

# THE JAPANESE ECONOMIC DISEQUILIBRIUM

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## I. OUTCOME OF HIGH GROWTH

### A. Emergence of Large Corporations

**I**N A SEVERELY ailing world economy with its concurrent global inflation and recession, the Japanese economy can hardly be unaffected by these phenomena. The rampant inflation touched off in 1973 not only by oil crisis and food shortage but by speculation of big business which made full use of its monopolistic position, is finally coming under control only by exacting the high price of the most serious postwar recession. The retail price index is still rising and inflation remains a major problem for the Japanese economy (Table I).

TABLE I  
RISING PRICE INDICES

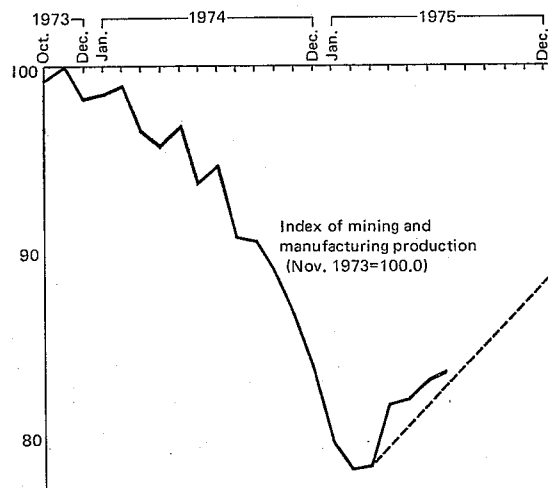
	(% per annum)	
	Wholesale	Retail
July 1972 to Oct. 1973	17.5	13.1
Oct. 1973 to Feb. 1974	56.4	32.2
Feb. 1974 to Dec. 1974	8.2	15.6
Dec. 1974 to July 1975	△1.7	8.8

Source: Toshimasa Tsuruta, "Nihon keizai no chūki tembō" [Intermediate forecast of the Japanese economy], in *Kokumin no keizai hakusho* [People's economic white paper] (Tokyo: Nihon-hyōron-sha, 1975), p. 167.

Although business seemingly hit bottom in the first quarter of 1975 with gradual upward trends since, it warrants no optimism due to the lack of full recovery with a large GNP gap and stagnating production (Figure 1). Furthermore, priorities on inflation control as a policy objective would deny quick recovery, and priorities on recession abatement might rekindle the flame of inflation. It is extremely difficult for Japan to find a way out of this dilemma of inflation and deflation. This dilemma seems to be a common feature to all developed countries.

To gear for recovery without aggravating the inflationary trend and to place the economy securely on a well-balanced, "stable growth" path thus constitutes the challenge of working through an unprecedented set of factors. Furthermore, the Japanese economy suffers from serious aftereffects of high growth—socio-economic disequilibrium. To correct this disequilibrium is another important

Fig. 1. Business Fluctuation



Source: Tsuruta, p. 179.

task for the economy. Here, I will try to shed some light on the structural disequilibrium in the Japanese economy.

The factors responsible for many of the aberrant social phenomena in Japan today are closely connected to high economic growth. Tremendous emphasis was placed on heavy and chemical industries and increased export. Rapid transfer of technology from the West fostered the growth of pioneer industries. The development of large corporations and mergers was encouraged to strengthen competitiveness abroad. Along with these developments, serious environmental deterioration appeared together with overcrowding of the population in urban areas and scarcity in rural regions. As limits on materials and energy surfaced, inflation accelerated. Industries with local character and agriculture declined. A sense of alienation in the populace increased as a result of industrialization. Excessive organization and mass society made the social structure more rigid. Lack of a land and housing policy, poor social security, excessive competition among high school students to enter select universities and resultant distortions in education are all features of high growth. These disequilibrium features extend over the entire nation and are a source of uneasiness to all people.

Once the seriousness of this socioeconomic disequilibrium is appreciated, top policy priority must be given to correcting it. The oil crisis, food shortage, speculation by the large trading houses, the resulting rampant inflation, and biggest postwar recession—were all brought about by the creation of disequilibrium in high growth. Attention must be directed not to symptoms but to causes.

Reviewing the postwar development of the Japanese economy, one sees an economy heavily dependent upon aid from the United States and special military procurement demand until the early 1950s. Such a situation required expanded export in order to attain economic recovery and independence. Thus, export promotion, capital accumulation for heavy and chemical industries, and rationalization and modernization of related industries were given first priority. Business

expansion and rapid overall growth of the economy was viewed as essential and desirable, allowing for no dissenting viewpoint. It was growth for the sake of growth.

Unequivocal emphasis on industrial development and rapid growth gradually brought on collusion between business, government, bureaucracy, and conservative politicians, resulting in the unique Japanese industrial-bureaucratic complex called "Japan Incorporated" by some foreign scholars. Each industry maintained close relations that had most to do with their line of business with the ministries and agencies and made use of these connections and exerted pressure on the political sphere through "contributions" to the conservatives. These maneuvers were carried out quite overtly toward the latter part of the growth period.

