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Problems of the Coming Decade

by Professor Yasusuke Murakami, Tokyo *

In the last issue of INTERECONOMICS Willis W. Harman and Bernard Cazes explained their views of the basic political, economic, and social problems which the USA and Europe, respectively, will face in the 1980s. The following article which is also an excerpt from the author's report to the Second International Symposium on New Problems of Advanced Societies, held from May 3 to 7, in Hamburg, deals with the Japanese Problems against the background of decelerating growth.

For Japan, the last twenty years have been an era featuring economic efficiency and growth-manship and, in a word, an "economic" era. During most of the postwar period, as compared against the interwar period, this is more or less true with almost all advanced industrialized countries. However, evidently Japan was the foremost example in its simple-minded devotion to economic growth. The Japanese society has achieved extremely rapid economic growth at an average annual growth rate of a little more than 10 p.c. in real GNP over the twenty years, and finally attained affluence comparable to average European levels. However, a number of recent events — the end of IMF system, the environmental problem, the oil panic and the difficulty combating with inflation — suggest that this era is now closing to its end. Almost all arguments inside as well as outside Japan seem to agree that the Japanese society is entering a new phase, less economic and perhaps more political. Japan's problem is indeed the problem of all advanced societies, but there are some Japanese peculiarities. The following argument will try to point them out.

Let us enumerate several major issues in forecasting a potential picture of the Japanese economy in the coming decade. Concerning each of the issues as well as the issues as a whole, there are optimism and pessimism.

Deceleration of Growth

There is virtually a unanimous agreement that the deceleration will occur to the Japanese economy. The problem is how big the deceleration will be. The reason for this deceleration is as follows. It seems that a postwar surge of scientific-technological innovation is closing to its end, and life cycles of consumer durables are finishing their final stage of diffusion. The expansion of Japanese exports will be slower and the terms of trade will probably deteriorate especially due to the rising oil price. Capital coefficients will be

higher, because of necessary substitution for increasingly scarce labor and because of rising demand for social overhead capital including anti-pollution investments. In numerical terms, most of the forecasts announced by many institutes range from 5 to 8 p.c. of annual growth rate of real GNP. My own estimation based on dynamic input-output model leans on the optimistic side and predicts gradual further deceleration — the potential growth rate will, at minimum, be nearly 7 p.c. in 1975, 6 p.c. in 1980 and 5 p.c. in 1985.

However, there are some pessimists who predict lower growth potential. They emphasize imminent difficulties in tackling such politico-economic demands from developing countries, environmentalists, opposing residents, etc. Their pessimism is a political pessimism rather than an economic one.

Gradual Change in Industrial Structure

During the growth period, the industrial structure of the Japanese economy has been drastically changing; some of the main industries — for example, agriculture or coal mining — have declined so rapidly. Hereafter, however, changes in industrial structure will be by far more gradual because of slower economic growth and fewer new technologies. Agriculture will continue to become smaller. A number of light industries, say, textile, will also decline due to increasing competition from the industrializing countries around Japan — notably, Korea, Formosa and Hong Kong. Gradual relative expansion of machinery may well be predicted. A possible relative expansion of service industry is a controversial matter as in many other industrialized affluent countries.

Some of the Japanese economists try — not simply to predict — to encourage decline of such basic industries as steel, petro-chemical, etc. Instead, they seem to recommend more sophisticated type of machinery or service industry — for example, knowledge industry or leisure industry

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rather than whole-sale or retail trade. However, I would like to argue that such sophistication will come about only as a very gradual attempt within each industry — not as a new leading sector.

In spite of Japan's high growth rate, its government expenditure has remained moderate. Tax revenue has been around 20 p.c. of GNP, which is the lowest figure among the developed nations. Social overhead capital has been poor compared with private capital. Social security or other transfer payments have been almost meagre unlike other advanced societies. Hence, particularly in Japan in the years ahead, the popular — urban, in particular — demands will necessitate more social security and more welfare-oriented public investment.

