The Political Economy and Economic System of Japan: a Survey of Literature, Conflict and Confusion

Adrian A.R.J.M. van Rixtel

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The author is a Ph.D. Candidate in the Tinbergen Institute, Free University Amsterdam. He was Visiting Researcher at Hitotsubashi University (April 1992-June 1993), and the Institute of Economic and Monetary Studies, Bank of Japan (July-August 1990 and April 1992-June 1993), and Visiting Scholar at the Institute of Fiscal and Monetary Policy, Ministry of Finance (January-March 1993). He received useful comments from seminar participants at Hitotsubashi University, Keio University, the Institute for Monetary and Economic Studies, Bank of Japan, and the Institute of Fiscal and Monetary Policy, Ministry of Finance. Part of this paper was presented at the Society for the Advancement of Socio-Economics's Fifth Annual International Conference "Incentives and Values as Foundations of Social Order", March 26-28, 1993 in New York. Comments and suggestions by J. Teranishi and H. Visser are gratefully acknowledged.
2.1 Introduction

As President Kennedy already knew, success has many fathers and failure few. By almost any economic standard, the postwar economic development of Japan can be characterized as a success. Very few industrialized countries boast a similar persistent combination of low unemployment, low inflation and high economic growth. Not surprisingly, this success has become the main topic of many studies in economics, and in other disciplines such as political science and sociology as well. Various theoretical schools try to claim the success by declaring it in accordance with their own analytical exercises and resulting conclusions. Consequently, as will be argued in this chapter, the field of Japanese economic studies has become a battleground of academic conflicts, characterized by significant polarization and politicization. These conflicts result mainly from prevailing differences of opinion regarding two fundamental issues.

First, Japanese economic studies have, like other fields in economics, been hit by the controversy between activist and non-activist policies, the contrast between belief in government intervention and faith in the free market. In section 2.3, this debate will be clearly reflected in the opposing views of the interventionist and market schools, with the interventionists drawing the conclusion that the alleged successful Japanese experience with industrial policy offers important lessons not only for developing countries, but for the industrialized world as well. Furthermore, the debate between government intervention and free market dominance as main characteristic of the Japanese economic system can be found in the analyses of economists whose main work has no linkage with this specific economic system whatsoever, but whose general conclusions are applied to it eagerly. A case in point is Milton Friedman, who asserted on American national television: "The image of the Japanese having had an industrial policy which explains their success is a myth. The fact of the matter is that the most successful components of Japanese development proceeded against the advice of the government."

Second and most importantly, conflicts have come to surface regarding the explanations and usefulness of mainstream economic theory with respect to the Japanese economic system. The critics, predominantly originating from political and social sciences, but also including some prominent Japanese academic econo-

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mists, blame traditional economics for being unrealistic and narrow, putting to
much emphasis on markets and neglecting the importance of comparative institu­
tional differences, history, culture and social factors\(^4\). Without any doubt, C.
Johnson, the leading proponent of the interventionist school and a political
scientist, is the most critical analyst of contemporary Japanese economic
studies. In his sharp attack on the state of affairs in the contribution of
 economics to a better understanding of the Japanese economic system, Johnson
(1988), p.1-2, refers to "... the growing inability of the three main schools of
economic theory - neoclassical, Keynesian, or Marxist - to explain the achieve­
ments of Japan and the Japanese type economies. ... What has to be stressed is
that the Western world is without any widely agreed-upon theoretical explanation
for Japan's postwar economic performance and that professional economics in the
United States has virtually abandoned the effort". According to Johnson, Japan's
postwar economic development poses a significant number of anomalies for
"Western" economic theory, a development in which specific institutional
characteristics were of great importance\(^5\). To be able to explain the Japanese
economic system, Johnson (1988) emphasizes that economics needs to incorporate
explicitly the study of institutions and institutional differences, and therefo­
re should move towards the study of political economy.

The criticism of Johnson has been shared in recent years by a growing number of
authors who also expressed the importance of the explicit inclusion of insti­
tutional characteristics in studies of the Japanese economic system, the lack of
attention for these aspects in traditional economic analyses of Japan, and the
consequent need to move from economics to political economy, which consequently
has received more attention in Japanese economic studies. For example, Kumon and
Rosovsky (1992) describe this development as follows:"... The movement from
economics to political economy is significant; it certainly means more than
simply the desire to include political factors in understanding Japan's current
position and future prospects. The recent revival of political economy was a
direct result of increasing dissatisfaction with the perceived narrowness and

\[^4\text{This sharp attack on mainstream economic interpretations of the}
\text{Japanese economy has been counter-attacked in Evans (1990), where it is}
\text{asserted that "standard economic analysis has a good record of understand­}
\text{ing the major elements of the Japanese economy".}\]

\[^5\text{Examples of these anomalies are according to Johnson (1988), p.2,}
\text{persistent large trade-surplusses despite strong currency appreciation and}
\text{transfer of savings to industry not through capital markets but through banks;}
\text{specific institutional characteristics are the existence of "... Keiretsu, unenforced antitrust laws, administratively guided banks, company}
\text{unions, virtually nonexistent dividends for shareholders, and closed}
\text{markets" [Johnson (1993), p.55].}\]
lack of realism that characterized much of traditional economics, with its almost exclusive emphasis on markets and simultaneous deemphasizing of history and institutions. The revived political economy approach intends to reintroduce the missing ingredients: primarily government, but other social forces as well. They continue that "... it was fairly clear that modern Japanese economic history could not adequately be analyzed without reference to public policy and institutions. As Japanese economic success was becoming more evident, it also became increasingly obvious that many assumptions of liberal and orthodox economics yielded - in Japan - counterintuitive results. After all, here was a country in which, to cite but a few examples, oligopolies were strong, labor mobility low, government interference high, and yet the efficiency of the economy in terms of output, productivity growth, and competitive power could not be doubted".

The movement towards political economy is also recognized in Morris-Suzuki (1989). In her view, the common feature linking contemporary Japanese economists is "... their rejection of the conventional, relatively narrow interpretation of 'economic' phenomena. Each in his own way has tried to overstep the boundaries that have confined most modern economic thought, in Japan and elsewhere, and to reintegrate the economic with aspects of the political, the social, and the cultural. ... there appears to be an attempt to rediscover lost elements of that earlier concept of 'political economy'..." [Morris-Suzuki (1989), p.195]. As will become clear in the following sections, numerous recent studies, such as Murakami (1982), Okimoto (1989), Kumon (1992) and Murakami and Rohlen (1992), are punctuated with this criticism of the traditional theories and explanations of the Japanese economic system. The criticism on mainstream economics is by some Japanese economists translated in reaching for uniquely Japanese cultural explanations of the postwar Japanese economic development. For example, Morishima (1982) explains Japan's economic success in terms of Confucianism and Shintoism; in the work of Y. Murakami, Japanese collectivism is put versus Western individualism, the former making the difference in Japan's successful

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7 For example, Murakami (1982), p.4, notes that "..., if we attempt to compare the Japanese economy with other advanced industrial economies, we will have to pay closer attention to the rigidity of each legal framework, range, and mode of government intervention, strength and persistence of underlying values, and so forth. If we focus only on the purely economic aspects of the Japanese economy, we will overlook what I believe are the Japanese economy's important features, those that distinguish it from other industrial nations' economies".
As will become clear in the following analysis, these two major controversies in
the field of Japanese economic studies, i.e. the contrast between belief in
government intervention and faith in the free market and the criticism on
mainstream economics in neglecting comparative institutional differences, are
embedded in different interpretations of the Japanese political economy.