The policy of export promotion and industrialization by then served not "economic independence" for Japan but the big business interests by making high growth an end in itself. Thus the system of big corporations emerged, under which highly oligopolistic development advanced along with further growth of business firms and capital concentration. This in turn was another important factor in the high levels of economic disequilibrium and social injustice (Table II).

TABLE II  
ECONOMIC POWERS OF BIG CORPORATIONS

		(¥100 million)		
		1955	1970	1970/1955
Aggregate national wealth	(A)	200,779	1,605,446	8.00
Aggregate assets of all business enterprises	(B)	100,949	858,366	8.50
Aggregate assets of all incorporated business units	(C)	61,533	592,545	9.63
Tangible assets of big corporations with more than ¥5 billion	(D)	26,174	299,434	11.44
	B/A	50.3%	53.5%	
	C/A	30.6%	36.9%	
	D/A	13.0%	18.7%	
	D/C	42.5%	50.5%	

Sources: "1955 Survey of National Wealth" and "1970 Survey of National Wealth."

- Notes: 1. Aggregate assets of all business enterprises was more than half the total national wealth in 1955 (50.3 per cent), but the rate increased further in the period of high growth to reach 53.5 per cent.
2. Aggregate assets of incorporated business units as a part of total national wealth was 30.6 per cent in 1955, rising to 36.9 per cent in 1970. This clearly shows the expansion of incorporated business units during the high growth period.
3. The biggest increase was recorded in the ratio of the tangible assets of big corporations with more than 5 billion yen (in capital endowment) to the total national wealth, a percentage increase from 13.0 per cent in 1955 to 18.7 per cent in 1970. Thus, the high growth period was the period of big business.

#### B. *Dissociation of Economic Growth from Rising Living Conditions*

There is a strong feeling among the people that the real power center for economic and political motion in Japan lies with a group of big corporations

centering on the large trading houses and banks. This impression is responsible for much of the feelings of distrust toward the "business world" held by many people. Large-scale cornering of land and stocks by big corporations, creation of illegal cartels,<sup>1</sup> manufacture of defective products, and speculative behavior carried out in other ways were an abuse of monopolistic domination clearly demonstrating how antisocial these big corporations really were. This only served to intensify distrust of big business.

The emergence of such a rigid system of big business domination during the high growth period is attributable to a consistent government priority on industry and an accompanying loose fiscal and monetary policy. But this does not sufficiently explain the amazing extent to which government policy favored industry and the extent to which socioeconomic equilibrium was allowed to get out of balance. To account for this, one must consider not only the blind superoptimism of the policy makers regarding economic growth but the lack of a critical attitude and vigor in the population.

First, there was what may be called an excessive reliance on and an optimistic faith in the postwar world economic order with respect to export promotion. The postwar world economy was based on free, nondiscriminatory multilateralism led by the United States. This helped to achieve a great amount of expansion centered on an increase of horizontal trade among developed countries. Neither the United States nor Europe, were as wholly committed to this international economic system as was Japan. Japanese companies purchased raw materials and fuel wherever available, by ships lying all along the Pacific industrial coast, processed them, and sold them throughout the world, fully enjoying the "trading nation status."

But these activities depended heavily on a downward trend in prices for primary goods (from April 1951, when the Korean War brought primary prices to their peak, until 1972), declining revenues from primary export for the developing countries, widening discrepancy between North and South, and global economic disequilibrium. Furthermore, materials consumption increased at astonishing rates during the 1960s, at an annual 20.4 per cent for oil, 19.0 per cent for aluminum, 18.1 per cent for iron ore, and 10.1 per cent for copper. Most materials had to be imported (Table III). Thus, the Japanese economy was a prime factor in highlighting the limits on materials and energy, while inviting vulnerability through heavy dependence on outside supply.

Another reason for this unquestioning attitude toward high growth was the unconditional belief in industrialization and technology, which went hand in hand with the insensitivity and lax reaction to environmental destruction. It was believed for a long time that science and technology could conquer nature and

<sup>1</sup> More than nine hundred cartels in Japan are legal and publicly approved. Most are in medium- and small-scale enterprise, with only a few big companies involved. But this applies only to those that are publicly authorized. There are many illegal cartels. No details are known, but the numbers ordered dissolved by the Fair Trade Commission under provisions of the Anti-Monopoly Law were thirty in 1972, sixty-six in 1973, and fifty-eight in 1974.

TABLE III  
DEPENDENCY RATES OF PRINCIPAL RAW MATERIALS

	(%)	
	1955	1973
Copper	57.6	91.1
Lead	51.7	77.1
Zinc	38.1	69.2
Aluminum	100	100
Nickel	100	100
Iron ore	80.7	99.2
Coking coal	51.7	83.9
Oil	99.5	99.7
Natural gas	0	52.8
Uranium	—	100

Source: Ministry of Foreign Affairs, ed., *Waga gaikō no kinkyō* [Our diplomacy these days] (Ministry of Finance Printing House, 1975).

