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After a decade of economic stagnation, it is now in vogue among economists to say that the economic system of Japan suffers from an “institutional fatigue”. This expression, however, connotes that the unique institutional arrangement of Japanese economy had once an age when it functioned well. The precise diagnosis and prescript against this “fatigue” differs in each case, particularly by the range of the time that the observer adopts. Debates on the origin of the post-war economic regime in the wartime economy are also related to this problem (Noguchi 1995, Okazaki and Okuno 1993). In this case beside the protection and control of the partitioned industries (*gyokai*) by the government, the lifetime employment, the closed long-term supplier-customer relations (*keiretsu*), and the main bank system are the main targets of the criticism. Further, the literature that apply the concept of ‘developmentalism’¹ to the industrialization of Japan (Murakami 1992(1996), Yagi 2000a) adopt nearly one century’s time span for their consideration. In this case, an active role of the government in the economic development that is not always justified by the orthodoxy of Western liberal economics emerges in the front of consideration. From this viewpoint, also the Meiji-government that promoted industrialization by establishing not only basic institutions but also model plants falls in the group of “developmentalist states” along with the Showa-government.

1. Nationalistic Response of a Meiji Liberal

What I now discuss in this paper is the intellectual background of Japanese economic policy that was prevalent up to the end of high-growth era. As Bai Gao put it, “The practice of managed economy was not only influenced by foreign economic ideas, but also supported by the long tradition of state intervention in Japanese economic thinking after the Meiji Restoration.”(Gao 1994: 116)

However, in using such series of words as “managed economy”, “state intervention” and “developmentalism”, one has to avoid against the misconception that economic liberalism was essentially foreign to the economic thought of modern Japan.² On the contrary, it was the Western economic liberalism that awakened modern Japanese who had been long accustomed to live passively under feudal control. One of the most important origins of Japanese developmentalism was the practical response of Japanese liberals who realized the gap between Western advanced nations and their own nation.

¹ I adopt Murakami’s use of ‘developmentalism’ that signifies a general attitude and politico-economic system of those developing nations to whom the state-lead industrialization has priority to the shaping of the society according to the liberal democratic ideals (Murakami 1992, vol.2, pp.5f.).

² I am afraid that my use of the term ‘mobilization’ in Yagi(2000a) also shares the same risk with Gao’s concept of the ‘managed economy’ (Gao 1997). In this paper I would like to locate Japanese economists’ peculiar position between liberalism and developmentalism.

The first forerunner of this direction was Fukuzawa Yukichi (1835-1901), the champion of Meiji enlightenment and a great liberal, himself. Deeply impressed by primary textbooks in political economy, Fukuzawa stressed the independence of individuals and advocated a new moral on the principle of reciprocity that was open to the free competition. But he realized also that a predetermined harmony would not emerge spontaneously in such a situation as in the international relations where the discrepancy between the strong and the weak nations, the advanced and the delayed nations existed. In contrast to a straightforward liberal such as Taguchi Ukichi (1855-1905), Fukuzawa supported the residential restriction of foreign merchants in Japan and suggested a protective policy in the international trade.³ In *An Outline of a Theory of Civilization* (*Bunmeiron no gairyaku*) he declared, "Independence of the nation is the purpose. Our present civilization is the means to attain it." (Fukuzawa 1958-64: vol. 4, p.209) He did not flatter to the nationalism by regarding the demand of nation itself as a 'public cause'. From the viewpoint of the human race as a whole, it was only a 'private cause' of a late-starting nation. "What I expressed by 'our present civilization' is not the true civilization. My intention is to establish first independence of our nation, leaving the rest for the task of the second step, and to expect future progress. So long as we limit our discussion in this range, the national independence is by itself the civilization. Without civilization, we cannot maintain our national independence." (p.209f.) To Fukuzawa, it was just this quest for the independence of the nation that could encourage Japanese to avoid servility and to demand equality in the transaction with Westerns. Instead of the natural law of the economic harmony that is valid everywhere at any time, a natural course of the development of the 'civilization' emerged as the main topic of the *Outline*. Fukuzawa discerned the essence and the appearance of the 'civilization' and defined the former as the "progress of the intelligence and virtue of the people" (p. 40). He contended that in order to catch up the advanced nations Japanese had to begin with "difficult tasks" of acquiring the sense of independence before indulging themselves in the attraction of Western products. It was his conviction that the 'civilization' was the universal course of development among nations, so long as they did not lose the sense of independence.