The political economy can be defined as the set of relationships between the
political system, the government bureaucracy and the economic system. This
thesis will focus explicitly on the characteristics of the relationship between
the Japanese government bureaucracy and the economic system, a relationship
which is predominantly discussed in the so-called political economy literature. In
this sense, the Japanese political economy is important for two reasons.

First, knowledge of the various interpretations of the Japanese political
economy is indispensable to understand the relationship between the government
bureaucracy and the economic system, especially the nature and level of govern­
ment intervention in the economy. Section 2.3 will be devoted to various
interpretations of this specific relationship. Since monetary policy is one of
the major parts of government economic intervention, study of the political
economy establishes the theoretical framework for understanding its fundamental
characteristics.

Second, analysis of the Japanese political economy is necessary to understand
the different interpretations of the alleged relevance of informal aspects as
institutional characteristics of the public-private sector relationship within
the Japanese economic system. This debate will be presented in the next chapter.

With great emphasis it has to be mentioned again that the attention for inter­
pretations of the Japanese political economy in this chapter is inspired by the
alleged negligence of fundamental institutional characteristics of the Japanese
economic system in traditional economic analyses. This study is not interested
in the specifics of the Japanese political system, and the relationship between
the political and economic systems. However, because discussions of the funda-

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8 See Morishima (1982) and Morris-Suzuki (1989), p.176-177; For
studies which stress the importance of cultural values in explaining the
Japanese economic system are Okimoto (1989) and various contributions in
Kumon and Rosovsky (1992). There exists a vast amount of literature
emphasizing the cultural uniqueness of Japan, collectively named as
Nihonjinron. Elaborate coverage of this literature is presented in Mouer
and Sugimoto (1986).
mental institutional characteristics of the Japanese economic system, such as
the nature of the economic system and the importance of informal factors, and
the relationship between the Japanese bureaucracy and economy are predominantly
concentrated in the rapidly growing literature on the Japanese political
economy, this literature is relevant for this study and has to be discussed.
Therefore, to put the different theories with respect to the Japanese economic
system and the alleged relevance of informal aspects in the right perspective,
the next subsection will analyze various interpretations of the Japanese
political economy.
2.2 The Japanese Political Economy

With respect to Japan, various studies from a political economy perspective have been conducted. They mostly focus on the influence of various interest groups, especially big business and political parties, on the formulation and consequent implementation of Japanese economic policy, the role of the economic bureaucracy in the economic system and the relation between various ministries. In these studies, generally five models of the Japanese political economy can be distinguished: the "Japan, Inc.", bureaucracy-led, pluralistic, consensual policy and pluralistic network models.

2.2.1 "Japan, Inc." Model

The first school to be discussed is the "Japan, Inc." model, the Japanese version of the power elite model. "Japan, Inc." or the ruling-triad model captures the notion that power in Japan is concentrated in the hands of a select group of leaders from big business (Zaikai), the government bureaucracy and the Liberal Democratic Party (LDP) (Jimintoo), the political party that since World War II, with exception of a small period, has been in power in parliament and

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10 The broad structure of this classification is based on Kosai (1987), Okimoto (1988), Okimoto (1989), Noble (1989) and Murakami and Rohlen (1992). Murakami (1987) follows a different interpretation. Only main and most recent schools will be discussed. No attention will be paid to the corporatist and neo-corporatist interpretations, which are central in Nester (1990), but which is dismissed by Okimoto (1988) in generating convincing results in Japanese political economy studies. Furthermore, it has to be stressed that according to various authors, for example Kosai (1987) and Hollerman (1988), the Japanese political economy passed through different stages after WWII. These dynamic interpretations will also not be discussed. Finally, against the background of the growing interest and rapid developments in theories of the Japanese political economy, this classification is without any doubt not complete and outdated when published. For example, a recent approach stresses the dominance of the political world over the bureaucracy. This approach, exemplified in Ramseyer and McCall Rosenbluth (1993), will be discussed briefly in the next chapter (subsection 3.3.2.1).

This power elite is, due to common educational and other social backgrounds, shared policy objectives and membership of the technostructure, strongly coherent and united. The "Japan, Inc." school sees Japan as a monolithic controlled society, apolitically managed by its technostructure, with large interest groups as organized labour excluded from policy formulation. Taira and Wada (1987) is a relatively recent study that supports this vision. The "Japan, Inc." interpretation has lost most of its traditional support, but some elements can still be found in recent studies. For example, Upham (1987), p.16, stresses the "... the informal give and take that is the social glue holding the business-bureaucracy-LDP coalition together". In his view, "... what Japan's tripartite elite had tried to accomplish, and what they have in large part succeeded in achieving, is the maintenance of a style of policy formation and implementation that emphasizes bureaucratic leadership exercised through informal processes". This emphasis on the role of the bureaucracy is the central assumption of the next interpretation of the Japanese political economy, the bureaucracy-led model.

2.2.2 Bureaucracy-led Model
A second model stresses the importance of the bureaucracy in the economic development of Japan. This school is referred to as the bureaucracy-led, statist, state-led or state-dominant school, and is the conventional model used for political economy analyses of Japan. The bureaucracy-led model, with well-known representatives Chalmers Johnson, T.J. Pempel and J. Zysman, stresses the bureaucracy as the main power in Japan. According to Kosai (1987), the bureaucracy-led school takes as its main assumptions that "... Japan pursues a single, consistent target (for example, modernization) and that a consensus on

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13 Kosai (1987), p.558. As most important policy objective the development of Japan towards an advanced country is mentioned. The technostructure is the formalization of a strong interrelated network "... where ex-bureaucrats often become either business or political leaders".


broad goals exists among elitist bureaucrats. Where the "Japan, Inc." school regards power in Japan exercised and divided by three more or less equal sectors, i.e. big business, the bureaucracy and the LDP, the bureaucracy-led model sees the bureaucracy as the far most dominant and powerful force with respect to the formulation of Japanese economic policy. This view is also shared by Ram-seyer (1985), p.638, who notes that "... modern Japan is largely governed by an elite and fundamentally nondemocratic bureaucracy. The ministries rather than the legislature draft the laws and determine basic national policies for the future".