Note: Dependency rate =  $\frac{\text{demand} - \text{domestic supply}}{\text{demand}}$ .

lead mankind to paradise. But the rapid pace of scientific and technological development and its distorted use only widened the skewed distribution of wealth in the world, with hunger, food shortage, and sickness remaining unattended while the natural environment being destroyed in affluent areas. Air, water, and the earth itself were polluted, the balance between man and nature was tipped, accelerating social unrest.

In Japan, environmental destruction was most serious, and it worsened with high-growth heavy and chemical industrialization. Even when industrial pollution was pointed out and opposed by people living in the area, industry tried to suppress the movements and conceal the damage, calling environmental activities "local pride" or saying that the local people were too self-centered. Green valleys and clear waters were literally left spoiled and unrestored. Both the amount and range of pollution increased as air pollution, sinking earth, noise, offensive odors, industrial waste pollution, insecticides, sludge, PCB, and mercury became known. It was only when Japan began to be, and appropriately was, called the uninhabitable pollution archipelago that the government first admitted how serious the matter was.

Japan would have to make a long, strenuous effort to become pollution-free. But the real restraints on economic performance were brought about by the hitherto unrestricted growth policy.

Third, there was a blind dependence on well-known firms and an unconditional acclaim for their organizational ability and efficiency. This contrasts with the negligence and even slight feelings of contempt for small local industries and for agriculture. "Modernization" of medium- and small-scale enterprises was loudly advocated, but under the priorities for heavy and chemical industrialization, it in effect meant only systematic incorporation of smaller units into the hierarchical structure by promoting cooperative organization and mergers. Small

businesses were protected and encouraged only within this context. Whatever was on the outside of the scheme was left to make its own way or go out of business. Thus, traditional local industry with its local color was left to decline. In the same way, "modernization" of agriculture under high growth policy resulted in a transfer of the labor force from agriculture to manufacturing industries, greater import of agricultural products, and a lower food sufficiency rate, although it did contribute to productivity increases in "industrialization" programs. In the final analysis this policy denied need for agriculture in the Japanese economy. As will be mentioned later, this decline of agriculture is a grave issue for the future economy.

One particularly important fact is that industry has consistently advocated watering the Anti-Monopoly Law down ever since its enactment in 1947 while capital concentration and mergers have fostered a high oligopolistic trend. Except for the Fair Trade Commission all administrative offices and conservative statesmen have concurred in this idea. In addition public anti-monopoly sentiment has by no means been strong.

Thus, there were no opposing factors in the Japanese economic scheme to effectively provide obstacles to the growing dominance of big business. Rather, the big business system was deliberately strengthened for high-sounding reasons such as stronger international competitiveness and industrial restructuring. This is why Japan is often referred to as the "kingdom of cartels." In 1975 a proposed revision to strengthen the Anti-Monopoly Law failed passage in the Diet. This is another clear manifestation of the impact which monopolistic control by big business has on the market.

Fourth, there was the negligence of welfare and resulting false allocation of resources. With export drive policy and priority on industry, large segment of resources went to productive branches of big business where large-scale private plant and equipment investment was made. Growth rates were continually greater than government forecasts. This is another clear indication of the small portion of resources being allocated to improve the welfare standard of the general public.

Investment in residential land, housing, social overhead capital (related to the living standard), social security, and welfare has lagged far behind other parts of the economy in the high growth process. This lag brought on a large gap between growth rates and rates of increase in welfare. The overwhelming tendency of large-scale private investment in plant and equipment was to invite unrestricted financing of fiscal and monetary policy, which aggravated inflation and further prevented the realization of higher welfare levels.

The government (Tanaka cabinet) at last recognized the seriousness of this growing gap between growth and welfare, and publicly advocated a turn around in policy from a growth- to welfare-orientation which would made in fiscal 1972 budget formulation. But this did not signify the building of a welfare society. When the 1971-73 global boom arrived, private investment in plant and equipment soared under an expansive fiscal policy, meaning large retrogression in welfare measures.

It goes without saying that economic growth in one country should not be attained at the expense of other members of international society. But should economic growth be attained without it contributing to the greater stability and welfare of the citizenry of the country? Postwar Japanese economic growth only brought on growing socioeconomic inequilibrium in many forms, dissociating itself from the living condition needs of the population. The foremost causes of this phenomenon were probably a lack of clear vision and the vigor in putting that vision into practice coupled with ad hoc measures to deal with only the most immediate issues, the result was a passive attitude of waiting for the trickle-down effects of high growth.

## II. DIFFICULTIES IN THE JAPANESE ECONOMY

### A. *Restraints on Economic Growth*

The Japanese economy suffers from recession in the midst of rising prices and is searching for the way to get out of this situation. It is in this context that "stable growth" is advocated. But the concept has its ambiguities; particularly unclear is whether "stable growth" is seen as a viable alternative when high growth is unattainable under existing domestic and foreign conditions or is a positive measure to combat inflation and effectively use available resources. There are many definitions of "stable growth." The common sense understanding seems to mean that it is the maintenance of an appropriate level of growth with proper resource allocation and economic equilibrium.