Fukuzawa's recasting of the Western liberal economic thought into the real situation in Japan reminds us of the Friedrich List's criticism against the 'cosmopolitan' economics of A. Smith and J. B. Say. "The strategic view of the economy" (Gao 1997: 24) is common to the understanding of the economy of both scholars. As List wrote, "History is not without examples of entire nations having perished, because they knew not and seized not the critical moment for the solution of the great problem of securing their moral, economical, and political independence, by the establishment of manufacturing industry, and the formation of a powerful class of manufacturers and tradesmen" (List 1974: 82), Fukuzawa strove to create the 'middle class' who could lead Japanese economy on the base of their intellectual forces by his school, Keio Gijuku, and by his publication. In his prospect, the growth of the 'middle class' would bring the balance of power in the relations between government and the people. Under the principle of the division of labor, the government was entrusted to make legislation and to form policies for the sake of nation and the private sector would support it by their cooperation and

³ Kumagai (1998) describes the contrast of the two Meiji liberals. On Fukuzawa's attitude to economics and liberalism, see also Sugiyama (1994) and Yagi (1999).

initiatives.

We have so far summarized the pragmatic economic thinking of Fukuzawa. By his theory of ‘civilization’, Fukuzawa provided the then Japanese with the perspective that would conciliate the antagonism between liberalism and interventionism with a time span. It is interesting that this trait survived for a century in Japan and molded the economic policy in her post-1945 industrial state.

2. From Social Policy to Social Economics

In the search of the appropriate politico-economic system of the late-industrializing nation, Japan found her model in Germany that had been united under the Prussian hegemony in nearly the same period with that of Meiji-Restoration.⁴ What Japanese learned from the German model is the concept of administrative bureaucracy as well as that of social policy. German influence in economics was so strong that the first academic association of Japanese economists (The Association for the Study of Social Policy: *Shakai seisaku gakkai*) was formed around the previous turn of centuries as a miniature of the German Association for the Social Policy.⁵ Those economists as well as administrators who gathered in this Association did not think that their nation suffered from serious social problems such as the spread of urban misery and labor unrest already. However, they were convinced that an apt preventive intervention of the government could mitigate serious social problems that accompanies with the industrialization (Pyle 1974). The initiative of the government (or administrative bureaucracy) was taken for granted in the discussion in the first decade of this Association.

It was in the ninety-twenties and the thirties that Japanese economists acquired a wide social perspective, which enabled them to deal with social problems beyond the narrow scope of the government control. The influence of Marxism in this intellectual shift was apparent, since it was Marx that denied the autonomy of the state and found the moving force of the history in the relations and struggles of the economic classes. The Association was to dissolve in 1924 due to the ever-widening discrepancies among members. While the senior generation (Kanai Noburu, Matsuzaki Kuranosuke) of the Association adhered to the authoritarian state policy, middle and younger scholars (Takano Iwasaburo, Fukuda Tokuzo, Kawakami Hajime, Ouchi Hyoue) positively responded to the emergence of labor movement and tried to integrate the element of social autonomy into social policy. However, the latter was also divided between pro-Marxists and anti-Marxists. While Takano remained an academic social-liberal who was sympathetic to Marxian economics, Kawakami became a devoted communist after a decade’s disarray to find a new principle of social policy. Contrary to them, Fukuda was a very lively Marx-critic whose understanding of Marxian theory often surpassed his Marxian opponents.

Fukuda Tokuzo (1874-1930) studied economics under Karl Bücher and Lujo Brentano. Brentano’s position of a liberal social reformer was that Fukuda maintained up to the end of his life. Fukuda opposed to the Marxian concept of ‘social democracy’ on the

⁴ Yamamuro (1984) described the process and the impact of this choice brilliantly, though his focus is on the law and political sciences.

⁵ As the overview of the Japanese social policy school, see Fujii (1998).

reason that the dominance of one particular class contradicts the universal principle of democracy. This rejection of the partiality is also seen in his proposal of 'right to live' as the basic principle of the new social policy. Fukuda admitted union movements and labor disputes, because they could promote the remedy of the disadvantages of the workers and thus increase the welfare of the society as a whole.

"In today's economic life, what prevents from the coercion of labor on the negligence of wishes and interests of workers and countervails the effect of spoiling national distribution of income and increasing its fluctuation cannot be found other than the welfare struggle, or labor movement and labor dispute as welfare struggle. ...What makes today's social policy and social autonomy to perform their own mission is the powerful labor movements behind the scene. What stimulates this performance is the labor dispute seen as welfare struggle."(Fukuda 1922:203-205)

The German Historical School in economics could not satisfy Fukuda's interest in theory. Provisionally he adopted Alfred Marshall's *Principles of Economics* as the model of 'pricing economics', but he intended to build a 'welfare economics' by extending the modern economic analysis to the socio-economical development. In his concept of 'welfare economics', labor movements and labor disputes were considered as constructive elements of the economic society in the sense that they not only establish the consciousness of the 'right to live' but also promote the social institutions. It was the new version of 'social policy' in which not the 'state' but the 'society' regained the autonomy of institutional development.

