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CENTER DISCUSSION PAPER NO. 59

THE PHOENIX RISEN FROM THE ASHES: POSTWAR JAPAN

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The Phoenix Risen from the Ashes: Postwar Japan

by

Hugh T. Patrick

In September 1945, and indeed for close to a decade thereafter, no one could conceive that by the late 1960's Japan would be not only the strongest nation in Asia but the third largest industrial power in the world, and a major ally of the United States and its second largest trading partner, after Canada. For Japan was utterly defeated in World War II, crushed militarily and economically, and with its ideological foundations of romantic traditionalism, expansionism and nationalism fully discredited. Major cities were in rubble and their populations dispersed throughout the countryside. The purpose of this essay is to describe Japan's resurgence to the forefront of the world's nations.

Japan lost in World War II almost three million people, its Empire of Taiwan, Korea, Manchuria and various mandated territories and one-quarter of its capital stock of machines, equipment, buildings and houses. This included virtually all its merchant shipping and textile equipment, the major prewar industry. Not all was due to the direct destruction of war; in the last desperate days textile spindles were taken out of factories and melted down as scrap to make munitions. Equipment had deteriorated due to lack of maintenance. Probably more important, soil fertility had declined sharply from the virtual cessation of chemical and other fertilizer inputs. Acute shortages of goods and bottlenecks, combined with deficit financing and immense bank note issue at war-end, were to provide the basis for a rampant inflation that was to plague Japan throughout the immediate postwar years.

Moreover, Japan was subject to military occupation by the victorious Allies, to which the populace initially looked with natural great trepidation. As it turned out, the Occupation was perhaps the greatest social experiment ever attempted. Highly idealistic and ambitious, the fundamental objective was to recreate Japan as a democratic society--not simply in political and economic institutions and in the sources and balances of power, but even in values and ideology. For all the inefficiencies, even mistakes, and for all the alterations the Japanese have made since the Occupation ended, any overall assessment must conclude that the Occupation was highly successful.

This success was possible only because the Japanese wanted it so. Most of the seeds of change fell on fertile ground; those that did not have ultimately fared far less well. It was not simply Japanese cooperation with the Occupationaires---though that was essential---because the changes that come about have been far too great and lasting for that. Nonetheless, from the Japanese point of view the goal was not solely "democratization": for most people in the immediate postwar years the most immediate problem was simply how to survive, how to meet the pressing material needs for food, clothing, shelter. As conditions gradually became better, such economic objectives continued to loom large for both individual family and nation. Indeed, the pursuit of rapid economic growth and rising living standards has remained predominant in Japan's postwar national objectives. And success in the economic sphere has been a necessary requisite of Japan's continued democratization and of its resurgence as a world power. Accordingly, this essay focusses mainly on Japan's economic performance in arising, like the legendary phoenix, from the ashes of World War II.

I. From Occupation to Restoration of Sovereignty.

The Occupation of Japan was essentially an American operation, even though policy was nominally determined by the eleven-power Far Eastern Commission in Washington. General Douglas MacArthur, Supreme Commander of the Allied Powers--SCAP, which referred both to MacArthur and to the administrative bureaucracy of the Occupation--by dint of personal authority and personality wielded considerable decision-making power in addition to overseeing the implementation of policy. SCAP worked through the Japanese government using rather than replacing it, by means of formal directives and informal, continuous guidance. Most of the SCAP staff was American. They encompassed a wide range of military and civilian skills and attitudes and values, from fervent New Dealers to conservative businessmen.

Quite naturally the immediate Occupation objective was to demilitarize Japan, first by destroying all armaments, halting all military production, by physically taking control of the entire country, by purging military, political, and business leaders, and by punishing those tried and found guilty as war criminals. In the longer-run context this was meant to destroy the economic and political bases of military strength, and to curtail the willingness to use war as an instrument of national policy. A rather considerable punitive feeling colored policy at the beginning: Japan deserved its plight, which was the outcome of its unpardonable aggression against others; it should be expected to pay for the damage it had done. Nonetheless, mere retribution never dominated policy, and soon was submerged in the zeal for reform. The shifting policy regarding reparations payments for damage done to Allied nations is

indicative of changing attitudes.

The sum of the claims of the Allied nations was huge. It was soon decided that Japan could not afford payments from current production, but that much of her industrial capacity---especially iron and steel, machinery, and chemicals---was war-related and hence "surplus" so that it could be dismantled and shipped to damaged neighbors. It was difficult to decide exactly what was surplus, since in fact any reduction in capacity slowed Japan's ability to support itself economically. At first "surplus" was defined as any plant and equipment beyond that needed to maintain a standard of living equal to that in the countries Japan had occupied; soon this was amended to Japan's prewar (1934-36) standard. The United States quickly realized it would ultimately have to foot the reparations bill, sending in aid goods as Japan sent reparations out. The U.S. renounced its claim to reparations and put pressure, not entirely successfully, on others to do so as well. The wrangling delayed the first shipments of industrial equipment as reparations until 1947, by which time a series of U.S. special missions were drastically scaling down this program. The cumulative total value of shipments, until the end of the reparations payments under Occupation auspices in 1950, was less than \$50 million one-fifteenth of that programmed in 1947.

A fundamental premise of SCAP was that only if Japan were democratized could it become a peaceful, useful member of the world community of nations. As a democracy Japan would not want to be aggressive, to wage war; moreover democracy was a desired end in itself. Demokurashii soon became a slogan word in Japan, with a bewildering variety of connotations to the enthusiastic but

often perplexed Japanese man in the street. Was it more democratic for a man sitting on a crowded streetcar to offer his seat to a woman, because of the raised status of the female, or not to offer his seat on the ground that men and women were equally entitled to the seat?

Nonetheless, the political institutions and behavior of a democratic society were obvious enough, and were soon established--institutions first, though behavior has not always followed, and certainly not always in the ways Americans would expect. Restrictions on political, civil, and religious liberties were removed, and rights guaranteed. State was separated from the Shinto religion. Universal suffrage was extended to women. The system of nobility, with aristocratic titles, was eliminated. The Emperor was replaced by parliament as the core of the political system; he renounced any claims to divinity and was reduced to a (continuingly popular) symbol of state.

The establishment of parliamentary democracy was an essential feature of the entire process. Both the House of Representatives and House of Councillors were elected; most power resided in the former (the Lower House). The country was governed by a prime minister and his cabinet elected by parliament (the Diet). Political parties were quickly re-established; they covered a spectrum extending all the way to the Japan Communist Party.

Many of these changes were embodied in the 1947 Constitution, the basic law of the nation. This is one of the most idealistic constitutions in the world in the political, social, and economic rights it guarantees the citizens of Japan. This idealism is manifested also in Article 9 which renounces the use of war or the maintenance of armed forces. The sweeping changes embodied

in the 1947 Constitution were very much the consequence of American instigation. When the rather conservative Japanese Cabinet came up in 1946 with proposals for constitutional revision they did not involve significant changes. MacArthur then had his staff draw a model document which became the basis of the new Constitution. Despite the awareness by the general public of the American origins of their Constitution, it has been and is widely accepted. In recent years Conservative elements have urged constitutional amendment mainly to eliminate Article 9 and to raise the position (if not the power) of the Emperor somewhat, but without success.

The Constitution is the political and legal manifestation of the changes in values and social relations for which SCAP aimed: the replacement of authoritarianism and paternalism with equality and individualism. Changes in the educational system were also designed to promote new values. The mythology of Imperial divinity, coupled with the romantic nationalistic views of the special world role of the chosen Japanese people, was denigrated, as were the military. While there is less stress to conform than earlier, and some increase in individualism, nonetheless these themes are rather alien to as group-oriented a society as Japan's, so that it still remains a collectivistic society. The people continue to have a highly developed awareness of self and nation as uniquely Japanese. When children the world over were asked "what are you?" the most common response was "a human being," a "child," or a "boy" or a "girl." In Japan the overwhelming response was "a Japanese." Yet the primacy of traditional ideals of loyalty to, and self-sacrifice for, the nation has receded. In its place the improvement of material well-being and the enjoyment of life

have assumed much greater importance in the goals of most Japanese.

The democratization efforts involved major economic reforms. It was deemed essential for democracy in Japan to establish a competitive economy with a more equal distribution of power and a relatively egalitarian, wide distribution of income, wealth, and ownership of the means of production and trade. Gradually it came to be realized also that these institutional and redistributive changes were not enough: economic reconstruction and satisfactory economic growth, resulting in prosperity and rising levels of living, provided the only economic environment in which incipient democracy could be nurtured.

The approach to building a competitive economy was to break up concentrations of economic power by business and landlords, and to develop new countervailing power bases among industrial workers, and tenant and other small farmers. Perhaps the most thorough reform was that of farm land ownership.

Japan had long been, and still is, a country of intensively cultivated family farms of miniature (2 1/2 acre average) size, broken down into even smaller, non-contiguous, plots. Prior to reform, less than 10 percent of farm land was in holdings of 125 acres or more. Tenantry was widespread; about 45 percent of the land was farmed by tenants. Two-fifths of the farm families cultivated land part of which they owned and part of which they rented, one-third owned essentially all their own land, while one-quarter were essentially tenants, cultivating almost solely land rented from others. Landlords, mainly local residents, were relatively wealthy, powerful, paternalistic, and traditional. Landlord-tenant problems had become exacerbated during the interwar period. Land reform programs had been planned, but never implemented, by the

Japanese bureaucracy earlier. SCAP thus served as the catalytic agent, rather than originating a new idea, while also prompting a stronger reform than otherwise might have occurred.

