

INFORMATION TO USERS

This manuscript has been reproduced from the microfilm master. UMI films the text directly from the original or copy submitted. Thus, some thesis and dissertation copies are in typewriter face, while others may be from any type of computer printer.

The quality of this reproduction is dependent upon the quality of the copy submitted. Broken or indistinct print, colored or poor quality illustrations and photographs, print bleedthrough, substandard margins, and improper alignment can adversely affect reproduction.

In the unlikely event that the author did not send UMI a complete manuscript and there are missing pages, these will be noted. Also, if unauthorized copyright material had to be removed, a note will indicate the deletion.

Oversize materials (e.g., maps, drawings, charts) are reproduced by sectioning the original, beginning at the upper left-hand corner and continuing from left to right in equal sections with small overlaps. Each original is also photographed in one exposure and is included in reduced form at the back of the book.

Photographs included in the original manuscript have been reproduced xerographically in this copy. Higher quality 6" x 9" black and white photographic prints are available for any photographs or illustrations appearing in this copy for an additional charge. Contact UMI directly to order.

U·M·I

University Microfilms International
A Bell & Howell Information Company
300 North Zeeb Road, Ann Arbor, MI 48106-1346 USA
313/761-4700 800/521-0600

Order Number 9410100

**The social origin of economic reasoning: Three changing
paradigms in Japanese economic policy, 1931–1965**

Gao, Bai, Ph.D.

Princeton University, 1994

Copyright ©1993 by Gao, Bai. All rights reserved.

U·M·I
300 N. Zeeb Rd.
Ann Arbor, MI 48106

المنارة للاستشارات

**THE SOCIAL ORIGIN OF ECONOMIC REASONING:
THREE CHANGING PARADIGMS IN JAPANESE ECONOMIC POLICY,
1931-1965**

Bai Gao

**A DISSERTATION
PRESENTED TO THE FACULTY
OF PRINCETON UNIVERSITY
IN CANDIDACY FOR THE DEGREE
OF DOCTOR OF PHILOSOPHY**

**RECOMMENDED FOR ACCEPTANCE
BY THE DEPARTMENT OF
SOCIOLOGY**

January, 1994

(c) 1993

Bai Gao

ALL RIGHTS RESERVED

I hereby declare that I am the sole author of this thesis.

I authorize Princeton University to lend this thesis to other institutions or individuals for the purpose of scholarly research.

Bai Gao

I further authorize Princeton University to reproduce this thesis by photocopying or by other means, in total or in part, at the request of other institutions or individuals for the purpose of scholarly research.

Bai Gao

Princeton University requires the signatures of all persons using or photocopying this thesis. Please sign below, and give address and date.



To my parents

v

ABSTRACT

The economic policy of the Japanese state between the 1930s and the 1960s showed three distinctive paradigms: the managed economy in the 1930s and the 1940s, the technological innovation in the 1950s, and the high growth in the 1960s. The economic reasoning behind these three policy paradigms differs itself from neoclassical economics not only in the unit of analysis, the preference of ends, and the instrumental means, but also in several other basic aspects concerning the methodology of economic science. Is it governed by the same universal and transcendent economic laws as some economists suggest? Is it simply a different value system which has nothing to do with rationality as some ultraculturalists suggest? What is the dynamic of change. And what is the nature of economic reasoning?

Drawing upon four case studies, I argue that Japanese economic reasoning is not simply a value system. It reflects a rationality, but this rationality is significantly different from the rationality described by neoclassical economics. I found that the dynamics of change in Japanese economic reasoning came from four dimensions: the changing perception of international environment functioned to set up the primary goals for economic actors, challenging the existing policy paradigm in economic thinking; the diffusion of foreign economic ideas through cross-national learning served in finding new policy paradigms, providing intellectual legitimacy to each policy alternative; the resulting manifesto of popular values operated in selecting the acceptable new policy paradigms, defining the moral and ethical nature of each economic rationale; and the constant trajectory of institutional structures of the state and state-business relations

helped to identify the social foundation of the instrumental means.

I conclude that economic reasoning is cultural not only because instrumental rationality varies cross-nationally, but also because institutionalized beliefs of rationality reproduce themselves overtime; economic reasoning is historical not only because its methodology can be inductive, but also because its focus in a nation is historically defined; economic reasoning is institutional, not only because its instrumental means is organizational, but also because its propositions are intellectually constrained, reflecting collectively shared beliefs of rationality.

ACKNOWLEDGEMENT

In the course of three years research on this project, I have received inspiration, advice, and support from many people. I am most grateful to four members on my dissertation committee. Each of them helped me greatly not only in different ways but also in different stages of my research. After I chose this topic for my dissertation research, Professor Marius B. Jansen immediately recognized the potential value of the topic to the field of Japanese studies, giving me constant intellectual encouragement and moral support. Professor Gilbert Rozman has been very supportive since I came to Princeton University in 1987. His suggestion of not spending too much time in Japan on writing a proposal but focussing on the collecting the first hand materials turned out to be a valuable one, which enabled me not only to get familiar with my research subject, but also to collect enough empirical data. When I worked on the analytical framework of this dissertation, Professor Frank Dobbin brought my attention to the literature of economic sociology. The reading lists he gave me often helped me to solve the puzzles. He also made constant efforts in improving my analytical skill. Professor Paul DiMaggio came to Princeton when I needed him most. He not only helped me to clarify several important concepts, but also gave me advise on how to arrange the structure of this dissertation for future publication. Both Professor Rozman and Professor DiMaggio provided detailed editorial comments. Professor Viviana Zelizer read two chapters of this dissertation and gave me some helpful comments. I am also benefitted from the comments from Professor Yamamura Kozo of the University of Washington at Seattle and other two anonymous reviewers I received for my paper

"Arisawa Hiromi: The Man and His Theory for A Managed Economy" I submitted to *The Journal of Japanese Studies*, which draws upon materials from this dissertation.

No field work, especially in a foreign country, can be done without help from scholars and friends in that country. I am very grateful to Professor Takemae Eiji of the Tokyo Economic University and Professor Harada Sumitaka of the University of Tokyo for their generous support as my advisors in Japan. They not only arranged meetings and interviews for me, but also provided many helps in daily life. Mr. Mitsuda of the Japan Foundation, Mr. Sakamoto Ken of the Ministry of Finance, and my friends Yuasa Hiroshi and Hua Dongming arranged several meetings with Japanese scholars and government economists for me. Mr. Yoshikawa Jun and Mr. Oshio Takashi of the Economic Planning Agency provided the data concerning government economists. Mr. Ōkita Saburō, one of my research subjects in this study, not only spent his time for my interview, but also helped me in getting data from other agency and introducing me to other scholars. Professor Tachi Ryūichō of the University of Tokyo, Professor Miyazaki Yoshikazu of the Yokohama National University, Professor Hara Akira of the University of Tokyo, Mr. Kanamori Hisao of the Research Center of Japanese Economy, Professor Tomizuka Fumitarō of the Tokyo Economic University, Professor Ide Yoshinori of the University of Tokyo, spent their valuable time talking to me and providing a lot of insights of the Japanese politics and economy which greatly enriched my understanding of Japan. Mr. Sakai Saburō, the former staff at the Showa Research Association, provided valuable information through my telephone interviews about activities of that organization and the role played by several intellectuals in these activities. Ms. Abe

Kyōko of the Industrial Bank of Japan collected the data concerning Shimomura Osamu. I also learned many insights of Japanese politics and economy from my regular discussions with Mr. Itō Yoshizō, a former bureaucrat who had experiences of serving in all major Japanese economic bureaucracies.

I am very grateful to the Institution of Social Science at the University of Tokyo for hosting me as a Foreign Research Scholar between July 1990 and August 1991 and providing me the office space, university apartment, research equipment, and the access to the libraries. I was benefitted greatly from the Library at the Institute of Social Science, the Library at the Department of Economics, the General Library, all at the University of Tokyo, the Central Metropolitan Library at Hiroo, and the Library of the Japan Foundation.

I am grateful to three year University Fellowships between 1987 and 1990 provided by the Graduate School of Princeton University. A one month pilot research trip to Japan in late 1989 was supported by the Center for International Studies and the Council for Regional Studies, Princeton University. A dissertation fellowship from the Japan Foundation supported me for fourteen months research at the University of Tokyo between July 1990 and August 1991. Two year fellowships from the Woodrow Wilson Society of Fellows at Princeton University between 1991 and 1993 enabled me to finish the writing of this dissertation. Finally, I am also grateful to the Department of Sociology at Duke University for reducing my teaching load as a new junior faculty member in my first year, which enabled me to have time to complete the revision.

Raphael Allen and Danna Zeller provided valuable editorial help for the first two

chapters of this dissertation. Their friendship left my life at Princeton a warm memory.

Finally, I am grateful to my wife, Hongqiu Yang. A sociologist herself, she has always been the first reader of my work, providing incisive commentary. More than anything else, her moral support to my academic career has been one of the major dynamics for me to overcome all the difficulties I have confronted in doing this study. In a broader sense, this dissertation is a product of the happy years we spent together in China, the United States, and Japan.

CONTENTS

Abstract.....	vi-vii
Acknowledgment.....	viii-xi
Preface: Making Sense of Japanese Rationality.....	1-6
Chapter One: Jissen-ha Economics and Japanese Rationality.....	7-55
Chapter Two: The Institutional Environments of Economic Reasoning.....	56-88
Chapter Three: The Managed Economy.....	89-166
Chapter Four: The Priority Production.....	167-245
Chapter Five: The Technological Innovation.....	246-320
Chapter Six: The High Growth.....	321-389
Chapter Seven: Conclusion.....	390-431
Endnotes.....	432-434
References in English.....	435-450
References in Japanese.....	451-479

TABLES

1. Selected Positions Held by Arisawa Hiromi in Various Advisory Committees to the Japanese State (1945-1962).....	16
2. The Rationality in Three Paradigms of Japanese Economic Policy.....	20
3. A Comparison of Major Difference Between Japanese Rationality Reflected in the Jissen-ha Economics and Western Rationality Reflected in Neoclassical Economics.....	26
4. The Increased Rate of Investment in Equipment in the Major Industrial Countries.....	264

PREFACE: MAKING SENSE OF JAPANESE RATIONALITY

As the world turns to the end of the twentieth century, Western social science is witnessing some profound disturbances. Many orthodox frameworks, which became widely accepted over the past several decades in their own disciplines, are coming under critical reexamination. The core of the modern worldview, which is based on the universal laws revealed by the social sciences and the belief that human societies would converge institutionally in the course of industrialization, is gradually losing its attraction. These changes in academia reflect the exciting reality of this world. In the past two decades, the outstanding performance in economic development of Japan, along with the so called "four little dragons" in East Asia that do not share the same history of Western civilization, amazed the world, directly challenging the conventional understanding of modern capitalism.

A succession of dazzling changes in the world in the late 1980s, whose impact on our future can not be precisely assessed until the next century, call attention to the urgent need for a study of rationality contained in Japanese economic policy--the intellectual foundation of Japanese capitalism. Such a study is relevant to many ongoing discussions and debates on some timely issues in many parts of this world. For readers in the United States, it is a helpful reference in the examination of the long neglected connection between the dominant economic theories and the various problems present in economic institutions. Paul Kennedy's book *The Rise and Fall of the Great Powers* has convincingly marked an end of the Pax-Americana century in intellectual discourse. In the past decade, many American intellectuals have begun to reexamine the problems in

both the economics discipline and economic institutions, strongly challenging the conventional understanding as well as the existing orthodoxy in both dimensions (Bellah et al. 1985, 1991; Thurow 1983). These efforts, however, were conducted separately, and few studies have asked the critical question, namely, what is the intrinsic connection between them. Robert Bellah and his associates point out in *The Good Society* that excessively stressed individualism has caused a serious problem in American society: people do not understand the meaning of institutions and thus suffer greatly from the consequences (Bellah et al. 1991). Economic problems confronted by American society these days are not only institutional problems, but also intellectual ones. Neoclassical economics in this country has created a cultural illusion of rationality run by simple minded "economic man" who only pursues instant benefits. This illusion does not exist only within academia, it has a profound impact on the economy at large, swaggering before every classroom in American business schools and every office of American CEOs. Neoclassical economics indeed deserves much credit for what it has contributed to the American economy and society. It must also, however, be held responsible for the serious problems created by the longstanding practices in accordance with its doctrine. Japanese economist Tamiki Nobuyoshi (1993) points out sharply: "Why does economics not work? The answer is quite simple: it is the consolidation of superstitions.....Americans teach these superstitions seriously and learn them enthusiastically. As a result, they began to misapprehend the economy, so their economy is declining. Such damage is much lighter in Japan because we teach them halfheartedly, and don't learn them seriously either." For this reason, a study of how Japanese

economists prescribe rationality for the Japanese economy will stand as a mirror to help us to reflect on our problems and to stimulate the intellectual imagination in searching for solutions to them.