Literal interpretation of this concept, it is true, would mean not only controlled growth by a policy of aggregate demand control through general fiscal and monetary measures but also restraint on industrial activities through pollution prevention or strengthened antimonopoly measures. It should thus result in an economic equilibrium with an improved welfare standard and a stable standard of living. If these positive aspects are what is meant by the concept of "stable growth," it would indeed be an ideal for the Japanese economy to pursue. The question is whether such prospects can be realistically hoped for with soaring inflation and serious recession. The Japanese economy is like a ship lost on the high seas with no navigation charts on board.

In this connection there is an estimate on economic growth recently issued by the Industrial Structure Council [6]. According to their report, the real growth rate, which went down to a negative 0.6 per cent for fiscal 1974, would recover to a positive 2 per cent in fiscal 1975, 5 per cent in fiscal 1976, and maintain a better performance of 7 per cent from 1977 to 1980 and 6.5 per cent after 1980. It also observes that with such growth rates, various factors restraining growth, such as limited raw materials and energy, environmental considerations, and balance of payments, would be well under control.

It is not clear whether this report is only a general forecast of the economy or a description of something desirable for the future. It seems to be more a proposal that the Japanese economy should avoid both recurrence of high growth of the past type and the continued state of low growth. Instead a middle road

should be achieved by following a line of stable long-term growth after a period of adjustment (up to fiscal 1976). It is reported that the relatively high rate of growth was set mainly to compensate the employment situation. Indications are that we may have a surplus labor force with chronic unemployment in which it will be difficult for the female labor force to find adequate work. This alone is enough of a problem making it difficult to manage the Japanese economy.

Economists differ in their evaluations of constraining factors on growth. How reasonable is the view adopted by this report? With the supply of raw materials, one expects far stronger demand for higher prices of primary products by developing countries in the completely new market situation after the oil crisis. This is pointed out in the *Economic White Paper, 1975* [2]. If Japan were to continue consuming these materials as before, it would be using 20 to 30 per cent of the world production of principal raw materials by 1985. This would not only raise prices but threaten other national economies.

The problem of industrial location is also a restraining factor, caused by rising land prices and strict environmental control. In particular the just demand of the citizenry for better environmental conservation will only increase rendering industrial location and equipment expansion extremely difficult. No further pollution or deterioration of the environment should be allowed on this small archipelago. Even when necessary antipollution investment suppresses productive investment, we should consider these restrictive factors as a moral imperative in order to achieve the common national objective of making this archipelago green again for the sake of future generations as well as ourselves.

Further, the seriousness of global recession should not be underestimated. Even the Japanese economy which had consistently high growth throughout the postwar period has fallen into a negative growth pattern. As of 1975 no signs of recovery were seen as far as the number of bankruptcies in medium- and small-scale enterprises and unemployment figures were concerned.<sup>2</sup> Maintenance of a satisfactory employment level is now an important task and easy-going recovery policies will result in renewed increases of inflation rate.<sup>3</sup>

There are still other constraining factors in trade and international payments, such as the need for balanced growth with other economies, and in the North-South problem and the issue of primary goods. Under such conditions it is not easy to effect a recovery from recession, to recover a better equilibrium by improving welfare standard and social security, and secure a more stable living standard for the population.

<sup>2</sup> The number of bankruptcies (with a debt of over 10 million yen) was smallest in January 1973 (447), but rose until the ceiling of 1,278 in October 1975, the highest postwar figure. The number of unemployed was 1,120,000 in March 1975, and began to decline until it reached the lowest figure of 870,000 in July, after which it climbed to 1,030,000 in October.

<sup>3</sup> The 1976 budget has recovery as one of its principal policy objectives, and incorporates measures such as greater numbers of public works. But as a result it has created the greatest deficit in postwar fiscal history, issuing public bonds as much as 30 per cent of total expenditure. There is a fear that this may mean a return of high rate of inflation.



It is first necessary to have a complete overhaul of the previous policy. If hesitation is made in this break from high-growth policy, "stable growth" not only will fail to stabilize prices, improve welfare standards, and protect the environment, it will also worsen the situation causing greater economic disequilibrium, thus intensifying social uneasiness.<sup>4</sup>

### B. Energy Shortage

The wide range of factors interfering with smooth growth in the Japanese economy have been noted. One of the most oft-spoken restraints is the limited supply of energy. According to estimates by the Agency of Natural Resources and Energy of the Ministry of the International Trade and Industry and other