The basic aim was simple: to end tenantry by transfer of land ownership to farming tenants from their landlords. The method was land purchase and sale, under government auspices, not confiscation. In principle landlords were to be fairly compensated: land values were determined on the basis of 1945 official prices, and payment was partly in cash, partly in low-interest, thirty-year bonds. Tenant purchasers were extended easy payment terms. By the time the actual transactions took place, between 1947 and 1949, inflation had reduced the real value of the transaction price to only one percent of prewar land prices.

The land reform virtually eliminated farm tenantry and landlordism. Maximum farm size was restricted to 7.5 acres (30 acres in Hokkaido), well above the actual average. Change in ownership did not mean much change in the organization of production; it remained family farms. The new owners did have greater incentive to invest in land improvements, and in this were much encouraged by the relatively high demand and thereby prices for foodstuffs. Agriculture was the first sector to achieve prewar living standards and has continued to prosper. Consequently, the goal of a sturdy farm family, independent of landlord control, has been achieved. Old patterns and values do not quickly change however: farmers remain the most conservative political force in Japan.

A second mass base for power to compete against the established power of business and government bureaucracy (it being clear that the military were

to be eliminated as a power group) were industrial workers. A major objective of SCAP policy was to develop a strong, independent trade union movement. The pertinent SCAP section was staffed by many American union leaders of very liberal persuasion. Even so it is unlikely that they anticipated the rapidity and enthusiasm with which unionization swept Japan, or the highly political course unionism was to take at the national level. Unions were formed in most enterprises of any size. By 1950, 56 percent of industrial employees were unionized, a high-water level that has receded to about 35 percent, though absolute membership continues to rise. Initially membership included top and middle management (after all, that seemed most democratic) but this soon ended as unions settled into bargaining with management for employee benefits. Most bargaining on economic issues began and has continued to be at the individual firm level, so that Japan has been characterized as having enterprise unionism. Industry-wide bargaining remains the exception, though national federations of unions have increasingly attempted, in annual "spring offensives," to use leading industries to establish patterns of wage increases which can serve as the basis of negotiation by other industries and individual enterprise unions.

Many individual unions at the firm level joined into industry-wide organizations; most of these in turn joined one of several national federations. Unionism at the national level has been highly political: they have tended to stress political more than economic objectives, have been highly active politically, and have provided the main support for the moderate-to-extreme left political parties. The emphasis on politics was in large part a response to the depth and rapidity of economic, political, and social change in postwar

Japan. It also reflects the nature of the original (and continuing) union leadership at the national level. Most were leftists who had been active in the prewar labor movement, had been imprisoned in the late 1930's and early 1940's for refusing to recant and, following Japan's defeat emerged from prison as about the only heroic figures around (in both Japanese and American eyes). These men quickly took charge of the nascent union movement, and imparted to its national organizations the political focus which has been dominant.

While building a strong union movement and an egalitarian agriculture and disbanding the military, SCAP aimed both at reducing the concentration of business power and establishing a competitive business environment. The legal and institutional arrangements were reasonably clear. What was much more difficult--and never successfully achieved-- was to obtain widespread Japanese business and government bureaucracy acceptance of the concept and ideology of free competition as inherently socially beneficial. Most Japanese have never accepted the view that the Adam Smithian "invisible hand" would automatically guide the selfish, profit-maximizing behavior of firms and optimizing behavior of individuals to the maximum output and lowest prices for the benefit of consumers. Rather, they have historically accepted the "visible hands" of government guidance and of business cooperation (in cartels and otherwise) to attain satisfactory economic performance. The Japanese place more emphasis on the costs of a competitive system: possible over-capacity and misallocations in specific industries, and attendant cyclical fluctuations in business activity. They frequently term as "excess competitions" situations which in the United States would be regarded simply as intense, but not undesirable, degrees of

competition. Because the ideology of free competition has not become ingrained in Japan (aside from the issue as to how extensively it is really practiced in Western nations), the Occupation reforms in the business sector were eroded more than elsewhere in the economy. But this moves us ahead of our story; first, the reforms themselves.

A variety of interrelated reforms were undertaken: dissolution of the zaibatsu conglomerates; elimination of cartels and monopolies; break-up of extremely large firms; and enactment of rules of fair play in business. This last included anti-trust and anti-monopoly legislation, prohibition of unreasonable restraints on trade, production, sales or pricing, and establishment of the Fair Trade Commission to monitor and enforce these rules.

Zaibatsu dissolution was the most thoroughly implemented and lasting of the reforms. The zaibatsu--of which the four largest were Mitsui, Mitsubishi, Yasuda, and Sumitomo--were family-owned conglomerates, usually through a holding company, of firms operating in mining, manufacturing, commerce, banking, and insurance on a highly interrelated basis: buying from, selling to, financing, insuring, and handling the sales of, each other. They had amassed great wealth, economic and political power, and inevitably were completely involved in the wartime economy.

There were two strands in the reform: removal of the zaibatsu families from ownership, control, or position; and dissolution of the conglomerates. The holding companies were ended, and all shares in the underlying companies owned by zaibatsu family members were confiscated and sold both to employees of the constituent firms (about one-quarter of the shares) and gradually, in

the open market, to large numbers of middle-income Japanese. The zaibatsu families received in compensation bonds which bore no interest and which could not be sold or redeemed for 10 years. All family members were purged, so they could not work for the firms they formerly had owned. All this was so effective that the families have never been able to return to power; by and large they have slipped into comfortable obscurity, at least in terms of economic and political power if not social status.

The break-up of the zaibatsu conglomerates was less easy. All interlocking directorships and stock-holding came to an end. Subsidiaries and affiliates were spun off to be separate, independent companies. A few very large zaibatsu firms, particularly the trading companies, were broken down into separate companies; for example, Mitsubishi Trading Company was divided into about a hundred small trading companies. However, the established buying-selling-financing-trading patterns remained, so that ex-zaibatsu firms have continued to do business with each other extensively.

Oroginally, zealous to establish a competitive environment (and perhaps with punitive motives), SCAP considered some 1,200 operating companies for break-up into smaller units. Personnel in the SCAP sections for industry and finance had come primarily from American business and banking; they were somewhat less inclined to "New Deal" measures than their labor counterparts. Probably more important, it was felt that too much splitting up of Japanese companies would retard economic recovery, and recovery came to be an increasingly important objective after the first two years of Occupation. By 1948 the list of companies designated for "reorganization" had shrunk to 325. In fact, only

28 companies were ultimately broken up, and 10 of these were in electric power.

These reforms did much to redistribute income, wealth, and ownership of the means of production as well as provide bases of countervailing power in a relatively more competitive economy. The wealthy owners of large corporations were also hurt by the great corporate losses due to bombing, deterioration, reparations and government repudiation (at SCAP insistence) of its guarantees on loans made to firms for war production. The tax system was also used to restructure the distribution of income and wealth. In 1946 sharply progressive special taxes were levied on war profits and on wealth. In 1949 SCAP pushed through reforms of the tax system. Much greater emphasis was placed on direct taxes, at progressive rates, on personal and corporate incomes, and less on sales and other indirect taxes which tended to be regressive. Local governments were given greater autonomy, including a larger tax base and an automatic share in certain taxes collected at the central level. While many of the specific reforms were weakened, and even the role of direct taxes and of local autonomy eroded, in general the new tax system remained even after the Occupation ended.

By far the most important, if somewhat erratic and untended, means of redistributing income and wealth was inflation. Strong inflationary pressures had built up during the war. They were exacerbated by government heavy deficit financing and extensive money creation via the Reconstruction Finance Bank, which readily made loans to industries essential for reconstruction--coal, fertilizer, electric power, transport, iron and steel--using funds obtained by selling its bonds to the Bank of Japan, the central bank. Thus the price level,

taken as 1 in 1934-36, was 9 times higher at the end of 1945, 145 times at the end of 1947, and about 300 times higher in 1949, when the inflation was finally halted as part of the Dodge Plan reforms. Some inflation was inevitable, given the exigencies of postwar shortages and bottlenecks. However, a combination of wage, price, budget, and bank credit controls could have halted the inflation sooner. SCAP at first was unwilling to take responsibility for economic policy, and then was slow in developing effective anti-inflationary measures.

The Japanese government adopted a rather non-cooperative and even deceptive attitude toward attempts to halt the inflation. It is probably too extreme to say that the Japanese government had a deliberate policy to undermine the Occupation reforms, and to shift the burden of support of the economy to the United States by making aid imports essential since exports were uncompetitively priced. In large part the Japanese government attitude reflected the high priority it attached to economic recovery even at the expense of inflation; it wanted to be sure resources were attracted to essential industries and loans seemed the easiest way to accomplish that. Moreover, anti-inflationary measures were bound to hurt, and the party in power would lose popular support. Big business had immense wartime loans to repay to banks with the government no longer guaranteeing the loans, business benefitted from being able to raise the prices of its goods and from repaying the loans with money of sharply reduced purchasing power. Business did suffer from sharply reduced depreciation charges, in real terms, for its plant and equipment, but this was eventually remedied when firms were allowed to increase the book value of assets in line with the post-inflation price level.

Inflation hurt holders of bonds, deposits, and other fixed-interest financial claims, rent recipients, pensioners, and to some extent wage earners because of the lagged adjustment of wages to prices in the spiral upwards. Particularly hit were agrarian ex-landlords and zaibatsu families, since they were stuck with non-saleable bonds whose purchasing power value declined to only about five percent of their initial value. In contrast, the ex-tenants and other landowners, owners of corporate shares, and owners of other real assets did not suffer, and in some cases benefitted, from inflation since the prices for their assets increased at least as rapidly as the general price level.