To study the Japanese rationality is not only aimed at a better understanding of the past, more importantly, there is also an urgent need for American business to prepare for the international competition in the twenty-first century. In the past two decades, Japan has become an economic superpower, demonstrating an astonishing record in its economic performance. Following the Japanese model, other East Asian NIEs, notably South Korea, Taiwan, Hong Kong and Singapore; ASEAN late-comers, including Thailand, Malaysia and Indonesia, and recently China, have shown to the world that the capitalist economy can be organized in a very different way. At the dawn of the Pacific century, we need to know badly how the Japanese construct their rationality, what is the crucial difference between theirs and ours, in order to better prepare for the still bigger challenge ahead from East Asia. Alan S. Blinder once pointed out, "all in all, economists weaned on Western economic thought must conclude that Japan does almost everything wrong. Such a litany of errors should cost them dearly. Yet Japan's economy is a dynamo. How do they do it? American capitalism rests on a grand theory began by Adam Smith. There is no comparable theory of Japanese capitalism, but we need one if we are to formulate an intelligent economic policy toward Japan. The Japanese themselves seem less concerned with conceptualizations than with results. So, we may have to produce that theory ourselves" (Blinder 1990:21).

For readers in former socialist economies, the Japanese experience of running the

economy is a valuable lesson. After the socialist system collapsed in the former Soviet Union and other East European countries, some Western intellectuals cheered "the end of history" and were enthusiastically marketing the orthodox doctrine of neoclassical economics to these countries. At the same time, political leaders and radical intellectuals in these countries wished to turn a planned economy into a market economy overnight. The dream may never come true, so to speak, if they persist in their intention to build new economic institutions according to the design of neoclassical economics because this is a doctrine which tells them nothing about institutions but only about the atomized utility-maximizing behavior of individuals. They needed new economic institutions dearly, but they do not have any. What they need most is to know how to build up institutions and how to balance competing interests during the rapid institutional transformation. To a large extent, this is what Japanese rationality is about. Therefore, it is a timely effort to reflect on Japan's experience.

To readers in developing countries, this study provides a new explanation about the Japanese strategy in economic development. It shows that the Japanese strategy can neither be simply defined as state-intervention nor export-oriented policy. Rather, it stresses the Japanese focus on building up solid technological and institutional foundations for the national economy. The state in any nation could intervene in the economy, and any nation would be able to export certain goods. The major points at issue here are that the Japanese state was able to shift its manner of economic intervention flexibly according to the changing economic situation, interacting with the private sector in different ways, and that Japanese firms always tried hard to export value-added products,

which led them into a strategic position in the international market. This study also shows how important it is for economists in developing countries to derive developmental strategy according to their local conditions, instead of being overwhelmed by the economic doctrines which were abstracted from the experiences of industrialized nations. Among many challenges confronted by developing countries, one of the greatest challenges is an intellectual one. Developing countries would not prosper without a grand strategy which was based on an appropriate understanding of their own economies.

Finally, for readers in Japan, this study also raises meaningful questions for the debate between convergence theory and divergence theory in the Japanese context. Recently, the widely-praised practice of the life-long employment system has become problematic as many prominent Japanese companies have begun to lay off their employees under the pressure of economic recession. The reaction in North America verges on sensationalism. People are asking whether Japan will turn out to be like us and whether the Japanese type of capitalism itself is only a myth. Back in Japan, some business leaders argue that when companies are in trouble, lay-offs are of course inevitable (Nagano 1993:12). Others have begun to reinterpret the Japanese business tradition, emphasizing its premodern nature (Uchihashi 1993:18). Economist Okumura Hiroshi even asserts that "the Japanese corporation capitalism" has started dismantling (Okumura 1993:28). To be sure, today's Japan is experiencing a great transition. According to a Chinese proverb, "the rising wind forebodes the coming storm". Besides the breakdown of life-long employment practices, another important indicator of this ongoing transition is that the long-dominant Liberal Democratic Party has divided, and

for the first time since 1955 the LDP lost its majority in the House of Representatives in the current election. No matter in what direction Japan steps in the future, one thing is for sure: to explain the Japanese success in economic development by simply linking it with Japan's ancient culture is no longer legitimate. Nowadays, it is an urgent task for social scientists to explore the *historical* nature of Japanese capitalism and the contextual conditions in which it came into being. Only after we acquire a good understanding of history, will we be able to predict the future direction of the Japanese economy.

CHAPTER ONE: JISSEN-HA ECONOMICS AND JAPANESE RATIONALITY

The period between the 1930s and the 1960s was crucial to the institutional development of Japanese capitalism. At the macro level, the state emerged as a major actor in the economic arena with strong capacity in guiding economic development, contrasting sharply to the function played by market forces in Western economies. At the micro level, the Japanese management system, which emphasized the harmony of labor relations, gradually diverged markedly from its Western counterparts which are characterized by conflicts between workers and managers. These institutional accomplishments have drawn great attention, as Japan has become an economic superpower in the world. What has been neglected, however, is the fact that during this process, a distinctive set of economic ideas played an important role in the state policy-making, prescribing the grand strategies to sustain economic growth. The prevailing propositions found in this economic reasoning, moreover, fluctuated over time. The ideas of Karl Marx, Joseph A. Schumpeter and John M. Keynes, borrowed selectively according to the local conditions, shaped the leading agendas successively in the state policy-making, resulting in three distinctive paradigms in modern Japanese economic policy--the program of managed economy between 1931 and 1949, the program of technological innovation in the 1950s, and the program of high growth in the 1960s. With the passage of time, the triumph and glory of the Japanese economy prescribed by these ideas have become history. The logic and reasoning they contained, however, have been melded into modern economic institutions, standing before us as clues to explore the intellectual foundations of Japanese capitalism.

More importantly, despite changes, sometimes even substantial ones, in the leading propositions over time, the economic reasoning contained in state policy making possesses certain continuities, which in turn reveal some basic characteristics of Japanese rationality that are significantly different from the rationality prescribed by neoclassical economics in the West. Rationality here refers to the logic of economic reasoning reflected in state economic policy which designates means for actors to achieve their ends in economic activity. The basic components of rationality include the unit of analysis, the preference of ends and the instrumental means. Besides, economic reasoning is conducted according to certain methodological assumptions and principles, such as the assumptions about the nature of economic science, and the proper way of theorizing. Rationality may vary cross-nationally along any of these dimensions. The Japanese way of designating means to ends in state economic policy, as this study shows, is considerably different from its counterparts in North America, not only in the unit of analysis, the preference of ends and the instrumental means, but also in some essential assumptions about economic science. These patterned differences are so fundamental that one can not regard them simply as different economic ideas or economic ideologies.

Unlike neoclassical economics, which regards economic phenomena as the aggregation of atomized behavior in pursuing individual utility maximization on laissez faire markets, Japanese economic reasoning treats economic phenomena institutionally, emphasizing how collective actors pursue the collective welfare through production, technological innovation, market shares and high growth by employing the functions of the state, business networks and the Japanese management system. Instead of being "the

science which studies human behavior as a relationship between ends and scarce means which have alternative uses" (Robbins 1934), whose propositions are basically derived through mathematical and logical deduction, this Japanese economic reasoning was primarily concerned with the practical issues confronted by the Japanese economy, and their major propositions were largely derived by Japanese economists from an inductive approach to empirical data. In other words, Japanese economic reasoning demonstrates how Japanese economists "actually" constructed the rationality for their nation's development in real life. In short, this economic reasoning represents a type of rationality which was significantly different from that with which people in Britain or the United States are familiar, rather resembling another tradition of economic thinking in intellectual history which is represented by the German historical school in the 19th century and the Veblenian institutional economics early this century, approaches drawing little attention today from economists in North America. For these reasons, I take the logic of economic reasoning reflected in economic policies of the Japanese state as the subject of this study.

Why did the leading themes in Japanese economic reasoning change over time? Why did some continuities remain? What is a proper framework to apprehend this Japanese type of rationality? What is the significance of this Japanese case to social sciences at large? What kind of social factors influenced the formation of this Japanese type of rationality? Is this Japanese economic reasoning simply some implications of universal economic laws, as suggested by the economists who assert that "only those features of economic policy consistent with neoclassical principles could have contributed

to good economic performance" (Wade 1989:68), or simply the heritage of Japan's unique culture, as asserted by some culturalists, especially those who advocate the Nihon-jin-ron (the theory of the Japanese)? Both economic explanation and cultural explanation in the field of Japanese study are based on the same assumption of the universal nature of rationality, which cannot explain the cross-national differences in economic reasoning. To some economists, the Japanese rationality is the same as Western rationality. In contrast, to some culturalists, rationality is a term to reflect the characteristic of Western economies. Since the Japanese economy is very different from Western economies, one cannot use the term rationality at all to explain the Japanese economy. They assert that the Japanese economy operates not under the principle of rationality but through cultural rules.

Drawing upon the institutionalist approach in economic sociology, I argue, there does exist a Japanese rationality, which is distinctive from both Western rationality and Confucian culture. The construction of rationality, I contend, is an institutional process which abstracts a particular setting of human experience. To say that rationality is socially constructed is to argue that in reality no actor can derive his or her strategy for action without reference to the environment because three basic elements of rationality--the unit of analysis, the preference of ends and the instrumental means--to a large extent are determined by contextual conditions. No economic actors can pursue their own strategy by transcending the institutional environment they live in. The differences between the Japanese rationality and the Western rationality are primarily institutional, reflecting the different institutional settings of the Japanese economy and Western

economies.

At the same time, I also argue that the institutional environment is not something that lasts forever once it is formed, as suggested by those who assert the purest form of Nihon-jin-ron. Rather, it reflects a dynamic process in which the interactions among actors at various levels always shape and reshape the environmental conditions in which actors pursue their rationality. As the modern history of Japanese capitalism indicates, there was nothing in traditional Japanese culture that made Western individualist economics impossible; nor has there been the kind of progressive eroding of national culture or values that continued at all times. Under certain circumstances, both Western economic reasoning and Japanese indigenous values could exert an impact on the Japanese economic policy as they did from time to time. Once these circumstances disappeared, however, no set of idea would be held forever.

What kinds of institutional conditions greatly influenced the economic reasoning in Japanese state policy-making? I develop my argument in detail in Chapter Two along four dimensions which I believe are crucial for understanding the rationality contained in Japanese economic policy. These four dimensions reflect the institutional settings of Japanese economic reasoning and thus constitute the independent variables of this study. They are the perceptions of international order, the diffusion of foreign economic ideas through cross-national learning, the implications of popular economic values in policy settings, and the institutional structures of the state and state-business relations. In order to understand the rationales of the state economic policy, I examine its interaction with academic economic agendas and popular economic values. My major concern is to

explain how the contextual intellectual conditions shaped the formation of the leading paradigms in state economic policies, emphasizing the institutional embeddedness of rationality. I do not deal with issues such as whether the Japanese miracle was caused by these ideas. Meanwhile, when I describe what was believed as rational, I do not apply a set of criteria other than the one which was applied by Japanese economists. In the empirical chapters from Chapter Three to Chapter Six, I chronicle the impact of the interactions of several otherwise independently developed processes on Japanese economic policy. I argue that the changing perception of international order functioned to set up the primary goals for economic actors, challenging the existing paradigm in economic thinking; the continuing process of cross-national learning served in finding new policy paradigms, providing intellectual legitimacy to each alternative; the resulting manifesto of value systems in each policy-making process operated in the social selection of acceptable new models, defining the moral and ethical nature of each economic rationale; and finally the constant trajectory of institutional structure helped to identify the social foundation of the chosen instrumental means.

To uncover this Japanese rationality and its institutional embeddedness, I analyze a succession of political discourse concerning the major economic policy issues by Japanese economists, statesmen, business leaders, and the general public, which originally appeared in academic journals, magazines, newspapers, official documents, and books between the 1930s and the 1960s. In each empirical chapter, I first portray the rationale reflected in the leading paradigm of state economic policy, and then reveal its institutional origins. The analyses are organized around four distinctive programs in

Japanese industrial policy during this period, and each of them formats an empirical chapter. Both Chapter Three, "The Managed Economy", and Chapter Four, "The Priority Production", demonstrate the same paradigm of a managed economy in Japanese economic policy in the 1931-1945 and the 1946-1949 periods. Chapter Five is given to the paradigm of technological innovation in the 1950s, and Chapter Six, to the high growth paradigm in the 1960s. Chapter Three primarily deals with the question why the managed economy emerged as the leading paradigm in Japanese economic policy. Chapter Four explains why the Japanese state continued to practice the managed economy in the early postwar era when Japan experienced some dramatic reforms toward democracy. Chapter Five demonstrates why the target of Japanese economic policy shifted radically from state control over resource allocations at the macro level to technological innovation and entrepreneurship at the micro level in the 1950s. Chapter Six examines the question why the leadership of the Japanese state came back again to the center in economic reasoning in the early 1960s.