It is apparent that Fukuda wished to provide his alternative to the Marxian economics by his 'welfare economics'. However, his 'welfare economics' remained as a mere torso by his rather early death. It was another Marx-critic, Takata Yasuma (1883-1972)⁶, who paid effort to integrate social elements into economic theory. Takata was a theoretical economist who was rather remote from real policy issues. He was one of the first economists who introduced the system of general equilibrium in Japan as the framework of economic theory. However, as an exceptional economist that started the academic career as a theoretical sociologist, he was not content to refine economic theory by mere mathematical system of equations. We can read Takata's 'power theory of economics' as an attempt to establish a 'social economics' that could cope with social development that was accompanied to the industrialization.

As a sociologist, Takata had already established his own theoretical system, when he shifted his research interest to economics. His sociology begins with the 'desire to power' as the original propensity of a person. In the interrelations of persons who always strove to surpass others, a sociological division of labor that accompanies the formation of social classes will emerge. Then the 'social density' of the populations determines the 'quantitative-qualitative composition of a society', under which social relationship among social classes develops. All of the juridical and political institutions, economic institutions, as well as norms and ideas are the outcomes of this historical process of societal development. These sociological relations filtered even the technology and productive powers. In this sense, the 'economy' is not the independent substructure as the Marxian materialistic view of the history supposes. Takata named this view of the history 'sociological view of the history'.

⁶ Recently some of Takata's works were translated with the introduction of Morishima Michio (Takata 1995)(Takata and Schumpeter 1998).

In his view, every economic behavior of individuals is influenced by hidden sociological factors. He stressed the change of the economic behavior of workers by the social consciousness and its effect on wage determination.

“Once the supply price comes to our discussion, we cannot regard it as determined by the (dis)utility of labor to workers. Ultimately saying, what determines this, and what influences on that ‘resistance’ of workers, is nowhere to be seen out of the social powers of workers. The social power of an individual is determined not by individual efforts but by his position in the composition of the society as a whole. Individuals translate their social positions according to individual conditions into the behavior of ‘resistance’. Under economic conditions this ‘resistance’ has the form of the claim of a certain supply price of labor.” (Takata 1935: 36)

This awakening of the social power of workers is a part of the historical process of modernization, since in the traditional society a passive obedience under the dominant social powers of the mightier excludes the rational action of a person itself. Takata thought that capitalist market economy had loosened the traditional ties of the society and had promoted the selfish transactions among individuals. In other words, the element of the *Gesellschaft* prevails over that of *Gemeinschaft*. But he could not be so optimistic to predict the harmony in the future of the capitalist development.

“Rationalism is continuously strengthened by capitalism itself. In addition, factors that induce the conflict between classes increase. The growing rationalism strives to eliminate the irrationality that increases in the social organizations. While only the tendency towards integration and affinity between classes can moderate this effort, the opposite tendency towards antagonism only prevails, that rationalism dares to reduce the irrational factors on the level of social organization as possible as it can. (Takata 1935: 217)

In this sentence, it is not clear what Takata had in mind when he wrote ‘that rationalism’ as reformative element of the society. This might be the socialistic rationalization that would mold the whole society under its canon, or bureaucratic rationalization that would control every elements of a society under its administrative rationality. Further, it might be the immanent tendency of rationalization that would eliminate the peculiar personal motivation, which so far was the driving force of capitalism.

3. Pre-war Origins of three Post-war Economic Advisors

In the history of Japanese economic policy, the years immediately after 1945 were marked by the active participation of economists in the policy making process. Politicians and bureaucrats who lost the frame of orientation were willing to listen to the opinion of economists. However, most of them lost influence on the economic policy after the ‘Dodge Line’ and the ‘reverse course’ around 1950. In this period when the agricultural and labor reforms came to the end, the ministerial bureaucracy regained its power. The Economic Stabilizing Bureau that was the citadel of the non-bureaucrat economists was downgraded by Prime Minister Yoshida’s antipathy to the idea of economic planning. From the few economists whose influence survived after 1950, we will deal with three economists, Arisawa Hiromi (1896-1988), Nakayama Ichiro (1898-1981), and Tohata Seiichi (1899-1983), who were often called ‘*gosanke*’ (the trio: three large clans in the Edo period that possessed the rank of advisory status to the

Tokugawa Shogunate), since they continuously occupied important positions in various administrative and advisory committees.⁷

All of trio studied in Germany in the late years of the short-lived Weimarer Republic. First, Arisawa studied in Berlin in 1926 to 1928. Nearly the same years Tohata and Nakayama studied in Bonn under Joseph Schumpeter from 1927-29. We would have a look their view of modernization/industrialization, referring on its German origins.

Arisawa Hiromi

In the preface to the *Inflation and Socialization (Infureeshon to shakaika)* that was published in the autumn of 1948, Arisawa added his following recollections.