Why did the Japanese accept, or at least tolerate, these striking changes in income distribution, ownership of assets, and political power? By and large these represented transfers from a small minority to a large majority of the Japanese, who quite naturally responded favorably. The previous holders of power and wealth were under attack--politically, economically, socially--so they were not able to sustain their vested interests. Finally, because Japan was utterly defeated and close to chaos, tremendous sacrifices could be demanded of everyone simply to get the country back on its feet.

The assumption underlying initial Allied occupation economic policy was that Japan had brought the devastation upon itself, so it had to suffer the consequences, and had no right to expect outside assistance in economic recovery. In practice however, from the beginning SCAP could not remain completely aloof of economic reconstruction problems and issues. The difficulties were simply too great, Japan was one of the most devastated of all the

World War II countries. Industrial production in 1946 was only one-fifth of the wartime peak, and one-third of the 1934-36 level. Agricultural production was also off some two-fifths, a less extensive but more serious decline. By early 1946 Japan was on the verge of starvation.

To prevent "disease and unrest" General MacArthur prevailed upon Washington to begin large-scale aid shipments of food and medical supplies. Moreover, it was soon apparent that a requisite for successful political democratization was an adequate economic base--reconstruction and satisfactory economic progress. U.S. aid was essential to achieve this. The composition of aid changed gradually from food to fertilizer, petroleum, and industrial materials such as cotton. By 1949, when the aid program was drawing to a close, the U.S. had provided Japan a total of almost \$2 billion in aid. Aid paid for 38 percent of Japan's imports during the Occupation--a period when Japan's export earnings were negligible because of loss of prewar markets and lack of productive capacity to produce exports. In per capita terms U.S. aid to Japan was relatively modest: \$27 for Japan, as compared with \$77 for West Germany, \$51 for Italy, \$122 for the United Kingdom, and \$103 for France. Legally this aid was a loan rather than a gift, to the eventual surprise of most Japanese and Americans. In the late 1950's Japan agreed, based on the formula worked out in similar negotiations between the United States and West Germany, to repay the aid at the rate of about 25 cents on the dollar.

SCAP and U.S. concern for economic reconstruction deepened as the world environment changed and perceptions altered as to how Japan might best fit into it. By 1948 the cold war with Russia had divided the world, and China could

no longer be relied upon as the stabilizing influence in Asia as had been earlier hoped. Japan appeared increasingly to be the most viable possibility among major Asian nations of becoming a stable democracy, strong economy, and close ally of the West. American policy moved far from punishment of Japan and keeping Japan weak in competition with its neighbors, to regarding Japan as the "workshop of Asia" and good friend of the United States.

The effect of this shift in attitude was increasing emphasis in Occupation economic policy upon recovery and decreasing emphasis upon reform. The land and labor reforms had already been completed, but the break-up of large industrial and financial enterprises other than zaibatsu holding companies and of their buying and selling interrelationships had really only begun. The quite ambitious SCAP industrial reform program was allowed to wither away in its implementation, as already noted, since most companies could correctly point to retardation of their recovery if they were to be split up or otherwise disrupted. In a sense the longer-run reform goals gave way to the more immediate tasks of recovery.

In growth rate terms recovery was rapid, but it was from such a low 1945-1946 base (when output was probably at a level not above that prior to World War I!) that even rapid rates of improvement were insufficient to reconstruct the economy quickly. Not until 1954 or 1955 was Japan able to attain prewar per capita levels of productivity, national income and personal consumption. In crude economic terms Japan lost 18 years of economic growth in embarking on its disastrous World War II adventure; it took that long to come back up to the prewar level.

Thus, Japan was still a very weak country when the Allied nations agreed in 1951 to end the Occupation and to restore sovereignty to Japan by signing a peace treaty. Actually General MacArthur had suggested this course as early as 1947. Aside from continuing problems within Japan of reform and recovery, the increasing intensity of the cold war, the hardening anti-communist position of the United States, and Russia's unwillingness to agree to a peace treaty were all factors in the slowness in ending the Occupation. The outbreak of the Korean War in June 1950 marked a de facto end; American attention focussed on Korea and SCAP turned over responsibility for domestic affairs to the Japanese government. It also intensified the American resolve to have a peace treaty signed, and it pressured its Western and Asian allies to agree.

The Peace Treaty was signed on September 8, 1951, and went into effect on April 28, 1952, when Japan was once again (legally at least) an independent nation. Russia and Communist China refused to participate. Russia and Japan signed a treaty in 1954, restoring normal, if cool, relations marred by Japan's tie with the West, and disputes about continuing Russian control over two small islands just north of Hokkaido and fishing rights in adjacent waters. China and Japan have not yet normalized relations (as of mid-1968). Other Asian nations signed the Peace Treaty, but several--notably Burma, Indonesia, and the Philippines--refused to accept a clause in which they gave up rights to reparations. An important feature of Japan's foreign policy in Asia in the 1950's was negotiations with the nations on reparations; settlements were concluded in all cases. While the Peace Treaty recognized Japan's residual sovereignty over Okinawa and the other Ryukyu islands, and over Iwo Jima and the

other Bonin islands, the United States retained the right to occupy and administer them so long as its security requirements necessitated. The Japanese desire to resume full sovereignty, particularly over Okinawa, has been an increasingly important issue during the 1960's. The return of the Bonins in 1968 did little to resolve the issue.

The Peace Treaty did not mean that Japan was immediately or automatically accepted back into the community of nations. In 1952 Japan was still weak: the standard of living was low (gross national product per capita was about \$250 dollars),¹ still below the prewar level; its foreign trade was far below prewar levels yet the needs for imports were and would continue to be acute; it had virtually no means of defense from external aggression; it still had relatively little self-confidence. It faced a world beset with its own postwar adjustment problems, hostile or at best indifferent to Japan. It was clear to Japanese leaders that the country needed a sponsor in its international political, economic, and security relations. A neutralist policy of going-it-alone would have been very difficult and probably not very fruitful.

It was natural, perhaps inevitable under the circumstances, that Japan should turn to the United States for this support. The United States was anxious to establish an alliance with Japan and willing to support it in the international arena; it was clearly the strongest nation in the world; it was by far Japan's largest trading partner (almost one-third of exports and

¹Measured in 1960 Japanese prices and converted at the official exchange rate; as is true of other low-income countries conversion of local currency into dollars in terms of real purchasing power would yield a considerably--perhaps 50 percent--higher figure.

imports, eight times greater than Japan's next trading partner.) Moreover, with the strong American presence in Japan despite the ending of the Occupation, it is not clear that Japan really had any other viable alternatives, even though Prime Minister Yoshida and the other leaders may not have felt the need for such alternatives. It is perhaps in the context of a partnership between an omnipotent nation and a weak but willing nation that the U.S.-Japan Security Treaty, signed at the same time as the Peace Treaty, should be appraised. Under this arrangement the United States guaranteed Japan's security from external attack and was allowed to maintain bases and military forces, but not nuclear weapons, in Japan.

In terms of Japan's self-interests, its alliance with the United States and the West has paid off handsomely. The United States sponsored Japan's entry in 1955 into the United Nations and such affiliates as the International Monetary Fund and World Bank, into GATT (the world trade organization), and in the early 1960's into OECD. This sponsorship, together with Japan's own strenuous efforts, enabled Japan to dissipate, or at least substantially mitigate the hostilities and discriminatory measures of other nations. By the early 1960's, if not sooner, Japan was recognized and accepted as a major nation.

The economic payoff was perhaps even greater. Japan benefitted from U.S. Korean War special procurement dollar expenditures, and from continuing access to America's rapidly growing import market (despite recurrent irritants over U.S. textile and other commodity import restrictions), and to the U.S. short-term and long-term private capital markets. The U.S. security umbrella

meant that Japan did not have to devote much of its resources for defense, utilizing them instead for growth-producing investment and rising living standards.

Of course the alliance with the United States has not been without its costs. Japan was committed to following pretty much the U.S. line in international affairs. Until the late 1950's its trade with China was severely restricted, more so than for European nations though less than the American total boycott. Japan has not followed the subsequent lead of European nations in making long-term export credits available to China, no doubt in large part due to American pressure (the American position is that it does not see why Japan should have easy, even preferable, access to loan funds if Japan is going in effect to relend them to China).

Most important, as Japan's remarkable economic performance of the 1950's continued in the 1960's it no longer remained a weak client needing paternalistic U.S. sponsorship. The evolving relative power position of Japan and the United States has brought new strains as well as opportunities to the alliance. Japan quite naturally has wanted greater independence, and more equal partnership. The nature of Japan's economic performance since the end of the Occupation hence is the next matter for consideration.

II. The Economic Miracle: From Reconstruction to Super-fast Growth

Japan's growth rate of national income between 1946 and 1954 of 10.8 percent was rapid, but was from the early postwar extremely low base. It represented little more than eliminating bottlenecks, restoring partially

damaged existing capacity to operation, and returning to prewar levels of productivity and per capita income. Similar patterns of reconstruction and rapid growth occurred during the same period in Europe, notably in West Germany. Once recovery was completed, there seemed to be no reason to expect continued rapid growth. Indeed, in a 1956 governmental five-year projection 6.5 percent was regarded as the maximum sustainable growth rate.