Currently in Japan, there is much debate as to whether Japan is to be another "welfare state", or what kind of "welfare state" is to be designed for the Japanese case. Mainly by the socialist groups, an outright introduction of British or Scandinavian precedents was often suggested. Recently, however, an average opinion seems to be getting more suspicious of those North-European experiences in view of their staggering social performances. As I predict, an introduction of public welfare measures in Japan will — and can — be gradual and restrained, thanks to the built-in "welfare" functions of the Japanese collectivities such as the family, the workplaces and others.

As the economist might argue, the supply of public goods is likely to be conflict-ridden. There seem to occur frequent conflicts as to how land is to be allocated for housing, factories, generation plants and so forth. Environmental problems will be typically conflict-ridden. Greater tax burden will cause serious discontents. On the whole, increased strains in domestic politics are likely to accompany the relative expansion of the public sector.

Inflationary Trend

Just as in other advanced countries, the Japanese economy will face a number of tenacious cost-push factors including higher resource prices and higher costs due to the expanding public sector. Of course, wage might be another serious cost-push factor. In my opinion, however, wage cost pressure will be lower in Japan than in the majority of developed countries, because of the peculiar Japanese labor management practices which we shall later examine. A danger of price-wage spiral depends largely on how militant the labor unions in the public sector will turn out to be.

¹ A suggested reference in this section as well as in the following sections is H. Patrick and H. Rosovsky (ed.), *Asia's New Giant*. The Brookings Institution, Washington, D.C., 1976.

As we pointed out at each of the above major issues, there can be an optimism as well as a pessimism in the economic dimension. The pessimism seems to be a minority among the trained specialists including Economic Planning Agency. However, against the background of secular undercurrent of anti-industrialization, the pessimistic opinion remains still influential among the general public.

In my opinion, this pessimism is unsound. There seems to be enough reason to predict, for the Japanese economy, economic performances somewhat superior to other industrialized countries. Japan's drawback in the near future is, on the one hand, its total lack of domestic sources of raw materials and its very dense population in the megalopolitan area, on the other. These two weaknesses imply the more strict anti-pollution policies and the overriding dependence on world markets, respectively. The burden of anti-pollution policies is, in my estimation, at most 1 or 2 p.c. out of the 10 p.c. growth rate attained hitherto. Still high saving ratio and still strong activist motivation being given, the Japanese economic performances can remain remarkable, if the international trade of raw materials, including oil, is not seriously disturbed. The problem is probably how smoothly an adjustment for deceleration is to be made and how disturbances in international trade are to be absorbed. This is mostly a political matter.

Nonetheless, there is still a possibility that a pessimistic course will be taken even under the conservative regime. In my opinion, this slower course will continually suffer from deflationary pressure amounting to stagflation under the present circumstances. Serious political and social problems including unemployment and lagging welfare policies will ensue. The coming ten years will be a transitional phase for the Japanese society. For this transitional period, an immediate danger in the domain of economic policy is an economic over-pessimism but not an economic over-optimism¹.

Changes in the Sociological Structure

In the course of one-hundred years' modernization, sociological structure of the Japanese society has undergone considerable change. In this process, a central strategic concept is probably the concept of "ye" which literally means "the house". A sociological analysis of the ye is too enormous a topic to be discussed here in detail. The ye is a uniquely Japanese functional organization or *Betrieb*, which is akin to the extended family, the patriarch or the patrimonial system, but exactly none of them. As early as the tenth century, the ye emerged in embryo in the frontier

area of eastern Japan — as a *Betrieb* engaged in dual functions, military as well as agricultural. Throughout Japanese history since then, the organizational experience thus obtained has been again and again applied to various Japanese collectivities. For example, in the Tokugawa era up to 1868, the *ye* principle of organization was embodied in the *han* or the quasi-bureaucratized household of *samurai* lord as well as in the chartered large merchant enterprises. Each family of *samurai* warriors — who were, in fact, the quasi-bureaucrats in each *han* in the peaceful Tokugawa era — was also modelled after this principle².

