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## Political Economy: Policymaking and Industrial Policy in Japan\*

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### Introduction: Government and the Economy in Japan

*The Importance of Japan's Political Economy:* The importance of Japan's political economy probably will be more obvious than any other subject concerning Japanese politics. Being the world's second largest economy and the United States' greatest overseas trading partner, and with increasing Japanese investment in America, the politics and policymaking that affect Japan's industry and economy probably have a more direct impact on the lives of more Americans than any other subject concerning a foreign country that American students can study.

With increasing friction over trade and investment beginning to undermine the United States-Japan relationship, one that former Ambassador to Japan Mike Mansfield liked to call the most important bilateral relationship in the world, Japan's political economy has become the stuff of daily newspaper headlines for many Americans. How much, how, and how well the Japanese state intervenes in the economy to promote economic growth has probably received more attention in the United States in recent years than any other topic concerning Japan. Words previously unfamiliar to American ears, such as "industrial policy," "targeting," "MITI," *keiretsu*, and so forth, are now common in the American media and in policy debates in Washington about the origins of Japan's massive trade deficit with the United States and what the United States can and should do about it. No college graduate, indeed no American citizen, can claim to be politically literate today without some knowledge of this subject.

Unfortunately, the recent surge of attention to this significant subject, bereft of a proper grounding and context for understanding it, also has engendered a great deal of contro-

versy, many stereotypes, and much myth about Japan. Many Americans, hearing that the Japanese bureaucracy is powerful, think it quite large. Reading that the government helps industry more in Japan than in the United States, they assume Japan's government directly subsidizes industry with amounts of money greater than our government does. Learning that American business and government consider it difficult to sell in Japanese markets, many are sure that the government of Japan maintains high protectionist tariffs to keep out foreign manufactured goods. Each and every one of these beliefs and assumptions is false. A second important function performed by studying Japan's political economy thus is the educational one of correcting the many current myths and distortions about it.

This subject has also become directly involved in American politics, with some arguing that the U.S. government must emulate Japan's to maintain our competitiveness, others countering that the admitted effectiveness of Japan's system has been based on unfair advantages and that Japan must now become more like us, and still others that Japan's success is not the result of industrial policy at all and therefore that no U.S. government action is necessary. If Americans in the future are to make intelligent judgments and choices about the U.S. relationship with Japan, about their political leaders who are increasingly incorporating that subject into their political rhetoric, and about their own country's economic future, they must understand the relationship between politics and the economy in Japan.

The significance of Japan's political economy goes beyond any immediate and practical policy issues; it is also a significant case for political scientists interested in the cross-national comparison. For example, the debate over whether the United States should have an "indus-

trial policy" like Japan's involves issues that go to the heart of the assumptions that political scientists and economists make in approaching the operation and relationship of markets and states: under what conditions can government policy successfully select specific industries for growth? What are the limits of state intervention in the economy? What are the limits of markets' ability to produce growth without facilitation by the state? Are the norms of the American political economy universal ones or is the American system actually relatively unique?

Finally, the relationship between the Japanese government and interest groups, especially industry, is an intriguing test for many of the models of politics and policymaking that comparative political scientists have used to describe how democratic political systems of the industrialized societies are similar to or different from each other. Is *pluralism*, with its independent, multiple, diverse, and competitive "pressure groups" having access to and influence on a relatively weak state, a model also applicable to Japan? Are the tendencies of *corporatism*—limited numbers of interest groups organized into hierarchical trade and "peak" (business and labor) associations, monopolistic access and influence within particular policy areas, and a relatively fixed consensual relationship with government—also characteristic of Japan? Or is *statism* a more valid model of the Japanese system, with the state having interests and goals separate and different from those of any societal groups and central bureaucracies able to influence or impose their policy wishes on interest groups. These theoretical models were developed by scholars based on the political experiences of North America and Western Europe. Do one or another of the pluralist, corporatist, and statist models best describe how policy toward industry is made and carried

out in Japan, the first non-Western nation to industrialize? Or perhaps none or a combination of these apply?

There are thus practical, policy, pedagogical, and theoretical reasons for studying the political economy of Japan.

*Aims:* This instructional unit will introduce the student to an important aspect of political economy in Japan—policymaking and policies the Japanese government undertakes toward private industry. We will not be able to explore all aspects of this topic or all the issues that have become so controversial; however, underlying all those issues is the need for a realistic assessment of *how the Japanese government makes policy toward industry, what that policy is, and how and why it works.* This will be then the first goal of this unit.

There is a second, related important aim of this unit: to explore what the relationship between government and business interests in Japan tells us about the kind of policymaking system Japan has.

Because of the divergent views of Japan's industrial policymaking and political economy, it is important to understand these in their broadest context. One of the problems with many perceptions of Japan's industrial policymaking is that it has often been viewed in isolation: policies have been seen without regard to the entire industrial context in which these operate. If Japan's policies have been successful, it may have something to do with the country's industrial organization and not just with the government's power or the nature of the policy itself. Further, there is the important question of whether policy toward industry is typical of policymaking in Japan in general. Is industrial policy representative of how government and interest groups relate, or is industrial policy an exception to the usual patterns of policymaking in Japan?

In order to understand industrial policy in its broadest context, therefore, we begin this unit with some background on Japan's industrial organization in Japan and the nature of its policymaking process before discussing the nature of Japan's industrial policy itself.

## The Company and Industrial Organization in Japan

It usually surprises Americans to learn that most Japanese workers are not employed by the large Japanese enterprises like Mitsubishi, Toyota, or Sony with which they are most familiar. A majority of Japanese work for small and medium enterprises with less than 300 employees rather than the large corporate giants. Nonetheless, the larger firms are at the heart of Japan's successful economic growth, competitiveness, and industrial policy and thus will be the primary focus of this unit.

The large company or *kaisha* in Japan is a rather different organization than in the United States. Both the ideology of companies and the lifestyle of employees often make the *kaisha* appear to be more like total "communities" than merely workplaces in which management emphasizes the values of harmony and common interests among their workers, and provides fringe benefits like housing, leisure activities, group vacations, hobby classes, and so forth. More importantly for our purposes, are the so-called "lifetime employment" and seniority systems. Japanese workers in large companies tend to work for the same company until retirement, and tend to be promoted and paid according to time of service in the company.

Some important caveats are in order about these systems. "Lifetime" employment is not exactly that, as retirement age is usually about age 60 or younger in Japan. Even this system is confined to only the larger firms: the great majority of Japanese workers are employed by small and medium firms which usually do not grant this type of security. Nor does it apply to even all workers in large companies: white collar workers classified as "permanent" employees are the chief beneficiaries of this system. Blue collar workers may be more mobile and a large number of temporary workers, many of them women, do not share in this job security. Also, these are relative differences with the United States, not absolute ones—a proportion of American workers, but a smaller one than in Japan, also tend to stay with the same company until retirement, and in some U.S.

firms union contracts impose even more rigid job classification, pay scale, and seniority rules than in Japan.