In fact the Japanese economy has continued its rapid surge of growth right to the present, at a rate far faster than that of virtually any other country in the world, communist, democratic, or autocratic. Between 1954 and 1967 Japanese gross national product (GNP), measured in constant prices to adjust for the mild inflationary trend, grew at an average annual rate of 10.1 percent, almost three times as fast as the growth of the American economy for the same period. The power of compound interest is such that in 1967 Japan's GNP was 3 1/2 times larger than it was in 1954. This performance is unparalleled in history. It brought Japan from a populous but relatively weak nation in the mid 1950's to the forefront of world powers by the late 1960's. I consider some of the implications of this performance in the next section. First, it is desirable to examine the changing structure of the economy, cyclical fluctuation, and the causes of the exceptional growth performance.

The most important change in the structure of production is the rising relative share of manufacturing and construction from about 28 percent in the early 1950's to 35 percent in the mid 1960's, and a concomitant decline in agriculture, forestry and fishing from 22 percent to less than 12 percent. Yet agricultural performance generally has been very good, certainly better

than prewar. Rice remains the single most important crop. Better seeds, more fertilizers, and insecticides have raised output, particularly in the 1950's. Agriculture is becoming more diversified in response to rising consumer demands for vegetables, fruits, dairy products and meat. However, the growth of labor productivity in agriculture, while outstanding as compared with most countries, has lagged behind the rapid increases in industrial productivity.

The dominant growth of output and of productivity has occurred in industrial activity--manufacturing, construction, electric and other forms of power, and transportation. With this has gone substantial changes in the composition of manufacturing output, in response to domestic and export demand and to Japan's ability to produce. These changes might be summed up in terms of diversification, sophistication, and efficiency.

Prewar, much of Japan's manufacturing was in cotton and silk textiles, though machinery and armaments were of increasing importance in the 1930's. By the 1960's Japan had developed an extremely diversified manufacturing sector capable of producing almost every product existing in the world (though not all efficiently). These ranged from the world's largest ocean tankers, to cameras, computers and color television, as well as traditional textiles and sundries (souvenir gee-gaws). Particularly rapid growth sectors have included iron and steel, chemicals, petro-chemicals, machinery, and consumer durables such as television, transistorized this and that, washing machines, refrigerators and, more recently, automobiles. With diversification has come increasing sophistication of product, as is obvious from the random sample of items produced.

Japan is not simply a diversified producer of manufactured goods, but on the whole a highly efficient producer. It has been able to enhance the quality of products while reducing costs. Its technological level is now highly advanced in many sectors; in pig iron, shipbuilding, radio receivers and a few other areas its technology is pre-eminent. In most highly sophisticated items, however, Japan still remains somewhat behind the most advanced technology of the United States or Europe. Most Japanese industries are making rapid technological strides, while combining labor and capital efficiently, so that their competitive power at home and abroad continues to grow.

Japanese growth, while rapid, certainly has not been smooth. The post-war economy has moved ahead in great spurts. Booms have developed which generate real growth rates--12, 13, 15 percent--that simply cannot be sustained. Bottlenecks develop, actual and potential export production is diverted to domestic uses, imports of required industrial materials and other goods increase rapidly. The result has inevitably been periodic balance of payments crises. The solution has been to temporarily slow down what the Japanese term the "overheated economy" by means of restrictive monetary (and sometimes fiscal) measures. As soon as the balance of payments difficulties are resolved, the restraints are removed and the resumption of rapid growth encouraged, and achieved, once again.

This cycle has a course of three to four years. While the amplitude of fluctuation is great, this is primarily because in boom periods the growth rate substantially exceeds the average, rather than because the recession phases are severe. Indeed, not only are the recessions brief--about 12 months--they are

very mild: there is only a slowdown in growth, not an absolute decline in output. The slowest growth rate in any postwar year was 2.8 percent (in 1954); the simple average of growth rates for recession years 1954, 1958, 1962, and 1965 is 3.9 percent--better than the average growth rate of the United States for the entire period.

So far it has been impossible to arrive at a comprehensive explanation of the causes of Japan's postwar growth performance which adequately determines the relative importance of the major causal factors. Three interrelated sets of causes have clearly been of great importance: a large supply of highly motivated, relatively skilled or at least trainable labor for industrial uses; a very rapid rate of technological innovation and transformation; and an impressively high rate of capital formation and saving.

Even prior to World War II Japanese industrialization had not proceeded far enough in its absorption of labor to reduce substantially the absolute number of workers in agriculture from early Meiji levels. Wartime bombing and postwar repatriation further swelled the numbers in agriculture. This constituted an immense stock of labor in relatively low productivity uses; to this should be added labor in other areas of low productivity, such as small-scale manufacturing, fishing, retailing and other services. Population growth was rapid in the early postwar period, but the legalization of abortion (for reasons of economic as well as physical or psychological health) sharply reduced the birth rate from the early 1950's. The lagged effect on new entrants on the labor force was only beginning to be felt in the mid 1960's. Japan has been a country of relatively ample labor supply.

Japan's labor force is highly motivated--industrious and hardworking. It also is well educated. Nine years education is mandatory; most children go on to senior high, and a higher proportion of the age group continue to college than in any other country aside from the United States. An important Occupation reform was to increase the number of colleges and universities, and generally to stress increased educational opportunities. Educational attainment is the most important means for achieving upward social and economic mobility in Japan. Most Japanese parents are highly education-conscious, encouraging their children to become better educated than their parents, and saving assiduously to meet the rising costs of higher education. All this has resulted in a labor force which is better trained in general and in specific vocational skills and, perhaps equally important, receptive to further learning on the job. This improvement in the quality of labor has been substantial, but probably not strikingly more so than in other industrial countries. The supply of labor, and its improvements in quality, have been supportive, indeed essential factors for rapid growth, but not the initiating cause. Roughly estimated, approximately one-quarter of Japan's growth of output can be attributed to the combination of increase in labor force and its reallocation from lower to higher productivity uses.

The transfer of labor from agriculture and other low productivity uses has been accomplished primarily by the movement of young people when they first enter the labor force as school graduates. Only one-tenth of farm children are remaining in agriculture, the others migrating to factory and related jobs in nearby towns and larger cities. By the mid 1960's large firms, which typically

hire only new entrants into the labor force and retain them for their entire work life, were complaining of shortages of labor, but this was really only in terms of new entrants. There has also been movement among the economically active into higher productivity, higher paying jobs. Thus, more than one-half of farm family income is derived from non-farm activities; the father works in a nearby factory and much of the farming work is done by his parents and his wife.

One of the most impressive facets of the Japanese performance has been the improvement in productivity due to technological innovation. Japanese business has been highly innovation-oriented in physical production processes, primarily in adopting and adapting techniques that had quick commercial application. So far there has been much less emphasis on basic research. This has been especially true of foreign technology which has been inducted into Japan on a larger and more diverse scale than has ever occurred anywhere.

Several points stand out about this immense foreign technological inflow. First, Japan's increasing isolation from the West after 1937 meant that by 1955, when the technological inflow began to assume substantial proportions, the gap between Japan's level of technology and the best available in the West had widened substantially. Moreover, prewar Japan had not yet reached the frontiers of advanced technology in most fields, less so than today.

Second, probably as important as the technological gap itself has been Japan's enhanced capacity to absorb foreign technology on a large scale. By the 1950's it had the managers, the engineers, the skilled technicians--in sufficient quantity and variety--that foreign technology was not overly difficult to learn about, to learn, and to adapt as well as adopt. This widespread

ability has been the cumulation of the long process of development. It probably was enhanced by the production requirements of war, and again by certain of the postwar reforms.

Third, foreign technology has been obtained almost entirely by licensing arrangements, patent purchase, and technical tie-ups of Japanese private firms with their counterparts abroad. Very little has come in by the route of foreign business direct investment in Japan; where that has occurred it usually has been in the form of a joint venture between Japanese and foreign firms with management often in Japanese hands. Until the late 1950's few foreign firms regarded the Japanese market as particularly good relative to the difficulties of doing business. The Japanese government has had a consistent policy of opposition to foreign direct investment for a variety of reasons: fear of foreign control of strategic sectors; concern that Japanese firms in specific industries would be outcompeted; concern that foreign firms will not fit into, and indeed possibly disrupt, the informal but close relations and controls of government with business; an evaluation that royalty and license payments, while expensive, would be less than profits which would be made by foreign firms; and plain xenophobia. The policy has gradually become less restrictive. The United States and other countries have put pressure on Japan to "act like other advanced nations." In addition, as Japan approaches the technological frontier of knowledge in specific areas, it has only one foreign company with whom to bargain, rather than the several or more firms which control the slightly less advanced technology. This foreign firm frequently utilizes its superior bargaining position by requiring a share of profits--usually through a joint venture--rather than settling solely

for a licensing arrangement.

Technological innovation has by no means been limited to adoption of foreign technology. Much has been the improvement and commercial application of Japan's own research and development efforts. Shipbuilding is just one example. Japanese shipbuilding firms have become pre-eminent in the world, especially for immense petroleum and other bulk carriers. Optics--in cameras, binoculars, and electron microscopes--is another field relying heavily on domestically-developed technology. Adaptation of a given technology to obtain superior performance has been an important factor in enhancing productivity. Typically large firms surround a new machine or process with many engineers not simply to learn but to make numerous small adjustments and improvements. This is expensive--engineers aren't all that cheap--but it pays off. One Japanese steelmaker was able to produce 3,500 tons from a unit of 2,500 ton rated capacity. Other examples abound. No overall evaluation exists, but this approach has probably led to increases in productivity from 10 to 20 percent above rated capacity.