2.2.3 Pluralistic Model
Another model for interpretation of the Japanese political economy stresses the existence and influence of pluralistic interests on economic policymaking and consequent policy implementation. One approach has been put forward by Muramatsu and Krauss (1987). According to these authors, the Japanese political economy should not be interpreted as overwhelmingly dominated by the bureaucracy or a "ruling triad" of bureaucracy, big business and LDP. Instead, Muramatsu and Krauss stress the existence of pluralist elements in the process of Japanese policymaking: interest groups are allowed to operate and exert influence, but only through patterned channels in an institutional structure consisting of strong bureaucracies which regulate the political activities of these groups. This model of patterned pluralism sees Japan only marginally different from a fully pluralist democracy, with "... the marginal difference is the "patterned" element - organized interest groups must observe a more or less formal procedure in presenting their views or making political input through specified channels". According to Muramatsu and Krauss (1987) and Kosai (1987), the model of patterned pluralism with controlled influence of interest groups fits pretty well the contemporary Japanese political economy. The belief that the Japanese political system is more or less comparable with pluralist democracies is shared even stronger by Tresize and Suzuki (1976): "... the Japanese political scene is pluralist, competitive, and subject to inherent and effective checks and balances. In essentials, Japanese politics do not differ from politics in other

democracies"\(^21\). Another version of the pluralist interpretation has been introduced in Aoki (....). Aoki sees the Japanese government bureaucracy in two inseparable roles, i.e. "... that of semiautonomous rational regulator (policy-maker) and that of a quasi agent of specific interests in the economy"\(^22\). The bureaucracy plays an important role in the social bargaining process between various interest groups: various constituent interests have access to various bureaucratic entities which act as the quasi agents of these interests. The conflicts between these interests "... are arbitrated through intrabureaucratic coordination"\(^23\). Against the background of the role of the government bureaucracy, Aoki speaks in terms of administered pluralism. The pluralist interpretation has also been put forward in Hollerman (1988), who stresses the importance of the processes of liberalization and internationalization in generating a "Japan, Disincorporated" phase in the post-war Japanese political economy. This phase, which started in the 60's, culminated in the period 1980-1984, during which in Japan "... the world saw a spectacle of interministerial rivalry, bureaucratic infighting, and conflict between government and business"\(^24\).

2.2.4 Consensual Policy Model
A fourth school of the Japanese political economy stresses from a cultural perspective the importance of consensus and consensual policy-making in understanding the political economy of Japan. This view is among others supported by Samuels (1987), J.O. Haley [in particular Haley (1989), (1991) and (1992)] and Yamamoto (1992), and has been developed into the concept of the societal or network state in Okimoto (1988) and the network society in Kumon (1992) and Research Project Team for Japanese Systems (1992)\(^25\). Okimoto rejects explicit-


\(^{22}\) Aoki (....), p.267.

\(^{23}\) Aoki (....), p.274.

\(^{24}\) Hollerman (1988), p.X.

ly the "Japan, Inc.", bureaucracy-led and pluralistic models of the Japanese political economy. Instead, he develops the cultural oriented interpretation of the network state, in which the Japanese political-economic system functions on the basis of consensus and not in accordance with binding rules and laws. Japanese society is characterized by emphasis on harmony "... as an integrative principle of social organization", with consensus formation "... the concrete means by which Japan reaches agreement within the private sector and between the private sector and the government". The capacity to reach consensus gives the Japanese state its power in formulating economic policy. Not an almighty bureaucracy, nor a "triad" consisting of bureaucracy, big business and LDP or controlled interest groups determine actual economic policy. According to Okimoto, the Japanese state is characterized by a relatively weak bureaucracy, bound by cultural constraints, that is forced to develop and sustain consensus institutions thus provide the situs for decisions, but officials are not the only actors. Rather their influence and capacity to control the decisions being made depends upon their ability to achieve consent among those most directly affected by the policies being deliberated and whose cooperation will be necessary for their effective implementation. It is, ..., a process of governance by negotiation" [Haley (1989), p.127]. However, despite sharing the emphasis on the importance of reaching consensus in the government-business relationship, in the next section it will become clear that Okimoto and Haley reach totally different conclusions regarding the effectiveness of industrial policy.

The terminology of the network society had been introduced before Okimoto by K. Imai in the meaning of the information network society [Joohoo nettowaaku shakai]. Unlike Okimoto, Imai does not stress the element of consensus, but emphasizes the importance of contemporary technological innovations in changing the system of industrial society, which necessitate the establishment of network relations. See Morris-Suzuki (1989), p.188-191.

Okimoto (1988), p.313. Okimoto's emphasis on cultural elements as harmony and consensus is to a large extent based on the social-anthropological work of C. Nakane, especially her famous study Nakane (1970). The importance of harmony and consensus as specific characteristics of Japanese society is strongly doubted in the provocative study by Mouer and Sugimoto [Mouer and Sugimoto (1986)], which is a "must" in maintaining some cultural objectivity at the outset of one's intellectual quest for the nature of Japanese society and economic system. An equally provocative study is Ramseyer (1985), in which the alleged consensual character of Japanese society is portrayed as the "Consensual Myth". The presence of institutional barriers to private suits, which have removed virtually all financial incentives of litigation in Japan, have perpetuated the myth of Japan as a consensual and harmonious society:"..., the scarcity of litigation has helped to make plausible the myth of Japan as a consensual and harmonious society, and that consensual myth has played a central part in legitimating the present form of bureaucractic domination" [Ramseyer (1985), p.643].
with involved parties\textsuperscript{28}. The state prefers to maintain neutrality vis à vis interest groups, keep the trust of the groups concerned and use persuasion and incentives to achieve its goals. Okimoto emphasizes the voluntaristic character of the reactions of the private sector to the bureaucracy\textsuperscript{29}. Public and private sectors are connected by numerous networks, whose main function is to reach the necessary consensus. In this network state, the separation of public and private sectors is blurred, with "... the exceptional organization of each side and the highly routinized interaction between public and private actors" greatly facilitating policymaking\textsuperscript{30}. Joining Okimoto is Kumon (1992) and Research Project Team for Japanese Systems (1992), which also develop a network interpretation of Japanese society. Kumon (1992) departs from a classification of so-called mutual acts, i.e. acts "... performed by an actor in conscious awareness of its external effect on other actors" [Kumon (1992), p.116]. Mutual acts aimed at controlling the acts of other actors are called political acts. These political acts can be grouped into three combinations of bilateral and unilateral acts: acts of threat/coercion, exchange/exploitation and consensus/inducement\textsuperscript{31}. Kumon adopts the terminology of network for social systems which are characterized by consensus and inducement. These network-type social systems can be divided into those that are concrete organizations, consequently named network organizations, and those that are only societal systems, called societal networks\textsuperscript{32}. According to Kumon (1992) and the Research Project Team for Japa-

\textsuperscript{28} Okimoto (1988), p.313. Haley (1989) and (1991) seems to follow an interpretation of an even weaker bureaucracy, which lacks the legal instrumentarium to intervene effectively in all circumstances, that is also in cases where consensus has not been achieved.

\textsuperscript{29} Okimoto (1989), p.228, mentions that the Japanese state "... cannot base its rule on coercion, threats of legal sanctions, or unilateral imposition of its will on society. When the Japanese state is forced to fall back on naked coercion, as it did during the 1930's and the Second World War, there arise serious problems of political instability and the looming specter of deepseated disorder". According to Haley (1991), p.144, the Japanese government has the authority to intervene but lacks the coercive legal power to do so: "... The result is a pervasive, ostensibly unrestrained capacity to intervene without, however, the means of coercive legal control that may be necessary to achieve official aims unilaterally, lacking the consent of those affected".