Nevertheless, these two systems have important consequences for companies. They make labor more of a "fixed cost" for a Japanese company, one that increases with the age of one's employees, and much less of an expendable resource. Laying off permanent workers cannot be easily resorted to in order to reduce costs when there is a downturn in profits. Lay-offs are avoided except as an absolute last resort in Japan. These systems consequently drive Japanese companies to be growth-oriented, emphasizing market share (i.e., long-term profit) over short-term profits, to ensure that these fixed labor costs can be met. Constant growth also makes it possible to hire as many new workers as one can each year, a necessity because, given the seniority system, the relatively more younger workers in the company, the lower the overall cost of labor to the company. Lifetime employment and seniority systems also facilitate spending a great deal of time and money training and retraining workers, without fear that this investment may be lost if a worker quits or has to be laid off. Further, the environment in a Japanese firm is more conducive to technological innovation because workers are less afraid that "automation" will deprive them of their jobs. Finally, job security enhances the "community" aspects of working for a company.

Another distinctive aspect of Japanese companies is their labor organization. Most private sector unions in Japan are neither industrial nor craft unions, but enterprise unions in which the basic labor union unit is the company. Regional and nationwide coordination of unions is achieved through loose federations of these enterprise unions in the same industry. For example, an auto worker in the United States would be a member of the nationwide United Auto Workers who happens to work at Ford and attends meetings at his union local. In Japan, an auto worker would belong directly only to the Toyota labor union, and any coordinated action with other auto workers would have

to be negotiated in a federation of auto workers unions from the nine major Japanese auto firms. Most unions also include *both* white- and blue-collar employees who work for the same firm. These characteristics of Japanese labor mitigate the potential militancy of many private sector workers (union and firm and white and blue collar workers interests overlap more), and fragment and weaken the economic and political power of the union movement.

A further notable aspect of Japanese firms is that historically they have been much less dependent on the stock market than American companies. Up until the 1980s, large Japanese companies on average had a debt-equity ratio of about 3:1, the reverse of the United States. Thus, whereas American companies tended to raise capital by selling shares in themselves on the stock market, Japanese companies tended to borrow capital from banks. In the 1980s, the tremendous success of Japanese firms allowed them to buy back many of these loans and there was a striking tendency for them to use their own internal funds for investment rather than rely on either loans or stock issues. It should be noted that as a result of the lack of dependence on showing quarterly profits to produce dividends to induce investors to buy stock in their company to raise capital, Japanese managers are much freer to take a longer-term profit perspective and thus go after market share instead of short-term profit.

With Japanese companies having achieved identification of workers with the firm and being driven to grow and gain market share, it is no wonder that competition for sales among companies in the same sector has tended to be fierce. Most Japanese industrial sectors have a limited number of large companies in them, but despite this "oligopolistic" structure, are always trying to gain in sales at the expense of their rivals. Japanese firms may cooperate in some non-marketing ways, but usually not in the production and commercialization of products.

One way in which Japanese companies do cooperate is through their "corporate groups" (the Japanese word *keiretsu* is most commonly used by foreign observers

to refer to these), such as "the Mitsubishi group," the "Sumitomo Group," etc. These groups are *informal* collections of companies who have a history of relations with each other and are often loosely organized around a particular bank. Companies in a corporate group tend to be in different industries and thus do not compete directly with each other. They often have cross-shareholdings in each other and cross-membership on each other's Boards of Directors. These corporate groups are like loose corporate mutual aid societies—their chief function is to help each other out in times of trouble and to provide security from unwanted purchase. While American

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executives in the 1980s spent inordinate amounts of time, aggravation, and money trying to prevent their firms from becoming victims of hostile takeovers, Japanese managers have almost never had to worry about this because the cross-shareholding and membership of these corporate groups makes it almost impossible. On the other hand, the important role of the group's bank in a corporate group and previously in financing companies, often has given banks far more influence in corporate affairs than an American manager would find comfortable.

A different form of *keiretsu* are the linkages between small subcontracting firms and larger firms. A lot of the production and supplying in certain industries (e.g., autos) may actually be done by smaller companies who have a long-term and hierarchical relationship with the parent company.

Also where Japanese companies may cooperate is for their mutual benefit in their relations with government. For example, as we shall see, they may engage in cooperative

research and development under the auspices of a government organized project. More importantly, firms participate in very well-organized trade (sector-specific) and peak (all business) associations for the purpose of advancing their common interests vis-a-vis other sectors or other types of interests. There are many examples of this in the United States and other countries, of course. Thus the National Association of Manufacturers or the U.S. Chamber of Commerce attempt to speak for business as a whole; additionally, there are innumerable associations with offices in Washington and elsewhere trying to promote the common interests of particular industries.

The difference in Japan is that these type of organizations are much *more* well organized, concentrated, and powerful. This is in part because Japan is geographically and economically less diverse than the United States, in part because of different histories of the development of business in Japan, and in part because a less fragmented governmental system in Japan also encourages business to be more centrally organized to gain access and influence. American firms can gain access and influence on their own or in loose coalitions with other firms on specific issues because the American political system is so fragmented, both between national and local governments and between and within the executive and legislative branches.

Japanese firms in the same sector while competing ferociously in the marketplace thus also are usually communicating with each other and with government via trade associations (e.g., Japan Iron and Steel Federation; the Japan Machine Tool Trade Association) to promote the interests of all in that industry. Also representing big business as a whole are a few "peak" associations. The most influential is *Keidanren* (Federation of Economic Organizations) which tends to take positions on issues concerning general macroeconomic and business conditions and policy. Another is *Nikkeiren* (Japan Employers Association) which specializes more on developing a common front on labor issues and problems. Organized labor too is represented by national federations (and soon primarily one major

“peak” labor association); but as organized labor is nearly the only major interest group that is not part of the social coalition supporting the ruling party (see below), it has quite a bit less influence on the policy-making than big business. Perhaps labor’s main power is the ability occasionally to make enough of a fuss to “veto” policies it finds anathema, whereas big business has a great deal of positive influence to shape economic policy as well.

Many of these formal channels of communication and influence are reinforced by “old boy networks” of informal relationships among business leaders, bureaucrats, and politicians. Many in these groups graduated from the same elite universities and have friends and acquaintances in one of the other groups. This facilitates communication and cooperation among these elites. Further, the practice of *amakudari*, or “descent from heaven,” by which former government bureaucrats “parachute” into business firms or into politics (as LDP representatives usually) after their retirement (relatively young: in their early fifties) also creates informal linkages between the political-governmental world and big business.

## Politics and Policymaking

Most of the outlines of policy-making in Japan are covered in other units of this series (see especially the units by T. J. Pempel and Stephen Anderson), so only the few points most related to our topic will be briefly reiterated here.

Perhaps the most unique aspect of Japan’s democratic system is that one party, the conservative Liberal Democratic Party (LDP), has won a majority of seats in parliament (the Diet) uninterruptedly since 1955 and thus controlled the Prime Ministership and Cabinet. The pragmatic conservatism of this party has enabled it to build a supporting coalition that includes nearly every major interest group except organized labor, with reliance especially on big business for funds, and the rural electorate for votes.

The policymaking process, as in many European parliamentary systems, gives a larger role to the

bureaucracy than Americans are accustomed to in our system. The bureaucracy has formulated a majority of the legislation in the postwar period and also, because the bills passed by the Diet are usually less specific than those passed by Congress, has somewhat more discretion in the implementation of legislation than the American bureaucracy does.