I arrived at Berlin in the early spring of 1926. At that time, the world economy was in the period of relative stability. German economy that muddled through two years' stabilization crisis following the catastrophic inflation was moving gradually to prosperity.

The politico-economical process of the German Republic then was quiet in a sense and no serious problems were on the surface. As post-war issues such as the democratic revolution, socialization movement, inflation, and reparation were solved for the present; the rail for the German economy was fixed already. In 1925, the German Communist Party determined its New Directions in September, and the National League of German Industry proclaimed the Program of German Industry. After some delay, Socialdemocrats adopted the Keele Program at the plenary congress in May 1927. Both of the labor parties and associations of capitalists prepared for developing their movements with new directions under the changed situation.

Making Dr. Alexander Conrady, the historian who had once worked at the archive of the SPD as a tutor, I at once began the research of the politico-economical process of the republic. Naturally, I had to study the process since the cease of fire in details. Why the socialization movement that had once been enthusiastically demanded by the mass and seemed irresistible, disappeared like a bubble? In Hilferding's words, why the revolution turned out to be a mere wage struggle? Crisis and catastrophe attacked German capitalism repeatedly and its life came sometimes nearly to an end. Still it revived like a phoenix out of the ashes. Studying the process I was caught by a melancholy. Dr. Conrady told me cool, "The matter was over in the confusion and errors."

At that time I had never dreamt that my own nation would follow the same destiny after two decades. I found myself amid the same situation and problems that I studied twenty years ago in Berlin. The international environment of Japan was totally different from the German case. The economic distress was severer. From this very reason I thought that the reconstruction of Japanese economy and the solution of the inflation should be based on the socialization and that the radical democratization should not be reduced to the wage struggle. After the lapse of twenty-two months from the end of the war, I have to think that the history has repeated twice. Dr. Conrady's words appear now again on my mouth.

The course of the reconstruction of the Japanese economy was about to fix its direction. Now it cannot be changed by anyone. A period in the postwar is about to be over. We will face a new situation and new problems in the coming stage. Therefore, the direction of our movement must change. We have to reflect deeply what we have to do in the new stage. (Arisawa 1948: 1-3)

This was written soon after the failure of the nationalization plan of the coalmines in 1947. This was the public promise that Socialists made at the second election and won

⁷ In my view on these economic advisors, I owe much from the collaboration in a joint research into Japanese economics after 1945. The result was published both in Japanese (Ikeo ed. 1999) and in English (Ikeo ed. 2000). I was also benefited by the discussion with Mr. Kim Soo-Il, MA, who was preparing his dissertation on comparative analysis of economic reorganization concepts after 1945 in Germany and Japan.

the largest mandate in the Diet. The original plan admitted workers' participation in every stage of the management of the nationalized mines. However, the Katayama's coalition cabinet could only pass a mutilated bill in the Diet, which was to be repealed in a few years. Arisawa was not a neutral observer in this matter, because he was the head of the Special Working Committee for the Coalmining that was established in November 1946 and proposed the 'priority production' to the then Yoshida cabinet. In January 1946, Arisawa published his idea of the 'priority production' (*keisha seisan*) of coalmining to resume the 'reproduction process' of Japanese economy in a journal article. In it he predicted the 'transformation' from capitalism to socialism in the worker-led reconstruction process of the industry: "What does it mean that we have the unemployed with working will and the workers who could not eat despite of their work? They move rapidly to the conscious political sabotage of labor. It's meaning is clear: The refusal of the work under the capitalist production. Thus the transitional period contains 'transformational period'".(Arisawa 1948: 31-32)

In Pre-war years, Arisawa belonged to a group of those Marxian economists, '*Rono-ha*', who were critical to the Russian-oriented Communist Party Japan. After his arrest in 1938, he was expelled from his chair of statistics at the University of Tokyo and survived the war years by participating in several research projects.⁸ In the four books he could publish under his own name before his arrest, *Planning Industrial Mobilization* (*Sangyo doin keikaku*)(1934), *Japan under the Managed Economy* (*Keizai toseika no Nihon*) (1937), *War and Economy* (*Senso to keizai*) (1937), and *The Industrial Control of Japan* (*Nihon kogyo tosei-ron*) (1937), he developed his theory of the managed economy that was based on the Marxian as well as German monopoly theories. In the introduction of the direct control of the investment of the monopolized industry, he recognized the element that changed the nature of cartel as a concentration of capital interest. In his view the managed economy involved an anti-capitalistic (socialistic) element that transferred the control of production from capitalists' hands to the government.⁹

In 1939 Arisawa collaborated secretly in drafting the 'economic new order' of the economic department of the Showa Research Association (*Showa Kenkyukai*).¹⁰ This department called for the separation between ownership and management and the reorganization of capitalist firms into cooperative production units. This coincides with Arisawa's theory of the managed economy that the production-oriented socialization could overcome the vested interest of monopoly capitals. It is a delicate question whether he favored bureaucratic command economy as was conceived by the 'new bureaucrats'. Nakamura (1974) compared the original concept of the reform of the Showa Research Organization with the 'economic new order' that was designed by the 'new bureaucrats'. The former stressed the 'control from inside' based on the production principle, while the latter aimed an extensive mobilization that could serve the demand of the military.