The remaining part of this chapter provides a comprehensive introduction to the dependent variable--the rationality contained in Japanese economic policies. I demonstrate in some detail in comparison with neoclassical economics not only the fluctuation of the leading paradigms in Japanese economic policy over time, but also some static characteristics of these paradigms. Illustration of the dependent variable is followed by a critique of two leading theories on the Japanese economy--economic explanation and cultural explanation--and an introduction of my own approach. This study ends with discussions on the institutional nature of economic reasoning, which may

lead to a better understanding of the Japanese capitalism.

The Prominence of Economists in Policy-Making

Until very recently, the Japanese rationality has been a neglected topic in social science discussions in English speaking countries. It has been widely believed that the Japanese experience of economic development had little intellectual foundation. Not only do economists argue that "professional research economics in English-speaking countries is today largely irrelevant to the study of Japanese-type economies" (See Johnson 1988:95), but even specialists in Japanese studies believe that "neither academic nor government economists played a major role in Japan's high growth strategy" (Hadley 1989:301). Academia in general has long indulged in a fallacious contrast between the prosperity of the Japanese economy and the desolation of Japanese economics (Saitō 1981:298). These perceptions may be correct in the sense that the Western neoclassical economics has not exerted notable impact on Japanese development. They have neglected the fact, however, that, represented by Arisawa Hiromi (1896-1988), Nakayama Ichirō (1898-1980) and Tōbata Seiichi (1899-1983), a group of Japanese economists, who belonged to the generation educated before the war, has played an important role in the social construction of a Japanese type of rationality, helping the nation to establish an urgent agenda, to identify the future direction of development, and to build up consensus in the context of international pressures and domestic turmoil between the 1930s and the 1960s.

These economists were prominent in state policy-making. Arisawa, Nakayama

and Tōbata have been called "Gosanke" in postwar Japan. "Gosanke" in Japanese history refers to the three branch families of the Tokugawa house who were critical supporters to the central bakufu government. The term "Gosanke" here exemplifies the importance of these three economists to state policies. It implies that these three economists, more than any others, served in multiple positions as heads of important advisory committees to the state, providing intellectual leadership in designing the blueprint of the economic miracle. The following table is an incomplete list of the positions held by Arisawa Hiromi from 1945 to 1962, which can illustrate a brief portrait of one figure of the Gosanke.

Table One: Selected Positions Held by Arisawa Hiromi in Various Advisory Committees to the Japanese State (1945-1962)

Year	Membership in Advisory Committees
1945	the Special Investigation Committee at the Ministry of Foreign Affairs, the Committee on War Reparations at the Ministry of Commerce and Industry
1946	the Central Council on Salary, the Investigation Committee on the War, the director of the Research Division for the Financial and Economic Situation of the Ministry of Finance, the head of the Coal Committee-the private advisory group to Prime Minister Yoshida Shigeru
1946-1947	offered three times the directorship at the Economic Stabilization Board but declined
1949	special advisor to the Ministry of International Trade and Industry
1950	the head of the Committee on Policies Concerning Unemployment, the Committee on the Comprehensive Development of National Land
1951	the Committee on Currency Insurance, the Council of Economic Recovery
1953	the Committee on Social Welfare
1954	the Committee on Industrial Rationalization, the Central Committee on Employment Stabilization, the Economic Council, the Investigation Committee on Resources
1956	the Nuclear Power Council
1958	special advisor to the Minister of the Economic Planning Agency
1959	the Committee on National Pensions, the Committee on the Coal Industry.
1961	the Investigation Committee on Industrial Structure, counselor of the Japanese Association of Labor
1962	the Council of the Electronics Industry, the Council for Development of Middle and Small Sized Businesses, the Council for the Development of the Universe

SOURCE: the chronicle of Arisawa Hiromi attached to *Reikishi no naka ni ikiru*.

Some economists even directly worked in state bureaucracies. For example, Tsuru Shigeto, an academician, served as the Deputy Director at the Economic Stabilization Board in the late 1940s, and Ishibashi Tanzan, an economic critic, even turned himself into a career politician and served as Minister of Finance, Minister of MITI, and eventually, Prime Minister, gaining an opportunity to put into practice their own theories directly. Another group of economists who attract special attention in this study are "kanchō economists" (government economists), represented by Ōkita Saburō, Inaba Hidezō in his early years, Gotō Yonosuke, and Shimomura Osamu. Although their regular duties as government economists were to conduct economic surveys or to make long-term plans, which to a large extent are highly routinized bureaucratic works, their vision, intelligence, and determination enabled them to exert a great impact on the path of history under some unusual circumstances.¹

What these economists have done for the nation is so important that one cannot easily separate their names from the overall history of the postwar Japanese economy. For example, no one can talk about Japan's postwar economic recovery without acknowledging the "priority production plan" and its designer Arisawa Hiromi. Any book concerning postwar labor relations has to take note of the Headquarters of Productivity and the Central Committee of Labor, where Nakayama Ichirō served as the vice president of the former and the president of the latter for many years. Without Shimomura Osamu, the father of high growth thesis, the Japanese might never have known what high growth policy is. As Komiya Ryūtarō, a leading Japanese economist, clearly pointed out in 1986, "up until about 1965, Japan's industrial policy, implemented

primarily by the Ministry of International Trade and Industry, was based on the ideological groundwork laid by this generation" (Komiya 1986:22). In order to acknowledge their great contributions to the nation, the Japanese government conferred on each of the Gosanke the Order of the Rising Sun, First Class with Star and Ribbon, as the era of high growth in Japan was drawing to an end in the early 1970s. This is the highest honor possible to a Japanese civilian, and only those who have become seventy-years old are eligible to be considered. Up to now only a very small group of Japanese have been awarded this honor. This meaningful event, unfortunately, does not seem to have drawn any attention from Japan specialists in the West, and no one has even thought to question why the Japanese state has shown such great respect to these three economists or what was the significance of this event to the international social sciences at large.

Three Distinctive Paradigms in Japanese Industrial Policies and Their Intellectual Foundation

Between the 1930s and the 1960s, these Japanese economists developed a distinctive set of economic ideas, which constituted the core of what Japanese economist Kanamori Hisao called "Jissen-ha economics" (the economics of the actual fighting school). Different not only from neoclassical economics in the West, but also from two factions in Japanese academic economics, the marukei (Marxist economics) school and the kinkei (modern economics, including neoclassical economics) school, this Jissen-ha economics is primarily concerned with the logic of economic reasoning for state policy-making². The major propositions of the Jissen-ha economics between the 1930s and the

1960s were reflected in three successive paradigms these Japanese economists formulated for Japan's economic policy.

Table Two: The Rationality in Three Paradigm of Japanese Economic Policy

policy paradigm	managed economy	technological innovation	high growth
period	1931-1945 1946-1949	the 1950s	the 1960s
unit of analysis	the nation-state	the nation-state	the nation-state
the major actor	the state	the state, private firms,	the state, business groups labor unions
preference of ends	production, effectiveness of resource allocation at the macro level	innovation, market share, production efficiency at the micro level	high growth, internationalization of the economy, the national competitiveness
instrumental means	state control over resource allocation through the general mobilization plans, control associations, public corporations	credit control by the state, business regrouping, productivity-headquarters, Japanese management system	National-Income Doubling-Plan by the state, state-business cooperation, reorganization of keiretsu
intellectual foundation	German theory of total war, Marxian concept of planned economy, Keynesian theory	Schumpeterian concepts of innovation and entrepreneurship, modernization theory	Keynesian theory of demand management

The first was the managed economy, which lasted through two periods, from the beginning of the 1930s to the end of World War II in 1945, and then from 1946 to 1949 due to the unusual economic situation in the early postwar era. The crux of the managed economy was the effectiveness of resource allocation at the macro level through state control, responding to the situations in which the nation was isolated from the international market while it had to mobilize the limited resources to support the war in the 1931-1945 period, and to support recovery when the nation suffered from hyperinflation and a severe shortage of materials in the 1946-1949 period. In the era of managed economy, the Japanese state exerted tight control over almost every aspect of the economy while the private sector lost much freedom in business activities. The emergence of the managed economy represented a big departure from the laissez faire practices in Japan before the 1930s.

The second paradigm was that of technological innovation, which was quite influential in the 1950s. In comparison with the managed economy, this new paradigm in the Japanese rationality shifted its attention to the efficiency of production at the micro level through reorganizing business groups, promoting production technologies, and improving labor relations, as Japan was confronted with the difficult task of achieving economic independence by engaging in international competition. In this paradigm, the state control was no longer the primary means to organize economic life; the market reassumed its function. Nevertheless, the state still played an important role in identifying the future direction of the economy and nurturing Japan's strategic industries.

The third paradigm was that of high growth, which occupied the center of

Japanese economic policy in the 1960s. While stressing the role of the state in sustaining economic development, this paradigm focussed on the cooperation between the state and business, introducing various new policy instruments to stimulate the dynamics of private sector. This was a direct response to the strong domestic pressures for economic welfare and international demands for opening Japan's domestic markets. In this paradigm, the role of the state was redefined, assuming the leadership to combine macro economic policy with industrial policy, transcending the framework set up by John M. Keynes.

These three paradigms in Japan's economic policy, moreover, were intellectually stimulated by three different traditions in Western economics. Roughly speaking, the Marxian concept of "planned economy", together with the German theory of "total war", served as the leading intellectual basis for the managed economy during the 1930s and the 1940s; the Schumpeterian theories of "innovation" and "entrepreneurship" provided the major agendas for the managerial reforms in the 1950s; and the Keynesian idea of "demand management" constituted the theoretical foundation for the high growth policies in the 1960s.

In a broader context, Karl Marx, Joseph A. Schumpeter, and John M. Keynes can be regarded as the intellectual godfathers for the jissen-ha economics in Japan. Besides the detailed analyses that follow in the empirical chapters on how Japanese economists built up their analytical frameworks on the inspirations provided by these three economic giants, two stories here support this observation. In 1983 Japanese economists solemnly celebrated for each of these three great thinkers in economics, who perhaps had influenced them the most, a centennial for either coming into or leaving this world. A

hundred years earlier Karl Marx passed away on March 14, and Joseph A. Schumpeter and John M. Keynes were born on February 8 and June 5 respectively. Two influential economic magazines in Japan, Tōyō Keizai (Oriental economy) and Ekonomisuto (Economist), each issued a special edition, showing deep esteem toward these great teachers. To Tsuru Shigeto, who wrote an article for the Asahi Shinbun (Asahi newspaper), the most widely circulated newspaper in Japan, these three thinkers represented three different styles. "Keynes was an intellectual aristocrat who was closely associated with power and wealth, Schumpeter was an erudite person with a lonely soul, admiring his own purity, and Marx was a great thinker who pushed history forward and possessed an amazing vision of predicting the long-term trend of economic development." (Tsuru 1983a:1) Jissen-ha economists learned a lot from these three teachers. From Marx they learned the importance of empirical reality to economic analysis; from Schumpeter, they learned the limitations of economic theories which enabled them to break through the limits of any single orthodox theory, and from Keynes, they learned how economics could have a clear nationality (Tsuru 1983b:117-119).

The appreciation of Marx, Schumpeter and Keynes among Jissen-ha economists is certainly not only limited to the purely academic sphere. It also extended to policy orientation. Back in 1967, the Toyo keizai shinposha (Japan's Economic Press) conducted interviews with eight prominent Japanese economists, including Arisawa Hiromi, Nakayama Ichiro, Tobata Seiichi, Tsuru Shigeto, Shimomura Osamu, Ouchi Hyoe, Takahashi Kamekichi and Horie Shigeo (most of them are covered by this study), on their general views of the Japanese economy. After these interviews, one of the

interviewers Koizumi Akira sorted their positions by categorizing them into three orientations: the market economy represented by Hayek; the mixed economy represented by Keynes; and the planned economy represented by Marx. He found that the theoretical orientations of all of these eight economists were similar to either Keynes or Marx, and none of them was in favor of Hayek though he had become popular among the younger generation of Japanese economists at the time. Instead of the static Hayek, this generation of Japanese economists preferred the dynamic Schumpeter. As another interviewer Miyazaki Yoshikazu pointed out, the theoretical frameworks held by these Japanese economists were either short-term Keynes plus long-term Schumpeter, or short-term Keynes plus long-term Marx (Koizumi, Miyazaki 1967:313-318).

It is necessary to point out here, however, when the ideas of Marx, Schumpeter and Keynes were incorporated into Jissen-ha economics, they were no longer an integral or comprehensive economic theory, which had a full-fledged presentation of variables and generalizations, but became a "hotchpotch" or a "medley", combining divergent views on various issues with adjustments to "local" conditions.