TABLE IV  
LONG-TERM ENERGY DEMAND-SUPPLY PLAN

	Fiscal 1973 (Actual Figures)			Fiscal 1985			
Demand before energy saving.....				784 (10 <sup>13</sup> kcal)	(830 mil. kl)		
Energy saving rate.....				9.4%			
Demand after energy saving.....				710 (10 <sup>13</sup> kcal)	(760 mil. kl)		
	Amount (1,000)	(In 10 <sup>13</sup> kcal)	%	Amount (1,000)	(In 10 <sup>13</sup> kcal)	%	
<b>Energy Sources</b>							
Domestic supply:							
Hydropower:							
General	21,200kW	} (18)	4.6	28,300kW	} (26)	3.7	
Others	1,400kW						
Geothermal	30kW	(0.06)	0.0	2,100kW	(3.6)	0.5	
Domestic oil & natural gas	3,700 kl	(3.5)	0.9	14,000 kl	(13.3)	1.8	
Domestic coal	21,680 t	(15)	3.8	20,000 t	(13.3)	1.9	
Total domestic supply			(37)			(57)	8.0
Semi-domestic supply:							
Nuclear	2,300kW	(2.4)	0.6	49,000kW	(68)	9.6	
Total of domestic & semi-domestic			(39)			(125)	17.6
Imported energy:							
LNG	2,370 t	(3.2)	0.8	42,000 t	(56)	7.9	
Coal	57,000 t	(45)	11.7	102,400 t	(80)	11.2	
Oil	318,000 kl	(296)	77.4	485,000 kl	(449)	63.3	
Total imports			(344)			(585)	82.4
Total of primary energy			(383)			(710)	100.0
Primary energy converted into oil	410,000 kl			760,000 kl			
(Reference) Electric power:							
Total power generated	470,100,000kWh	(115.2)	30.0	922,000,000kWh	(225.9)	31.8	
Total demand for power	[421,800,000kWh]			[815,400,000kWh]			

Source: [3].

<sup>4</sup> According to a report by an Economic Planning Agency study group on income distribution, a trend for greater inequality in distribution began to appear after 1974 during the stagflation (*Nihon keizai shimbun*, August 22, 1975).

carried out under the auspices of the ministry [9] [7], energy demand in the non-socialist world in 1973 was 4,800 million kiloliters expressed in terms converting all energy into oil use. This is predicted at around 8 billion kiloliters in 1985. A half of this is in oil, and it will be unchanged in 1985. Further, the rate of dependence on Persian Gulf countries for the supply of oil will not decline. Thus, the OPEC countries, particularly those in the Middle East, will continue to have a great influence on energy supply. For instance, 76 per cent of the crude oil Japan imports comes from the Middle East.

What would the shape of energy demand in Japan be? One answer for this question has been given by the energy supply-demand plan compiled by a consultative body to the Minister of International Trade and Industry [3].

This plan sets its long-term target as one to be achieved through government effort and cooperation from energy producers and consumers. It foresees an energy demand in 1980 of 560 million kiloliters in oil conversion (oil accounting for 400 million kiloliters), and in 1985 this will rise to 760 million kiloliters (oil at 500 million kiloliters) (Table IV).

These target figures are based on the following prerequisites that an energy saving rate of 9.4 per cent will be achieved, that nuclear power generation can produce 49 million kilowatts and domestic coal production will be maintained at over 20 million tons. These requirements seem difficult to attain although they may be reached. But an estimated demand for oil of 500 million kiloliters is not very much more than it is today and does seem possible barring unexpected events. This would inevitably raise the relative share of the Japanese oil imports as part of the world total at a time when other major consumer countries are opting for greater energy self-sufficiency.

Even with diversified oil import sources, which would include China, the importance of OPEC countries in terms of dependency on their crude oil supply is crystal clear. In this context it is understandably important that Japan maintain and strengthen its friendly relations with these countries, attain world peace and international cooperation, and above all promote a dialogue between oil producing and consuming countries.

In a more realistic long-term perspective, the oil producing countries may well curtail their crude oil production to preserve a depletable energy resource because of the number of presently confirmed oil deposits in the world. Japan should take these possibilities into account when formulating its long-term energy plans. Thus far, Japanese energy policies have tended to waive along in trial and error as development has unfolded. For instance, excessive dependence on oil industry has resulted in too many overseas development firms and domestic refineries, and overemphasis on the industry is clearly revealed in their recent poor business performance.

The energy demand-supply plan advocates strong government leadership to coordinate both supply and demand and form an efficient industrial organization. The plan mentions the importance of having a nucleus of development firms in the oil industry, reorganization of refineries and wholesalers and fostering the growth of integrated petroleum companies with sufficient competitive strength to

compete with major internationals. Even if Japanese oil firms now in trouble are rescued, however, it is highly questionable whether it is possible, or even desirable, to have "Japanese majors" with integrated production capacity.

With the probable changes in the pattern of oil trade which will include favors for direct deals with the producing countries' governments or their nationalized companies, more technology grants from importing countries, greater cooperation with the development programs of exporting countries and more stable outlets of oil as an integral part of oil trade, a policy of fostering powerful private oil firms with integrated production capabilities modeled on today's majors is an anachronism. In oil trade it is important to establish an international mechanism for stable supply and demand as well as stable price, based on inter-governmental agreements. Serious consideration should be given to having oil import publicly controlled in Japan, with a scheme for integrating present oil companies into a public corporation.

The energy demand-supply plan also envisages nuclear generation of 49 million kilowatts of power in 1985, a rather optimistic figure. In the long-run alternative energy resources should be developed and nuclear energy is most technically feasible. Fostering the nuclear energy use should also be accompanied by rigid adherence to the non-nuclear principles Japan has adopted and sufficient precautions and countermeasures for environmental protection.

In the relationship between energy and the environment, serious consideration must be given to the overall impact of greater energy consumption on the entire Japanese archipelago, where per unit consumption of energy is already extraordinarily high. An indispensable part of the task is to promote further energy saving measures.