The *Meiji* Restoration in 1868 dissolved the *hans* and abolished the regionally decentralized system based on them. However, the now-defunct *Meiji* Civil Code tried to legalize the characteristics of *samurai* family; every family in *Meiji* Japan was supposed to imitate the *samurai* family. As the country is being industrialized, however, the family was gradually nuclearized. After World War I, the urban family already became substantially nuclearized. On the other hand, during the same period, the Japanese-type business firm began to be organized as a modern variant of the *ye* principle. At the start of World War II, the family principle was thus in decline, while the Japanese-type principle of business organization was out of experimental stage and spreading its influence. The radical legal changes imposed by the American occupation deprived the family of its pre-modern legalized authority and the subsequent rapid urbanization accelerated the nuclearization of the family, while the Japanese-type business firm strengthened and sophisticated its management practices such as life-time employment, direct recruitment from school, advancement based on seniority, intra-firm welfare plan, enterprise union, etc. Changes in sociological structures of the Japanese society may thus be viewed as a mixture of two a-synchronous trends — a decline of the family and a rise of the business firm.

Resistance to Disintegration

At this moment, the basic sociological structure of the Japanese society seems quite resistant to disintegrating influences and, in that sense, stable — probably more stable than most of the industrialized countries. For example, the crime rates are very low and for the most part — except shoplifting by the middle-class women — they have been falling for the past ten years. The rates of juvenile delinquency are also remarkably low. The divorce rate is, though rising very slowly, quite low so that there are few fatherless families in Japan. The number of persons receiving public assistance is extremely low — partly because the fatherless families are few — and falling. The per-

centage of aged accommodated in residential or nursing homes, as against those living with their children or in their homes, is very low. The problem of homeless aged is less severe in Japan.

These evidences point to the distinctive Japanese characteristics that there are no dropouts in Japan; each Japanese individual belongs to and is nurtured by some *ye*-type collectivity such as family, workplace, school and the like. The western observer may detect — and often be critical of — lack of individualism in Japanese character. Nonetheless, the obvious fact remains that an average Japanese is unlikely to show aberrant behaviors and so the society as a whole is likely to be orderly.

Stabilizing Factors

Major reason for this stability is obvious. Various Japanese *ye*-type collectivities are still functioning. Most importantly, the Japanese workplaces — factories, offices and the like organizations — have been exerting dominant influences on the life style of an average Japanese. The Japanese firm is like a community because of such unique characteristics as life-time employment, direct recruitment from school, schooling within the firm, intrafirm welfare fringe benefits, advancement based on seniority, and enterprise union (every worker in a firm, whether white-collars or blue-collars, is affiliated in one enterprise-based labor union). Compared to the Westerners, Japanese workers are more attached to and comfortable in their workplaces.

As another example, the family tie is, though becoming weaker, still quite strong compared against most of the other developed countries. One recent survey shows that more than 70 p.c. of the sample are of the opinion that the aged parent should live with their son or daughter³. Japanese school is another example of Japanese collectivity. In the recent comparative science study it was found that Japanese students at the primary and secondary levels like school more than students in other countries⁴. Like any Westerner, an average Japanese naturally feels psychological tensions and antagonisms even within his organizations, but those feelings are tempered, buffered and absorbed in some community-like organizations — notably, in workplaces such as factories, offices, etc. Probably housewives least benefited from the stabilizing function of workplaces.

² A similar idea may be found in Chie Nakane, Japanese Society, University of Chicago Press, 1970. The present author's view was presented in Japan Echo, Vol. II, No. 3 and Vol. III, No. 2 in collaboration with S. Sato and S. Kumon.

³ Opinion Survey made by the Prime Minister's Office, in November, 1975.

⁴ L. C. Comber and J. P. Keeves, Science Education in Nineteen Countries: An Empirical Study, Wiley, 1973.