The Basic Characteristics of Japanese Rationality

The scrutiny of debates and discussions by Japanese economists on policy issues between the 1930s and the 1960s uncovers a Japanese type of rationality which is fundamentally different from that asserted by neoclassical economics in three dimensions: the unit of analysis, the preference of ends, and the instrumental means. As the basic components of rationality, the unit of analysis concerns the level of actor to which

rationality is attributed; the preferences refer to the order of priority among various ends; and means are the instrument by which actors achieve their ends. In neoclassical economics, the individual is the unit of analysis who has a stable preference aimed at utility maximization. Atomized individual interests are aggregated through the market where demand and supply reach an "equilibrium". For this reason, markets are regarded as the major means for individuals to achieve their ends in economic activities. Theoretically speaking, in economic analysis the financial market serves individual shareholders to maximize their profits while the labor market serves individual workers to maximize their salaries and other benefits. This is the way a capitalist economy is organized.

In comparison, these three elements in Japanese rationality are linked intrinsically by a different logic, standing as a harmonious integral or an intriguing mixture between what Thomas Rohlen (1974) calls the "logic of business" and the "ideology of community". The unit of analysis is primarily collective, the preferences of ends are production, technological innovation, market share, and high growth, and the instrumental means are the state, business groups, and the Japanese management system.

Table Three: A Comparison of Major Differences Between Japanese Rationality Reflected in The Jissen-ha Economics and Western Rationality Reflected in Neoclassical Economics

components	Japanese rationality	W e s t e r n rationality
the unit of analysis	the national economy	aggregation of atomized individual behavior
actors	the state, business groups	individuals, individual firms
preference of ends		
a: goal	production, technological innovation, market share, high growth	profit maximization, market efficiency, fair competition
b: time span	long-term	short-term
c: focus	effectiveness	efficiency
instrumental means	the state economic policy, state-business cooperation business group networks Japanese management system, organized market	market in which individual firms and consumers are the major actors
assumption about economic science		
a: nature	normative science, what ought to be, moral, ethical	positivist science, what is, value-free
b: function	prescribing strategies	investigating facts, discovering truth
the way of theorizing	induction	deduction
focus of theorizing	propositions concerning only the Japanese economy	universal laws
methodological orientation	institutionalism	individualism
characteristic of economic model	heterogenous, pragmatic, consisting of elements from various economic theories	homogenous, purely academic, distinguished schools

a. The Unit of Analysis: Collective Rationality

Essentially the unit of analysis in Japanese economic thinking has not been the individual but the collective. Unlike capitalism in Britain or the United States, which was historically nurtured in a cultural environment of individualism, Japanese industrialization, as a radical response to the challenge from the West in the mid-19th century, was rather a "transplant" and an "imitation" which did not come with the congenital mental condition of *laissez faire*. From the very beginning, Japanese industrialization was driven by collective purposes: to "increase production and develop industry" (*shokusan kōgyō*), to build up "a rich country and a strong army" (*fukoku kyōhei*), and to pursue "enlightenment and civilization" (*bunmei kaika*). In this kind of economic reasoning, the purpose of developing industry was not for individual economic well-being in the first place but to construct a rich "country". The concept of "national economy" asserted by the German historical school was embraced by the first generation of Japanese economists and state bureaucrats, prevailing as a leading economic doctrine throughout the periods of Meiji and Taishō (Pyle 1974; Sugihara 1990).

After the Sino-Japanese war of 1894-1895 and the Russo-Japanese war of 1904-1905, Japan experienced a rapid process of industrialization. As one of the major powers in the Far East during World War I, Japan entered the period of "Taishō democracy". As the power of the capitalist class and its political representatives the political parties reached a peak in the nation's political and economic lives, the ideologies of Western individualism and the *laissez faire* doctrine also spread and became quite influential. While they did not prevail over other perspectives completely in the political discourse

of the 1920s due to the influence of Marxism, the assertions in favor of profits for individual shareholders and the doctrine of laissez faire were indeed much more influential than in periods before and after.

The Great Depression, and the Manchuria Incident of 1931, in which the Japanese Army occupied Northeast China, changed the leading perspective in economic reasoning. Between the 1930s and the 1960s, the unit of analysis in Japanese economic thinking was collectivity, responding to special historical environments. The basic logic of managed economy, which was practiced in the 1930s and the 1940s, was derived from the concern for national survival in a "total war", assuming the inevitability of war between Japan and Western powers, and that in this total war "victory or defeat is determined directly not only by the fighting strength on the battlefield, but mainly by the strength of industries that make the weapons" (Arisawa 1934:54). The large-scale investment in equipment and the promotion of a cooperative labor relation in the 1950s were aimed at promoting exports. The primary purpose of promoting exports was neither to make profits for individual shareholders nor to improve the living standard for individual workers, but for achieving the "economic independence of the nation". Beyond the high growth policy represented by the National Income Doubling Plan introduced by the Ikeda Hayato cabinet in 1960, the fundamental concern was how to ensure Japan's position in the international economy by developing infrastructure, promoting human capital and upgrading industrial structure, not only for gaining a larger market share in the international market, but also for meeting the coming challenge of the liberalization of trade.

With regard to the collective orientation in Japanese economic thinking, two points need to be made. One point is the pattern of conflict of interests in Japanese society and the other is the social implications of the market theorem in the discussion of state-society relations concerning Japan. To say that the Japanese have a collective orientation in economic reasoning does not mean that they deny the existence of conflicting interests altogether. Rather one important function played by the collective unit in economic analysis is to turn these competing interests at the micro level into common interests at the macro level. This character of Japanese economic thinking corresponds to the structure of Japanese society. According to anthropologist Nakane Chie, Japanese society is "vertically" organized, consisting of numerous groups. "Wa" (harmony) is usually achieved within a particular group. Inter-group relations, however, can be so competitive that "the consciousness of 'them' and 'us' is strengthened and aggravated to the point that extreme contrasts in human relations can develop in the same society, and anyone outside 'our' people ceases to be considered human" (Nakane 1970:20). In this sense, studies using the conflict perspective which appeared in the early 1980s have indeed deepened our understanding of different angles of Japanese society, dispelling the myth that Japan is a harmonious society without any conflict at all. At the same time, argues Richard Samuels, "Japan, Inc." as "a useful notion", has been "unfairly exaggerated" because "in its original formulation, Japan, Inc. remains a valuable description of how the system works" (Samuels 1987). This study directly addresses the critical question: under what conditions, and through what kind of mechanisms, do the perceptions of others by competing economic actors shift along the

hierarchy of the reference system, turning the lower level competitive "them" into the higher level cooperative "us" and compromising in the pursuit of common interests in the social construction of rationality?

Another point is related to the controversy on state-society relations in Japanese studies. In contrast to the state centric argument which focusses on the role played by the Japanese state in economic development, the society centric argument or the market theorem in Japanese studies stresses the role of the private sector or market forces, explaining the Japanese success from the opposite direction. Both the society-centric argument and the market theorem in the Japanese context, however, do not share the same social implications as are found in Western societies. Unlike in the U.S., where the society-centric argument usually refers to the dominance of the market mechanism in economic life in which the interests of individuals prevail while the collective welfare is usually supposed to be pursued through progressive state policies, in the Japanese context the society-centric argument can hardly lead to the assertion of individual interests. Even when the above Japanese economists asserted the role of the private sector, it by no means indicated that individual interests have become the major principle in Japanese economic thinking. The proposition presented by these Japanese economists is the interdependence of various interests in society.

Preferences of Ends: Production, Technological Innovation, Market Share and High Growth Orientations

Adopting an individualistic model of "economic man", neoclassical economics assumes that economic actors have a preference of utility maximization, which basically refers to the "maximization of consumption and leisure" in the modern capitalist economy. Accordingly, in the individualistically oriented "market rationality", allocative "efficiency" and profits are the major concerns at the micro level as firms are under the strong pressure of the "threat of exit" because individual shareholders are eager to maximize their profits within a given period of time. At the macro level, the state emphasizes how to promote the market efficiency by encouraging competition in order to serve the interest of consumers and how to provide equal opportunities to all firms by exercising the anti-trust policy. In the Japanese collectively oriented "plan rationality", in contrast, the major concern has been goal-reaching "effectiveness" at both micro and macro levels. Individuals firms would rather pursue market share and technological innovation, as opposed to the capital gains, and the state would rather support big firms in order to strengthen the Japanese competitiveness in the international economy, and protect the interest of producers, as opposed to the principle of fair competition and the interest of consumers. In short, the preferences of ends prescribed by Japanese economists between the 1930s and the 1960s for Japan's industrial policy were never individual utility maximization but production, technological innovation, market share, and high growth.

Lester Thurow once dubbed this Japanese type of rationality "producer



economics". These preferences in "producer economics" are directly derived from the collectivity as the unit of analysis. Maximizing consumption and leisure, Thurow argues, is indeed part of human nature, but not all of it. "Belonging, esteem, power, building, winning, and conquering are all human goals just as important as maximizing consumption and leisure... the Japanese secret is to be found in the fact that they have tapered a universal human desire to build, to belong to an empire, to conquer neighboring empires, and to become the world's leading economic power" (Thurow 1992:118). In this sense, the Japanese preference to belong and to build up an empire is much more "social" in nature than individual utility maximization presumed by neoclassical economics.

This "producer economics" has had different implications over time in the social construction of Japanese rationality. In the 1930s and the 1940s, it referred to the "production orientation". Driven by the pressures of the Great Depression and wars, the Japanese regarded "production" as the highest priority in the operation of a managed economy in which the legitimacy of both welfare maximization of labor and profit maximization of capital was overtaken by the production maximization of the nation for the purpose of collective survival. With Japan suffering from a severe shortage of materials and hyper-inflation in the early postwar era, this production orientation continued to function until the end of the 1940s. In the 1950s, "producer economics" referred to promoting productivity at the micro level through large-scale investments in equipment, technological transfers, and the improvement of labor relations, which were aimed at realizing Japan's economic independence by promoting exports. In the 1960s,



"producer economics" referred to "high growth". In order to sustain a high growth rate, the state adopted the famous National Income Doubling Plan in 1961, committing itself thoroughly to increasing public expenditures for the purposes of constructing infrastructure, promoting human capital, and upgrading industrial structure. From 1965 the state began to fully exercise the Keynesian policy of "demand management" in the adjustment of the economic situation by issuing public debts.

Needless to say, there was a dark side to this "producer economics". The ambition to build "a rich country" has required many sacrifices of individuals. As many criticisms have pointed out, the issues of environmental protection, social welfare and consumer protection were for a time given little attention in the Japanese strategy of economic development. Because of this dark side, still seen in cramped public transportation, costly consumer goods, and other social inconveniences, many Westerners doubt whether Japan is number one or a real "role model" in the world according to a comprehensive standard of evaluation. Nevertheless, this characteristic of sacrifice found in Japanese preferences is not something purely "Japanese"; it is the "spirit of capitalism" described by Max Weber. According to his observation, the implication of "utility maximization" is "capital accumulation", represented by Balzac's Eugenie Grandet, instead of "conspicuous consumption" or "conspicuous leisure" described by Thorstein Veblen (Weber 1958; Veblen 1934 [1899]). In this sense, it is the Japanese who have been able to keep the "spirit of capitalism" alive and to elevate it to the collective level of action, backed up by their indigenous value of endurance. For those Japanese who made the historical choice to sacrifice, there were only two realistic alternatives: to



become "a first class country" as soon as possible, or to stay in a late-developed status, risking the danger of becoming a colony or a dependency of the West. In their perception, then, production, technological innovation, market share, and high growth were much more important than immediate consumption and leisure.

Instrumental Means: State, Business Networks, and the Japanese Management System

In neoclassical economics, the market is the primary means for economic actors to achieve their ends, possessing the magic power as an "invisible hand" to balance the demand and supply in the economy. The leading propositions concerning instrumental means in Japanese economic thinking between the 1930s and the 1960s, in contrast, are very close to the propositions of economic sociology, which asserts that the market is but one of many governance types in the economy, as efficiency is one of several factors that shape governance mechanisms in economic life. According to this approach, the obligational network, hierarchy, monitoring, promotional networks and associations also play an important role in governing the economy (Ouchi 1981, 1984; Hamilton and Biggart 1988; Lindberg, Campbell and Hillingsworth 1991); and technological development, power and control, culture and state policy are no less important than efficiency in determining the governing pattern (Weber 1978; Campbell and Lindberg 1991; Hamilton and Biggart 1988).