### C. *Enfeebled Agriculture*

With strong pressure from the United States to liberalize agricultural imports, Japan has gradually raised its dependency on overseas sources of food and animal feed. Production of wheat and other grains has been greatly reduced. Various production conditions, quality and quantity of the agricultural labor force, acreage of agricultural land and extent of land use, have weakened resulting in an overall deterioration of the basis of agricultural production.

On the other hand, demand, particularly for livestock products, has rapidly increased with rising income levels, further accelerating the decline of self-sufficiency in general agriculture. The self-sufficiency rate for grains is around 40 per cent, one of the lowest in the world, and agricultural imports have grown to more than 10 per cent of the world's total agricultural trade, enough by itself to change market relations. Both domestically and internationally the state of Japanese agricultural affairs is pitiful. Total review of past agricultural policy is urgently needed.

As late as April 1975, the government and the Agricultural Administration Council produced a report advocating a higher overall food self-sufficiency rate of 75 per cent by 1985 (71 per cent in 1973) to positively deal with global food market instability and lowered productive capacity of Japanese agriculture (Table

TABLE V  
FOOD SELF-SUFFICIENCY

	1972	1985
Overall rate for all agricultural products for food	73	75
Grains	42	37
Stable grains	71	73
Other principal items:		
Rice	100	100
Vegetables	99	100
Fruit	81	84
Chicken eggs	98	100
Meat (excluding whale)	81	86
Dairy products	86	94
Sugar	20	28
Wheat	5	9
Barley & rye	18	36
Edible soybeans	20	60
(soybeans for oil)	(4)	(9)
Feedstuff	46	51

Source: [1].

V) [1]. But there is a conspicuous lack of understanding in this report that high food self-sufficiency rate will necessitate basic changes in all aspects of existing government economic policy for land utilization, land allocation, employment, and social security. Without full realization of how important this is advocating a high food sufficiency rate as such is far less persuasive.

The severity of the situation of revitalizing Japanese agriculture does not at all detract from the urgent need to attain and maintain a higher sufficiency rate. The problem is how to set the stage on which such to reach the goal. On stable supplies of agricultural products from overseas, the same report proposes a diversification of import sources to embrace Latin American countries such as Brazil and Argentina that have good prospects for better export capacity in the future. But Japan should offer greater technological assistance for agricultural development in developing countries thus contributing to a more stable demand-supply situation in the world, and simultaneously pursue domestic policies that will strengthen Japanese agriculture. Pursuing the self-centered goal of stable import and ignoring the worsening food situation in developing countries themselves cannot be permitted. Serious thought should also be given to food consumption and diet of the population, including greater food stockpiling and reduce waste.

### III. THE TASK OF RESTORING ECONOMIC EQUILIBRIUM

#### A. Greater National Welfare

Demands for better national welfare for better social security, better housing, improved living environment, and better infrastructure are growing in view of the hitherto conspicuous lack of resources allocated for such purposes and the

resulting backwardness in this area, it will not be easy to have rapid improvement in the welfare standard on all fronts with the limited funds available in "stable growth." Of utmost importance is the strengthening and increase of welfare measures by making fundamental changes in the existing economic policy with its excessive emphasis on manufacturing. This may even lead to corrections of the existing socioeconomic disequilibrium on all points and a change in the industrial structure.

In this sense higher national welfare is not charity. A stable, healthy cultured people who have achieved this through improved welfare will help to bring about a change in the philosophy of social life, prevent society from becoming more rigid, and elementary and higher education from becoming more distorted. It will also help to transform the mechanism of selecting people purely through competitive measures of ability. Undesirable things have happened to society and all of them result from a deepening alienation brought on by heavy industrialization and excessive emphasis given to it.

The standard of welfare in Japan is decidedly lower than that of Western Europe. The rate of social security payments to total national income is around 7 per cent, only a third of that in West Germany. Worse yet is medical insurance and even worse are the income guarantees and welfare services. The pension system started at a much later date than it did in Europe, which partly accounts for the shortcomings, but the distribution in the social securities budget is by no means equitable. In improving welfare standards one task is to increase the number of recipient groups as well as give higher payments, but in order to accomplish this what is needed first is a firm social security philosophy.

Improvement and subsequent maintenance of employment is no doubt very important. Under a policy of "stable growth," however, the undesirable effects may be loaded on the economically disadvantaged. Wage laborers in medium- and small-scale business, temporary employees, workers subcontract in firms, seasonal laborers and part-time employees, and the aged, must be looked after closely. The retirement age could be raised. A greater number of employment opportunities for the physically handicapped should also be provided to secure equal job security for all.

*The Labor White Paper, 1975* gives a ten year forecast of the labor market assuming that an annual growth rate of 6 per cent is attained (roughly the same proposition in the report of the Industrial Structure Council). If the present emphasis on manufacturing is continued, then jobs available would only be 55,700,000 with a total work force of 58,000,000, 2,300,000 out of work. But if tertiary industry is emphasized, demand for labor would be 56,970,000, while supply would be only 56,210,000 assuming that the actual working rate for the upper-age bracket is 10 per cent lower than at present, or close to the same rate prevailing in the United States. In this case, the labor market would have excess demand [8].

