized into the following six points:

(1) The Japanese economy has not yet fully been developed.
(2) Japan has inherited advantages from prewar days.
(3) The influences of the American Occupation policies.
(4) Japanese people has a vigorous desire for advance.
(5) Excellent economic policies, and
(6) The influence of the peculiar social systems in Japan.

A brief review of the above six points of *The Economist* is presented below:

(1) Lower stage of development

One of the advantages Japan possesses is that Japan is still only part way to having a fully developed industrial economy. More than half of Japan's 45 million workers are in jobs where their level of productivity is less than half of that of the great modern enterprises. By merely switching workers from unproductive sectors into the more productive ones a great expansion of the Japanese economy was possible.

(2) Advantages from prewar days

It does not follow, however, that the economic growth rates in the less advanced countries are always high. On the contrary, they are in most cases rather lower than those of the advanced countries. Why, then, has Japan alone achieved high economic growth rates among less advanced countries?

It is because Japan has inherited the following three advantages from prewar days; firstly, a highly developed educational system, secondly, a heavy chemical industry fostered by wartime needs, and thirdly, an excellent transport system or railway network.

(3) The influences of the American Occupation policies

Japan gained three advantages from the American Occupation from

1945 to 1952. One of them was the land reform. Another was that postwar inflation was suddenly halted in 1949. The inflation broke up the old restrictive social order, and the country's production rapidly accelerated after this inflation. And the third advantage was provided by the outbreak of the Korean War in 1950, when large sums of foreign exchange flooded into Japan from special procurement.

(4) The vigorous desire for advance

The above three were, so to speak, the economic environments which enabled the Japanese economy to advance. The essential factors of Japan's dynamic progress in its economy have been the nation's economic tendency to look constantly ahead in emulation. It is necessary for the progress of a nation's economy that there is a climate in which modern industries will constantly expand.

Japanese enterprises are constantly on the alert to opportunities of new overseas industrial techniques; and where these have commercial possibilities. Then Japanese industrialists will immediately complete among themselves to introduce them under licence. But it is in export planning where Japan's planners excel. The Japanese Government has huge departments devoted to statistical research, where many economic experts are working to estimate what type of industries show promise. In order to switch its export business into more suitable channels to satisfy world demands, the Japanese Government gives necessary advice and suggestions to the business world and also offers incentive benefits. These include exemption from corporation tax on profits derived from new products, generous depreciation allowances, and assistance on the introduction of technological know-how, as well as the protection of new industries against foreign imports.

(5) Excellent economic policies

In contrast with other countries, Japanese industrialists, encouraged by the success of economic policies to date, tend to be constantly looking ahead in emulation. The postwar Japanese policies have been carried out on the principle of large increases of government spending and sizeable reductions in personal taxation—*i.e.*, "easy budgets and tight money". This would be regarded, from a viewpoint of orthodox financial theorist, as a dangerous policy aggravating inflation. But around the end of every fiscal year the Japanese Government sets the target rate for growth in the following year's gross national product at a comparatively high figure and the surplus of tax revenue is appropriated to the increase in government expenditure or to new tax reliefs. These tax reliefs and increase in government expenditure have been carried out in Japan even in times of economic overheating or during a balance of payments crisis. The way in which the government copes with the economic overheating and the balance of payments difficulty is not a restrictive budgetary policy but a tight money one.

In Japan the city banks' real cash ratio against deposits is only about 2 or 3 per cent, and the other 97 or 98 per cent of their deposited money is loaned out. As a result, the commercial banks borrow large sums from the Bank of Japan in order to raise the necessary liquid funds. The Japanese enterprises depend upon the city banks, while the city banks depend on the Bank of Japan. Accordingly, the Bank of Japan can control the nation's economy completely and can exert its influence immediately over the money market in times of a balance of payments crisis. This combined policy of "easy budget" and "tight money" is the principal factor for the higher growth of the Japanese economy. The policy of positive budgets stimulated the demands in growth industries and provided the oats that beckon the horse forward, while the policy of high interest rates provided the reins to guide the horse.