The term of 'socialization' seems to have disappeared from his writing after the collapse

⁸ As for the situation of economists in the wartime, see Yagi (2000b).

⁹ Almost all economists in the elder generation saw an inevitable tendency in the monopolization of industries. In Arisawa's case, the concept of 'socialization' was the only feasible alternative to capitalist nature of the monopolization.

¹⁰ See Sakai (1992), p. 139. On this research association see also Fletcher III(1982) and Yagi (1997).

of the Katayama cabinet and the Dodge Line. Instead he emerged as the supporter of modernization of industry.¹¹ In the economic policy debate in the fifties, his name appears again in combination with the theory of 'dual structure' of Japanese economy. The origin of this theory was also traced back to his research in the Japanese industry in the 1930s. He found the sharp contrast and subtle inter-relations of the large-sized industry and the small- and medium-sized industry. In his finding, Japanese industry attained already the stage where efficient large-sized plants occupied her production center. The reason of the survival of immense numbers of inefficient small-sized industry lay in the abundance of the cheap labor. (Arisawa 1937) In this sense, the gap between both was a structural problem that has also the aspect of labor problem. In his analysis of the controlled economy, Arisawa maintained that the organization of the small- and medium-sized industry could contribute in increasing the efficiency and rationality as well as independence against the monopoly power of the large capital. Such a structural gap is also to be seen between the modern industrial sector and the agriculture sector that reserved huge amounts of under-employed labor forces. From this viewpoint the employment problem could not be solved without the solution of these structural productivity gaps. The term, 'dual structure', was used in the *Economic White Paper (Keizai Hakusho)* of 1957. In this *White Paper*, a prospect to solve the 'dual structure' by a continuous economic growth was provided.

He played also an important role in the 'energy revolution' in Japan. Though he was deeply involved in the coalmining since the post-war years, he realized the necessity of the transition to the petroleum and endeavored to persuade coal miners to adopt the rationalization scheme. The move to the imported petroleum was all the more advantageous for Japanese industry to reduce the high manufacturing cost that hindered the export of Japanese products in those years. When the rationalization bill passed the Diet in 1962, Arisawa looked after the last protest march of miners organized by the Union of Coal Miners that had once the reputation of the strongest labor union in Japan. In 1970s he further supported the use of nuclear energy as a member of the Energy Committee of the Government. Up to this point, the viewpoint of the efficiency has totally replaced that of 'socialization'.¹²

Nakayama and Tohata¹³

Nakayama's major was one of the pioneers of mathematical economics in Japan. His *Pure Economics (Junsui keizai-gaku)* (1933) was the standard textbook with which a generation of Japanese economists learned the essence of the general equilibrium theory. In post-war years, Nakayama served long as a learned member of the Central Labor Relations Committee and was its chairman when the strike at the Miike Coalmine broke out in 1960. His recommendation of settlement put the end to one of the severest labor disputes in the postwar Japanese industrial relations.

Tohata was an agricultural economist who introduced the modernization principle into the agricultural economics in Japan against the traditional approach that stressed the

¹¹ As for Arisawa's influence on Socialists (JSP), see Nakakita (1998).

¹² As for the energy industry in the postwar Japan, see Samuels (1987). Samuels expressed the relation between government and business in Japan with the term of 'reciprocal consent'.

¹³ Cf. Ikee (1998)(2000), Minoguchi (2000a), and Nishizawa (2000) on Nakayama's economics, and Minoguchi (2000b) on Tohata.

strenuous work of small farmers. In the postwar years, he served as director of National Research Institute of Agricultural Economics and the Institute of Developing Economies besides many activities in the various administration councils. At the same time when Nakayama was dealing with the Miike labor dispute, Tohata was in charge of the report of the structural policy in agriculture, which became the core of the Basic Law of Agriculture of 1961.

Two economists studied in Germany in the same period under the same teacher. First Nakayama came to Bonn in 1927, following the suggestion of his mentor, Fukuda Tokuzo to study under Joseph A. Schumpeter (1883-1950). However he had to wait one year before Schumpeter came back from his stay at the Harvard University. Then Tohata joined Nakayama in the next year to attend at Schumpeter's seminar. They admired Schumpeter up to the end of their lives and translated most of Schumpeter's works into Japanese.