The bureaucracy in Japan is a small and elite group, being the smallest civil service per capita in the industrialized world and traditionally of high prestige but, it should be noted, not commensurately high pay. In 1976, for example, of the over 50,000 persons who took the national higher civil service exam, only about 1,300 passed. For most of the last one hundred years and including the postwar period, the news that a son had become a government bureaucrat would be one of the best pieces of news parents could receive; the contrasting image one has of an American family receiving the same news tells a great deal about the differences in political cultures. In comparative perspective, therefore, Japan’s bureaucracy has tended to resemble France’s elite civil service more than the American.

Evaluations of the power and prestige of the bureaucracy in Japan can be overdone, however. In the postwar period it was probably at its height in the first twenty years after WWII when the destruction of the war, the purge of politicians under the Occupation, and the newness of the democratic system, greatly lessened the influence of politicians and interest groups. As interest groups proliferated and grew in resources, and LDP politicians acquired expertise in policymaking with their long years in power, the influence of these other actors in the policymaking process has grown at the expense of the bureaucracy’s. There is a great deal of debate among experts on Japanese politics as to the extent to which these other actors have acquired more power and as to when this process began; there is little disagreement, however, that the *relative* power of the bureaucracy has declined over the past two decades.

Furthermore, many policy areas vital to the constituencies and votes

of the LDP, including agriculture, transportation, construction, and others, have been highly politicized for quite some time, with interest groups and politicians clearly wielding more influence than bureaucrats in these areas. Because Japan’s unusual multi-member district electoral system puts a great deal of pressure on Diet members to respond to constituent’s demands for pork barrel and distributive benefits—perhaps as much or even more than American Congressmen face—LDP politicians have been most involved in these policy areas that can deliver concrete public goods to their constituents.

## MITI

Economic policy has been one of the few policy areas where the bureaucrats have not been as subject to the narrow political pressures by politicians afflicting other policy arenas. The concentration of large industry’s corporate headquarters primarily in just two regions—Tokyo and Osaka, the only indirect relationship between overall economic growth and immediate, concrete constituency demands, and the priority given to national economic growth as a goal of the Japanese state have helped to at least partially insulate the ministries that deal with economic policy from the parochial political pressures that afflict other agencies. The Ministry of Finance (MOF), responsible for macroeconomic policy (fiscal policy; monetary policy, etc.) and the Ministry of International Trade and Industry (MITI), under whose jurisdiction falls trade and microeconomic (industrial) policy, have long been considered among the most elite, influential, and autonomous bureaucratic agencies.

One of the most salient characteristics of MITI is its comprehensiveness. With the exception of macroeconomic policy in MOF, and basic scientific research in the Science and Technology Agency, MITI combines everything from trade policy, through resources, manufacturing, and commercial technology, to commerce and small business under

its aegis (see Figure 1). This broad administrative mandate to deal with all microeconomic and trade policy undoubtedly facilitates coordination of policy. By contrast, it has been estimated that by the mid-1970s there existed well over one hundred different economic policy units in the U.S. government spanning many different Departments and agencies, often with little coordination among them. Even in a country like France, noted for its strong government, responsibility for the various aspects of industrial policy seems rather fragmented among several different ministries,

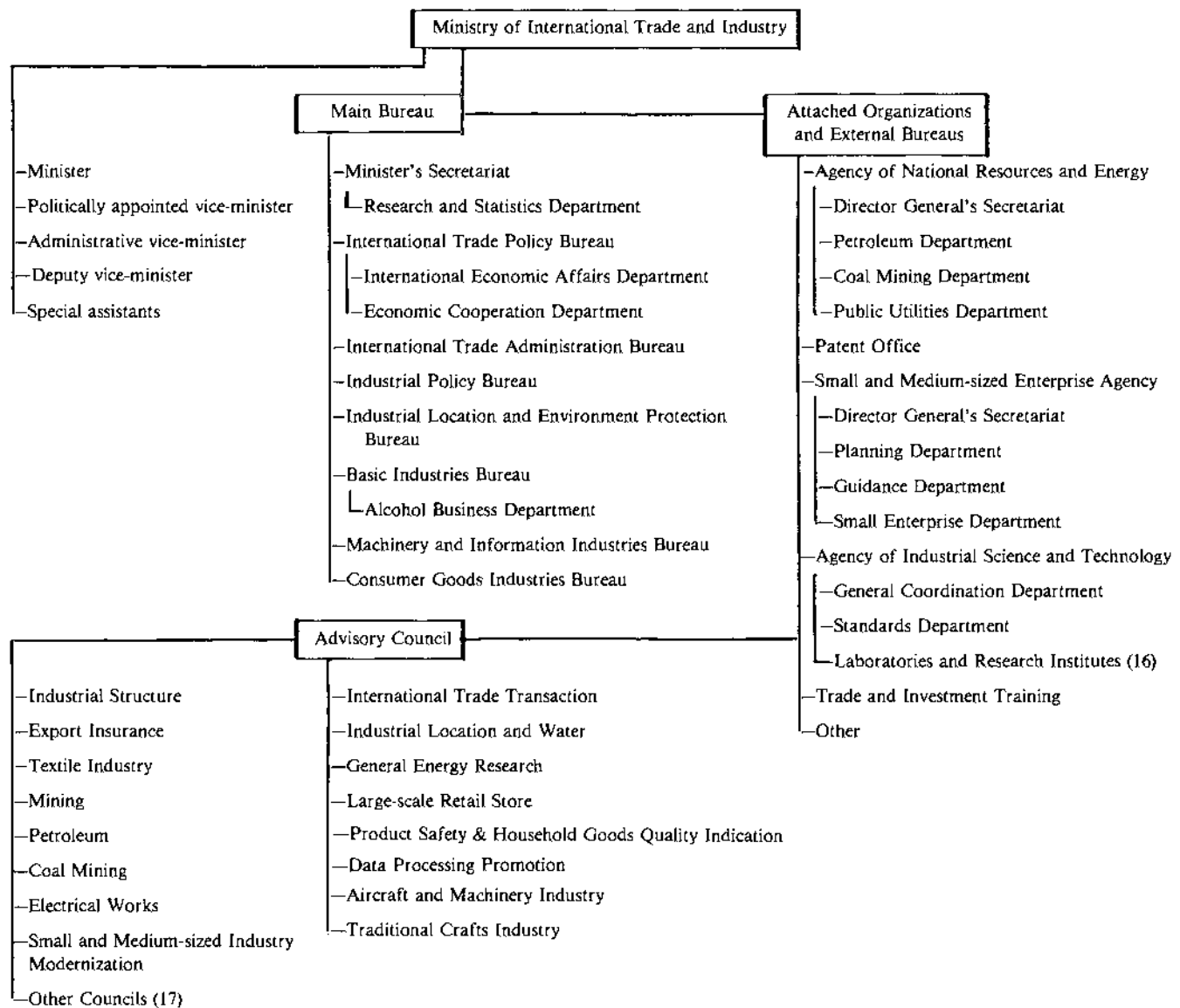
agencies, commissions, and committees, each with their own mandates, jurisdictions, and control over funding.