(6) The peculiar social systems in Japan

The Economist further points out that the Japanese social system is one of the influences exerted upon its economic growth. It mentions, as the institutional characteristics of the Japanese society, the system of lifetime employment, the low wages compared to consumption standards, dissolution of the big financial combines (Zaibatsu) and thriftiness of people at large. These, however, do not always have the effect of promoting the economic growth as they produce various other effects. *The Economist* makes many comments on these matters, but the system of lifetime employment assures the employees' loyalty to the enterprises, and the low wages comparing to the consumption standards strengthen the capacity for international competition. The dissolution of Zaibatsu stimulated the competition among the enterprises, and the great thriftiness made possible the accumulation of capital.

2. *Easy Budget but Tight Money*

Mentioned above are this article's eminent analyses of the reasons for the high rate of growth of Japan's economy. But they also include a few questionable points. An example is the comment on Japan's budgetary and monetary policies. The author seems to overrate the effect of Japan's budgetary policy in an attempt to criticize English policies. He says that Japan's policy of "easy budget but tight money" has brought the Japanese economy into full play. Whereas the England's general policies adopted in times of balance of payments difficulty were the restriction of effective demands at home through the increase in tax rates and the reduction of financial expenditures. The policy of positive budget and higher interest rates has been opposed in Britain on the ground that it promotes the consumption and restrains the investments. But the reduction of the financial expenditure has restrained the advance of growth industries, and looking from the long-term point of view, it has been the cause of chronic balance of payments difficulties, far from relieving the balance of payments crisis. This is what the author has to say on English financial policies. But putting aside the question whether this comment on English policies is valid or not, it is considered that the evaluation of Japan's policies does not accord with fact. It is true that in postwar Japan, an expansionary financial policy has been adopted, with large increases in government expenditure every year and reductions in personal taxation. But, *The Economist's* view that the Japanese government has been creating an additional demand by the kind of budget which stimulates the economy is not correct. It does not mean, however, that this type of financial policy has never been employed. Once in the fiscal year 1957 when Prime Minister Ikeda was the Finance Minister, a similar budgetary policy had been adopted. But, this policy ended in failure as it incurred a severe deficit in the balance of payments, and in the autumn of that year the government was forced to reduce its financial expenditures. Generally speaking, the public finance in postwar Japan has followed the expansion of economy rather than stimulating the economy. The increase in financial expenditure was not the cause of economic expansion but the result of the high economic growth. The financial expenditure could not overtake the sharp increase in private investments, and accordingly the investments in the public sectors such as in roads, harbours and housing lagged behind remarkably. The reductions in personal taxation were not the cause but the result, Since the government imposes taxes on a graduated scale, the taxation, in the course of a sharp income increase, results in a tax increase unless the level of the basic reduction is raised and the tax rates are changed. Most of the so-called tax reductions in Japan mean a change in the scheme of taxation. Although tax reductions have been enforced by changing the scheme of taxation, the tax ratio to the national income has been increasing gradually year by year due to the rapid expansion of the economy. It rose, for instance, from 20.4 per cent in 1958 to 22.4 per cent in 1962. It is true as the author pointed out that a restrictive budgetary policy was seldom enforced in Japan even in times of balances of payments difficulties. But it is not because the government has always followod a positive financial policy, but because financial expenditures have been restricted to such an extent that no more savings were possible.

Contrary to the author's comment, the positive role in Japan's economic growth had been played not by public finance but by banking. As competition for loans among city banks was severe, the banks vied with one another in acceding to capital demands from enterprises. The shortage of working capital in city banks was made good by loans from the Bank of Japan. And it may be a correct appreciation that the economic growth of postwar Japan was achieved by the tight budget and easy money.

3. Can it last?

The author's comments on the other factors of the economic growth are sharp and to the point. But most of these factors are changing swiftly. So what has been said may be right as an analysis of the causes of the economic growth in the past, but we cannot forecast the future growth from the past experience. The fundamental causes of the degeneration of the past growth factors can be attributed to the fact itself that the Japanese economy has achieved the high growth. Japan's gross national product per capita in 1962 was $550. This figure is on the almost same level as that of Italy in 1958. The primary industry ratio to the gross national product declined to 14 per cent in 1962 from 25 per cent in 1952. Economic growth of this nature dispels some of the factors which were responsible for the higher growth of the Japanese economy in the past. I think the particularly important things in this respect are the following three points:

The first point is how the past positive volition for investment would be in the future. The past positive investment in Japan was made, as *The Economist* pointed out, by the introduction of the new technical know-hows of the developed countries. As the difference between technical levels of Japan and Western countries was large, a company which adopted the new know-hows earlier than others was able to gain advantages and large additional profits. The investment by the higher growth industries in postwar Japan such as synthetic fibres, iron and steel, automobiles and petrochemicals were made chiefly from the above mentioned motives. But today, this difference in technology is being reduced. Japanese industries such as iron and steel, petrochemicals, etc. are performing production with the most up-to-date equipment. Accordingly, the opportunities of advancement by the use of borrowed know-hows have become reduced.