\textsuperscript{31} Bilateral acts (threat, exchange and consensus) are negotiations, or demands with conditions. Unilateral acts (coercion, exploitation and inducement) are political acts without direct demands or proposals. See Kumon (1992), p.116-117.

inese Systems (1992), Japanese society can be interpreted, mainly on cultural grounds, as a network society: "The distinctive feature in Japan is that network-type social systems ... are granted social legitimacy; not only have they spread widely, but many segments of them have been institutionalized either formally or informally" [Research Project Team for Japanese Systems (1992), p.79]. These studies claim that almost every organization in Japan employs predominantly acts of the consensus-inducement type, and consequently are network organizations. Furthermore, societal networks, "... whose members are groups or people of the same type", for example the government bureaucracy and private business, are linked by a wide variety of other formal and informal networks, which facilitate extensive information-sharing based on personal relations\(^33\). This network society, based on a complex web of large numbers of network organizations and societal networks, establishes a kind of "insider society", characterized by substantial informal, non-transparent exchange of information, in order to reach consensus. The resulting mutual interdependence of various segments of society, for example regarding the government bureaucracy and private business, has "... encouraged the protection of deeply ensconced vested interests" [Research Project Team for Japanese Systems (1992), p.66], and obstructs the development of a real pluralistic political-economic system.

Because of the close interdependent relationship between government bureaucracy and private business in the consensual policy-network state school, Samuels (1987) and Noble (1989) conclude that therefore this school should be interpreted as a "New Japan, Inc." school, a revival of the "Japan, Inc." school\(^34\). However, a number of the network state adherents, such as Okimoto and Upham, clearly dissociate from the fundamental monolithic characteristics of the "Japan, Inc." school. Therefore, the consensual policy-network state interpretation is separately classified from the "Japan, Inc." school.

2.2.5 Pluralistic Network Model
The last model to be discussed is an intermediate mode between the pluralistic and network society schools. This model has been developed roughly as the


\(^{34}\) According to Noble (1989), p.54 and p.69-71, who follows Samuels (1987), the approach of Okimoto belongs to this "New Japan, Inc." school. Noble's analysis of this school includes among others Young (1984), Boyd (1987), Samuels (1987), Upham (1987), and Okimoto (1989). The main reason for Noble to use the terminology of "New Japan, Inc." is that according to his opinion for its supporters "..., informal but intense links between government and business are at the heart of Japanese political economy" [Noble (1989), p.69].
informal organization approach in Murakami (1987) and culminated in the social exchange model of Murakami and Rohlen (1992)\(^{35}\). This pluralistic network model claims that the "... formal institutional structure of the postwar Japanese political economy is as pluralistic and competitive as those in other advanced industrial countries, but, at the same time, it stresses the importance of inclusive, informal networks as a considerable source of coordination, information flow, and patterned choices ..."\(^{36}\). Essential is the concept of social exchange, which is distinguished from economic exchange. Social exchange involves the value of social personal relationships, whereas economic exchange focuses only on the value of objects\(^{37}\). In social exchange, the value of the relationships themselves is important: "As social exchange pivots around persons, one of its aims is to strengthen human ties via the process of exchange itself. ... because social exchange can deepen in character, it is something to cultivate and develop. Doing so generates value"\(^{38}\). For example, the value of a gift is more than just its monetary value. Social exchange, which is mutual beneficial, based on personal network relations, and long-term and informally oriented, is used to settle problems arising from the instability of the market, which is pluralistic and competitive in nature. In other words, social exchange is a settlement system to solve the problems arising from economic exchange. Social exchange, based on cooperative relationships, became a fundamental characteristic of the postwar Japanese political economy as a result of "... a particular cultural legacy and the favorable postwar socioeconomic environment" in Japan\(^{39}\). Applied to government-business relations, Murakami and Rohlen use social exchange to explain private sector compliance with government's administrative guidance, as will be explained in section 2.3.

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\(^{35}\) It has to be mentioned that Murakami also stresses the importance of consensus. According to a 1982 study by Murakami, the most vital aspect of administrative regulation in post-war Japan was "... the building of consensus for voluntary compliance in each industry" [quoted from Haley (1991), p.158-159]. However, given the clear evidence of pluralistic elements in Murakami's approach, this model is separately classified from the consensual-policy school.


\(^{37}\) This distinction is somewhat similar to the interpretation of exchange and reciprocation in Kumon (1992).

\(^{38}\) Murakami and Rohlen (1992), p.73.

2.2.6 Conclusions

These five models of the Japanese political economy described five different interpretations of the functioning of the Japanese bureaucratic and the economic-political systems. Opinions regarding these aspects of Japanese society seem deeply embedded in fundamental disagreements as to how to interpret the basic cultural, political, and social characteristics of Japan. It makes a big difference in political economy studies if one sees Japan as some kind of pluralistic democracy with influential interest groups, or as a country with an almighty bureaucracy, largely independent from political influence. Therefore, it is not surprisingly that regarding the results of a substantial number of political economy studies of Japan the amount of controversies is impressive. As Yamamura and Yasuba (1987) conclude, p.2: "... There exists today no single explanation...". There exists today no single explanation for the performance of postwar Japan's political economy that a large majority of social scientists accepts as a satisfactory explanation.40

As will be explained in the next section, the various interpretations of the Japanese political economy have influenced the way of thinking regarding economic system and policy in Japan. Furthermore, it will become clear that the lack of clarity which dominates the field of Japanese political economy studies also casts its shadow on studies of the Japanese economic system.

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40 According to Johnson (1988), p.: "The relationship between Japan's political system and its economic achievements is perhaps the most fundamental controversy within the field of Japanese political economy". More attention to these controversies is paid in Yamamura and Yasuba (1987), Kosai (1987) and Okimoto (1988), and recently Murakami and Rohlen (1992), p.63: "Experts seeking to model the Japanese political economy for comparative purposes rarely arrive at the same conclusions. ... Is Japan's political economy essentially a system determined by market forces, as most economists would argue? Or do other, "non-market," forces (organizational strengths, industrial policies, and culture being three common themes) significantly determine outcomes?".
2.3 Economic System

2.3.1 Introduction

The impressive high growth figures of the postwar Japanese economy have resulted in a rapidly growing number of studies on the Japanese economic system. In the overwhelming majority of these studies, the attention is focused on the role of the Japanese government, in particular the effectiveness of its interventions in the economy. The degree of functioning of the market-mechanism is often discussed, as well as various forms of government intervention. Especially regarding industrial policy in Japan, many studies have been conducted\(^1\). As will become clear, and in accordance with the array of opinions on the Japanese political economy, it has to be stated that the exact nature of the relationship between public and private sectors, and the effectiveness of economic policy and its contribution to the "Japanese economic miracle", are still subject of discussion and controversy, which have been referred to in section 2.1 from a general perspective as the contrast between belief in government intervention and faith in the free market.

However, following Zysman (1983), Eads and Yamamura (1987), Balassa and Noland (1988), Morris-Suzuki (1989), Noble (1989), Okimoto (1989) and Upham (1991), within the context of this debate two established schools, i.e. the interventionist and market schools, and two relatively new intermediate or hybrid interpretations can be distinguished\(^2\). To keep a clear view on the large number of studies that will be discussed, figure 2.1 presents an overview of theoretical schools and their leading proponents. Furthermore, the various interpretations of the Japanese economic system, based on accompanying approaches of the Japanese political economy, are summarised in figure 2.2.