MITI is surprisingly small—it had only around 6,000 civil servants total in the mid-1980s, and perhaps 10% of those were actually involved in important industrial policymaking roles. Its personnel, however, are highly educated, recruited from among the best and brightest graduates of the best Japanese universities each year. The top recruits from each year also often are sent abroad to the United States and

Europe's best universities for further postgraduate education at an early stage in their careers.

The funds over which MITI has direct control are not very large either. Of the approximately \$475 billion in outlays of the various agencies of the Japanese government in fiscal year 1990, MITI's share was only about \$5 billion or one percent, a share only slightly larger than the courts and the Ministry of Justice spent, and far smaller than the individual agency outlays of the Health and Welfare, Education, Agriculture, and Construction ministries (see

FIGURE 1.



Source: Daniel I. Okimoto. *Between MITI and the Market: Japanese Industrial Policy for High Technology* (Stanford: Stanford University Press, 1989), Figure 3.2, p. 117. Reprinted with permission of publishers, Stanford University Press. © 1989 by the Board of Trustees of the Leland Stanford Junior University.

Figure 2). Indeed, in the mid-1980s the U.S. Pentagon spent *only on R&D in electronics and communications* about twenty times MITI's total Research and Development (R&D) budget for all industries (Tatsuno, 1986: 256, 255).

Clearly, whatever influence and effectiveness MITI has, it is not primarily based on its direct granting of large sums of money to industry. Indeed, the U.S. government provides almost three times the proportion of total R&D expenditures in the U.S. (48% in 1988; much of it, of course, for defense) than the Japanese government does in Japan (18%); Japanese industry is *less* reliant on government for R&D funds than American industry is. Below we will see how MITI helps industry in many other ways.

### The Goals and Formulation of Industrial Policy

Industrial policy is a government strategy to help important business sectors become more competitive and to adjust to the changing structure of the economy. Just this simple definition gives us some important hints as to how industrial policy, as practiced by Japan at least, differs from simply "economic policy" in general or the way government aids business in the United States.

First, it has a *strategic* component. Underlying industrial policy is the goal of systematically aiding industry to achieve the goals of competitiveness and thus facilitate national economic growth. It is not simply a reactive response to demands from industry for help, but rather involves government anticipating and making strategic choices about what needs to be done. Japanese industrial policy in particular is *future-oriented*, attempting to anticipate future international trends and market developments.

Those strategic choices involve the second component of industrial policy—it is *inherently discriminatory*. Industrial policy is a micro-economic policy because government must decide which industries (sectors) or even firms it thinks are important enough to economic growth to help. Macroeconomic (fiscal, monetary, etc.) policy, by contrast, is designed to stimulate or stabilize the economy

**FIGURE 2.**  
**Outlays of Ministries of Japanese Government,**  
**Fiscal Year 1990 (in Billions of Yen) and**  
**Number of Personnel (1987)**

| Ministry                                  | Amount of Outlay* | Personnel**  |
|---|-------------------|--------------|
| Finance                                   | 17,010            | 14,518       |
| Home Affairs                              | 15,343            | 319          |
| Health and Welfare                        | 11,565            | 57,966       |
| Education                                 | 4,799             | 129,952      |
| Construction                              | 3,761             | 25,646       |
| Agriculture                               | 2,509             | 24,058       |
| Transportation                            | 813               | 18,335       |
| <b>International Trade &amp; Industry</b> | <b>726</b>        | <b>5,530</b> |
| Foreign Affairs                           | 534               | 3,980        |
| Labor                                     | 487               | 24,691       |
| Justice                                   | 455               | 45,734       |
| Posts & Telecommunications                | 26                | 2,776        |

Source: Outlay data adapted from Figure 10-3, "Japan's General Account Outlays by Agency and Purpose (FY 1990)," in *Japan 1991: An International Comparison* (Keizai Koho Center, 1991), p. 80. Rank ordering and rounding of amounts by the author. Personnel data from *Nihon tokei nenkan* (Japan Statistical Yearbook), 1989 (Tokyo: Statistics Bureau, Management and Coordination Agency, Government of Japan, 1989), p. 702. There are also agencies in Prime Minister's Office which are equivalent of ministries in function but which are not included.

\*Total spending of government agencies, including those not listed in this chart, was ¥66,237 billion.

\*\*These figures represent the actual number of full-time employees on the payroll at the main office of the Ministry; it excluded, e.g., temporary and part-time personnel, as well as those working for affiliated agencies and commissions. For example, the Patent Office, Small and Medium Enterprise Agency, and Agencies of Industrial Science and Technology and Natural Resources and Energy, all under MITI purview are not included. If these were included, MITI's total employee figure would be a bit over double the one in the chart; but many of the other agencies would also be larger if their related agencies were included too.

in general and thus helps all firms and industries equally. In general, Japanese industrial policy does not try to discriminate among individual firms, as much as among industrial sectors and technologies.

The third component is to *facili-*

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*Industrial policy is a government strategy to help important business sectors become more competitive and to adjust to the changing structure of the economy.*

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*tate adjustment* to the constantly changing nature of production and markets. By choosing to aid some industries to grow more rapidly, and to help others decline more orderly than they might otherwise, government policy helps to change the *structure* of the economy in ways

that foster the domestic and international competitiveness of its industries and firms. In doing so, Japanese industrial policy tries to be "*market-conforming*"—anticipating where the markets will be and facilitating and speeding adjustment to them.

It is important to recognize how these components and characteristics of Japan's industrial policy differ from government aid of business in the United States and Europe. Some people argue that the United States has an industrial policy, although we don't explicitly call it such, because the U.S. government spends billions of dollars each year aiding business and because even the most conservative administration carefully adjusts its macroeconomic policies to avoid recession and inflation and stimulate the economy. To the extent that the United State's economic policies lack a government strategy for discriminating among sectors or firms to change the structure of the economy, however, it cannot really be called an industrial policy. American economic policy tends to be macroeconomic,

and otherwise “laissez-faire”—leaving all adjustments to the market without any government intervention. When exceptions are made and aid given to particular industries, firms, or technological development, it tends to be *ad hoc*, reactive to whatever interests can mobilize enough political pressure (especially declining industry), or derivative of other, non-economic, policy goals, such as defense.

European governments have industrial policies with strategic and discriminatory components on behalf of structural change goals. Often, however, whatever strategic and future-oriented goals may have motivated the policy, these tend to get distorted by political pressures to protect uncompetitive or declining industries, and wind up resisting adjustment and structural market change. Further, some European governments discriminate down to the company level, lavishly aiding one or two firms chosen as “national champions” and severely handicapping all other firms in that sector from competing. The future, sector-level, and market-conforming orientation of Japanese strategic industrial policy thus may be its distinguishing characteristic and help account for its relative success.

### The Development of Industrial Policy

Japan's industrial policy has developed and changed over time. In the nineteenth century, it was the elite bureaucrats who presided over Japan's modernization process and “catching up” with the West. As a “late developer,” the government played a much greater role in economic development than in countries like the United States and Britain where the luxury of more “laissez-faire” type of economic policy and ideologies were dominant. In countries like Japan (and Germany) which modernized in the late nineteenth century, one of the most important roles of government became not only defense and order, but also economic growth. Indeed, for a nation like Japan where economic modernization was essential to keep its independence from

the West, economic growth and national security were intertwined. Thus, government intervention and guidance of the economy was accepted and legitimized as an essential function of government, a difference with the United States that is still striking to this day.