The state is a distinctive means to organize economic life in Japanese rationality. All Japanese economists in this study believed that in a late-developed country state

economic intervention was a "precondition" to engage in a "new type of industrialization": capital expected the state to support the development of heavy-chemical industries while labor demanded social legislation (Arisawa 1967:279-280). The state, they contended, should not only function as the "entrepreneur", but also take the "political responsibility" for both economic growth and social stability. In reality, the Japanese state has long been dominated by a developmental orientation. It gave the greatest precedence to industrial policy and provided business circles with the support and guidance they needed in an effort to promote domestic industry and enhance the nation's competitive advantages in the global economy. This "developmental state" has a strong autonomy, which has left the formulation of industrial policy free of the politics of interest groups, but rather dependent on the existence of a widely agreed upon set of overarching goals for the whole society. Supported by its institutional capacity, the state had been able to concentrate most of its resources on the goal of chief concern (Johnson 1982, 1987; Wade 1987, 1990a, 1990b; Pempel 1982). The emergence of the Japanese state as the major actor in economic life, this study shows, took place in a special historical context in the 1930s and the 1940s when a laissez faire approach was perceived as the evil of capitalism which would only lead the country to collapse, while collective efforts were deemed to be the only solution for national survival in the Great Depression and wars.

According to the Jissen-ha economics, the importance of the state does not necessarily replace the role of the private sector. On the contrary, "entrepreneurship" and "innovation" have been the key concepts in Japanese economics to explain the

dynamics of industrialization. The private sector, especially the big companies, have been regarded as the major players in introducing new technologies and revolutionizing the production process. Although the state is powerful, it relies heavily on activities in the private sector. In the Japanese political economy, the state and big businesses are linked institutionally so that the private sector is engaged in a special reciprocal relationship of obligation and reward with public authority (Calder 1989). In this sense, the strength of the Japanese state does not come alone; it comes from its linkage with the private institutions as a whole (Okimoto 1989). The Japanese understanding of state-society relations was not a static doctrine but changed over time in the social construction of rationality: the state control was believed to be the most efficient way to run the managed economy in the 1930s and the 1940s; then the incentives of a private sector under state guidance through credit controls were perceived as the major dynamics in technological innovation and export promotion in the 1950s; and finally the state intervention through Keynesian style macro economic policy in the public sector became the new pattern in the 1960s.

A second distinctive means in the Japanese economy is the "keiretsu", which refers to business networks or "clans" (Ouchi 1981; Dore 1987; Hamilton and Biggart 1988). In Japanese economic thinking, the dual structure of the economy (nijū kōzō)--the coexistence of both big firms which represent the modern industries and middle and small sized firms which represent the premodern industries--was once regarded as a barrier to industrialization³. Later it was perceived as an advantage, not only in competing with foreign companies by combining the technological and capital strengths of big firms and

the cheap wages of middle and small sized firms, but also in bringing the fruits of industrialization to various social strata by organizing them together to participate in the international competition. Interfirm relations in Japan are described by Ronald Dore as comprising two types of "relational contracting": one is between unequal forces and the other is between equals. The former is based on three principles: to share the losses of bad times and the gains of good times; to recognize the hierarchical nature of the relationship and distribute interests and risks accordingly; and to forbid the stronger side from using its bargaining superiority and the competition among the workers in recession times to cut their orders as much as possible. The latter is based on one principle that firms compete only in consumer markets and in new consumer product development while in the production goods market they keep a "stable", "obligated" and cooperative relationship (Dore 1987:175-178). In these relational contracts, values and sentiments sustain obligations. The key points here are trust and interdependency (Dore 1987:180-181).

The rational nature of this institutional arrangement is often overlooked because people are often deluded by its cultural appearance. It may be true that the Japanese keiretsu does not conform to Oliver Williamson's transaction cost theory (but see Lincoln, Gerlach 1991). It is misleading, however, to explain an economic institution solely in terms of needs for honesty or affectivity (see Dore 1987:179-182). According to the Weberian approach, to build up trust with one's trading partner is highly rational (see Bendix 1960; Granovetter 1985). This institutionalized interdependency among economic actors binds all parties involved in the business together to share the same

destiny. In this sense, if there is a "Japan, Inc.", it is an "insurance Inc.", distributing the economic risks among all economic actors. According to Weber, the significance in this kind of association is to set up "an effective regulation of conduct depending.....upon the strong common purpose of the group", excluding "outsiders" in an effort to reduce uncertainty in economic exchange (See Bendix 1960:65). The rationale of Japanese keiretsu tells us that to be rational does not necessarily mean that actors have always to be individualistic. As a matter of fact, there is a cool "logic of business" beyond the cultural appearance of trust among trading partners, and the Japanese who appear to have arrived at a selfless state are in fact achieving rational ends quite thoroughly (Ouchi 1981:85).

The Japanese management system was regarded as another instrumental means to organize economic life. Unlike in Western countries where the finance market functions as a major means for individual shareholders's profits and the labor market for individual workers' economic well being, both markets play a marginal role in the Japanese economy: the financial market provides less opportunity to maximize profits (Aoki 1989, Dore 1973, 1987; Thurow 1992) and the labor market does little in promoting social mobility (Vogel 1979; Ouchi 1981; Dore 1973, 1987). Characterized by life-long employment, seniority-based salary and firm- based unions, the Japanese management system employs different principles in resolving the issues concerning who owns the firm, and how rights, responsibilities, benefits, risks and information are distributed among parties affiliated with the firm (Ozaki 1988:834). Among shareholders, employees and customers, the order of priority for American firms is to



serve shareholders, customers and, last, employees. In contrast, that of Japanese firms serves employees, customers and finally, shareholders. (Thurow 1991:125) Because of this distinction, Ozaki calls Japanese firms "the humanistic enterprise system". To Americans, it may not be rational at all. From the Japanese perspective, however, it is the American management that is "illogical" because "it gives disproportionate power to capitalists to control the destiny of the entire corporation they own even if they may be few in number relative to the total number of people working at the corporation, are typically outsiders who do not participate in productive activities at the firm, and often hold shares of the stock whose value is only a fraction of the value of total assets of the corporation" (Ozaki 1988:834). By doing as the Japanese do, the interdependency between employers and employees is sustained and "parametrial rationality" is realized with support from the "ideology of community".

Another Way of Economic Thinking

A further analysis indicates that the differences between neoclassical economics and the Jissen-ha economics lay not only in the unit of analysis, the preference of ends and instrumental means, but also in some fundamental assumptions about the nature of economic science and methodological propositions. In many dimensions, the Jissen-ha economics resembles another tradition of economic thinking in intellectual history, the one represented by the German historical school and Veblenian institutional economics, which are fundamentally different from the Anglo-Saxon tradition.

Unlike neo-classical economics, which claims to be a "positivist science", a body

of systematized knowledge concerning "what is", focussing on a particular aspect of virtually all of human behavior and investigating facts and discovering truths about them, the Jissen-ha economics stands as a "normative science", discussing criteria of "what ought to be", prescribing rules of economic life, and concerning itself primarily with the concrete process of production, distribution, exchange, and consumption of goods and services.

Neoclassical economics derives "universal economic laws" through logical and mathematical deduction, disregarding ethnographic facts about human behavior in any given society and cross-cultural data about any economic system (Schneider 1974:23). Once these logical principles are derived by introspection, they become the axioms from which the 'data' and 'facts' of other societies are to be 'generated' or deduced. Being produced in this way, models in neoclassical economics are inevitably derivational and universal in nature (Gudeman 1986:32). In contrast, the theoretical propositions of Jissen-ha economics are derived through induction, based on empirical studies of economic reality and concerned with the timely issues of the Japanese economy. This type of economics values the description of the real life of the economy, building its theories primarily based on Japanese data and for Japanese development (Keynes 1984 [1917]:79-80).

Another characteristic which distinguishes the Jissen-ha economics from neoclassical economics is its institutional orientation. Neoclassical economics is based on methodological individualism, explaining macro economic phenomena as an aggregation of individual behavior, the basic elements at the micro level. According to

Japanese economist Sawa Takamitsu, neoclassical economics is simply an occupied territory of "physics imperialism" which emerged in the 19th century, methodological individualism simply resembling the method of atomization in physics (Sawa 1989 [1982]:17). In contrast, the "Jissen-ha economics" treats the economy as a social system which has ethics and institutions, comprehensively inheriting the tradition of the German historical school. For this reason, the description by John Neville Keynes, the father of John M. Keynes, of characteristics of the German historical school is also a wonderful summary of standing propositions of the "Jissen-ha economics" in Japan: "The school explicitly calls itself ethical; it regards political economy as having a high ethical task, and as concerned with the most important problems of human life. The science is not merely to classify the motives that prompt economic activity; it must also weigh and compare their moral merit. It must determine a standard of the right production and distribution of welfare, such that the demands of justice and morality may be satisfied. It must set forth an ideal of economic development, having in view the intellectual and moral, as well as the merely material, life; and it must discuss the ways and means--such as the strengthening of right motives, and the spread of sound customs and habits in industrial life, as well as the direct intervention of the state--by which that ideal is to be sought after" (Keynes 1984 [1917]:80).

A final characteristic of the Jissen-ha economics is its insistence upon the relativity of economic doctrine, resembling Veblen's proposition that economics is an evolutionary science since the conditions of economic life are subject to variation. Although most Jissen-ha economists belonged to either Marukei or kinkei in one way or

another by academic definition, once they address policy issues, they were able to overcome the restriction of economic doctrine, borrowing selectively whatever proved useful.

It is necessary to mention that these characteristics portrayed here apply only to the Jissen-ha economics, not economics in Japan in general. In fact, Jissen-ha economists were only a minority among Japanese economists. The majority of economists in Japan are influenced by either neoclassical economics or orthodox Marxism, isolating themselves from the temporal reality. Lester Thurow criticizes the research agenda of mainstream economics in the West which reflects "more an academic need for an internal theoretical consistency and rigor than it reflects observable, measurable realities in the world we all live in" (Thurow 1983:xvi). Economics in Japan as a discipline in general is also criticized as not a scholarship about the economy but about economics itself (Tsuru 1951). The difference is that Japanese scholars are first, more committed to the interpretation and annotation of classical works under the influence of both the tradition of Confucian scholarship and Japan's late-comer status in economics; and second, they are more divided by ideology as shown by the confrontation between "Marukei" (Marxist economics) and "kinkei" (modern economics). Without an organic connection with economic reality, the academic economics in Japan also lacks a driving force for its development because the intellectual system and reality are running according to different rules (Saitō 1982).

The above analysis illustrates both dynamic and static characteristics of Japanese rationality. Its outstanding features and the astonishing contrast in economic reasoning

between the Jissen-ha economics and neoclassical economics raise a series of important questions to economic sociology: Is economics as a science simply an expression of economic laws, as neoclassical economists argue? Do the positivist economic theories reflect the rationality people employ in real economic life? What is the nature of economic thinking in a sociological perspective? How do people construct rationality in reality, or what social elements influence the process of social construction of rationality?

Universal Rationality or Culture?

For a long time, academia has not been able to apprehend the Japanese type of rationality. This failure is well reflected in the inadequacy of two leading perspectives in Japanese studies. Economists build up their explanations based on the assumption of universal rationality. The studies associated with this approach are characterized by the methodologies and frameworks drawn from neoclassical economics, emphasizing the atomized factors of capitalist institutions, and the possibility of convergence or the generalizability of theories. They argue that the Japanese miracle can be explained "as due primarily to the actions and efforts of private individuals and enterprises responding to the opportunities provided in quite free markets for commodities and labor" (Patrick 1977:239) and that the essential nature of industrial organization is identical throughout the world. No matter how unique Japan is, business is business. To them, as Westney (1989) criticizes, Japan as a research case provides only "a venue for testing Western centered paradigms". Leaving aside heavily culturalist or historicist claims for Japanese uniqueness, these scholars are concerned primarily with the extent to which any

divergences in the Japanese case can be explained within general theories of Western social sciences which were based on the assumption of the universal nature of rationality (Lincoln and McBride 1987:289; Lincoln, Hanada and McBride 1986). They think that the difference between Japanese organization and American organization is not as significant as the cultural explanation assumes because they have discovered in almost every aspect of factory life elements of rational calculation, competition, conflict, and power politics that take different forms under different institutional settings within Japanese industrial society (See Shimada 1983:16).

These efforts aiming at using the framework of universal rationality in analyses of the Japanese case are often criticized for neglecting either the impact of non-economic factors on economic life or the national variations in economic concepts. Hamilton and Biggart argue that any explanation of East Asian capitalism based on the market principle is correct only in the sense that transportation systems, mass market, advanced technology and consideration of profit all influence modern business. Making the market responsible for such manifestations of economic rationality as organizational design, however, "is not only theoretically and substantively to misinterpret business organization but also to make a serious methodological blunder" (Hamilton and Biggart 1988:69). Johnson further points out the weakness of this purely economic approach from a different angle. He asserts that it founders on its universal assumptions rather than on analyses. It is a big mistake, according to Johnson, to assume that the function of the Japanese "developmental state" is the same thing as the American "regulatory state". The explanatory power of neoclassical economics is further weakened as it has rejected

completely many Japanese concepts such as "industrial structure", "excessive competition", "coordination of investment" and "public-private cooperation" because these terms are contradictory to its logic (Johnson 1982:10-11).