It was Tohata's *Development Process of Agriculture in Japan (Nihon nogyo no tenkai katei)*(1936) that applied Schumpeter's concepts of the 'entrepreneur' and 'economic development' as a creative response to the changing environment to Japanese reality. In this book Tohata regarded small farmers and landowners in Japanese agriculture as 'passive economic subjects' and asked who was the true 'mover' of the agricultural development. He found the answer in the market-creative function of the manufacturer of agricultural products and in the organizational function of the government. Manufactures of non-rice products introduced innovations in agriculture via the market, especially in fruits and field crops. The government that established experiment stations and helped agricultural associations was also the subject that exerted 'entrepreneurship' in agriculture. The reason that enormous mass of small rice producers remained 'passive subjects' lay in their lack of marketing experience under the tenant system as well as in the relative scarcity of land and capital in relation to the rural population. This situation made Japanese agriculture far behind manufacturing industries and formed its backwardness in the national economy. In his postwar research he organized several times the joint research into the under-employment or excess-population that made the marginal productivity of the labor in the agricultural sector considerably lower than the wage level in the manufacturing industry.

Paradoxically enough, Tohata first discovered the modernizing factor of the agriculture in the wartime-managed economy.¹⁴

"The current task of the control of agriculture can be expressed in another way, i.e. the path of the small farming in the age of a rapid heavy industrialization of the nation. The problem is the more urgent than in the case of gradual industrialization. The problem emerged in the front as the conscious process of planned change, not as a spontaneous economic process. The prospering heavy industry deprives the agriculture of considerable amount of its population by the increase in employment eternally. In this sense, the decrease in the relative share of the agricultural population is inevitable. So long as the domestic agriculture has to maintain its production volume, the increase in the labor productivity must be realized. The demand of the agricultural instruments that are needed for this increase creates the market for the heavy

¹⁴ Tohata envisaged the possibility of the development of entrepreneurial activity in the concept of the separation of management and ownership that the economic reform plan of the Showa Research Association proposed. See Yagi (1997).

industry. Further, the increase of the cattle in agriculture, that is also the means of the raise in labor productivity, has the economic support from the changing demand of food in the heavily industrialized nation. These interrelations are seen usually at least. The economic construction that Japan is now performing under the war, too, goes along this direction. If it be true, we can conclude that the present agricultural control is creating a new bright dimension.” (Published originally in 1942)(1947:p.157)

The shrinkage of industrial production in the postwar years temporarily reversed this move of population. However, the parasite landowner and the natural rent that had so far distanced tenant farmers from the market vanished. The price-supporting system of main products provided Japanese farmers with a safety net; the expansion of agricultural financing supplemented the lack of capital. These were the preconditions for the modernization of agriculture. The only one remaining, and the most essential problem for the development of the entrepreneurship in agriculture was the size of cultivated land. So, Tohata advocated the structural policy for agriculture through the promotion of selective expansion. This implies the promotion of the leave from agriculture, concentration of cultivation, and the shift from rice and wheat to gardening and husbandry. Though this was the main policy recommendation of the Investigation Council of Basic Problems of Agriculture of 1960, the Ministry of Agriculture modified it with its protectionist position in the legislation and implementation of the agricultural policy under the Basic Law of Agriculture (1961). Intended selective expansion, too, was not fulfilled due to the increase in the price of the land.

Nakayama was one of few economists that engaged in the postwar economic policy with the background of modern theory. Though economists of later generations might wonder how his economic theory and his public activity is related, we should remember that he succeeded a socio-economical perspective from his mentors, Fukuda and Schumpeter. As for the structural gap and backwardness of Japanese economy, his recognition was not so far from that of Arisawa. However, Nakayama and Arisawa showed a contrast in stressing either trade or domestic development in the years around the recovery of independence.

Nakayama described tendencies and development of international trade and found the solution of the problem of population in the growth of industry via the promotion of trade. Arisawa was inclined to stress the full use of the domestic resource from his anxiety of the revival of the notorious export damping on the base of the cheap labor as well as concerns of the limitation of the international market. If we consider the international relations then that hindered Japan from the trade with China and the Soviet Union, his anxiety is to some degree understandable. But in this debate it was Nakayama that was proven to be more deep-sighted.¹⁵

Nakayama's engagement in the labor politics in the postwar period reminds us of his mentor, Fukuda's welfare economics that integrated the class struggle in the making of social policy.¹⁶ Fukuda's focus on the living right as well seems to correspond Nakayama's favor to the criterion of 'living cost' (*seikatsu kyu*) in the wage negotiation. Nakayama avoided Marxian flavored term 'class struggle' and insisted to use 'industrial

¹⁵ Despite this divide in this dispute, Nakayama and Arisawa shared the same view of promotion of fusion to build up the competitive firms in the age of trade liberalization.