In prewar Japan, under the mobilization for war of the military governments of the late 1930s, the economy was reorganized as a “corporatist” state of private ownership but government control. With the American occupation of Japan, the corporatist state was dismantled; the Americans, however, purged and reformed the bureaucracy least of all the political institu-

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*Japanese industrial policy tries to be “market-conforming”—anticipating where the markets will be and facilitating and speeding adjustment to them.*

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tions, and the great need for economic reconstruction once again provided the impetus for an active industrial policy. MITI embarked upon a program to reconstruct Japan by emphasizing the development of heavy industry, such as petrochemicals, steel, and shipbuilding.

During the 1950s and early 1960s, perhaps the height of state-led intervention and bureaucratic power in the postwar era, MITI had various effective “tools” to ensure implementation of its policies and the nurturance and growth of such targeted industries. Among these were control over foreign exchange (thus a company wishing to do business abroad had to play ball with MITI to get the requisite foreign currency it needed to operate), and formal protectionism such as tariffs. Another of the effective means at its disposal was indirect influence over capital. Because Japanese banks were dependent on bank loans, rather than stock equity for capital, MITI's designation of an industry as a future

“winner” often made it easier for firms in that industry to obtain loans from banks as the latter knew that such sectors were likely to be less of a risk if they had MITI backing (Zysman, 1983).

With the 1960s, however, Japan was forced to liberalize to accord with international agreements; as a result, MITI lost many of these cruder and more direct tools. Increasingly in the later 1960s and 1970s, as the earlier postwar “consensus” began to unravel with citizen concerns over pollution and welfare competing with economic growth as a preferred role of government, MITI turned to more indirect, subtle, sometimes informal methods to try to influence industry. Thus, it increasingly used “administrative guidance”—discretionary methods of inducement to industry that range from informal persuasion to the issuing of ordinances that have the force of law.

As we have seen, with the 1980s and 1990s, the very success of MITI's previous industrial policies had provided firms with the financial resources to become more autonomous from MITI. Further, the nature of postindustrial economic growth has become more dependent on the development of new technologies. Increasingly, MITI has emphasized and nurtured the development of new technologies rather than particular industries. Thus the 1980s were notable for MITI's emphasis on “information technologies” ranging from the semiconductor, through robotics and new generations of computers, to automated production processes. Finally, whereas MITI promoted exports in the earlier postwar period, it has more recently cast itself in the role of “internationalizer” of Japan and of promoting imports to deflect foreign antagonism toward Japan over its trade surpluses.

Even this brief sketch of the development of industrial policy in Japan indicates that there has been no one industrial policy that MITI has followed, either in content or method. One of the reasons for MITI's effectiveness has been its flexibility and constant ability to anticipate the changing structure of the economy and to adapt its methods to changing times. One

constant, however, has been that its policies have usually been developed and implemented along with cooperation from industry, not imposed against its wishes. Using trade associations and advisory councils (*shingikai*) made up of industry's representatives and experts, MITI has had institutionalized channels of communication with industry to gather information, formulate its policies, and implement its goals. One reason for MITI's successes in gaining industry cooperation for its policies is that to a large extent those policies have reflected the input and goals of industry itself.

### Developing Future Industries

At the heart of MITI's industrial policies have been MITI's attempt to anticipate which industries would constitute the core of economic growth in the future. Perhaps the best way to understand the process and techniques by which MITI has used industrial policy to build industries and growth is to give a brief sketch of how it developed the semiconductor and computer industries in Japan.

Japan attempted to catch up with the enormous U.S. lead in information technologies beginning in the late 1950s and early 1960s, as it saw that computers, and their essential components, semiconductors ("chips"), would be the core technological products of the future. The first problem MITI confronted was the inability of smaller Japanese firms to compete with IBM, the U.S. computer giant, if it were allowed to open a subsidiary in Japan. In 1960, however, MITI allowed IBM-Japan to be established, but in exchange it had to license its patent to Japanese firms. In other words, MITI made *technology-transfer* a condition of IBM entering the Japanese market. Even after entry, though, IBM continued to be treated as a foreign firm by MITI, excluded from collaborative research efforts, and essentially discriminated against (Vogel, 1985: 131-132).

From the 1960s to the present, *continuous communication with firms and discussions in advisory councils and other routinized*

*channels* produced a government-business research agenda, identifying the types of basic R&D that Japan needed to do to develop a semiconductor and computer industry. For example a "High Performance Computer" in the 1960s, and Very Large Scale Integrated circuits (VLSI) in the 1970s were subjects of *coordinated research projects* under MITI auspices with *government research subsidies* (in semiconductors these were still significantly less than the subsidies provided by the U.S. government for R&D in this area) in which the participating firms divided the research tasks.

This and other types of firm

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*Indeed, for a nation like Japan where economic modernization was essential to keep its independence from the West, economic growth and national security were intertwined.*

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collaboration were made possible by *looser anti-trust laws*, and laxer interpretations of, and selective exemptions from, these. They were also *tax incentives and credits, and loans* provided by other public institutions (e.g., the Japan Development Bank) to firms involved in developing these information technologies. Such collaboration is also facilitated by the oligopolistic nature of the sector in Japan, with only a limited number of larger firms for MITI to deal with. It should be noted, however, that inter-firm consortia are almost always concerned with basic research; once the fundamental technology is shared among the firms in the consortia, the companies compete fiercely and without government support to commercialize the technology, establish the manufacturing process, and design, develop, and market their product.

As Okimoto (1988: ch. 4) has pointed out, successful government encouragement of this industry not only involved "technology push"

through the means above, but also "demand pull"—the need in the early stages of development for there to be sales in volume to allow companies to lower unit costs (economies of scale) and perfect the efficiencies of the manufacturing process ("going down the learning curve"). In the United States, for example, the early, rapid development of the computer industry was made possible by extensive government procurements of computers and semiconductors, for defense. Without this defense-related "demand pull," MITI used other methods to create it.

One means was to *protect the home market* by a tariff on imported computers (significantly reduced in the early 1980s and now eliminated), thus ensuring domestic demand went primarily to Japanese firms, and nurturing the industry until it was strong enough to compete with foreign companies. Second, instead of defense sales to stimulate early demand, NTT (Nippon Telephone and Telegraph; then a public corporation, but recently privatized) contracts provided similar *public procurement* for the firms producing semiconductors and computers. Third, in probably the most creative technique of "demand pull," in 1961 the government-industry jointly owned Japan Electronic Computer Corporation (JECC) was established. This company purchased computers from the manufacturers, then leased them at reasonable rates to small businesses. This *special purchase/lending program* thus killed two birds with one stone: it encouraged small businesses who might not otherwise have invested in computers to use this new technology, and it provided a built-in demand mechanism for the early computer industry.

As can be seen in this example of the computer/semiconductor industry, Japan's industrial policy has used a variety of mechanisms, some used by the United States (e.g., procurement, research subsidies, tax depreciations) but others more particular to Japan—institutionalized business-government communication channels, technology transfer agreements, protection from foreign competition in early stages, exemptions from anti-trust, government-industry research consortia, and so forth, to develop a vital sector.