Thus in terms of maintaining long-term employment stability, emphasis in the Japanese economy should be changed from high growth and mass production to greater welfare by better housing, public services, and medical and health care.

High growth has created large distortions and imbalances in the economy, which must now be corrected. In this context, the urgent task for the nation is to raise welfare levels. The cabinet of Prime Minister Miki recognizes the need for a higher welfare standard and advocates a "life-cycle project" of systematic integrated welfare policy in order to alleviate the social and economic unease. The task of this project is to revitalize all of conservative politics. Unfortunately, however, at the present stage, it is only a paper plan with little substance.<sup>5</sup>

Reality seems to be moving in the opposite direction. As revenues stagnate under prolonged recession and the budget tightens, various signs of retrogression appear as far as welfare measures are concerned. Since the beginning of 1975, some politicians and businessmen are making increasingly strident criticisms of the "excessive welfare policy of central and local government." The Ministry of Finance is demanding a "thorough review" of the importance of welfare measures as an automatic yearly budget increase. Various government consultative bodies are unified in advocating "high welfare through high costs," meaning a heavier financial burden on the populace.

We should not overlook the emerging trend that tries to prevent improvements in the pension system, in a central position for improved welfare, and of the total social securities scheme. The pension system is the most backward part of Japan's social securities plan. Quite obviously that as upper age level occupy greater portion in Japanese population age structure, income guarantees will assume greater importance. Yet the Financing System Council said in a recent report that "an increasing burden on the populace is unavoidable as payments increase automatically." They also maintain that "any further increase in pension payments is problematical" [4].

Allocating insufficient resources for welfare during high growth and cutting welfare spending because of a lack of revenue in low growth will not hold the welfare level at a constant but further aggravate economic disequilibrium and social injustice. The change from high growth to stable growth should be a good opportunity to correct skewed resource allocation which presently favors private investment in plant and equipment and gives priority to manufacturing and big business. Yet, as far as can be judged from recent statements by policy makers, councils and other official sources, retrogression in welfare will be the trend in "stable growth." This is indeed serious for the future of the Japanese economy.

#### B. *Moving Away from the Big Business System*

Correcting economic disequilibrium means preventing further oligopolization and intervening directly in the system of big business. But there are no clear prospects for appropriate measures that will deal with this while in the process of transformation from high to stable growth. Unsuccessful efforts to revise the Anti-Monopoly Law in the last session of the Diet revealed very well the extent

<sup>5</sup> On Prime Minister Miki's request the Central Policy Institute submitted a "Life-Cycle Project." The report places emphasis on four areas: education, housing, social security, and old-age security, presenting a plan for happy life design for the individual.

TABLE VI  
MUTUAL SHAREHOLDING BY BUSINESS GROUPS

	Mitsubishi Group	Mitsui Group	Sumitomo Group	Fuyo Group	Daiichi- Kangin Group	Sanwa Group	Average (Weight- ed)
End of March 1966	16.8	8.9	22.7	8.2	14.6	10.3	12.9
End of March 1971	27.6	14.3	24.7	13.1	20.5	14.1	18.8
End of March 1974	30.6	17.4	27.9	17.4	19.2	16.0	21.2
Name of presidents' meeting	Kinyō- kai	Nisui- kai	Hakusui- kai	Fuyō- kai	Koga-sansui- kai Kyū-kangin- shachō-kai	Sansui- kai	

Source: Fair Trade Commission, *Shūgiin shōkō iinkai yōkyū shiryō* [Materials requested by the Commerce-Industry Committee of the House of Representatives] (June 1975).

Note: The figures are derived by the following formula:

$\frac{\text{Total number of shares owned by companies member to the presidents' meeting}}{\text{Total number of shares issued by companies member to the presidents' meeting}} \times 100\%$ .

of collusion between the conservative party and business, further aggravating the credibility gap. In an atmosphere of declining effectiveness of monopoly control there is a good possibility that cartels, mergers, and concentration will increase, since they are the children of recession.

With slower economic growth, there are more and more business agreements similar to cartels. If no measures are taken to prevent them, collusive price rises and mutual shareholding (Table VI) will further adversely affect consumers and medium and small enterprises. The need for anti-monopoly as well as anti-big business measures is more keener now than in the high growth period.

We should embark on such a path first by getting constant debate by the population for a strengthening of the Anti-Monopoly Law. The unsuccessful attempt to revise the law has been mentioned. Many illegal cartels and speculative activities by business when inflation was rampant have definitely made the people distrust big business. Protests against industrialism and the favoring given to big business are now deeply rooted in many sectors of the population in the form of consumer and citizens' movements.

In this sense, political pressures for stricter enforcement of the present Anti-Monopoly Law will be accompanied by the probability of greater ineffectiveness during stable growth. Another attempt at revision of the law may be politically feasible in the near future.

As far as the content of possible revisions to strengthen the law is concerned, a system should be set up which will not only discourage illegal cartels but will adopt measures for partition of business units, transfer of some business items to other firms, compulsory reduction of prices, compulsory announcement of cost breakdown, and limited shareholding.