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\(^1\) See for example the classic study of Johnson (1982). Among the many studies available, some recent examples are Eads and Yamamura (1987), Samuels (1987), Suzumura and Okuno-Fujiiwara (1987), Uekusa (1987), Friedman (1988), Komiya, Okuno and Suzumura (1988), Okimoto (1989) and Nester (1990). Most studies distinguish per period and industry the specific characteristics and the effectiveness of industrial policy. Given the scope of this study, the following presentation will not pay attention to these aspects. Furthermore, it has to be stressed that according to various authors the Japanese economic system passed through different stages after WWII. See for example Hollerman (1988).

\(^2\) This classification joins the recent excellent study of the World Bank (1993), which distinguishes in its explanation of the "East Asian economic miracle" the neoclassical, revisionist and market friendly views. These views correspond with the market, interventionist and intermediate hybrid schools in the following presentation. For the classification of the World Bank, see World Bank (1993), p.82-86.
<table>
<thead>
<tr>
<th>Economic System</th>
<th>Main Theoretical Supporters</th>
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<td>4) Pluralistic Network School:</td>
<td>Y. Murakami, T. Rohlen</td>
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### Figure 2.2 Interpretations of the Japanese Political Economy and Economic System

<table>
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<tr>
<th>Political Economy</th>
<th>Economic System</th>
<th>Public-Private Sector Relationship</th>
</tr>
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</table>
| 1) Bureaucracy-led Model | Interventionist School:  
Economic system is competitive within parameters set by industrial policy | - bureaucracy leads economic development  
- industrial policy very successful  
- market-conforming methods of state intervention |
| 2) "Japan, Inc." Model | In its traditional version, not relevant anymore | |
| 3) Pluralistic Model  
J. Haley | Market School:  
Economic system is competitive market system | - market leads economic development  
- industrial policy not successful |
| 4) Consensual Policy Model  
(Network State Model) | Separation of public and private sectors is blurred:  
Economic system is competitive within parameters set by business; bureaucracy coordinates and enforces if necessary | - intensive communication, negotiation and consensusbuilding through formal and informal networks support economic development  
- industrial policy relatively successful through  
- market-conforming methods |
| 5) Pluralistic Network Model  
(Informal Organization and Social Exchange) | Informal organization model, social exchange (cooperative relationships) is used to correct market outcomes | - informal government intervention in a pluralistic pol.econSETTING contributed to economic development  
- social exchange and informal networks correct market outcomes and maintain coordination  
- industrial policy successful |

1 This figure draws partly on Noble (1989), p.72.
2.3.2 The Interventionist School

The first school to be discussed is closely associated with the bureaucracy-led interpretation of the Japanese political economy and stresses the existence of substantial and major government intervention in the Japanese economic system. In this school, for convenience's sake called the interventionist school, the free working of the market-mechanism and marketforces are of minor importance; substantial to overwhelming credit is assigned to industrial policy. Japanese supporters are found, not surprisingly, mainly among former and present staffmembers of the central organization in Japan for industrial policy, the Ministry of International Trade and Industry (MITI) [Tsuusanshoo], supplemented by a mere handful of Japanese academics such as Morishima (1982). Main and early Western representatives of the interventionist school are Johnson (1982), Pempel (1982) and Zysman (1983), followed more recently by Tyson (....) and Schaede (1992). As has been shown in the previous section on the Japanese political economy, these authors focus on the role of the Japanese state, in particular the bureaucracy, in achieving the high rates of economic growth (strong-state hypothesis). Johnson (1982) develops the well-known concept of the developmental or plan-rational state, in which "... the government will give greatest precedence to industrial policy". According to his analysis, in states such as Japan that were relatively late to industrialize, the state will lead the industrialization process, i.e. will exercise developmental functions. Johnson compares the market rationality of the United States economy to the plan rationality of the Japanese economy, with the benefit given to the latter. In his work, a central position is given to MITI, an institution for which "...

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43 Eads and Yamamura (1987), p.423. No attention will be paid to various forms of government intervention in Japan's economic system and the specific instruments used. For excellent reviews, see Johnson (1978), Horne (1988) and Okimoto (1989).

44 Examples of these MITI officials are S. Sahashi, quoted in Johnson (1982), p.9-10, and Y. Morozumi, mentioned in Okimoto and Rohlen (1988), p.80. According to Sahashi, "... It is an utterly self-centered [businessman's] point of view to think that the government should be concerned with providing only a favorable environment for industries without telling them what to do". In what Okimoto and Rohlen (1988), p.80, called "A Statement Against Free Competition", Morozumi asserts that "... Free competition provides neither the most suitable scale nor a guarantee of proper prices. Free competition means excessive equipment and low profits. ... Free competition has a stifling effect on the economy. We must not allow it to be used in distributing the benefits of high growth - prices, wages, profits".


Japan should be given the Nobel Prize. Pempel (1982) also emphasizes the role of the Japanese government in the post-war economic development of Japan.

He discusses post-war Japanese economic policy in terms of state-led capitalism. Finally, Zysman (1983) analyzes government intervention in Japan using the concept of state led adjustment. The study focuses on the relationship between the structure of the state and the structure of the financial system on the one hand and the state’s capacity for intervention in the economy on the other. Based on his classifications of the structural characteristics of state and financial system, Zysman claims that Japan is favourable to state intervention.

It has to be mentioned that according to the interventionist school Japan is not a socialist command or plan economy. Its supporters acknowledge to some extent that Japan is a command economy with a weak form of economic planning. For example, during the period 1955-1979, various cabinets introduced nine so-called national economic plans. These economic plans are developed by the Economic Planning Agency (EPA) in cooperation with the Economic Council. They summarize the goals of macroeconomic management of the respective cabinets, but contain no detailed descriptions of the implementation of economic policy. The national economic plans should be considered as public statements concerning the government’s strategic policy objectives and a set of forecasting and projections of key macroeconomic variables. As such, targets and projections are not binding on any party, and no attempt is made by the EPA, or by any other ministries or agencies, to guide the activities of private business in the direction of the plan targets. The most recent national plan was announced in May 1988 (Five-year Economic and Social Plan).
extent the working of competitive forces in Japan, and the need to preserve them, but emphasize that the state leads economic growth and development and uses the market for achieving its industrial policy goals\(^51\). According to the interventionist school, based on the bureaucracy-led interpretation of the Japanese political economy, the Japanese economic system is characterized by a supposedly relatively high degree of successful government intervention. As will become clear in the next subsection, this view is heavily opposed by the market school.

2.3.3 The Market School

The emphasis on the successful implementation in Japan of industrial policy and the strong-state hypothesis of the interventionist school have been strongly criticized. Its main opponents follow the neo-classical economic paradigm and to some extent the pluralist interpretation of the Japanese political economy\(^52\), and denounce substantial positive influence of industrial policy and government intervention on Japan's economic development\(^53\). According to the adherents of this neo-classical or market school, the economic success of Japan resulted

51 Johnson (1982) uses the terminology of market-conforming methods of state intervention, of which administrative guidance (Gyoosei Shidoo) is the single most important. He states (p.317-318) that "In implementing its industrial policy, the state must take care to preserve competition to as high a degree as is compatible with its priorities". Furthermore, Johnson mentions (p.318) the symbiotic relationship between the market and the government in Japan: "One clear lesson from the Japanese case is that the state needs the market and private enterprise needs the state; once both sides recognized this, cooperation was possible and high-speed growth occurred". Also Pempel (1982) stresses (p.xvii) the relation between government intervention and competitive forces in Japan: "... , government actions have been very much at the core of the bulk of Japan's public policies, in economics as well as elsewhere. At the same time, it makes no sense to ignore the importance of competitive private enterprises". Finally, Zysman (1983) joins the former two with respect to the relationship between Japanese state and market, and discusses this relationship in terms of controlled competition: "There is every evidence of intense competition between firms but that competition seems to be directed and limited both by state actions and by the collaborative efforts of the firms and banks themselves".