Through this package of discretionary and often creative programs, MITI was able to help nurture an important future industry until it was of a scale and proficiency that it could compete with foreign firms. Once formal protectionist barriers were removed, as they were by the 1980s, not only were Japanese firms competitive, but they had a decided advantage in their own domestic market, making it unlikely that foreign firms could gain a great deal of market share. This now unprotected, but stable home market for Japanese firms, also makes them more competitive in international markets.

### Helping Declining Industries and Troubled Firms

Even governments without a strategic industrial policy, such as the United States, will often have to step in to help an industry in irreversible decline or a firm in trouble in a competitive sector if the demise of that industry or firm would have substantial economic or political consequences. Countries with a strategic industrial policy to develop future industries may often find its original purpose and resources diverted to declining industries for the same reason. How does Japan handle such cases?

For most of the postwar period, of course, there were few important "declining" industries in Japan. Rather, it was the phenomenal growth of Japanese industries in the 1950s and 1960s that caused problems for other nation's sectors. By the 1970s, however, competition from the newly industrializing countries, such as Korea, Taiwan, Brazil, and others, meant that sectors such as steel, aluminum, shipbuilding, etc. began to decline.

Japan's policies here too provide an instructive contrast to other countries. The United States often lets the market weed out the most inefficient producers, with the concomitant social costs borne by unemployed workers and the local communities where factories were located. Or, if enough political pressure is mobilized, some form of protection against foreign competi-

tion will be implemented, with the result of maintaining inefficient and uncompetitive firms without any further adjustments. An alternative practiced in some European countries is to provide subsidies or other forms of aid to try to make (often unsuccessfully) firms competitive again.

Japan's industrial policies toward declining industries emphasize instead the *reduction of capacity through cartels*. MITI receives authority under laws passed by the Diet to form legal cartels composed of the firms in the designated declining industry. Negotiations among the firms under MITI auspices produces an agreement for the firms to reduce capacity to bring supply more closely in accord with (declining) demand. In other countries, declining industries often wind up having to cut their prices because of the decline in demand. This in turn only exacerbates the problems of the firms in that sector by reducing profits even further, contributing to an even more sudden and drastic decline in particularly the most inefficient producers. In Japan, the reduction of capacity helps to stabilize prices and allows all producers to carry out both an orderly decline and the necessary adjustments to stay in business, for e.g., by modernizing equipment or diversifying (see Peck and Goto, Levin, and Goto, 1987). Although these cartels are legal, some critics contend that MITI also tolerates others that are not.

Japan's handling of a troubled firm is illustrated by the problems that Mazda had in the 1970s. Nearly bankrupt, Mazda was rescued and restored to health by the Sumitomo Bank which essentially put the company into an informal receivership and carried out many innovative ways of improving efficiency, cutting costs, and increasing sales, including sending underemployed workers out to dealerships and door-to-door to sell cars. Government's main role was to quietly instruct Mazda's competitors not to take advantage of the carmaker's troubles, let it be known that it supported Sumitomo's efforts, and requesting journalists not to undercut the auto producer's credibility by discussing its troubles. It spent not a penny of the taxpayer's money to save the company, nor did it carry out any

legislative or formal administrative action. Contrast this to the Chrysler "bail out" in the United States in which the government had to act to provide billions of dollars of loan guarantees.

### Costs, Failures, Limits

Japan's industrial policies often have been effective, but they have involved trade-offs. For example, Japan's use of cartels and reduction of capacity measures to stabilize declining industries, and in general its producer rather than consumer-oriented approach, has resulted in higher prices for the average Japanese because it has restrained totally free competition through price competition. Although firms in declining sectors shrink in size, almost all are preserved, the inefficient along with the efficient, thus also effectively keeping prices high, whereas a pure market solution might have preserved only the most efficient. In effect, the cost of orderly decline without the trauma of bankruptcies and unemployment has been an indirect subsidy from Japanese consumers to producers.

Industrial policy may also be a cause of Japan's current trade friction with its partners. Nurturing future industries involved protecting them from foreign competition and encouraging their growth with government programs to reduce the risk to companies who invest in the new technologies. Both these effectively encouraged companies to export—a protected home market provides an indirect subsidy to Japanese firms abroad and government encouragement of several firms simultaneously to market a new technology also will mean they will probably extend their competition overseas (Yamamura, 1982: 99-100). Much of the frustration of foreign business and government leaders with Japan in the 1970s and 1980s was exactly due to their inability to get into the Japanese market, while at the same time being challenged in their own market by aggressive Japanese firms.

It is also clear that the stereotype of MITI as a totally autonomous agency of powerful bureaucrats who

are always guided by the national interest to pursue the right policies is a myth. First, not all of MITI's policies have originated in a conception of the national interest. Small and medium enterprise policy, also under MITI's jurisdiction, has been a notorious case of highly politicized policymaking because small business is one of the support bases for the LDP (Calder, 1988: ch. 7). The result has been an extremely inefficient distribution and retail system, again with the consumer paying the cost in high prices. Even in manufacturing and dealing with large enterprises, as we have seen, MITI policies are always extensively negotiated with industry. Lobbying, bargaining, conflict, trade-offs, and so forth in the creation of policy take place between government and business in Japan, but they occur in institutionalized and less public channels—channels that might be called “politics by other means.”

MITI has also been known to make mistakes and to be unable to gain the cooperation of firms to implement its ideas. In one of the most famous cases, it took Sony's founder, Masaru Ibuka, two years to convince MITI of the value of the transistor and gain approval of his attempt to license it for use in his company's products. In another famous case, MITI decided in the early 1960s to “rationalize” Japan's auto industry and tried to get companies like Honda and Mazda to merge with Toyota and Nissan. The rationale was that the future of the international auto market would not support more than two Japanese car companies. Honda and Mazda successfully resisted, and as the many Americans driving these brands of cars today attest, were far better at predicting the future than MITI.

Other cases also cast doubt on MITI's ability to always be right or gain the cooperation of industry. Richard Samuels (1987) has shown how, despite the importance of energy to Japan's economic well-being, MITI has historically been unable to completely gain control over energy markets from the private sector. Case studies of the standardization of VCRs and the steel mini-mill industry also indicate that at times maverick firms can stand up to even a coalition of MITI and the

larger firms in an industry to resist their policies. The cooperation of industry with MITI plans works best in a concentrated, stable industry with a small number of firms, and where the companies have a common interest in MITI's aid to develop a product (Noble, 1989).

Finally, as industrial policy comes to resolve even more around new technologies, there has been more fragmentation and conflict concerning it. As long as industrial policy focused on industries like steel, chemicals, or even computers themselves, MITI had clear jurisdiction. New technologies, however, are spanning the boundaries of bureaucratic jurisdictions and causing “turf wars” among coalitions of ministries, politicians, and interest groups.

Perhaps the most famous case was that of “VANS,” value-added networks, to enable businesses to communicate and transfer data via computer. Because this lucrative technology involved communication over distances, the Ministry of Posts and Telecommunications (MoPT) claimed jurisdiction; MITI argued that because it was related to the computer industry it fell under its auspices. A major battle ensued that was resolved only with the intervention of the highest levels of LDP leadership (Johnson, 1989). Other new technologies such as High Definition Television (HDTV), superconductivity, and biotechnology that can be claimed by various agencies (for e.g., at present biotechnology is being developed by five different Japanese bureaucracies), also may result in more fragmented and even conflictual policymaking than in the past.