The system of big business in Japan is more than a mere conglomeration of large business enterprises working in assorted economic spheres. One characteristic feature is that it is an industrial-bureaucratic complex embracing the

political world (of conservatives). In this sense it is quite similar to the "bureaucratic symbiosis" in the United States, made up of big business with sufficient power to influence the market and huge bureaucracy within the state machinery [5]. This is a common pathological feature of modern industrial societies, i.e., the power to manage economies is increasingly in the hands of big organizations moving away from the true sovereign: consumers and citizens.

At the same time the substance of life declining in quality, pollution and environmental destruction continues, inflation gets worse, alienation increases, and big business becomes more and more detached from the rest of the world. As a result, many people in Europe and America advocate the revival of parliaments neutral from business interests and a classical bureaucracy servant to consumer sovereignty. In Japan also, we would like to see straight forward attitude by the Diet toward the business world in proposing and debating economic legislation such as revision of the Anti-Monopoly Law, in a fairer administration of economic affairs by related government offices that will chiefly emphasize consumer sovereignty and protection of the economically disadvantaged.

Public control through socialization or nationalization of important industries is worth serious consideration. This may help to make a change from a big business system. There is an urgent need particularly in oil import, electric power (including nuclear power), transportation, and housing for public control in view of the vital roles that these areas have in the life of the population. These might take the form of an oil-importing public corporation, unified public control of power, democratization and unification of traffic and transportation administration, and expansion of public housing projects. On the other hand, however, rapid and general introduction of socialized or nationalized industries may invite more rigid bureaucratic control, or even result in a more authoritarian, regimented society. Thus, firm establishment of consumer sovereignty and a larger role by local government will be an important part of such a program.

The significance of today's consumer movements lies precisely in their counteracting the trend toward bureaucratic uniform control by big business, and in fact these movements are becoming an effective countervailing power on big business. The part played by consumer and citizens' movements is expected to grow in its criticism of big business's antisocial activities, assertion of consumer sovereignty and protection of the environment.

In order to overcome the big business system and liberate man's energy from social regimentation, policy reforms of all types are needed, including those for education. In the economic sphere alone, land utilization, land allocation, tax, and fiscal policies are among the many fields where fundamental policy reforms are acutely needed. Agriculture and medium and small industries, including those with characteristic local color are an essential part of such an effort.

### *C. From Centralization to Decentralization in Economy*

During the high growth period with priority on manufacturing, socioeconomic disequilibrium spread rapidly throughout the nation, caused in great part by the high growth policy in political and fiscal matters being executed by a centralized



government. Export promotion and heavy-chemical industrialization encouraged by the central government put pollution-causing plants in nonurban areas in the name of "regional development." It also incorporated local cities and agricultural-fishing villages into the huge hierarchical establishment with headquarters in Tokyo. It was in this process that local industry and agriculture were suffocated.

In such a situation, the improved nationwide network of traffic transportation and communication did not serve the interests of local communities in development but aided the centralization of power and decision-making by connecting outlying areas to the center of the hub. This was an important factor in causing environmental destruction, overpopulation in urban areas and population scarcity in nonurban.

In order to overcome the defects of industrialism and the abuse of valuable materials, and in order to correct the various types of socioeconomic disequilibrium, the centralized pattern must be taken over by a new form of decentralized economic activities that will take adequate account of local economies and local autonomy. This also is a way to fulfill the need for greater material and energy conservation. In this context, the Japanese economy is at a crossroad where a structural transformation should be made.

The most important aspect of government industrial policy in the transformation from centralization to decentralization will be greater encouragement and promotion of agriculture and medium and small enterprises, particularly of local industries with close relations to their communities. The present neglect of agriculture must be corrected to increase public investment in agriculture so that infrastructure will be improved. It must have a clear perspective that will create viable local economies based on agriculture.

In local economies, mechanization and expansion of scale are less important than strengthening technologies in the region and encouraging special industrial art products, as is often the case in Europe. New industries must be developed with local ingenuity. To achieve this careful policy considerations must be given that will suit individual needs as closely as possible in such areas as financing and technical assistance by local government.

Agriculture, local industry, small retail shops, and servicing business have all features peculiar to the region calling for concrete measures to correspondence with each locality. In this sense the role of local government is critical. In order to promote a pattern of development in local communities that will make industrial development compatible with higher welfare for residents, it is essential that local government plays a positive role and has active citizen participation, calling for an expansion of local authority vis-à-vis central authority and stronger financial position.

Promotion of a decentralized economy makes it necessary for local government to have stronger financial powers. Among some of the best measures that will achieve this are transfer of part of principal revenue sources (such as income tax) to local government jurisdiction and unrestricted issuance of local government bonds. At the same time, a review must be carried out of the entire tax system and fiscal policies with appropriate remedial measures adopted.

The task of the Japanese economy is to enhance the welfare of the population by doing away with the big business system and transforming the pattern of economic activities from centralization to decentralization, for revitalized and creative national economy. This task must be accomplished in a spirit of righting socioeconomic disequilibrium both domestically and internationally.

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