52 This belief is not always explicitly stated but seems to be implicitly assumed. See Noble (1989). Tresize and Suzuki (1976) emphasize clearly that both economic and political systems can be interpreted as being competitive and pluralistic.

mainly from the working of free market forces. Government intervention has been marginal, often ineffective and consequently leaving the market mechanism to operate efficiently.\footnote{Noble (1989), p.53, and Eads and Yamamura (1987), p.423. For example, H. Patrick has been quoted as saying "... I am of the school which interprets Japanese economic performance as due primarily to the actions and efforts of private individuals and enterprises responding to the opportunities provided in quite free markets for commodities and labor. While the government has been supportive and indeed has done much to create the environment for growth, its role has often been exaggerated"\footnote{In Johnson (1982), p.9. Other Western advocates of the neo-classical school are P.H. Trezise [see Eads and Yamamura (1987), note 1, p.636], Haley (1986), Horne (1988), Noble (1989) and Evans (1990). For example, Horne (1988), p.168, concludes that "... The picture, then, is not one of a control economy, but of an economy attuned to market forces in many areas, although subject to intervention at different times for different reasons".}.

Other Western supporters of the market school are among others Trezise (1983), Haley (1986), (1989) and (1991), Noble (1989), G. Saxonhouse and Beason and Weinstein (1993). Japanese supporters are for example Kosai and Ogino (1984), Suzumura and Okuno-Fujiwara (1987), R. Komiya and various other contributors in Komiya, Okuno and Suzumura (1988), Okuno-Fujiwara (1991) and Odagiri (1992)\footnote{For example, Kosai and Ogino (1984), p.120, note that "... far from being the outcome of the planning of a small elite, Japan's high growth rate was achieved only as the result of the high rate of saving by the people, by their will to work, and by the vigorous efforts of Japan's entrepreneurs" [As quoted from Morris-Suzuki (1989), p.133]. Suzumura and Okuno-Fujiwara (1987), p.69, conclude: "... Does it follow, however, that the actual regulatory activities by the Japanese government with the expressed purpose of keeping "excessive competition" under control are legitimate and theoretically defensible? Our answer is emphatically negative" (By the way, the claim in Noble (1989), p.57, that these authors concluded "... that MITI's efforts to reduce "excessive competition," ... were actually theoretically justifiable", seems to be incorrect).}. The supporters of the market school are predominantly economists: according to Aoki (1987), mostly journalists and non-Japanese political scientists adhere to the view that the "... Japanese economy is a bureaucracy-led coherent system", but generally economists see the bureaucrat's role as only complementary to the function of the market mechanism\footnote{Aoki (1988), p.265.}.

Furthermore, the main conclusion of the elaborate study on post-war Japanese industrial policy, published in Komiya, Okuno and Suzumura (1988), states that "... All the participants in this project recognize that, excluding the brief period immediately after the end of the war, the foundation of rapid growth was competition operating through the price
mechanism and a flourishing entrepreneurial spirit. ..., it can even be said that the course of the history of industrial policy in the principal postwar periods ... has often been that the initiative and vitality of the private sector undermined the plans of the government authorities to try to utilize direct intervention in the nature of "controls". Another and final example of the market school is presented in Odagiri (1992), who strongly denies the importance of government involvement in the post-war economic development of Japan: "... It is not government policies but a management system favouring growth strategies and innovation, and its interaction with intra-firm and inter-firm competition that have been the central forces behind Japan's economic achievement." 59.

In brief, the interventionist approach, embedded in the bureaucracy-led political economy interpretation, emphasizes a successful role of industrial policy and government intervention in post-war Japanese economic growth, with only minor attention for market forces. The exactly opposite view is being hold by the market school, focusing on the market mechanism, and denying substantial contributions of state led industrial and other economic policies to economic progress in Japan. This school interprets the Japanese economic system as being fundamentally determined by market forces.

The differences between both schools look irreconcilable. However, two relatively new approaches, which follow the criticism of the market school on the strong state hypothesis of the interventionist school, but stress the effectiveness 60 of Japanese industrial policy and the use of market-conforming methods of government intervention of the latter, have been developed. These intermediate or hybrid modes of the Japanese economic system are based on the political economy interpretation of consensual policy and the pluralistic network model.

2.3.4 Hybrid Interpretations
The first intermediate mode between the interventionist and market schools is based on the consensus oriented political economy school, with the societal, relational or network state, introduced by D. Okimoto, being its main proclai-

mer. In this network school, the strength of the state "... is derived from the convergence of public and private interests and the extensive network of ties binding the two sectors together"\textsuperscript{61}. The societal state is "... usually involved in coordinating the processes of consensus formation; and consensus, painstakingly arrived at, provides legitimation for state intervention in the activities of the market economy"\textsuperscript{62}. Networks of communication and negotiation between public and private sectors are essential to formulate economic policy\textsuperscript{63}. That is, the interaction between public and private sector takes place through a vast network of formal intermediate organizations, such as industrial associations and public corporations, in combination with informal policy networks\textsuperscript{64}. According to Okimoto, these formal and informal networks constitute the main intervention route of Japan's central bureaucracies in the economic system, and contribute to the relative success of Japanese industrial policy. Within this framework, regarding industrial policy the developing and sustaining by MITI of a consensus approach between involved parties is essential\textsuperscript{65}. This industrial policy of MITI differs from "... market-oriented models in its emphasis on the mutual interdependence of government and private industry"\textsuperscript{66}. This policy differs also from the interventionist school in placing less emphasis on the vision and power of MITI as explanation for the relative success of Japanese industrial policy [Okimoto (1989), p.xv]. As mentioned before, in Okimoto's analysis the implementation of this policy takes form\textsuperscript{67} through market-conforming methods of intervention. That is to say, according to Okimoto (1989), "... Japanese government officials believe that the market should be given as much leeway as possible to function", but with the constraint that it is positively structured "... in ways that improve the likelihood that

\textsuperscript{61} Okimoto (1989), p.145.


\textsuperscript{63} Noble (1989), p.69. He continues:"Within these networks, the bureaucracy remains important for structuring conflict and discussion and providing information, even if it is not necessarily the major source of policy innovation or an authoritative decisionmaker".

\textsuperscript{64} These formal intermediate organizations "... extend the tentacles of state power throughout the private sector" [Okimoto (1988), p.315]. Informal policy networks will be discussed in the next chapter.

\textsuperscript{65} Noble (1989), p.54.

\textsuperscript{66} Kumon (1992), p.110.