### Why Japan's Industrial Policy Works

Despite the failures, costs, and limits of Japan's industrial policy, it is widely recognized to have been generally effective. No one knows for sure what the contribution of industrial policy has been to Japan's economic growth. Some economists argue that Japan's growth is primarily due to the strategies of the private sector or the macroeconomic (fiscal, monetary, currency) policies of the government (see Trezise, 1983). Surely, there is truth to the fact that

much of Japan's growth is attributable to the strength of the private sector, and that Japan's industrial policies were dependent on sound macroeconomic policy choices too. Most would agree, however, that industrial policy facilitated the strength and growth of the private sector and that macroeconomic policy alone would not have produced the same growth that Japan experienced. Further, even those who believe that industrial policy has been ineffective in most other countries would concede that Japan may be an exception.

One question becomes, therefore, *why* has Japan's industrial policy succeeded to the extent that it has? A related question is how MITI has been able to keep its industrial policy from becoming a partisan political football, subject to the distortions of parties and politicians? There is no easy answer here either, but let us try to put together a reasonable one based on what I have described above. Simply put, the solution to these riddles may lie in the particular combination of *ideology, institutions, interests, and instruments* that have converged in postwar Japan.

First, for most of the postwar period, Japan has had an *ideological consensus* on the legitimacy of state intervention to facilitate economic growth. This may have been a prerequisite for everything else. Without this, it is unlikely that MITI could have gained the trust of the private sector and the relative non-interference by politicians that it did.

Japan's *political institutions* further contributed to the effectiveness of policy and MITI's ability to formulate policies somewhat free of partisan interference. The fact that almost all microeconomic and trade functions were centralized in one agency has undoubtedly reduced the fragmentation of policy until recently. It is not that conflict over policies is absent, only that such conflict tended to occur within the framework of a single agency, contributing both to its resolution and smoother formulation and implementation.

Another contribution of political institutions to the partial insulation of industrial politics from partisan distortion has been the long tenure of the LDP in office. The LDP's

perpetual hold on government since 1955 and its support from the business community has meant that the party in power has shared the goals of industrial policy; competing priorities for the state or for industrial policy have been absent because opposition parties have not held power. This has not only reduced controversy about industrial policy, it has provided a stable political environment in which to formulate those policies.

Finally, if the results of elections have ensured that ideological competition to MITI's policies have not interfered, the nature of the electoral system has contributed to protecting industrial policy from the worst abuses of partisan pork barrel politics. The constituency demands of the Japanese electoral system have kept most conservative politicians more attentive to local pressures and policies with the greatest impact on their constituencies. This has allowed MITI to formulate industrial policy with relatively less political distortion by the LDP than might have been expected. The paradox at the heart of Japan's industrial policy is that it is the major partial exception to the rule of highly politicized policy areas; yet it is the politicization of these other policy areas that in turn helps make industrial policy the exception.

The *organization of private interests* has also made Japan's industrial policy and its effectiveness possible. The "lifetime employment" system, the reticence of Japanese firms to lay off workers, the weakness of organized labor politically, and the dependent position of many smaller subcontracting and supplier firms on larger firms have reduced enormously the power of labor and small business as interest groups. In so doing, they have also reduced the pressure on Japan's government to distort the future technological orientation of industrial policy to protect employment and votes, a pressure to which other governments in societies with different industrial organizations have usually succumbed.

So too the oligarchical nature of industries and their organization into trade and peak associations have made constant communication, formulation, and implementation easier. MITI for example, could formulate and implement its policies

toward the semiconductor industry in part because it only had to consult with and aid a limited number of semiconductor and computer firms (and most of these were the same). Could MITI have been as successful if it had to formulate and implement an industrial policy in this sector with hundreds of small semiconductor and computer firms, such as in Silicon Valley in the United States? Assuming it could not do so with all the hundreds of firms, would it have been able to discriminate among them to aid only a few without the excluded firms raising a political fuss? Would Mazda have been rescued without government interference if the *keiretsu* form of business organization with its central role of a bank had not existed in Japan? Thinking about these questions gives the reader some idea of the great advantages that MITI has in dealing with a limited number of firms in well-organized sectors.

Lastly, the *instruments* chosen by MITI to create and carry out industrial policy have been appropriate to both the market and Japan's economic context and problems. For example, with Japanese firms that normally aggressively seek market share but have difficulty laying off workers, it makes sense to encourage firms to decline by reducing capacity rather than either give them money to stay afloat or let them go out of business entirely. Giving them subsidies would only exacerbate the problem because they would still continue to aggressively compete for a smaller pie; doing nothing would doom them to bankruptcy because they do not have the same flexibility as American firms to lay off workers to cut costs. As another example, as MITI lost the formal instruments to encourage business compliance in the 1960s, it adapted by finding other, more informal means of persuasion and negotiation.

Most importantly, MITI's instruments have been "market conforming." Note that conspicuously absent from MITI's tools to help industry are direct subsidies of taxpayer money to try to revive or turnaround declining industries or failing firms. MITI has not tried to second-guess the market, only to guess where it is going and help firms adapt accordingly. Nor has MITI given direct

subsidies to individual firms to develop future technologies. Rather, it has relied on consortia of most of the major firms. By not dispensing a great deal of government money and by not relying greatly on firm-specific instruments, MITI has also helped keep industrial policy from becoming distorted by political controversy.

In evaluating its industrial policy, it seems reasonable to conclude that the Japanese state may not be as "strong" as it is "smart."

## Models of Japanese Policymaking

Based on our discussion of industrial policy, which of the major models of politics and policymaking, *the statist model*, *the corporatist model*, or *the pluralist model* apply to Japan? Depending on which dimension one looks at, there are elements of each.

Many observers have argued that the Japanese policymaking process is *statist* in nature. For example, such aspects of industrial policy as an ideology of economic growth legitimizing state intervention in the economy, an elite bureaucratic agency, MITI, serving the national interest, with discretionary power to influence the private sector on behalf of its goals, relatively insulated from political interference, all seem to conform to the *statist model*.

On the other hand, as we have seen, industrial policy is by no means typical of all Japanese policymaking. Indeed, it may well be the exception in terms of the amount of autonomy from partisan political interference and interest group influence on policy. Even within the industrial policy arena, however, other elements exist that do not seem *statist*. MITI has formulated and implemented its policies not in autonomous isolation from business but through institutionalized channels of communication, negotiation, and bargaining, in which business interests have had great input into the policies. Richard Samuels (1987) has characterized this process as one of "*reciprocal consent*" in which agreed-upon policies are the outcomes of a bargaining process that includes conflict as well as consensus

between the state and private interests. Such institutionalized bargaining channels sometimes begin to resemble *corporatist* structure and process.

Yet there are also *pluralist* elements. The increasing influence of politicians in the policymaking process, the ability of firms in some sectors to challenge the consensus of both MITI and the majority of firms in a sector, and the growing fragmentation and competition between bureaucratic agencies over new technologies, all have added a measure of pluralism to industrial policy.