Two final points should be made about the high rate of technological innovation. First, innovation has been concentrated mainly on the physical production process. Japanese firms have done much less to reduce overhead costs--to improve administration, finance, sales, etc. It may well be that production processes, because of their very characteristic of being "physical" and "technical," somehow made necessary any sorts of adjustments in human responses and interpersonal relationships. This is much less true of administrative activities, where changes may seem to impede much more upon certain established

patterns of human relationships and behavior, while the changes in themselves may seem less essential. Why minimize the amount of cash balances, when a firm thinks in the context of its total relationship to its lending bank? Won't an otherwise desirable change in distribution strategy undermine and perhaps even bankrupt the entire inefficient network of wholesalers, sub-wholesalers, and retailers which has been connected to the firm for so long? It is not surprising that innovation has come about less rapidly in management than in production.

Second, innovation has not just meant that a few large firms utilize the latest techniques but that modern technology has been dispersed throughout the economy. About 40 percent of Japan's total labor force now works with high productivity in modern plants using recent equipment and technology. It is this widespread improvement in production methods which has resulted in the rapid growth rate of aggregate productivity and output in the economy as a whole.

Both labor force and technological innovation have been closely inter-related with the third major cause of Japan's rapid growth--the high rate of investment. The increasing production of labor in all uses, the growth of the labor force, and the shift of labor to relatively higher productivity uses have all required additional amounts of invested capital. Not all, but many, technological improvements have been embodied in the new machines and other equipment, domestically produced or imported, which constitute an important share of investment. Only with a rapid rate of new investment could innovation have been so large and pervasive and output per worker increased so much.

A high proportion of investment has been in business plants and equipment and in government fixed investment in transportation and other forms of social

overhead necessary for growth. Table 1 indicates in the final column just how rapid the increase in investment has been. The inevitable consequence has been a rising proportion of the economy's output being ploughed back into facilities for further growth, as shown in the other columns in Table 1. The share of gross domestic investment (private plus public) in GNP went from 25-30 percent in the mid 1950's to 35-40 percent in the 1960's. This is the highest rate ever achieved for any length of time in peace in a private market-oriented economy, i.e., on a voluntary, non-coercive basis. Similarly fixed investment in facilities, excluding housing, rose from about 18 percent of GNP to 27-30 percent. The most rapid growth occurred in the investment boom of 1959-1961. Thereafter the rate of growth of investment has levelled off somewhat, but at a significantly higher proportion of GNP.

The overall strategy of growth has been to plough investible funds into the expansion of private production facilities in order to increase output as rapidly as possible. This strategy provided the basis of policy under the Occupation and has continued since. At the beginning government initiative was important in the reconstruction of basic industries. Thereafter investment has been increasingly by private business on its own initiative. Thus it is misleading to use the term "strategy" as if it implies a highly centralized decision-making authority with full control over the allocation of resources. Although the relationship between government and business is close, with considerably more government influence than in the United States on private business decisions regarding production, pricing, new investment in expansion of capacity, etc., nonetheless the government has not been able to predict well, or judge in

Table 1

Gross National Product and its Uses
(based on 1960 constant prices)

	1952	1957	1962	1967	Average Annual Rate of Growth
Gross National Product (\$ billion) ^a	21.4	32.2	52.7	84.7	9.6
Used for (in percent of GNP)					
Private Consumption	59.8	57.8	54.3	51.1	8.5
Food, Beverages and Tobacco	31.0	27.9	21.8		
Clothing	7.5	7.7	7.5		
Housing Services	7.3	7.0	8.7		
Gross Private Investment	17.5	26.2	27.5		
Plant and Equipment	11.7	16.2	21.2		
Housing	3.1	3.5	4.0		
Inventories	2.7	6.5	2.3		
Government Purchases	19.6	16.1	17.8	15.7	8.1
Consumption	13.2	9.6	8.1	6.9	5.0
Investment	6.4	6.5	9.7		
Fixed	6.0	6.2	9.2		
Inventories	0.1	-0.2	0.1		
Housing	0.3	0.4	0.4		
Net Sales Abroad ^b	3.1	0.0	0.4	0.4	-4.4
Exports	10.2	11.1	11.9	14.8	12.4
Imports	7.0	11.1	11.5	14.4	14.9

a: Converted at the official exchange rate parity of 360 yen = \$1.

b: Exports minus imports of goods, services, and factor payments.

Source: Government of Japan, Economic Planning Agency, Annual Report on National Income Statistics, 1968.

detail, much less control, the amount of private investment that will be undertaken. Policymakers have been surprised to see a higher-than-anticipated surge of private investment in productive capacity following each recession. Although with favorable impact on growth, the rapid increases in investment have caused the unsustainable booms already discussed. Government policy has not succeeded in holding back private investment by direct controls or administrative guidance (informal pressure, consultations, backed with veiled threats of more serious action). Instead the government has waited until the last moment and then applied general restraints through fiscal and monetary policy. In large part this slowness to act has been one of lack of will rather than lack of means: the government in power always has had a pro-growth bias, and doesn't want to (seem to) choke off the boom prematurely.

All this suggests an economy in which private enterprise has been terribly eager to invest in order to expand productive capacity and output, much more so than in other countries. This is essentially correct. It does not have to be explained by reference to some exotic form of business behavior peculiar to Japan. This investment has paid off--in higher profits and larger-sized firms. Businessmen have had very optimistic expectations which have on the whole been fulfilled. In a sense it has been self-fulfilling; as many firms in all industries have tried to grow rapidly they have generated the demands for each others' and thereby their own products. Technological innovation, which has been so highly oriented to quick commercial application, has indeed paid off in profits. Profit rates on new investment rose substantially in the late 1950's and early 1960's; they apparently have receded somewhat since, but new

investment still remains profitable in most sectors.

A further important motivation for large business enterprise has been its ranking relative to other firms measured in terms of output or sales. Because stock ownership has become so widely distributed, most large business enterprises are in fact controlled by management. They cannot be completely impervious to the stockholders, but so long as profits appear adequate management has great independence of action. Management apparently does not conceive of its role solely to maximize profits but also to enhance, or at least maintain, its status in the industry, commonly measured by its relative sales ranking. Thus aggressive firms, not quite at the top of the heap, attempt to increase market share. This shows up particularly in booms, when some firms race ahead in expanding capacity regardless of pressures from the government and other firms in the industry. This competitive spirit is an important reason for the high rate of business investment.

The high rates of investment flows have naturally resulted in a tremendous increase in Japan's capital stock. The private sector fixed capital stock more than tripled between 1950-1964, while that of the government doubled. Of the increase in private fixed capital, 45 percent was in manufacturing, followed by 14 percent in agriculture, 11 percent in electricity, gas and water, 9 percent in commerce, and 7 percent in transportation and communications. With the much slower rate of growth of population, the amount of capital per worker in the economy has more than doubled.

Investment has to be financed out of saving, either that done within the economy or by borrowing the savings of foreigners. In Japan the extraordinarily

high rate of investment has been matched by an extraordinarily high rate of domestic saving. Corporate business retains a high proportion of its profits to invest in expansion. The government saves large amounts (defined as tax and other revenues minus current expenditures for government services) to invest in facilities for transportation, communications, education, and public services. One-third of gross saving consists of depreciation funds, generated by the rapid investment itself and by favorable depreciation rates.

Most impressive of all is that one-third of gross saving is done by private individuals--wage and salary earners, dividend and rent recipients, farmers, and owners of unincorporated non-farm enterprises. Even though income levels are below those in the West, all groups save a higher proportion of income than in other advanced countries. For example, during the 1960's, urban wage earners have been saving about 15-20 percent of their disposable income--more than twice the savings rate of workers in the United States. Farmers have a somewhat lower but still significant rate--about 10 percent. Owners of unincorporated enterprises have even higher savings rates--on the order of 25-35 percent, though the data are poor.

The relative importance of various factors causing these high savings rates have not been well sorted out yet. Probably the inadequate retirement programs of government and business are an important influence; people save for their old age. With credit expensive and not readily available, there is considerable target saving for housing, purchase of consumer durables, and children's education. Small business owners have similar difficulties in borrowing, and have even greater incentive to plough back earnings than in large

firms. The wage system of large and increasing semi-annual bonuses probably has had an important impact on wage-earners saving. Lurking in the background of the explanations is the vaguely-articulated feeling that the Japanese are frugal; in one sense a tautology (frugality meaning a high saving rate) it also implies something about Japanese preferences for future versus present consumption, the desire to protect against possible future adversities, the desire to pass on wealth to children, etc.

In Japan even more than in most other advanced economies different individuals and groups have been doing the saving and the investing. Despite its very high savings rate out of profits, corporate business investment has grown even more rapidly. This had to be financed from external funds--stock and bond issue and borrowings, mainly from financial institutions. Large firms are heavily in debt; net worth is only 20 percent of total liabilities. Stock issue has constituted only about 5 percent of industrial funds, and bonds even less. From management's viewpoint stock issue is expensive because new shares are issued at par (usually considerably less than the market price) and dividends, unlike interest, come from profits after taxes. Bond issue is limited because, with interest rates on bonds pegged by government pressure below those on long-term loans or other competing interest rates, there are few buyers. Commercial banks and other financial institutions have filled the gap by extensive lending, both long-term and short-term. In turn, individuals tend to hold their savings in time deposits and other financial forms. The financial system thus has been an efficient and effective intermediary between savers and investors, its allocation of credit has enabled the growth of business investment to occur.