One more possible reason may be worthwhile to examine, namely, ethnic and cultural homogeneity of the Japanese people. It is true that Japan is a geographically isolated island nation and for almost two thousand years an ethnically homogeneous society. The ethnic minority of Japan is probably the smallest of any developed nation. There is little institutionalized class distinction in postwar Japan. In my opinion, however, this factor is often exaggerated. Homogeneity — cultural homogeneity, in particular — may reduce chances of misunderstandings and emotional frictions so that it indirectly contributes to national integration. But, in this regard, religious homogeneity, for example, may possibly be more effectual. Obviously, a society of more than 100 million people cannot simply rely on cultural homogeneity but on some intricate network of organizations. If a system of the Japanese organizations should fail to work, the homogeneity factor will have only a soothing effect. Homogeneity is no more than an auxiliary element.

Privatization or Individuation

Hence the imminent sociological problem is, in my opinion, whether the unique community-like organizations will endure in Japan. Opinions divide even among the specialists. On the negative side, the Japanese people in the urbanized and increasingly affluent circumstances — particularly, the younger generations — seem to show signs of individuation or privatization on behavioral levels. Japanese youth behave more and more like their Western counterpart. They dress just like Americans or Europeans. They prefer the Beatles or Bob Dylan. They may well divert their main interest from their workplaces to other aspects of living. They may well be less loyal to firms, schools or families. Their value orientation will be consummatory — or expressive and even hedonist — rather than instrumental.

On the affirmative side, it is still arguable whether a convergence toward the Western value is occurring in Japanese youth. An American sociologist, Nathan Glazer, says in a recent article, "Japan is changing, but it remains substantially different in basic values from Western societies".⁵ It is maintainable that an average Japanese — even the younger generations — is changing on behavioral levels, but on deeper levels he is still collectivity-oriented. If this is the case, at least some type of Japanese organizations — most probably the Japanese firms — will have to survive as a major ingredient of the society, provided that organizational know-how is suitably adjusted to newly emerging life styles. Economically crucial matter is whether such survivable collectivity is the Japanese firm or not.

One related problem is a problem of work ethic or achievement value. It is often observed that in highly developed affluent societies work ethic is in decline. Judging from a number of survey data, I would argue that work ethic or achievement value remains quite strong in Japan. A subtle problem is that in Japan the need for achievement seems positively correlated with the need for group affiliation, whereas they seem negatively correlated in the Western societies. This may imply that persistence of work ethic will contribute to reinforcing group orientation in the Japanese society.

Society at the Crossroads

An overall judgement is subtle. My opinions rather lean on the negative side in the sense that the Japanese workplaces such as factories, offices and the like organizations will gradually undergo basic change. In the first place, such unique Japanese labor management practices as life-time employment, seniority system and so forth depend upon the company's growth and hence on the whole economy's growth. As the growth of the Japanese economy is decelerated, many of the Japanese firms will face a difficulty to continue those labor management policies which are likely to be quite costly at least in the short run. Secondly, as I later argue on the political dimension, an average opinion in the urban area is likely to be critical of the pro-business governmental policies in the past and, therefore, of the business itself. The business firm might lose its legitimacy as an essential ingredient of the Japanese society. The Japanese workplace will no longer be *the* community to which an average Japanese belongs, but only one of the communities which nurture him.

The Japanese society is perhaps at the crossroads of the weakening *ye*-type collectivism or communitarianism and of the spreading influence of individuation or privatization. Either one of the aggressive individualism and the retrospective collectivism can be no answer. The answer is probably their optimal mix. In the meanwhile, however, a series of precarious trials and faults toward such optimal mix will cause, by and large, a disintegrative rather than integrative influence, although its effect will be only gradual — from generation to generation.