No one model seems to fit industrial policymaking in Japan: dimensions of each are interwoven in a complex pattern, and the weights of each may vary over time, in different sectors, and over different issues. It is clear, however, that the Japanese state has contributed to economic growth in Japan, but its ability to do so has depended on the organization of social interest groups, the political context in which it operates, changing economic circumstances, and its capacity to craft its policies to take advantage of these economic and political connections.

## Classroom Exercises or Assignments

*Note to the Instructor:* Below are a few issues and themes that can be used in conjunction with this unit. The questions may be used to stimulate class discussion, or be used as part of take-home or in-class writing assignments. Some of these might also be the subject of an in-class debate in which students are assigned to take one side of the question or another.

1. Discuss: How might Japan's industrial policy lead to frustrations among Japan's trading partners and increase trade friction?

2. Discuss: Should the United States adopt an industrial policy strategy like Japan's to increase its international competitiveness? Could the United States change its ideology, interests, and instruments to adopt such a strategy? What are the major obstacles to such change? What aspects of the Japanese environment for industrial policy does the United States have? What aspects does it

lack?

3. Discuss: Think about Japan's industrial policy, some of the references in this unit to European countries, and other things you have learned about Europe in your course. Is Japan or the United States more unique? Is what Americans and their leaders believe about the role of government in the economy universal? How much of what Americans think, and U.S. politicians say, is and should be the proper relationship between government and the economy "fact," and how much may be "belief" (ideology)?

4. Discuss: Some economists argue that markets grow and operate best when government doesn't interfere with them at all. Some political scientists imply that rapid economic growth can be achieved only if government intervenes heavily to help industry with funds and strong guidance. What does the case of Japan as described in this unit suggest about these "all or nothing" arguments?

5. Discuss: What stereotype did you have of Japan and the role of the Japanese government in the economy before taking this course? How did what you learn here differ from that stereotype? How do you think you formed that stereotype originally?

## Classroom Media

A recent series broadcast by the Arts and Entertainment Network, "Nippon," produced by the BBC contains some excellent programs relevant to Japan's political economy. One for example concerned how Japan reconstructed after WWII. Another is on how Japan's automobile industry "took on" Detroit. Instructors should contact the Arts and Entertainment network for further information on this series for classroom use.

## Notes

\*I wish to especially thank Steven Anderson and Shigeko Fukai for their very helpful comments and suggestions on the first draft of this article.

1. The size of Japan's national security establishment has been limited by the Constitution given it by the American Occupation that has been interpreted to outlaw armed forces for any but defensive purposes. Further, until recently, most of Japan's weapons were produced under license from American firms or purchased directly from the U.S.

## Bibliography and Further Reading

H = Hardbound edition  
P = Paperbound edition

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## Introducing Japan to Comparative Politics

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- Calder, Kent E. 1988. *Crisis and Compensation: Public Policy and Political Stability in Japan, 1949-1986*. Princeton University Press. H. Chapters on how small business, agriculture and other policy areas are used for political purposes, and even more so in times of crisis. Instructor background.
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allocation through a controlled bank system to implement industrial policy. Background for instructor.

#### Further Sources of Basic Information

Japan Economic Institute. *JEI Report*. Washington: Japan Economic Institute. This ten-page plus newsletter offers updates on Japan-U.S. relations, and current events and economic and political developments in Japan, as well as periodic background reports and analyses of political economy subjects. Despite the basically favorable approach to Japan of the institute, the analysts do a credible job of providing good information and a point of view on Japan. A basic source both for those who do not read Japanese or get a daily newspaper about Japan, and for those who do.

At \$20 per year academic subscription rate, this is the best bargain around for anyone interested in Japan. For further information, contact Japan Economic Institute, 1000 Connecticut Avenue, N.W., Washington, D.C. 20036; tel: (202) 296-5633.

Keizai Koho Center. 1991. *Japan, 1991: An International Comparison*. Tokyo: Keizai Koho Center. P. A handy compendium of statistics, many comparative, concerning Japan's economy, society, and government. English. Annual. Useful for background for class lecture. To receive the publication write to Keizai Koho Center (Japan Institute for Social and Economic Affairs) 6-1, Otemachi, 1-chome, Chiyoda-ku, Tokyo 100, Japan.

Also handy is a booklet put out by the same organization: *Japan Information Resources in the United States, 1990*.

## About the Author

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Ellis S. Krauss is Professor of Political Science at the University of Pittsburgh. He has conducted research in Japan at Tokyo, Kyoto, and Keio universities. Professor Krauss has published *Japanese Radicals Revisited* (University of California Press, 1974) as well as three co-edited books on Japan, *Political Opposition and Local Politics in Japan* (Princeton University Press, 1980; with Kurt Steiner and Scott Flanagan), *Conflict in Japan* (University of Hawaii Press, 1984; with Thomas Rohlen and Patricia Steinhoff), and *Democracy in Japan* (University of Pittsburgh Press, 1989; with Takeshi Ishida).

## Japan's Foreign Policy

Roger Bowen, *Colby College*

### Central Points

Japan serves as an excellent case of the anomaly of the economic giant-political pygmy whose ability to influence international events is severely limited despite a manifest desire to play a larger role. Japan's attempts to achieve political standing commensurate with its economic clout internationally have enjoyed only minimal success.

Historical factors, especially its defeat in World War II and the Occupation of Japan by the United States, continue to influence Japan's postwar foreign policy. So too does the so-called "peace clause" of the U.S.-imposed Constitution and the pacifist public consensus that has grown around it.

Since the war Japan's defense alliance with the United States has had an enormous impact on foreign policy, both inhibiting and aiding Japan's relations with other states. Japanese dependence on American defense guarantees sometimes conflicts with Japan's attempts to strike a more independent foreign policy.

Much of Japan's foreign policy can be properly termed "economic diplomacy," yet Japan has not

always been successful in separating economic relations from political and strategic considerations in its relations with the United States and with Asian neighbors.

### Introduction

On June 25, 1990, just two days after Japan renewed its thirty-year

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*Japanese dependence on American defense guarantees sometimes conflicts with Japan's attempts to strike a more independent foreign policy.*

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old treaty of Mutual Security with the United States, Prime Minister Toshiki Kaifu told a Japanese symposium in Tokyo, "From now on Japan will go out into the world and if there is a need, if there is a request from another party, we should not hesitate in meeting it" (FBIS, 25

June 1990).

If Arthur Schlesinger, Jr., is correct and foreign policy is "the face a nation wears to the world" (1983, 1), then the image being projected by Kaifu's declaration is of a nation self-confident, willing to assist others, bold and ready to take decisive action when the need arises.

Indeed, the world should not be surprised by such heady rhetoric; the world well knows by now that Japan's enormous wealth makes it eminently capable of playing a leading political role in the international arena. Japan produces 15% of the world's GNP, second only to the United States; Japan leads the entire world in providing other nations with development assistance; and Japan is the world's largest creditor and exporter of capital. Militarily Japan ranks behind only the United States and the Soviet Union in defense spending; its military-related technology is reputed to be among the most sophisticated in the world. In brief, Japan seems to possess all the ingredients of a world-class power. Yet Japan does not behave like one.

Only six weeks after Prime Minister Kaifu issued his bold declaration, Iraq invaded Kuwait.