There have been a wide variety of other, perhaps lesser, causes of post-war Japan's outstandingly successful economic performance. The government, as already indicated, has placed domestic economic growth at the top of its policy objectives. It has relied on private enterprise to produce the goods. The government's main role has been: to refrain, wherever possible, from competing with business for resources--i.e., allowing business first claim on investible funds for expansion; to aid and encourage business with special tax concessions, loans to "important" industries, provision of the social overhead facilities essential to maintain private production; and to produce optimistically realistic five-year plans (really projections) which business has taken sufficiently seriously to regard as minimum targets (which indeed they have turned out to be). Because of the no-war clause (Article 9) in the Constitution and the security umbrella provided under the arrangements with the United States, government expenditures on defense have been negligible, less than 1 percent of GNP in contrast to the 6 percent in prewar 1934-36. Resources have thus been freed for more productive uses, and have so been used.

Of major importance has been Japan's ability to obtain and pay for the imports essential for this growth process. Japan's dense population in a relatively small land space, of which only about 15 percent is arable, means that high and increasing levels of GNP per capita can be achieved only by main reliance on industrial production. Yet Japan lacks sufficient supplies of the basic mineral and plant materials used in industrial production. It has to import all, or virtually, of its petroleum, iron ore, bauxite, mineral phosphate, cotton, wool, natural rubber, soybeans, 60-80 percent of its coking

coal, hides, salt, sugar and wheat, and more than 20 percent (on a caloric basis) of all its foodstuffs. Japan, like all nations, imports substantial amounts of sophisticated machinery in which other countries have a comparative advantage; examples include Boeing 707s, certain kinds of ship engines, and specialty steel manufacturing equipment. Virtually all of Japan's imports can be regarded as necessities; the importation of consumer manufactured goods is a negligible proportion of the total.

Access to, and the ability to pay for, imports has thus been an extremely important objective, not just in terms of domestic economic policy, but as the cornerstone of foreign policy. Japan has achieved this objective remarkably well, due both to its own efforts and to favorable changes in the world trading environment. World trade has grown more rapidly than ever before in world history, as world GNP has increased and as trade restrictions have been successively reduced. Japan benefitted also from the decline in world prices of raw materials during the 1950's, a decline which saw the price index of Japanese imports drop by 20 percent, more than offsetting the 10 percent drop in Japan's export prices.

While importing at a rate considerably more rapid than the world as a whole, Japan has succeeded in expanding exports equally rapidly (see Table 1), at more than double the world rate. This was essential for Japan to be able to pay for its import requirements.

Japan's superior export performance is attributable to a number of factors. Japan is a highly export-conscious nation. The government bureaucracy, businessmen, and even the general public--indoctrinated with such national

slogans as "prosperity through exports and stability through saving"---are so aware of the importance of exports that they have become virtually an end in themselves rather than a means of paying for imports. Considerable effort goes into analysis, projections, and achievement of export performance. Exports receive special consideration in the financing of their productive capacity, production itself, and sales, in inspections and other controls over quality, in legalized formation of production and distribution cartels, and in various other, more subtle ways. Basically, exports have done so well because of increased supply capacity resulting from the industrial investment boom; the competitive production of entirely new products; enhanced price competitiveness relative to other advanced countries from reducing labor costs per unit of output (wage increases have been rapid but productivity gains even more rapid); and changes in the composition of Japanese exports from commodities for which world demand in trade was growing slowly to those with rapid growth. Typical is the relative shift to transistor radios, color television, cameras, and automobiles and away from cotton and silk textiles, the prewar mainstays. In other cases world demand may be growing less rapidly but Japan has sharply increased its market share by cost-cutting and capacity-expanding investment with technical change; ships, and iron and steel, are the most important examples.

In the final analysis much of Japan's economic success must be attributed to the human factor. Japanese are a highly achieving, energetic, pragmatic restless people always on the look-out for new opportunities. The basic attitude toward many economic problems is that they can be solved through growth. The size of the slice of the pie becomes less important when the pie is rapidly

becoming larger. Japanese are willing to work hard, to learn new methods, to save for the future, and to undertake the entrepreneurial risks inherent in any new production and investment.

III. The Political Economy and Welfare of Growth

Super-fast economic growth since the end of the Occupation and reconstruction has wrought great changes in Japan, changes that continue rapidly and the implications of which are only beginning to be understood. In this section, I briefly consider living standards, the evolution of Occupation reforms, the emergence of a new "establishment," and the political system and the government-business relationship.

Rapid economic growth has brought a major improvement in family incomes and standards of living. The benefits of growth have been widely distributed; virtually everyone is substantially better off. This has been accomplished mainly by higher wages and better employment opportunities rather than by social expenditures, which have remained a small proportion of governmental budgets. Thus those who have benefitted least from growth are the aged, the widowed, the older unskilled day laborer, and other deprived groups who are unable to provide for themselves fully. Discrimination has probably reduced the benefits occurring to Korean residents in Japan and to the outcaste group of Japanese (burakumin, or eta). Nonetheless, the improvements have been sufficiently widespread that there are no major groups which feel they have been completely left out of Japan's economic progress.

For the economy as a whole, adjusted for price rises and taxes, disposable

income per person¹ almost tripled between 1952 and 1966, at a 7.6 percent average annual rate. It is very difficult to make direct comparisons with disposable income levels in other countries, since Japanese typically consume somewhat different commodities and in different proportions and since the relative prices between commodities (say fish and refrigerators) vary according to country. The official exchange rate, which is derived from the relationship between goods imported and exported (a relatively small proportion of total goods and services in most economies), clearly understates the real purchasing power of money in almost all countries. For example, Japan's disposable income per capita in 1967 measured at the official exchange rate is \$770. Measured in purchasing power in terms of United States relative prices in 1965 dollars, the per capita disposable income was approximately \$1200. This was about four-ninths the U.S. level, and somewhat less than major European countries aside from Italy.

Personal consumption has risen rapidly, at a 7.5 percent average annual rate per capita between 1952 and 1967. As Table 1 indicates, the share of food and clothing in total consumption has declined; with higher incomes people have been able to devote more to recreation, consumer durables, and other discretionary uses. Most household durables are more widely diffused than in Europe. For example 96 percent of Japanese homes have television, 78 percent refrigerators, 85 percent electric washing machines, and 54 percent vacuum cleaners, though only 13 percent have an automobile, and 4 percent room air conditioners.

The consumption pattern has been somewhat lopsided in that housing and

¹This is about one-third less than GNP per capita and one-sixth less than national income per capita. The main differences are corporate retained income, government revenues less transfers to individuals, and (for GNP) depreciation allowances. Disposable income can either be spent for consumption or saved.

public amenities, such as urban water supply and sewage systems, better roads, prevention of air and water pollution, and solution to problems of urban congestion, have lagged. Thus in some ways urban living has worsened rather than improved (for the middle class). This resulted inevitably from the priority government and the financial system gave to business investment and, within government expenditures, to investment in transportation and other facilities which directly supported private production. Metropolitan area housing is expensive, especially because land costs are high, yet mortgage credit is available for only a small proportion of the total cost. Hence gaps between the supplies of private consumption goods and of public goods relative to their respective demands appeared by the late 1950's and have widened since then. While a reallocation of investment reallocation of investment relatively toward housing and provision of public services would probably slow down the measured growth rate, it would probably also do more to enhance the general welfare. Indeed it is not readily apparent why these lags have been tolerated. Perhaps the postwar reconstruction syndrome, with its justification of personal sacrifices for the sake of growth of output, has continued to be important. The demand for public services is not always well articulated in a democratic political system. As a consequence of organized interest group pressures, even more than in other democracies government policy has focussed on producers rather than consumers. Perhaps foreign observers overestimate the extent of demand for public goods; individuals in what has been a relatively low income country by Western standards may simply prefer private consumption. And no doubt the very nature of rapid growth produces such imbalances, since it is not possible to

synchronize completely all sectors of the economy.

While all family incomes have risen substantially, the equality of income distribution has been reduced slightly from early postwar. This has been a result more of growth-oriented policies and of changes emanating from growth itself than any attempt to undermine the Occupation reform objectives. Certainly income distribution appears to be at least as equal as in the United States. A variety of forces have tended to reduce equality. The government provided inducements to save, in order to raise the saving rate, by giving favorable tax treatment to dividends and interest; this favored the relatively more wealthy. It has tolerated systematic understatement of income and profits of small business. In its de facto strategy of allowing private business first claim on resources, it has held down its social welfare expenditures (which typically benefit the poorest in a society); this is in sharp contrast to postwar Europe and the United States.

In the early 1950's older workers, those with longer service, those with more education, and those working in larger firms received much higher wages than young, low seniority, less educated workers in smaller firms. Since then all these differentials have substantially narrowed. This has raised the relative position of lower income workers. While some of the general rise in wage rates (78 percent in real terms between 1953 and 1967) may have been attributable to labor union activity, though this is not at all clear, primarily the general increase and the narrowing differential has been due to the rapidly growing business demand for labor combined with the practice of large firms of hiring only young people.

Despite the draining off of labor from agriculture, with concomitant substitution of small tractors and other capital equipment, labor productivity in agriculture has almost inevitably grown less rapidly than in manufacturing. This would imply a worsening of the relative income position of farmers. Two things have occurred to prevent that. First, the government has allowed the prices of agricultural products to rise relative to manufactured goods. This was done in two ways. The government, which purchases most of the rice crop every year for resale to consumers, has responded to farmer political pressure by raising its purchase price every year; the purchase price in 1967 was 94 percent above that a decade earlier, and was more than double the world trade price. This suggests the second mechanism for the increase in prices of agricultural products: to protect domestic agriculture and to transfer income to farmers from consumers the government has severely restricted the competitive import of foodstuffs. As demand for agricultural products--especially fruits, vegetables, dairy products and meat--has gone up with higher incomes and standards of living, supply has increased in response, but less rapidly, so that prices have risen.