The rigid institutional inertia of the economics profession in North America has created a big barrier to the study of Japanese rationality. This is a tradition blessed with an intellectual consistency, having implications that extend far beyond the realm of academic theory. In a sense, the research agendas of neoclassical economics have become a "political philosophy", or a "religion" (Thurow 1983:xvii). John Kenneth Galbraith once made a joke that were Adam Smith alive today, his contempt for our own conventional wisdom "could probably have cost him any chance for tenure in any modern department of economics that is decently beholden to the accepted view" (See Reisman 1976:12).

As economics cannot explain the Japanese experience in economic development, many scholars alternatively interpret Japanese capitalism in terms of a unique culture. According to this cultural approach, the practices of life-long employment and a seniority salary system are facilitated by the native value of harmony. The Japanese industrial organization exemplifies the Confucian tradition embodied in the premodern organization ie (household) or mura (village) (Abegglen 1958; Rohlen 1974; Murakami 1987; Dore 1987). To cultural theorists, Japanese institutions exist for their own sake and they have nothing to do with rationality. Therefore, theorizing the Japanese case in terms of rationality is regarded as almost impossible. As Ronald Dore argues, "at any rate", Williamson's model of "hierarchy versus market" "does not provide the tools for

explaining the difference between the Japanese and the British or American economies." The Japanese capitalist institutions are better represented by other terms such as "goodwill" since the "contractual economic exchange" is primarily conducted through "the sentiments of friendship and the sense of diffuse personal obligation" (Dore 1987). "Japanese-style economic ideology", according to Kinzley, was "built upon their understanding of the Japanese past and its moral ideals rather than upon Western notions of economic and organizational theory" (Kinzley 1991).

In the Japanese case, the cultural approach represented by Nihon-jin-ron has neglected a basic fact that as a late-comer country, Japan has been and continues to be strongly influenced by cultural products including economic theories imported from the West, though its taste has been very selective. Despite the discrepancy between the Western economic doctrines and Japanese reality, the Japanese have always tried to gain wisdom from those theories which seemed suitable to their economic reality in one way or another. These efforts are reflected in numerous discussions and debates among the Japanese themselves concerning the "economic rationality" underlying every alternative. As this study shows, the cultural argument neglects the process of cross-national learning and adaptation in Japanese economic reasoning. It also fails to explain many interruptive and non-unilinear changes occurred in the Japanese economy. Culture, defined as indigenous values, I argue, influences economic reasoning through a intervening process, obtaining the power by attaching itself to institutional forces.

This cultural approach is often based on an ill-perceived sociological assumption, "oversocialized man" (Wrong 1960, Granovetter 1985). According to this assumption,

individuals internalize values and voluntarily obey the norms of particular institutional settings. Instead of making choices, individuals conform to norms. If there is a choice, it is between the alternatives of conformity and deviance (See Oberschall and Leifer 1986:249). For these reasons, culture would shape human behavior in economic activities mechanically and automatically, insinuating itself into the minds and bodies of individuals. As a result, "man" in this type of sociological analysis is often overwhelmed by societal forces and the actor has no "engine of action" because "the actor is shaped by the environment, but there are no internal springs of action that give the actor a purpose or direction" (Coleman 1988:96; also see Wrong 1960; Granovetter 1985; Coleman 1990). This "oversocialized man" is an indirect byproduct of methodology adopted by sociology and a preference in much of modern thought to stereotype national character. As Coleman points out, the majority of sociological research relies upon statistical association. Such methods often use, as explanatory variables, principally factors *external* to the individual, or factors characterizing the individual as a whole, based on statistical association between the behavior of interest and other characteristics of the social system as the context for the behavior (Coleman 1990:1). Restricted by such an analytical framework, the individuality of actors is precluded from the analysis.

An Institutional Approach to Study Rationality

Half a century ago, sociologist Werner Stark pointed out that "there are, in the last analysis, two ways of looking upon the history of economic thought: the one is to regard it as a steady progression from error to truth, or at least from dim and partial

vision to clear and comprehensive perception; the other is to interpret every single theory put forward in the past as a faithful expression and reflection of contemporary conditions, and thus to understand it in its historical causation and meaning" (Stark 1955 [1944]:1). For five decades from then on, unfortunately, the latter seems to prevail over the former, because people have been under the influence of a modern worldview, which assumes that the economy is "an increasingly separate, differentiated sphere in modern society, with economic transactions defined no longer by the social or kinship obligations of those transacting but by rational calculation of individual gain" (see Granovetter 1985). Accordingly, as a science that studies human behavior in this particular domain, economics is separated from its neighboring social science disciplines, following the intellectual division of labor exemplified by Vilfredo Pareto's distinction of research subject between "logical" and "nonlogical" action, and Paul Samuelson's distinctions between "rational" and "irrational" human behavior. To a large extent, this separation is sustained by the methodology adopted by economics in which mathematical models, statistical tests and market arguments function as a way of "stopping conversation by limiting conversation to people on our side of the demarcation line", labelling the other side as nonscience (McClosky 1985). The rigid division of labor between economics and its neighboring disciplines of the social sciences has kept sociologists away from economic issues, resulting in a situation in which "economics is all about how people make choices; sociology is all about how they don't have any choices to make" (Duesenberry 1960:233).

As social economics and economic sociology emerged in the intellectual horizon

in the 1970s and the 1980s, the "iron curtain" between economics and sociology began to be broken, and the traditional research subjects in one field began to be analyzed with perspectives from neighboring disciplines. Reviving the tradition of the German historical school and the Veblenian institutional economics, the recent development of economic sociology has significantly broadened our approaches to understanding human behavior in economic life and has established a methodological foundation to study and apprehend rationality in non-Western contexts, by which the Japanese type of rationality can be explored.

Drawing upon the latest developments in economic sociology, I present here an institutional approach as a new framework to interpret rationality, especially in cross-national analysis. As a pillar of modernity, rationality contained in state economic policy, I contend, is institutionally constructed, interacting with various contextual conditions. In the process of choosing strategies, policy-makers are aware not only of the constraining side but also of the enabling side of their institutional environment when they prescribe the strategy for their actions (Giddens 1985; Sowell 1992). Moreover, the relationship between human subjectivity and institutional constraints in this process is not simply that one dominates the other but a dynamic interaction. On the one hand, economic rationale is not simply a confirmation of a given reality which reflects various social constraints, but is full of the subjectivity of actors, prescribing the ideal type of strategy to maximize the enabling effects while minimizing the constraining effects of their surrounding institutions. On the other hand, human subjectivity can not be totally free from various constraints and the way of constructing rationality is subject to

institutional variations in the level of the entity to which agency is attributed, the preference of ends, and the instrumental means. In the process of choosing economic strategy, actors also make moral and ethical judgments which are indispensable to any social action which involves multiple participants. In contrast to reality, the assumption of individual utility maximization held by neoclassical economics is not only highly "hypothetical" in nature, without a solid empirical foundation for its slighting of social constraints, but also strongly biased towards institutional conditions in Britain and the United States, in which individualism predominated, assuming that the individual is the only level of constructing rationality.

This institutional approach is supported by three distinctive methodological propositions, absorbing various accomplishments of the German historical school, Veblenian institutional economics and recent economic sociology. The first and the most important proposition is to emphasize the importance of the "subjective side" in economic analysis--the institutionalized beliefs about rationality, because "all 'economic' processes and objects are characterized as such entirely by the meaning they have for human action in such roles as ends, means, obstacles, and byproducts" (Weber 1968:64). Distinguishing them from "correct", "true" or "valid" meanings claimed by other disciplines, Weber argues, meanings in the sociological analysis of economic action are "subjective" (1968:4). Unfortunately, this "subjective side" of economic behavior has been simply left out by the methodology of neoclassical economics because the implications for actions it generates are mathematically precise and "only those numerical aspects of an activity or object that might affect an exchange can be taken into account"

(Reddy 1982:12). According to the institutional perspective, economic thinking is neither simply analytic abstractions and transcriptions of an already given reality nor a set of principles for purely utilitarian calculations, but a symbolic instrument for discovering, elaborating, and expressing the institutionalized meanings about what modernity means to human lives, transcending the given social reality. It is a "cultural tool" and a "construction of the world" which is comprised of the beliefs and values of the temporal world, aiming at "creating a semblance of order out of the potential chaos of social life" (Block 1990:8; Gudeman 1986:28). Under the spotlight of this approach, neoclassical economics is not a presentation of economic laws but a manifesto of an institutionalized "market culture" or "ideology of rationality", though this ideology of rationality and market culture are as real as rationality and the market themselves (see Reddy 1985; Hintze cited by Bendix 1960:69).

Aware of this aspect of economic reasoning, we can overcome the major barrier to our proper understanding of rationality in real life by transcending the mathematical and logical methodology. Positivist deduction is not the only way to construct and apprehend rationality. "What distinguishes good from bad in learned discourse is not the adoption of a particular methodology, but the earnest and intelligent attempt to contribute to a conversation" (McCloskey 1985:27). As "the art of probing what men believe they ought to believe, rather than proving what is true according to abstract methods (p. 28), McCloskey asserts, "rhetoric is a better way to understand science" and "a good science is a good conversation". The implication of this proposition is two-fold: rationality constructed in any society contains certain ideological elements, which reflects the

institutionalized beliefs about what is rational. On the contrary, even an ideology also includes certain rational elements. This is why McClosky believes that economics is nothing mysterious and the scientific appearance of its methodology is just the "snake oil, the cure-all for what ails you" in the conventional understanding of rationality. What economists do is simply to "spend a good deal of time retelling stories that non-economists tell about the economy" with their own rhetoric (McCloskey 1990:2-3). For this reason, I argue, an inquiry of how Japanese derived their strategies for state economic policy may go far beyond the framework of neoclassical economics, seeking answers from a wide range of intellectual discourse concerning economic issues. Economics is not a purely intellectual game economists play among themselves. It is a tool of interaction by which economists communicate with the society they live in, interpreting the meanings of modernity. The analysis of how interactions and conflicts between industrialization and indigenous values and social structure in an Asian country like Japan have shaped the Japanese way of building modernity reflects not only what rationality implies in a non-Western context, but also how significant the sociological perspective is to economic analysis at large.

Related to the "cognitive side", a second proposition in the institutional approach is to focus on the interdependence between economic and other social phenomena. The prevailing economic ideas in a given country cannot be interpreted without understanding the social, cultural, and historical contexts which designate meanings to the definition of rationality. In an analysis of economic behavior, I contend, we need not only stress "the importance of ideas for an understanding of economic behavior", but also focus on "the

social foundation of such ideas if they were to have an effect upon man's conduct" (Bendix 1960:65). Constrained by its methodology, neoclassical economics excludes from theoretical inquiry the broader institutional context in which economic activity evolves, therefore leaving out the most important element in its investigation: how and why economies continually evolve structurally rather than simply grow quantitatively (Veblen 1919). In contrast, the new development of economic sociology emphasizes the cognitive, social, cultural and political "embeddedness" of economic behavior, rebuilding the cognitive linkage between the economy and other social dimensions (Granovetter 1985; Zukin and DiMaggio 1990). Under a sociological perspective, no market can operate without social constraints, and the "economic man" in reality is bounded by various relations. Both constraining and enabling effects can only be understood as shaped by social relations. Therefore, economic analysis must break the boundary between economics and other disciplines of the social sciences, introducing new variables which reflect the social impact on economic activities. The impact of social conditions on economic thinking is two-fold: as constraints and as dynamics. Economists construct rationality according to the actual conditions of the society where they live. Even when they want to transcend the existing institutions, their alternative in economic reasoning cannot go far beyond the elasticity for change of the existing institutions. At the same time, however, social conditions also stimulate the development of new ideas because economics is an "evolutionary science", developing its own schemes according to the "schemes of the life history of nations and societies" (Veblen 1919:60). It is the surrounding environment that provides the dynamics in the fluctuation of prevailing

economic ideas in a given country.

A third proposition of this institutional approach is to value the "local model" in economic analysis because no real economic institution is universal. As the German historical school argued long ago, economic development is unique, so there can be no "natural laws" in economics. In addition to searching for generally applicable laws, economics should try to describe the particulars of each era, society and economy. While neoclassical economics claims to be a prescription of universal rationality, the notion of universal rationality is simply a "cultural camouflage" which does not exist at all but is nevertheless deemed to exist by economists. As an alternative, economic sociologists and anthropologists in recent discussions of rationality have begun to theorize human behavior in economic activities in relation to "local environments" where it occurs, stressing "varieties" of rationality, "local models" of economic theories and "multiple markets" (Zukin and DiMaggio 1990:23; Gudeman 1986:25-27; Zelizer 1987:630). The concept of "local model" is becoming a general principle in social science inquiries of rationality from a comparative perspective. The current debate between Kiser-Hechter and Quadagno-Knapp has pushed this issue further, addressing a more critical issue: how do social sciences in general and historical sociology in particular define theory? Does theory refer to "general laws" exclusively, or does it include something else which is subject to social, historical and cultural variations (Kiser and Hechter 1991; Quadagno and Knapp 1992)? Rejecting Kiser and Hechter's definition of theory as "general laws", Quadagno and Knapp argue that any theory in historical sociology can be only temporally grounded due to the changing social causality,

contingency and sequentiality in events (Quadagno and Knapp 1992). According to this approach, all universal models, ranging from neo-classical economics to its opponents Karl Polanyi and Karl Marx, which start their arguments from supposed core or essential features of human behavior and then attempt to derive other characteristics from them, are in fact "secondary rationalization for they are the reflexive projections of one or another Western model" (Gudeman 1986:34). Instead of beginning with deduction, any theorizing in social sciences, including economics, must be based on descriptive reality, which varies depending upon the institutional structure of the society that is being analyzed (Thurow 1983:230).