\textsuperscript{67} Okimoto (1989), p.50. The similarity with Johnson (1982) is striking.
industry-specific goals will be achieved. The concept of the network state has been followed in Kumon (1992) and Research Project Team for Japanese Systems (1992) to analyze, among other things, the structure of the government-business relationship. Following the analysis of subsection 2.2.4, the Japanese network society and economy consists of numerous intertwined network organizations and societal networks. Regarding network organizations, individual firms are often members of large informally organized business groups, commonly called Keiretsu, defined by Kumon as semi-formally organized transindustrial network organizations. Other examples of network organizations are alumni associations, associations of people born in the same home town and industry associations. Societal networks, whose members belong to specific "circles" or "worlds" (Kai), such as the political, business, bureaucratic and educational "worlds", each of which is divided into various "sub-worlds", are the other major components of the Japanese network society. These "worlds" or "subworlds" are composed of various kinds of network organizations. For example, "... manufacturers of synthetic fibers form a network organization called the Association of Synthetic Fiber Manufacturers, which is a member of the Federation of Textile Industries, which, in turn, is a member of the Japan Federation of Economic Organizations (Keidanren)." The different societal networks are connected by a series of formal and informal network organizations, such as the legally established ministerial advisory or deliberation councils (Shingikai), composed of government officials and representatives of the private sector, and other non-legal based private counseling groups or study groups for ministers. The result is a network system of decentralized network organiz-

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68 Okimoto (1989), p.11, and p.48. He concludes on p.12: "... MITI officials are sceptical that a strictly hands-off posture will yield outcomes that coincide with sectoral priorities, public interests, and national goals. To derive optimal outcomes, the visible hand of the state must work in conjunction with the invisible hand of the market". And on p.49: "..., the Japanese government sets a longer, more concrete, and more ambitious agenda of goals that it feels the self-regulating market cannot be counted on to achieve. ... The Japanese leave less to chance".

69 For clear definitions of various types of business groups in Japan, see for example Imai (1992), p.198-230, and Odagiri (1992), p.166-197.


tions, intertwined with "... unofficial business, political, and bureaucratic circles, informal intra- and inter-industrial networks, and deliberative councils and research groups in central government", predominantly institutionalized on an informal basis.\(^\text{72}\)

The second hybrid interpretation, as regards its orientation located between the interventionist and market schools, is based on the political economy interpretation of the pluralistic network school, which is basically more pluralistic oriented than the consensual policy school. This interpretation was initially developed as the informal organization approach in Murakami (1987). According to Murakami, Japanese industrial policy "... is a successful example of how to combine two conflicting principles, competition and intervention, in order to achieve maximum economic growth."\(^\text{73}\). The pluralistic dimension of the pluralistic network school is emphasized by Murakami (1987), p.39, where it is said that "... All indications show that both the market mechanism and parliamentary democracy have been at work in postwar Japan, bringing about fierce competition and visible conflicts in many parts of society". After WWII, the Japanese government managed to keep a delicate balance between regulation and competition. Government intervention was minimal and informal or indicative, that is not legally enforceable. This weak guidance, generally named administrative guidance (Gyoosei Shidoo), established a framework in which competition could function. Murakami calls this kind of competition "compartmentalized competition". This mode of compartmentalized competition was accompanied by the

\(^{72}\) Research Project Team for Japanese Systems (1992), p.103. To explain the fundamental characteristics of the Japanese economic system, Kumon (1992) follows the classification introduced by Karl Polanyi, who distinguishes between three types of social organization of economic activities: reciprocity, redistribution and exchange. According to Kumon (1992), a significantly large proportion of economic activity in Japan is not characterized by exchange but by reciprocation, based on long-standing and stable relations of mutual trust, which require close personal relations and well-developed networks. Reciprocation can be exemplified by the existence of the Keiretsu: for example, the employees of the group's corporate member firms drink the beer of the group's brewery, whilst the employees of the brewery deposit their allowances with the group's bank. Example taken from Gerlach (1992), p.XXI, a study which also pays attention to the approach developed by Polanyi.


existence of a pluralistic political system. In a "follow up" study, Murakami developed in close collaboration with T. Rohlen the social exchange model, in which the government-business relationship [i.e. industrial policy] in postwar Japan is presented as an example of social exchange, and consequently can be explained by "... a theory of implicit give-and-take operating in a long-term framework in which both government and private firms get what they want". In this relationship, the following elements were essential. First, the relationship was informal and long-term, multi-issue based, expressed in effective administrative guidance. Furthermore, participants shared the belief that "excessive competition" should be avoided (presence of cognitive consensus), and therefore accepted this administrative guidance in general. Another essential feature was the intragroup impartiality: member firms of a specific industrial association were treated equally by the government bureaucracy. Finally, to safeguard the consensus reached, entry to this group was also controlled by the use of administrative guidance. The resulting effectiveness of industrial policy depended on a combination of a "... favorable environment of economic cooperation", i.e. consensus to prevent "excessive competition", and a particular Japanese cultural tradition based on cooperative collectivism.

As has been stated in subsection 2.2.4, the central focus on the importance of consensual policymaking in the network society interpretation of D. Okimoto is supported in by J.O. Haley, who interprets the intervention of the Japanese government in the economic system as consensual management. However, Haley

75 The post-war Japanese political economy, an "... uniquely Japanese system", was according to Murakami "... characterized by a combination of a pluralistic system (market or parliament) and administrative intervention (bureaucracy)". The pluralistic interpretation of the Japanese political economy in Murakami's analysis is being explained in Murakami (1987), p.56-71. Although Murakami clearly follows the pluralistic interpretation of the Japanese political economy, in Noble (1989), p.55, his work is positioned in the state-led or developmental state interpretation of the Japanese political economy.


77 Murakami and Rohlen (1992), p.95, p.82-83.

78 See Haley (1989), (1991) and (1992). Haley (1989), p.126-127, explains consensual management as follows:"... Government involvement in Japan in terms of authority tends to be as unlimited in scope as in a command economy, yet the power of officials to coerce or control is substantially more limited than in either a regulated or command economy". In this interpretation, "..., distinction between "public" and "private" blur and "regulation" takes on new meaning, as those apparently subject to governmental direction gain a significant and often determinative voice in
is extremely critical of Okimoto's conclusion of the "apparent" effectiveness of Japanese industrial policy: "What is described today as a successful "industrial policy" carried out by an elite corps of Japanese technocrats can be more accurately characterized as a series of ad hoc adjustments to immediate economic needs and circumstances by government and business cooperating when their interests coincided, but often in conflict as they pursued their own individual aims." According to Haley, as a result of the lack of formal, legal powers, the Japanese economic bureaucracy was forced to use informal administrative guidance to intervene in the economic system. And this administrative guidance was so weak that the free working of market forces could survive: "..., the predominance of administrative guidance as a regulatory form for government intervention in the economy ... has helped to preserve a competitive market economy by maximizing the freedom of individual firms over economic decisions although behind the veil of pervasive governmental direction. Japanese postwar economic achievement can thus be credited in part to administrative guidance because it ensured the failure of a bureaucratically set agenda." Thus, Haley is clearly a supporter of the market school.