¹⁶ See Inoue and Yagi (1998) about Fukuda's welfare economics.

relations' (*Roushi kankei*). He further recognized in the enterprise union of the postwar Japan a favorable condition to attain the consensus of both parties. In his view both unions and management are equal partners in wage negotiations, while in daily operation both have a common aim of the increase in productivity that in turn would make the source of higher income. Though Nakayama's judgment in the labor dispute was sometimes taken as pro-labor, he would not admit the shop floor union activity that might bring confusion in the production plans. His proposal of the settlement of the Miike labor dispute gave virtually an end to the shop floor militancy in the private sector union movement.

It was Nakayama who combined the movement of productivity improvement that had American origin with the promotion of joint labor-management consultation. When its Japanese headquarters was established, he chaired its regular committee for the joint consultation. In 1959 he argued that a doubling of the salary could be realized on the ground of the increased labor productivity. The Ikeda Cabinet that endeavored to dissipate the political tension that had been caused by the revision of the Security Treaty with US in 1960 adopted this 'dream' in its new economic plan.

4. After Early Sixties

After his leave from the Central Labor Relations Nakayama reflected on the past performance and future task of Japanese economic society.

"The problem is how we can have the social structure that fits to the high level of industrialization. For this task, various efforts have been made in the postwar Japan. That the solution of the dual structure was the necessary measure for the correction of the distortion caused by the rapid growth has been at the focus of discussions from the beginning. Several years have already passed since the White Paper on Economy dealt with it. That the solution of the of the income disparity was adopted as one of the main goals in the present income doubling plan is together with the introduction of the minimum wage and extension of the social security runs on the same line as the measure to eliminate the gap between the production level and the living level. ...

From the viewpoint of the construction of a society that fits the high level of industrialization, these measures have great significance. If various contradictions are the ultimate sources of the social tensions, the measure to ease the social tension and to attain social stability as the basis of industrialization must be first directed to the elimination of these objective contradictions. It is admitted that the elimination of these contradictions, thus the stabilization of the economic society from the structural viewpoint provides us with important conditions to fill the vacancy of the lost traits of tradition.

However, this is not enough. The ultimate support of the social structure is, needless to say, the human morality, which is not reconstructed after the destruction of the traits of traditional society. The postwar democracy supplied a new ground for the reconstruction. But democracy as itself is an institutional arrangement to attain political decisions. In Japan's case, it had indeed a great effect in eliminating old obstacles against growth, but it does not mean the completion of the reconstruction. A societal vacancy that was born with the rapid industrialization still remains. That the logic of the industrialization itself is indifferent to the morality may bring forth a tragedy to the society." (Nakayama 1972-73: vol. 15, pp. 21-22)

In the early 1960s when Nakayama wrote these paragraphs, Japanese economy was

passing the turning point in the labor market. Riding the wave of economic prosperity, industry and commerce in the metropolitan area absorbed the latent labor forces that were so far conserved in the traditional self- and family-employed sectors. The wage increased ca ten percent every year. In this stage of the economic development of Japan, Nakayama anticipated new tasks that are not covered by the promotion of industries.

Ironically enough, nearly the same time, Nakayama and Arisawa were involved the plan of 'New Industrial Order' conceived first by the bureaucrats of the Ministry of Trade and Industry (MITI). When MITI established the Council of Investigation into Industrial Structure in 1961 to prepare the liberalization of foreign trade and money transfer. Nakayama was nominated as the head of its General Committee. However, most serious debate was done in the Subcommittee on Industrial Order that was chaired by Arisawa. It was reported that the original plan of the Ministry that was strongly oriented to a bureaucratic control was severely criticized by Arisawa and other members. Integrating their criticism against the direct control of private enterprises, the plan was modified into 'the collaboration system of the government and the private'. (Ohyama 1996: 123-129) But members of the Subcommittee shared with the bureaucrats of MITI the view of mitigating the monopoly regulation in order to build strong firms that could cope with the international competition. However, the Bill of the Special Measures Law for the Promotion of Designated Industries (*Tokutei-sangyo-shinko Rinji-sochi-hou*), which was the result of the discussion of the Council, could not pass the Diet. The MITI abandoned the legislation of its industrial policy and since then endeavored in elaboration of the informal 'administrative guidance' (*gyosei shido*).

The tide was changing. The basic concept of economic policy of the senior advisors ('*gosanke*') was challenged by a younger generation of economists.¹⁷ It was the great fusion in the steel and iron industry (1968) that provoked this criticism. While the fusion represented the consensus of bureaucrats and economists of the senior generation, a group of younger modern economists made their objection in an impressive proclamation. This marked the end of the intellectual hegemony of the 'managed' economic policy in the postwar period. After three decades it is now rather difficult to understand the historical significance of the economic policy in the two decades after 1945.