The second point is a changing labour supply. As *The Economist* has also pointed out, Japan was able to raise its productivity by switching workers from the unproductive primary sectors into the much more productive secondary ones. In the past five years, the workers in the primary sectors decreased by roughly 500 thousand persons a year. The labour turnover from agriculture into the sectors of manufacturing and service industries will continue into the future, but the fast tempo experienced so far cannot be expected to continue.

Furthermore, the postwar birth rate in Japan has fallen off, and this will result in a corresponding decrease in the numbers of labourers entering industries. The birth rate of Japan in 1961 stood at 1.7 per cent which is low when compared with that of the United States (2.3 per cent) and even lower than that of Italy, West Germany, France and Britain. It is clear from this that Japan may be unable to keep up the present growth pattern in the future for it is based upon an abundant labour supply.

The third point is the problem of exports. In Japan economic growth is accompanied by the expansion of imports. Therefore, the growth of exports is indispensable to increased imports. Japanese exports in recent years have developed around the exports of goods requiring intensive labour to the United States. The marketwise export structure of Japan shows that the United States' share increased from 18 per cent in 1952 to 28 per cent in 1962. Judging from the future labour and wage situation, it is expected that Japan will be unable to continue to expand its exports centreing around this type of product. According to Japan's trade statistics the rate of increase of exports of cheap labour goods has already declined conspicuously.

If we consider the above three points, it is natural to expect that the pattern of Japan's economic growth in the future will be greatly altered from that of today. It does not follow, however, that the Japan's economic growth rate itself will become blunted.

As Japan's technological levels approach those of Western countries, it can be said that Japan's future progress will have to depend upon the development of Japan's own techniques. And in the field of education, institutional reforms are being carried out which attach more importance to the scientific and technical education, and there is a growing tendency for large-scale enterprises to increase allocation of funds for technical research. We cannot expect rapid results in this direction, but it is evident that whether or not Japan will succeed in technical development will hold an important key to the future growth of the Japanese economy.

The labour shortage too, is not an insoluble problem. In Japan the management methods of the days of surplus labour are still prevailing, with much labour being wasted. Young workers are in short supply, while the aged and middle-aged workers are in excess. It is customary in Japan for workers to retire when they reach the age limit of 55, while employers complain of the labour shortage. Therefore, the labour shortage in Japan could be considerably eased merely by heightening the retirement limit.

For the problem of export there is also some comment. One is that the European countries could import more Japanese goods by lifting the present strict import restrictions. Another one is that Japan will expand its trade with Southeast Asian countries. This can be achieved by reducing the volume of exports of labour-intensive light industry goods, by increasing its exports of capital-intensive heavy industry goods such as machines and equipment, and by increasing imports of primary products from Southeast Asia. If Japan ends its excessive dependence on trade with the United States and succeeds in opening new markets, we can expect the further expansion of Japan's exports in the future.

In order to fulfil the above stated three conditions, Japan needs large-scale structural changes in its economy, but this will not be an easy task. An instance is the extension of the age limit, which seems to be comparatively simple task. As the age limit system is combined with the Japanese traditional employment system, *viz.* the system of lifetime employment and of pay-rising-by-seniority, the extension of the age limit system cannot be realized without the reform of the employment system. It is expected in Japan that school leavers who have already got a job with a company are expected never to leave for a rival firm, and in return the company steadily raises their pay according to their length of services. Therefore, the company does not readily agree to the extension of age limit because the company must consequently continue paying high wages to aged workers of reduced efficiency. The seemingly foolish retirement at 55 system is based on these considerations. It is apparent that the reform of trade structure by importing more agricultural products and textile goods from Southeast Asia will be opposed by the farmers and the textile makers at home. But the future growth of the Japanese economy cannot be achieved without making these structural changes.

The Economist has analyzed the difficulties involved in making these reforms, but concludes that these reforms are indispensable to the future growth of the Japanese economy. This must be regarded as very important comment.

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