A scholar whose approach is relatively difficult to classify is F.K. Upham. As mentioned in section 2.2.1, Upham (1987) starts from the "Japan, Inc." model. Furthermore, he also refers to the presence of pluralistic elements, i.e. influence of interest groups: "Interest groups abound and are enormously successful in Japan in general and in industrial policy in particular" [Upham (1987), p.200]. However, in the development of Upham's work, the "consultative consensual character" of the public-private sector relationship becomes the dominant line. The process of negotiation, the "... close, informal, collaborative relationship between the bureaucracy and business" is according to Upham the lifeblood of Japanese industrial policy. The separation between public and private sectors is blurred to such an extent that "... it may be wrong even to think in terms of government intervention in the economy" [Upham (1991), p.342].

the process of formulating and implementing policy" [Haley (1991), p.144]. Haley emphasizes the importance of the market: "... Industries ... become more constrained by the market than the government" [Haley (1989), p.130], and "... the pressures of the marketplace - be it political or economic - become determinative in the formation of policy and its implementation" [Haley (1991), p.168].

In this important respect, Upham's work belongs to the consensual policy school. Therefore, he is incorporated in that school.

2.3.5 Summary

The various interpretations of the Japanese political economy and economic system were summarised in figure 2.2. The "Japan, Inc." interpretation is in its traditional version dismissed by various authors as being no longer relevant for the present Japanese political-economic structure. Furthermore, in the figure the approach of J. Haley, who follows the paradigm of consensus of the consensual policy/management school but clearly supports the market school conclusions regarding the Japanese economic system, is located between these interpretations.

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2.4 Conclusions

The discussion of the literature of the Japanese political economy and economic system leads to the following conclusions.

First, it should be noticed from the analysis of the interpretations of the Japanese economic system, summarized in figure 2.2, that in recent years the network approach has gained significant popularity. The growing application of network analysis to the Japanese economic system is a direct consequence of the dissatisfaction among a number of scholars with the traditional theories and interpretations and their lack of attention for institutional characteristics, as described in section 2.1. As has been demonstrated, the studies Okimoto (1988) and (1989), Kumon (1992), Murakami and Rohlen (1992) and the Research Project Team for Japanese Systems (1992), all stress the importance of network relations in the Japanese economic structure. Social network analysis has been developed in anthropology and sociology, and saw a major expansion in the 1960s and 1970s when its application was extended to other sciences as well, among others economics. One field of Japanese economic studies which has adopted the network approach for its analytical exercises is the field of industrial organization, clear examples being Nakatani (1991), Gerlach (1992) and Imai (1992). Another area where attention for network relations is growing is the study of the relationship between government and private business, as will be demonstrated in the next chapter.

Second, the analysis shows clearly the existence of fundamentally different interpretations of the Japanese economic system, based on accompanying and similar views of the political economy, state and society. These differences, which are basically different views of the role of the government in the development of economic markets and private business, i.e. of economic policy, result in completely different frameworks for economic analysis. It makes a big

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83 Scott (1988), p.53-54. In anthropology and sociology, the concept of network is defined as "... the totality of all units connected by a certain type of relationship" [Kumon (1992), p.112-113]. In economics, the approach of interpreting intercorporate relations as social networks is getting more and more support. See for example Scott (1988) and Imai (1992).

84 Nakatani (1991) introduced Japan's "network capitalism", based on two pillars of a "Keiretsuka" economy and a system of interlocking shareholding [Johnson (1992), p.8]. In Gerlach (1992), the attention is focused on informal intercorporate alliances, which have pervaded much of the Japanese economy. Imai (1992) uses the terminology of corporate networks to define the industrial organizations and connections between business firms in modern Japan, culminating in a theory of network industrial organization.
difference whether one sees the Japanese economy as part of a developmental state, guided by the economic bureaucracy, or as a market economy, embedded in a pluralistic model, guided by the forces of supply and demand. It makes a big difference whether one presupposes the economic bureaucracy endowed with almighty powers and near perfect foresight of the interventionist school, or the relatively powerless bureaucracy of the consensual policy school, which has to coordinate and negotiate with private industry to be able to implement its policies. It makes a big difference whether public and private sectors are diametrically opposed to each other, as the market school does, or presented as a symbiotic network system, their borders blurred by interrelated formal and informal networks, as the network state interpretations do. In short, it makes a big difference which specific school one accepts to formulate the basic assumptions of economic analysis, assumptions which determine its final conclusions.

The interpretation of the market school traditionally and predominantly has been the departing framework in the contributions of economists to Japanese economic studies. However, during the last decade this orientation has been criticized by the interventionist school, and more recently by the network state interpretations.

Especially the interventionist's view, propagated in the academic community mainly by C. Johnson and supported in the media by journalists like K. van Wolferen and J. Fallows and the former Counselor for Japan Affairs to the U.S. Secretary of Commerce C.V. Prestowitz, collectively named the revisionists, has been extremely critical of the market school. The controversies regarding the basic characteristics of the Japanese economic system have resulted in polarization and politization in the field of Japanese economic studies, sometimes reduced to narrow and simplistic "pro" or "contra" Japan classifications. In this sense, the market school is being interpreted as "pro": the Japanese economic system is basically determined by market forces, there are no "unfair" government interventions and trade barriers, and consequently Japan should be treated in equal terms. On the other side, the interventionist school and their revisionist supporters are typified as the "contra" Japan movement: they argue that Japanese capitalism is basically different from western capitalist systems, advocate managed trade and industrial policy, and support a tough

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policy line with regard to Japan. The polarization can be exemplified by a number of statements. For example, C. Johnson called Columbia University, the alma mater of H. Patrick who is one of the proponents of the market school, for its alleged pro-Japanese viewpoints the "Columbia Geisha School of Economics". Johnson also doubted the integrity of his market school opponents by accusing them of being on Japanese payroll. On the other side, the revisionists are portrayed as "Gang of Four" and "Japan-bashers", and accused of "McCarthyism". This polarization is also present in the political field. Under the Bush administration, G. Saxonhouse, one of the leading proponents of the market school, was member of the Council of Economic Advisers. The Clinton administration appointed L. D'Andrea Tyson, who is one of the recent main defenders of the interventionist line, as head of the Council of Economic Advisers. Against the background of this polarization and politicization, one's own research is quite easily labeled as being either "pro" or "contra" Japan. This stigmatization is highly regrettable, because it obstructs objective research.

Third, the studies which criticized economics of being unrealistic in the sense of neglecting important institutional characteristics emphasize the importance of informal factors. Clear examples are Johnson (1982), Okimoto (1989), Kumon (1992) and Murakami and Rohlen (1992). Therefore, in the next chapter, the presence and relevance of informal factors as institutional characteristics of the public-private sector relationship in Japan will be discussed. The classification of the various interpretations of the Japanese political economy and economic system established in this chapter will form the guideline for this analysis.

86 Johnson (1993), p.65, interprets Japanese capitalism as a "... combination of a strong state, industrial policy, producer economics, and managerial autonomy". Johnson talks even in terms of Asian capitalism, which "... seems destined to lie at the center ... of what economists will teach their students in the next century".


89 An excellent overview of the ongoing debate between interventionists and market economists is presented in Yamamura (1990), where the former are referred to as structuralist pessimists, and the latter are divided in market school utopians and market school optimists.
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