Arisawa's hidden dream of 'socialization' was replaced by the export-oriented oligarchy of big business. The intensification of holding's interest of farmers and politics of protectionism dissipated Tohata's vision of selective expansion.¹⁸ Nakayama's productivity oriented corporatism seemed to have survived a decade more. However, after the oil crisis, unionism lost its concentration to countervail the hegemony of the management.

It was Murakami Yasusuke (Murakami 1992, vol. 2, p. 98) that made a brave reappraisal of the industrial policy or more broadly of 'developmentalism'. Mentioning the contrast of the collapse of socialist planned economies and growing Asian emerging

¹⁷ Its most aggressive representative was Komiya Ryutarō. See in details in Noguchi (2000).

¹⁸ In July 1999, a new Basic Law (The Basic Law on Food, Agriculture and Rural Areas) passed the Diet and replaced the old Basic Law of Agriculture. As the name of new law suggests, present agricultural policy does not focus solely on agriculture and farmers. The stable supply of domestic foods, multifaceted functions of cultivation, and community development in rural area are now under the coverage of new Basic Law.

economies, he suggested that debate between ‘developmentalism’ and liberalism would continue even after the retreat of socialism as an alternative to the latter. Based on the experience of Japan and other newly industrialized economies in Asia, Murakami concluded that the ‘developmentalism’ still retained its attractiveness to the nations who felt themselves challenged by mighty advanced competitors.

He saw the essential nature of industrialization in the dynamism of the creation and growth of new industries that have the tendency of decreasing cost. In industries with such traits, private firms are always endangered by the risk of detrimental competition. On this ground Murakami vindicated the intervention to support the industry in its early stage and to control the degree of competition. He argued that the existence of the impartial and competent bureaucracy is the inevitable condition for the success of industrial policy. I criticized Murakami’s overestimation of bureaucracy from the viewpoint of the democratic ideal of civil society (Yagi 2000a). To me Murakami seemed to ignore the inherent political and ideological tension of ‘developmentalism’ that is beyond the control of the most competent bureaucracy. Since ‘developmentalism’ itself is born as a nationalistic response to the international crisis, it is vulnerable to the wave of aggressive nationalism or irrational fundamentalism. The historical process to the Asia-Pacific War that the modern Japan plunged in is a clear evidence of this sort of danger.

Gao pointed three traits of ‘the trade version’ (i.e. post-1945 version) of Japanese ‘developmentalism’ that it shares with its ‘military version’ (i. e. pre-1945 version): ‘strategic view of economy’, ‘the anti-capitalist orientation, marked by restraint of market competition, and the profit principle’, and the role of ‘the state bureaucracy’ to organize the market competition (Gao 1997: 29-33).

These combinations seem to be very odd from the viewpoint of Anglo-Saxon concept of the ‘free market economy’. However, if we take recourse of the retrospect on the Japanese social economics in the twenties and the thirties, and the intellectual backgrounds of ‘*gosanke*’, it becomes easier to grasp the nature of this odd combination. Fukuda and Takata provided later generations the broad social perspective to understand the socio-economic development of the late-industrializing nations. The ‘*gosanke*’ studied in Germany in relatively stable years in the late nineteen-twenties after the failed attempts of the socialization. After realizing the same fate of Japanese socialization, Arisawa seemed to have moved to the position that capitalistic direction was the inevitable path of the reconstruction. But he needs not to switch his orientation to the Anglo-Saxon type of free market economy, because he knew well about Hilferding’s theory of ‘organized capitalism’. To Tohata and Nakayama, Schumpeterian concept of entrepreneurship belonged to their intellectual assets. Schumpeter separated the function of entrepreneur strictly from the interest of capitalists.¹⁹ Not only the

¹⁹ Hilferding and Schumpeter sat once at the same table of Socialization Committee in Berlin in 1919. Though Schumpeter’s accord with socialists ended soon, the diagnosis of the failed socialization was not so differentiated between Schumpeter and Hilferding. Both approved the economic reconstruction by the canon of capitalist economy, however they shared the view that ‘regulation’ and ‘organization’ is inseparable from modern economy. Despite criticism of Marxian concept of revolutionary move to socialism, Schumpeter approved the tendency of socialization of modern economic life, which would in his view ultimately transforms the present economic system to ‘socialism’. See, Swedberg (1991) and Schumpeter (1942).

salaried managers but also the state can exert its entrepreneurship in their own peculiar way. Further, Schumpeter expected the dynamic efficiency of big business on the grounds of the integration of innovative activity into the normal business organization. If we would mold a liberal on Schumpeterian scheme, he/she would not be a fundamental liberal that advocates private property and individual freedom as the only basis of entrepreneurship but a functional liberal that admits the role of organization and government for the lively exertion of the entrepreneurship. It is not an exaggeration to regard the postwar Japanese system of 'developmentalism' as a version of Schumpeterian model.

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