According to this institutional approach, I argue in the next chapter, economic reasoning in fact is an institutional process through which economists define the economic goals based on their understanding of the historical environment they live in, look for alternative strategy from the existing economic theories, endow meanings to prescribed actions, and identify the proper instrumental means based on the institutional conditions. In particular, I examine the impact on the economic reasoning for state policy-making of the perceptions of the international order, the diffusion of foreign economic ideas through the process of cross-national learning, the popular economic values, and the institutional structures of the state and state-business relations. Then I shall set up a starting point for the following empirical analyses by making the operational hypotheses for this institutional approach.

CHAPTER TWO: THE INSTITUTIONAL ENVIRONMENT OF ECONOMIC REASONING

Economic reasoning for state policy-making in the Japanese context is constrained by several institutional settings. First of all, due to the strong dependence of the Japanese economy upon the international market, no one in Japan was able to make economic policy without a clear perception of the order and institutions of the international political economy. In the process of making economic policy between the 1930s and the 1960s, I argue, the perceptions of the world system and Japan's relation to this system functioned to set up the primary goals for domestic economic policy, which substantially determined the unit of analysis in economic reasoning. Secondly, the policy orientations of state officials were often influenced by academic agendas because state officials needed not only to provide their policy-proposals with intellectual legitimacy in order to appeal to the general public, but also to seek new solutions from outside of the state, especially when the present policy paradigm was in crisis. For these reasons, the diffusion of foreign economic ideas through the process of cross-national learning served in providing a reference system and legitimacy to each policy alternative. Thirdly, the rationales for Japanese state policy were not only influenced by academic economics, they also interacted with popular economic values. Without moral and ethical support from the general public, state economic policy could hardly mobilize civilians and achieve its goals. In this sense, the popular economic values--the collectively shared understanding about what is right and what is wrong in economic activities operated in the selection of acceptable models based on moral and ethical

considerations. Finally, state economic policies had to confront the institutional structures, not only the structure of state bureaucracies, but also the structure of state-business relations. In the Japanese context, the sectionalist orientation in the state bureaucracies had been a big obstacle to policy-making. In the meantime, the balance of power between the state and the private sector was often an important factor in determining the general direction of economic policy. Therefore, the institutional structures of the Japanese state and state-business relations constituted the foundation in choosing the instrumental means for implementing economic policy.

During the process of economic policy-making between the 1930s and the 1960s in Japan, these four institutional settings constituted four pillars of an intellectual arena on which the Japanese gave full play to their strategic imagination. For this reason, economic reasoning contained in state policies was no longer simply pure calculation of interest, but derived from various social origins. In this sense, economic reasoning can be regarded as a perception of the international order, a process of cross-national learning, a manifesto of a value system, and a trajectory of institutional structures.

Economic Reasoning as Perception of International Order

Immanuel Wallerstein argues that "capitalism as an economic mode is based on the fact that the economic factors operate within an arena larger than that which any political entity can totally control" (Wallerstein 1975:348). As technologies develop, especially those concerned with transportation and communications, the expansion of the world-economy has involved various nation states with a multiplicity of cultures and

political systems in an international division of labor based on economic activities. Since the emergence of the international market as the center of the global economy broke the boundaries of traditional nation-states, every nation has had to define its own position in the international division of labor in order to pursue its economic welfare. Consequently, the international environment has been an important dimension in economic thinking, especially for late-developing countries.

In the second half of the nineteenth century, the antenna of this system reached Japan, stimulating rapid industrialization. Because Japan has little natural endowment, the world system became Japan's primary source for raw materials, technologies, capital formation and markets. The importance of the international environment to the Japanese economy is not limited only to the economic dimension. From the Meiji Restoration up to the end of World War II, Japan's economic development had been sustained by repeated military expansion. Perceiving herself as being constrained by the existing international order, Japan chose a grand strategy based on the military forces, which resulted into a great misadventure during World War II. Moreover, due to its heavy dependence on the global market, any significant change in the international political economy would have a huge impact on Japan's domestic economy. This is particularly obvious in the postwar era. The relationship between the Japanese economy and the cold-war system has been a good example. As the Korean War broke out, Japan became the military base of the U.S., receiving a huge amount of orders for military goods and services, which greatly accelerated the process of capital accumulation. In the global competition after the 1970s, Japan as a late-industrialized country not only has been

involved in intensive competition with the old industrialized countries such as Britain and the United States, but also has been confronted with a strong challenge from the NICs and other developing countries while gaining many benefits in the growing international economy.

Because of the indispensable nature of the international market to the Japanese economy, how to envision the international order and how to gain a strategic position in the division of labor between the core and the periphery in the world system in order to obtain the biggest net benefits for the nation at the lowest cost have been at the center of Japanese economic reasoning for state policies, which stands as a great intellectual challenge to the Japanese state. The international environment provides both opportunity and challenge to a late-industrialized country. This can be well illustrated by the competing arguments between modernization theory and dependency theory. On the one hand, the international environment is constraining. As dependency theory argues, when a late-comer country began to be integrated into the world system, the division of labor in the international economy would put it in a very unfavorable position, heavily dependent upon the advanced countries for capital and technology (Cardoso and Faletto 1979). Instead of assuming that increased contact between core and periphery would foster more rapid development, it asserts that ties with developed countries were the problem, not the solution. For this reason, "the path followed by the developed countries could not be followed by currently developing countries". "Having climbed the ladder of industrial development and built strong state apparatuses, the developed countries were now in a position to exploit other regions and prevent the ascension along a similar road

of the developing countries" (see Evans 1988:745). In this sense, the pattern of development of individual societies is defined by the structure of the world system as a whole (Wallerstein 1974, 1979).

On the other hand, the international environment is also enabling. According to modernization theory, there are at least several advantages for a late-comer country to tie itself with the international market. In order to initiate the "take-off" of economic growth, ties with the international market can provide late-comer countries with capital, resources, markets and technology, and they can speed up the adoption of advanced organizational forms (Rostow 1979 [1960], Rosovsky 1961). By absorbing the resources provided by the international market, late-comer countries would be able to avoid the "penalty of taking the lead" in technological development and surpass the first-comer countries by the "merits of borrowing" (Veblen 1939 [1915], 1919, Gerschenkron 1992 [1952], Rostow 1979 [1960]). It is clear that there is not a predetermined or an organic relationship between the status of a country in the world system and its way of running its domestic economy. Given various constraints of the international environment, individual late-comer countries can still make a rational choice within a certain range of alternatives to negotiate the tie with the international system. To make rational choices is what economic thinking is all about.

The impact of Japanese perceptions of the international order on economic reasoning is first reflected in goal-setting for state policy-making. As a late-industrialized country, Japan, like Germany and Russia, was under strong pressure to establish a national economy, as opposed to building a market economy in the Western sense, which

would be the foundation for both economic independence and political sovereignty. Under such circumstances, the unit of analysis in Japanese economic reasoning tended to shift away from what Albert O. Hirschman calls "the ego-focused image" to "the group-focused image" (1958). As Gary Gereffi in his comparative study of developmental strategy demonstrates, the NICs in East Asia and Latin America have adjusted their developmental strategies between export-oriented industrialization and import-substitution industrialization according to the changing situation in the international economy. He points out that "these countries vary not only in their broad development strategies, but also in the ways they are linked to the world system. Foreign aid, DFI, international debt, foreign trade, and geopolitical factors have all played distinctive roles in shaping each nation's development trajectory" (Gereffi 1990:233).

The perception of the international order also shapes the preference of ends and institutional means in economic thinking. When the Japanese economy faced a threatening or competitive external environment, collective survival tended to be the prevailing preference instead of individual utility maximization. External factors, such as international threats and competition, also contribute greatly to the construction of strong state apparatuses (Tilly 1975; Skowronek 1982; Thomas and Meyer 1984). In the case of Japanese capitalism, as Chalmers Johnson points out, "the role of the government and its degree of reliance on authoritarian intervention are enlarged by actual or anticipated crisis conditions in the environment.....When crisis conditions abate, the balance of initiatives in the systems may once again shift from the public sector toward

the private sector" (Johnson 1987:145).

The impact of a late-comer's interpretation of its position in the world system on economic reasoning largely determines whether late-comer countries will be able to find something "enabling" in the international environment. This relationship is well reflected in the disparity of developmental strategies between East Asia and Latin America. Albert O. Hirschman observes that the impact of late-comer psychology used to be very self-destructive. "At the beginning of this century, some of the most widely read works by Latin Americans about themselves and their societies consisted of little more than a seemingly endless and remarkably pitiless recitation of their vices and failures, driven by irreparable racial inferiority" (1971:274). Latin American economists were overwhelmed by the strong pressure of industrialization and the shortage of available means, seeing the international market as in no ways enabling, but only constraining. They believed that they had an unsolvable dilemma, namely, "to achieve higher per capita incomes, current consumption must be reduced; to make available more leisure time, work must be more rigorously scheduled; to obtain a more equitable distribution of income, new inequalities may first have to be created.....The tension of development is therefore not so much between known benefits and costs as between the goal and the ignorance and misconceptions about the road to that goal" (Hirschman 1958:10). These negative perceptions of the international order and the absence of confidence about their own countries led to their adoption of the import-substitution strategy (Gereffi 1990).

In contrast, in Japan and other East Asian countries, the late-comer self-image is more reflected in the eagerness to catch up, perceiving the international market as the

source of hope and prosperity. In East Asia, economic actors never feel disappointed. "Vulnerability does not assure compliance", Gereffi points out, "East Asian nations worked hard to expand their room for manoeuvre and choice" (Gereffi 1990:250). Although the Japanese have a durable feeling of "weakness", for Japan lacks natural resources, is isolated in international politics, has a dual structure in its domestic economy and an inefficient agricultural and distribution system, and has a lot of labor intensive industry (Calder 1988:3), they have been less concerned with these sources of weakness and more concerned by discrepancies between the standard of living of their own country and that of Western countries. They have been very eager to catch up and to do so quickly. "The greater the lag the more radical and exalted were the theories which fired the effort at catching up" (Hirschman 1971:271). Driven by this kind of psychology, the Japanese economy experienced a constant "unbalanced growth" because to catch up is the most urgent task for the Japanese to promote their positions in the world system, an approach sharply contrasting to the orthodoxy of neoclassical economics which stresses the necessity of balance in economic growth. Even when the cold war situation in East Asia seriously constrained the opportunity for international trade, Japan, Korea and Taiwan were still able to use the American presence in the region to negotiate their access to the U.S. market, manipulating a trade-off between economic gain and political and military dependence (Cumming 1984).

Due to various international constraints, economic thinking in late-industrialized countries is seldom purely economics in the Western sense, but rather it is often a form of international political economy. According to neoclassical economics, the market is

the only thing that matters. In reality, however, the dominance of the market and free trade have been basically favored by the rich industrialized nations while the small poor nations of the south have consistently supported "international regimes that authoritatively allocate resources" in order to benefit from them (Krasner 1985). Because the major function of the international market is to promote efficiency instead of realizing equality in the distribution of economic welfare among nations, late-industrialized countries and developing countries have relied upon political strategies, turning constraining elements into enabling elements, in an effort to achieve their economic ends.

Economic Reasoning as A Process of Cross-National Learning

Because of the cognitive embeddedness of rationality, economic reasoning in policy-making inevitably entails a process of cross-national learning. Cognitive embeddedness here refers to "the ways in which the structured regularities of mental processes limit the exercise of economic reasoning" (Zukin and DiMaggio 1990:15). As rationality involves an analysis of the future based on predictions, limits to rationality are often posed by uncertainty, complexity, and the costs of information (Stinchcombe 1990; Zukin and DiMaggio 1990). Because the possibilities for policy innovation are strongly dependent upon "the availability of the ideas that provide the rationale for policy departure" (Weir 1989:54), cross-national learning of economic ideas has become an effective way for policy-makers to gain the relevant information and to reduce the uncertainty in economic policy-making.