Political Dimension

As I tried to show, the economic problems *per se* will be overcome, if the policy choices are not seriously mistaken. The sociological factors *per se* foreshadow a long-term trend toward disintegra-

⁵ H. Patrick and H. Rosovsky, *op. cit.*, p. 856.

tive influence rather than integrative, though the influence will be only gradual. In my opinion, an immediate failure, if any, is likely in the political dimension. The problem is whether the existing postwar Japanese political system will be able to cope with the emerging subtler and broader tasks in economic and sociological contexts as well as in political context itself.

During the period of rapid economic growth, the postwar conservative "pluralistic hegemony" has been so well established as to look almost monolithic. The expression "Japan, Incorporated" became a popular shorthand among the observers from the outside. But this expression is an exaggeration. Just like its prewar counterpart, the postwar conservative hegemony is basically pluralistic, and is not totally free from dissolution or at least stalemate. Such failure has been avoided mainly because of the sustained consensus on economic growth as the national goal, and of its successful achievement.

However, this goal is now almost attained and so becomes increasingly meaningless. The tenuous machine of pluralistic hegemony may lose its essential cohesive factor. Moreover, explosive urbanization and de-agriculturization are transforming basic structures of the electorates all over Japan. A decrease in rural population implies an erosion in the conservative electorate. This enforces the Liberal Democratic Party gradually to shift their policy target from the rural farmers to the urban white-collars.

Having in mind the urban middle-class, LDP has to adopt anti-pollution measures rather than encouragement of industrial activities, anti-inflation policies rather than anti-recession policies, and welfare measures. These modified policies might result in increasing frictions between LDP and the business. On the other hand, as the national goal is getting more blurred, the bureaucracy is likely to be less confident, more cautious and probably more attached to precedents. The postwar pluralistic hegemony is, if not disintegrating, losing its vigor and cohesiveness.

In a sense, the hegemony has actually been too successful in the last twenty years. Facing the overwhelming conservative voting strength, the opposition parties have been constantly frustrated so as to be engaged in ideological show-ups rather than in systematic policy proposals. Confrontations occurred only on such ideological matters as foreign policy questions or education. Other domestic policy-makings have been monopolized by the bureaucrats and LDP politicians who are, in fact, mostly ex-bureaucrats. Thus, the Diet has not functioned as an organ to appraise

and coordinate possible meaningful policy alternatives. The general electorate's feeling about the Diet — the allegedly highest organ of state power — is an apathy.

Parliamentary Democracy Facing an Ordeal

The whole postwar Japanese political system — the conservative and the oppositions alike — seems ill prepared for the standard practices of parliamentary democracy and particularly for alternation of government. I do not predict that the relative voting strengths of the political parties will drastically change, although some might occur due to correction of unintentional gerrymandering caused by the population shift to the urban area. In the Diet, LDP will probably hold at least around 50 p.c. of the total seats, and the opposition parties will also hold their respective shares. This implies, however, that in some cases LDP may be a minority, depending on the floating votes in the urban area. The trouble is that LDP and the oppositions alike are not ready for an alternation of government. Nor is the bureaucracy.

We may consider the following three possibilities.

- (1) Revitalization of LDP by obtaining support from the urban middle-class.
- (2) Coalition, whether explicit or implicit, between LDP and some right-wing portion of the opposition parties.
- (3) Coalition of all opposition parties.

In my opinion as well as in many specialists' opinions, possibility (3) is most unlikely, because the oppositions are basically divided — as against the Communists. Possibility (1) is not very likely, either. The reason is simply that the establishment rarely reforms itself. Possibility (1) will be realized only after an experiment of possibility (2). In any of possibilities (1) and (2), however, the national decision-making will not be so efficiently reached as before.

As we have tried to point out, in this transition from an economic era, the society has to adjust itself to an economic deceleration. A number of institutional changes are to be required. Gradually getting out of *Pax Americana*, Japan will have to steer its own course of external policies in this conflict-ridden multi-polar world. The Japanese political system is now heavily burdened with all those tasks. With those tasks at hand, the Japanese policy will have to seek for something other than the pluralistic hegemony. This probably means that the Japanese parliamentary democracy is now facing a real ordeal for the first time in its postwar history.