The second way in which farmer wealth, if not directly income, has been greatly affected has been by the rapid increase in land values, particularly near urban areas. Postwar growth has accelerated the rate of urbanization; now more than two-thirds of the population live in cities. Metropolitan housing has expanded out into agricultural fields; so too have factories. In the process, the price of urban land increased 925 percent between 1955 and 1967, in contrast to a 10 percent rise in the wholesale price index and 60 percent rise in consumer price index. Both urban landowners and farmers near cities have become

wealthy. Farm land values have risen also because of increased agricultural output (and its price) per unit of land. Only farmers in the hinterlands--far from markets and farming hilly, marginal land--have had their land value decline, as young potential farmers move instead into urban jobs. One of the unintended side effects of the Occupation land reform was to make ex-tenants increasingly wealthy as land values have risen. Former landlords have fumed, and organized to demand additional government compensation, but the extra amounts they have received have not been large.

Growth has not been without its problems. I have already mentioned the lagging growth of housing and public services, particularly in urban areas. These have been an important component of the stresses and strains of the urbanization. Another problem has been the persistent rise since 1959 in consumer prices of about 5 percent annually. Even though money wages and incomes have increased more rapidly, housewives have vociferously protested. The five-year economic plans in the 1960's stipulated a maximum increase in consumer prices of about 2-3 percent per year, but as the economy has grown more rapidly than projected in the plans so too have prices.

The rise in consumer prices has been mainly in services, agricultural commodities, and goods produced by small manufacturers, where wages have risen more than productivity. Prices of goods produced by large firms, where productivity increases are greatest, have risen only slightly, or in some cases actually fallen. Accordingly wholesale prices, and of particular significance export prices, have not tended to go up much. Prices of services epitomize the situation. For example, it is difficult to increase substantially a barber's

productivity: the only ways he can increase his income are to raise prices and to reduce quality (no free hairwash and shave). In the process of economic development it is natural to have changes in the relative prices of goods and services as demand and productivity changes occur. In a buoyant, growing economy with high aggregate demand it is not surprising to find the consumer price index rising.

On the whole the increase in consumer prices has not been all that harmful. Real incomes have risen. The consumer price rise is due primarily to the absolutely and relatively increasing wage rates for young, unskilled, low income labor. This has tended somewhat to equalize income distribution, at least among the lower 60 percent of the population. Deflationary policies to prevent consumer price rises would not only have slowed the real rate of economic growth but would have particularly hit the low income wage earners, whose wages would have increased much less rapidly.

While both agriculture and small business in general have prospered--though not without their own difficulties--what has prospered most of all has been big business, finance and commerce. Their rate of new investment and technological innovation has been more rapid, their share in output has been rising, and their power in society increasing. Japan is as much a big business society today as it has ever been.

Big business has close and extremely complex relationships with the central government bureaucracy and with the Liberal-Democratic Party (LDP), the conservative political party in power. Government is much more involved in business decision-making than in most other private enterprise, market

economies. Ministry of International Trade and Industry (MITI) officials keep in virtually daily contact with large firms. MITI tries to assist large firms in a variety of ways; in exchange it applies informal pressures (termed "administrative guidance") to reduce "excessive" or "wasteful" competition among firms, to synchronize new capacity expansion programs among firms and industries in line with stable growth and other objectives, to arrange cartels to prevent "excessive" price declines in recessions, etc. Ministry of Finance (MoF) and Bank of Japan (BoJ) officials are in daily contact with the major commercial banks. Politicians serve, as one of their functions, as brokers between business and the government bureaucracy. There has been a high degree of consensus at the general level among businessmen, government bureaucrats, and the LDP politicians. The slogan "what is good for the country is good for Mitsubishi, and vice-versa" is quite, if not completely, operative.

At times, of course, conflicts do arise: the government bureaucrats want businessmen to toe the line more than they are willing, or certain industries want favors which bureaucrats feel are not in the national interest. The process by which conflicts are resolved is not well understood, nor is it clear whether government dominates business or business dominates government. The LDP and its party leaders rely heavily on financing from big business; they control the government bureaucracy but also need its expertise for advice and implementation. The bureaucracy has strong legal and extra-legal ("guidance") powers over business. However, bureaucrats retire early (typically at age 55); many move into high, plush positions in large firms with which they formally dealt. The three-way interplay is subtle and not well known; which comes out

ahead depends very much on the specific issue and its context at the time.

The interrelationships among big businesses, and among business, government bureaucracy and LDP politicians are rather close, personal and informal. In the Japanese meritocracy--where social mobility is achieved in large part through education, and where the more prestigious the university (and difficult to pass the entrance examination) the greater the chance of being hired by big business or government ministry, and eventually succeeding in politics--most of the senior government and business officials, and many politicians, are bound by school ties that are close and important. Graduates of the same university have a special call on each other; this call is intensified where they were classmates, or studied under the same professor. These ties are reinforced by intermarriage among families.

All this has led observers to speak of a Japanese "Establishment"--500, or 2,000 or some other number of important individuals who, on the basis of their business, government and/or political affiliation, and common education and acquaintanceship, make the important decisions for Japan. There is something to this appraisal, but it is difficult to know how much. In fact the groupings are somewhat diffuse and pluralistic; this shows up particularly in the case of specific issues. There does not seem to be such a fully cohesive, unified, elite Establishment that can and does determine all major decisions.

What has prevented such an overwhelming, monolithic establishment from emerging? Three interrelated factors are important. First, the specific interests of various groups differ, and at times are in conflict, when concrete issues arise. I have noted already that this occurs among the three

major groups: big business, LDP politicians, and central government bureaucrats. It also occurs within each group. Second, pressures which help influence and shape policy decisions emanate from outside--the opposition political parties, unions, small business, farmers, the intellectuals. Third, while Japan is a group-oriented society with emphasis on harmony, consensus, and cooperation, at the same time the Japanese people are highly competitive.

Business, government bureaucracy, and society generally, have tried to reconcile the inconsistent elements between competition and cooperation in various ways. Young college graduates entering a large firm or government ministry compete intensively, yet on a friendly basis, with other new entrants--but do not compete with slightly older persons who entered earlier. All will advance at least to a middle level, over 10-15 years, on virtually a straight seniority basis; a younger person will virtually never be promoted over the head of someone older. But within his group (referred to as the "entering class") an individual strives to be best. His rewards are not faster promotion and higher salaries, but are more interesting and influential jobs, and the opportunity to be promoted eventually into the ranks of top management. The individual working in a large firm seldom quits to move to a new firm (unless it is an affiliate); his identity with his original hirer is strong and pervasive; he views the organization as both fighting and cooperating with the world.

The firm acts the same way. It is highly competitive with other firms in the same industry. It places great value on enhancing, or at least maintaining, market share and its size ranking in the industry, as already noted. At the same time firms are willing to cooperate, when it seems mutually

beneficial, with their rivals in the same industry: in dealing with other industries, with the government, or with foreign competition at home or abroad. Firms are more likely to cooperate, in cartel arrangements, in recession periods of stress. They agree to restrict production in order to keep prices from declining too much, and perhaps to restrict new investment. Yet even then cooperation does not always win over competition. Of anti-recession cartels established (typically with MITI's encouragement and blessing) only about one-third have effectively restricted production and maintained prices, for another third the results are ambiguous, and in the remaining third firms in fact did not adhere to the agreements restricting output, so that prices fell and the cartels were a failure. During booms firms are less likely to cooperate so much with each other. Aggressive firms, not quite at the top of the heap, hope to increase market share. They are unwilling to participate in industry-wide agreements to coordinate and limit the overall expansion of capacity (according to some fixed rate of new investment based on historic relative size of firm) to anticipated future total market size on the grounds that they would thereby be locked into their present relative position.

Another reason for lack of overall business unity is that on many issues various industries have interests that fundamentally conflict with each other. For example, certain industries want to import cheap machinery, or intermediate goods, while Japanese producers of these goods quite naturally dislike such foreign competition. Similar conflicts exist within purely domestic markets. There are also conflicts between big business and small, and between business (which would like large imports of cheap food to hold down prices and union

demands for wage increases) and agriculture.

A further source of conflict within the big business sector is the re-emergence and strengthening of competing business "groups" encompassing affiliated firms in mining, manufacturing, commerce and finance. Superficially these appear suspiciously like the prewar zaibatsu, and indeed some of the groups have familiar names: Mitsui, Mitsubishi, Sumitomo, (but Fuji instead of its Yasuda predecessor). Group member firms buy from, sell to, and finance each other; members jointly participate in establishing new enterprises in newly developing fields. The groups vigorously compete with each other across a wide range of industrial sectors.

A group differs significantly from a prewar zaibatsu in that a single family no longer owns or otherwise controls, no centralized holding company exists, stock ownership is widely diffused, and control is typically in the hands of management. Consequently each firm is immeasurably more independent than in the prewar case. Decisions are not made from a single, higher authority. The presidents of the main firms in the group meet regularly to solve problems of mutual concern; similar arrangements exist for lower staff levels. Conflicts among firms are not easily resolved. Often an arbitration committee is established usually chaired by the head of the bank in the group. It tries to reach a reasonable compromise; otherwise a discontented firm might consider pulling out of the group. This is of course more true of those firms more at the periphery than the core of the group.

Similar pluralistic features are characteristic of the government bureaucracy and the political parties. Government ministries have a tradition of

considerable autonomy and independence of views, and are jealous of their powers. Different ministries frequently have quite different views on specific policies, deriving from a complex of different goals, ways of thinking, and perceptions of what their respective constituencies are, together with needs of these constituencies. For example, the Bank of Japan appears to place considerable emphasis on price stability, the Ministry of Finance on the restraint of budgetary expenditures to the level of revenues, MITI on expansion of industrial production and improvement in productivity, the Ministry of Agriculture and Forestry on improvement of agricultural incomes (by expansion of production, restriction of imports and higher prices to farmers), and the Economic Planning Agency on stable growth and efficient resource allocation. Not surprisingly ministries are often at loggerheads. Even within ministries there are different groups---often based on personalities and internal politics as well as on alternative views on policy. For example, MITI is often regarded as monolithically protectionist and favoring dirigisme, cartels, and industrial concentration and planning; yet one group within MITI view the virtues of relatively free, market-oriented competition in increasing output and quality, improving productive efficiency, and holding down prices as more than compensating for the costs of possible excess capacity and other alleged costs of "excess competition."

The pluralism of the Liberal-Democratic Party derives in large part from its division into a series of competing factions, which combine and recombine with each other in order to achieve and maintain power: the holding of the party presidency and hence prime ministership, and of important party offices and Cabinet posts. The factions share a common overall ideological and policy

framework (alignment with the United States, the emphasis on economic growth in domestic and foreign policy), while differing somewhat on certain specific issues. Factions have formed around leaders based on personality, long personal ties, and the ability of the leader to obtain funds to finance the election campaigns and other activities of members of the faction. In addition to heavy contributions to the LDP and its central fund-raising organization, many big enterprises make contributions to selected specific factions or individuals. Thus, competition among industries or business groups, and among LDP factions, tend to spill over and reinforce each other.

Yet the LDP is not simply the captive of big business--it cannot afford to be. While much of its financing comes from large business contributions it must seek elsewhere for sufficient votes to remain in power. Thus, it has to shape policies so as to help, or at least ameliorate conditions for farmers, small businessmen, white collar workers, professionals, and workers (particularly those who are not militantly organized by unions). Moreover, while retaining control of the parliament, the LDP has to provide reasonable alternatives to the policy positions of the opposition parties.

While business is tied to the LDP, unions and their member workers in larger enterprises have consistently supported the parties to the left. SOHYO (General Council of Trade Unions), the largest labor confederation, has been the mainstay of the largest opposition party, the Japan Socialist Party. (The JSP too is split into factions; they are based both on personalities and ideology). More middle-of-the-road unions support the moderate Democratic Socialist Party, while a few more extreme unions support the small Japan Communist

Party. Komeito (Clean Government Party) is the political organ of Sokka Gakkai, a fundamentalist Buddhist sect which has grown considerably in the past decade. Its supporters belong to no clearly identifiable organized economic group; generally they are urban, relatively lower income, working in small establishments or housewives, somewhat alienated.

All this suggests that the Japanese economic and business environment has evolved in ways considerably at variance from that envisaged by the SCAP reformers. The main differences lie in only partial acceptance of competition, and relatively greater acceptance of direct government influence on business decisions. Anti-monopoly provisions were substantially weakened soon after the end of the Occupation, and have eroded further since then, though LDP attempts at further legislative easing in the late 1950's and early 1960's were blocked by widespread opposition. Nonetheless, interlocking directorships and stock ownership is once more permitted. More important, anti-recession production and other cartels have been made legal, subject to MITI and the Fair Trade Commission. The latter has been relatively weak, unable really to restrain the trends toward restriction of competition.

Concomitantly, there has been a gradual trend in many industries of increasing concentration of production to a relatively small number of large firms. Following the SCAP deconcentration efforts, Japanese industry in the 1950's was certainly less concentrated than prewar, and no more concentrated than in the United States. Concentration was even lessened somewhat by the rapid growth of new firms. Since the late 1950's however, the trend has reversed: the top three, five or ten firms are gaining an increasing share of

total output. Since the mid 1960's the tendency has accelerated due to the increasing number of mergers among large firms in major industries. This trend, together with the growth of groups of affiliated firms, suggests an increasing concentration of economic power--though far less than that of the 1930's.

Two factors mitigate the adverse effects of increasing concentration of the industrial structure. First, intense competition persists among firms in a given industry, and among groups. This is reflected in rather substantial changes in the relative ranking of the top ten firms in any industry. Second, where the government has tolerated or encouraged restrictions of competition, it has put pressure on firms to improve productivity, cut costs, and reduce--or at least not increase--prices. This has been possible because increasing concentration has been a consequence in part of economies of very large-scale production.

IV. The Future

The Japanese phoenix, revitalized and stronger than ever, has soared high. Can it continue to fly so well? Which way will it fly? Phrased more prosaically, will Japan's economic growth continue unabated? Will the primacy of economic growth in domestic and foreign policy objectives persist, or will new goals become more important?

It is beyond the scope (or length) of this essay to analyze these questions in detail. The odds are high (perhaps 70 percent) that the economy will continue to grow over the coming decade at an average annual rate of at least 6-8 percent, probably somewhat slower than the past decade's super-performance.

Investment and savings rates will remain a high proportion of GNP, though not increasing as in the past. Foreign technological inflow will continue; even though much of the cream has been skimmed. Domestic innovation, and particularly the diffusion of advanced technology among a larger number of firms and proportion of the labor force, will become relatively more important. Labor supply, while tightening, will remain more ample than in Europe, particularly as the institutional practices of large firms hiring only new school graduates and retiring employees at 55 erode. Agriculture will constitute a major problem area, but its relative importance--now less than 20 percent of labor force and 12 percent of GNP--will continue to diminish.

While the predominant share of this growth in output and incomes will be used to increase private consumption and to provide the investment fuel for further sustained growth, a rising margin will be available for other uses. These resources are likely to be allocated to the improvement of housing, roads, water and sewage systems, and other public services.

Japan's resurgence to the forefront of world industrial nations--third now in total GNP behind the United States and Russia, though considerably lower in per capita ranking--has given the people a renewed self-confidence and national pride. Yet Japan's international political influence, its ranking as a world power, lag behind. Moreover, to many Japanese it appears that the country does not have sufficient independence. In part this lies in the earlier realities of the bi-polar cold war, when Japan as a weak nation quite naturally aligned itself with the United States and relied upon the American nuclear umbrella to provide Japan's security from external aggression. Thus, there is under way

some questioning of the single-minded emphasis on economic growth, and the asking of new questions (for the postwar period). What should be Japan's future world role? How can greater independence be achieved, and at the same time national security guaranteed?

No consensus is yet discernible in the emerging debate on these and related issues. In rather cautious ways the government has tried to develop a somewhat more positive foreign policy, particularly in the economic sphere. It has substantially increased its economic aid to less developed countries, particularly in Asia. It has attempted to mediate in various disputes, particularly among Asian nations, so far without notable success.

The issue of national security most starkly delineates these new developments within Japan. The issue is in flux still, with neither goals nor means of achieving them fully articulated. The extremely strong pacifist feeling, a continuing consequence of World War II, remains an important factor, though apparently affecting the postwar young generation less than those who went through the war. Several alternative approaches are under debate. One, the policy of the LDP, is to maintain the present military alliance with the United States, while obtaining greater independence from U.S. controls on smaller matters, and redefining the Japan-U.S. partnership in more equal terms. This would allow Japan to use its resources for domestic growth and foreign aid and investment. But will it be independent enough? How independent can a nation be in today's world? And how about the U.S. commitment--how will American post-Vietnam security policy evolve?

The Japan Socialist Party has taken a completely different position:

neutralism without military power. Japan should align itself with no bloc, but be friendly with all nations. No one will want to attack Japan, so it is not necessary to have a defensive military force. Security can be guaranteed by an international pact signed by the United States, Russia, and China. Yet there seems no evidence that such a pact is feasible. More important, is Japan willing to lie defenseless, depending solely on the good will of other nations? Isn't the risk too high for Japan's own national interests?

A third alternative--neutralism with security guaranteed by Japan's own military forces--has a strong (though by no means overwhelming) logic. It however has not yet really entered the debate because a major premise is that Japan would have its own nuclear armaments. This at present remains anathema to most Japanese. Nonetheless, if Japanese nationalism takes the path of complete independence (and semi-isolationism), and if some external threat to Japan's security is clearly and strongly perceived, it is quite possible that this alternative could evolve from the positions of either the left or the right. As it happens, atomic weaponing and delivery systems are well within Japan's technical and economic capacity. Policymakers have kept the choices open, pushing the development of atomic energy for peaceful uses, and the development of missiles and guidance systems for basic space research. An allocation of perhaps 5 percent of GNP per year for five years should provide Japan a moderately sophisticated nuclear weapons system. This could be where the extra margin of resources from growth will go.

Japan's single-minded and highly successful pursuit, since the end of World War II, of economic reconstruction and growth of production and improve-

ment in living standards is clear and noteworthy. It seems unlikely that Japan's future goals will be so overwhelmingly dominated by economic growth. But to what extent will economic objectives--growth, greater social welfare, improvement of public services--continue to be predominant? Or will the nation increasingly seek other goals? If so, how will it try to achieve them? These issues make Japan an exciting and important country to watch in the coming crucial decade.