Furthermore, in Japan as in other late-industrialized countries, the industrialization

in Britain and the United States is often viewed as "an inevitable path of history". Consequently, learning western economic theories is perceived as a short-cut to catch up.⁴ For these reasons, when certain economic ideas in one country create success, they may spread cross nationally because people in other countries seek to emulate, driven by various pressures, ranging from international competition to the expectation of rewards for political achievement and the ritual ceremony of the state (Ikenberry 1990; Hall 1989; Meyer 1977; DiMaggio 1983). In this sense, economic reasoning in late-industrialized countries is constrained intellectually by the shadow of Western economic ideas which stand as the symbol of rationality.

In the process of cross-national learning in policy-making, the orientations of state officials are often influenced by the agendas in academic economics, not only because academic economists are often the agents in diffusing foreign economic ideas, but also because academic economic theories can provide intellectual legitimacy to policy proposals. For this reason, the institutional constraints on economic reasoning in state policy-making are further reflected by the existence of academic agendas. The diffusion of economic ideas follows certain patterns. The competing ideas are seldom diffused at the same magnitude simultaneously. In one period of time, there usually exist a few prevailing schools which represent the institutionalized beliefs of rationality. The prevailing ideas change over time as the issues confronting the society vary in different periods. Resembling Thomas Kuhn's model of how scientific paradigms are replaced, when a crisis appears which undermines belief in the existing policy paradigm, economists look for an alternative paradigm.

In the history of Japanese economics, there were several distinctive paradigms in the diffusion of Western economic ideas, which partially constituted the intellectual foundation for the economic reasoning in state policy-making. Why these paradigms instead of others prevailed in the process of cross-national learning deserves a separate study which is beyond the scope of this one. Here I would like to emphasize the paradigms themselves. The emergence of economics as an academic discipline in Japan was a product of the Meiji Restoration. According to Sugihara Shiro, a prominent historian of Japanese economics, few books concerning economics came to Japan before 1868. The major topics in Rangaku (Dutch studies) were military science, medical science, astronomy and other natural sciences.⁵ After the Meiji Restoration, the program of economic development sponsored by the state created a boom of importing Western economic theories. During "the People's Rights movement" in the 1870s, many English books of the classical school were translated. By 1882, there were about 2,200 books concerning economics held by Japanese higher learning institutions and state bureaucracies. Most of those books were about British conservative economics. In terms of volume, books written by Henry Fawcett, who was influenced by John Stuart Mill, were rated number one.

In the history of Japanese economics, the German historical school was the first institutionalized dominant perspective which prevailed in both academia and the public sphere for several decades (See Pyle 1974). As the Japanese state decided to build up its political institutions according to the German model in the early 1880s, "German economics, as the cornerstone of German social sciences, was forcibly imported.

Meanwhile, the influence of the conservative social sciences declined, as did their cornerstone--British economics."(Sugihara 1990:16). In 1897 the Association of Social Policy, the major representative agency of the German historical school in Japan, came into being. It was the first nation-wide academic association of economics in Japanese history. Economists associated with this organization declared that "we oppose laissez-faire-ism because the extremely selfish motivation and limitless free competition can only deepen the gap between the rich and the poor. We also oppose socialism because the intention to destroy existing economic institutions and to eliminate capitalists can only disturb the development of the nation. Our doctrine is to sustain the current economic system of private ownership. Within this framework, we will try to avoid class conflict and to pursue societal harmony with personal effort and state power."(See Sumitani 1986:115) The history of Japanese economics shows that this statement has been one of the most important propositions of Japanese economists for several generations, and its impact on Japanese capitalism is visible even today.

The leading position of the German historical school in Japanese economics was overtaken by Marxist economics in the 1920s. This change in economics reflected ongoing conditions in the society at large. The "rice riots" in 1918 indicated that some social problems believed to be inherent in capitalist development had come to the surface, aggravating the tension between capital and the working class. The victory of the Soviet revolution not only stimulated the Japanese labor movement to enter a new stage, but also accelerated the propagation of Marxism among intellectuals. At the time, there was a well-known saying among young intellectuals who were concerned with various social

problems: you are not a human being if you don't study Marxism. Most Japanese economists felt that the orthodoxy of seeking a compromise approach to class conflict held by the German historical school could not fit the situation after World War I (Arisawa 1989 [1957:54). After economics as an academic discipline became organizationally separated from the department of law in many universities around the beginning of the 1920s, Marxist economists gained more opportunities to enhance their presence in Japanese academia and the Department of Economics at the Imperial University of Tokyo turned out to be a center of Marxist economics. This was where Arisawa Hiromi, one of the major economists in this study, started his academic career.

Later, classical and neoclassical economics began to show up in academic discussions. The major institutional center of these schools in Japan was Tokyo Commercial University, the predecessor of Hitotsubashi University. Joseph A. Schumpeter played an important role in shaping the direction of later development in these subfields of economics. As suggested by Schumpeter during his visit to Japan in 1931, Japanese economists began to introduce Walras's general equilibrium theory. It is notable that few Japanese economists went to Britain to study classical and neoclassical economics and most of them received their training in Germany instead. Meanwhile, Schumpeter's own theory also attracted attention from Japanese economists. Although he declined the offer of a professorship from the Imperial University of Tokyo in 1924, Schumpeter trained several prominent Japanese economists who are covered by this study: Nakamura Ichirō and Tōbata Seiichi at Bonn University in Germany and Tsuru Shigeto at Harvard University in the United States. Schumpeter's *The Theory of*

Economic Development was translated by Nakayama and Tōbata in 1937. After Schumpeter passed away in 1950, Nakayama and Tōbata translated *The History of Economics* in 1950 and *Capitalism, Socialism and Democracy* from 1951 to 1952. Tobata himself translated *The History of Economic Analysis* from 1956 to 1957. Tsuru translated *Imperialism and Social Class* in 1953. The acceptance of "entrepreneurship" and "innovation" as the leading agendas in the social construction of Japanese rationality in the 1950s was widely attributed to the diffusion of Schumpeter's theories through these translations. Thus it is not surprising that an American economist should point out that Schumpeter was the object of a higher admiration in Japan than in any other country (Yasui 1979:189).

John M. Keynes's works had been well known in Japan for a long time. Japanese readers, especially bureaucrats in charge of monetary and financial policies, learned the concepts of the "gold standard" and the "managed currency" through Keynes's works *Indian Currency and Finance* of 1913 and *A Tract on Monetary Reform* of 1923.⁶ The publication of *The General Theory of Employment, Interest and Money* in 1936 stimulated a Keynes boom among Japanese economists. With regard to this study, two economists deserve special attention. Ishibashi Tanzan kept reading *The General Theory of Employment and Money* in 1936 for several months and organized group discussions of the book for one year in order to help the translation by Shionoya Kyujukyu.⁷ The Japanese version of the book was published in 1941. Even in wartime when paper was in short supply and under strict state control, it still sold nine thousand copies within one year (Mikami 1967:198). In the early postwar period, Ishibashi gained an opportunity

to practice Keynesian policy directly as the Minister of Finance in the Yoshida cabinet. Shimomura Osamu's Keynesian study also began right after the publication of *The General Theory of Employment and Money* in 1936 when he was working at the branch office of the Ministry of Finance in New York City (Shimomura 1981, April 7:82). In 1951, as a bureaucrat he earned his doctoral degree in economics from Tōhoku University without course work by submitting a thesis entitled "The Multiplier Effect of Economic Change" (keizai hendo no josukokka) in which he developed a framework based on critiques of Keynesian theory. This thesis later became the theoretical foundation of Shimomura's high growth theory in the late 1950s.

Before World War II, there was little influence of American economics in Japan because Japanese economists regarded it as second rate. An exception was a book published by a Japanese scholar in 1932 on the history of American economics, which was probably the first one in the world on this topic. In the late 1930s, two journals published by British and American economists, *The Review of Economic Studies* and *Econometrics*, began to draw attention from Japanese economists, as many German and Austrian economists escaped to the United States in the 1930s after Adolf Hitler came to power and began to publish their writings in English. Nevertheless, the American style of positivist economics did not become influential until the postwar era (Yasui 1979:51-58). As another exception, however, Tsuru Shigeto, one of the important economists in this study, studied and taught at Harvard University in the 1930s and the early 1940s. Through this experience, he became acquainted with New Deal practices and welfare economics, which later exerted a great impact on his policy orientation

during the postwar recovery.

Japanese economists have been able to exploit the enabling function while reducing the constraining function contained in these Western economic ideas by learning selectively. In the reception of foreign economic ideas, it is possible to distinguish two patterns: wholesale and retail. In the case of the wholesale pattern, ideas become doctrine, their propositions functioning more as constraining than as enabling factors. In the case of the retail pattern, ideas are accepted with conditions, their propositions remaining legitimate so far as they fit the needs of economic reality. By retailing, elements in different ideas can be borrowed to form a new variant, making the best use of different ideas according to the local conditions.

Cross-national learning involves two processes simultaneously: one is the diffusion of foreign economic ideas, and the other is the selection of certain ideas in policy-making. According to John Ikenberry, the first process is a process of "social learning", which refers to the diffusion of foreign ideas, while the second process is a process of "policywagoning", which means that policy-makers adopt strategies by following experiences of other nations. The transition from social learning to policywagoning demands certain mechanical conditions. First of all, it needs agents and their access to information. Economists often act as agents to turn foreign experience into proposals of domestic policy as they have the authority to interpret the meaning contained in theories and practices of other countries. In this regard, their educational background in foreign countries often influences their policy orientation, their affiliation with a particular teacher often channels their access to relevant information. Secondly, this transition

needs an institutional linkage between academia and the state. In the Japanese case, personal connections with leading politicians often speed up the process of transition between social learning and policywagoning. In this study, for example, Arisawa Hiromi was involved in the activity of the Shōwa Research Association (Shōwa kenkyū-kai), the private brain trust to Prime Minister Konoe Fumimaro, when he drafted the proposal for an economic "new order" in 1939 and 1940. He became the chief advisor to the Prime Minister Yoshida Shigeru in the early postwar era when he designed the famous "priority production plan". When Nakayama Ichirō helped to establish the Japanese style management system in the 1950s, he was not only a senior advisor to the Japanese state, he also became the vice-president of the "Productivity Headquarters", directly in charge of labor relations. When Shimomura Osamu asserted the "high growth" agenda in the National Income Doubling Plan" at the end of the 1950s, he was the chief private advisor to Prime Minister Ikeda Hayato. Through these special channels between political and academic elites, the ideas of a small number of economists acquired political currency, enabling an academic agenda to permeate the policy-making process. A third condition for the transition from learning to policy is the presence of political discourse by the general public, which facilitates the selection of a proposal. Political discourse, as Peter A. Hall points out, "can work to the advantage or disadvantage of new policy proposals", and its nature "can have a major impact on the likelihood that a new set of policy ideas will be accepted" (Hall 1989:383). Only those ideas which fit the climate of industrial culture in a given country are likely to be diffused and accepted, as the "logic" of a particular industrial culture underlying current practice has an enduring impact on future

choices (Dobbin 1992b). The final condition is the preference of the leading political party in the policy-making process for proposals of this sort. In general, the position as a late-comer country in the world system increases the possibility of choosing a model of a similar country. If the way of dealing with economic problems in this model can fit the institutional environment of the country to which the model was introduced, then it has a big chance to be accepted.

Economic Reasoning as the Manifesto of a Value System

Neoclassical economics assumes that human behavior in a modern economy is solely motivated by the principle of instrumental rationality, in comparison with value rational, affectual and traditional orientations. Even if social norms still have a certain degree of influence, they are marginal and can be neglected in economic theorizing. These assumptions, however, cannot be verified empirically. Although the Japanese have been enthusiastic in learning from the West since the Meiji Restoration, the market mechanism, the ideology of individualism and the principle of building human relations based on money associated with capitalist development have not been able to replace the role played by Confucian ethics and morality in Japanese society. Nevertheless, this is not to confirm the static culturalist argument, because economic actors in Japan often interpreted and reinterpreted differently the meanings and implications of indigenous values. Furthermore, how to interpret them were subject to environmental conditions in different periods. Collectively shared economic values do have an impact on policy-making. It is not realized, however, simply through internalization by individuals, but

through a dynamic intervening process in which economic actors fight for their own interests by interpreting and asserting those values that fit their needs.

In reality instrumental rationality is indeed subject to constraints of the value system. Many sociological studies have shown that even in a modern economy non-instrumental value systems still set limits to instrumental rationality by proscribing market exchange in sacred objects and relations (Granovetter 1985; Zukin and DiMaggio 1990). Culture shapes the terms of trade, argues Viviana Zelizer. Many phenomena that are supposed to be pure economics, such as children's insurance policies, compensation awards, and the sale price of an adoptive child, are in fact regulated in part by non-economic criteria (Zelizer 1987). In this sense, the market is not just an economic structure, but also a cultural one, because subjectivity has not been destroyed by commoditization and it still shapes material life, bestowing new meanings to an industrial society (Zelizer 1988:627-628). Human beings do not regard work only as an instrument of making money, Lane points out. They rather search for happiness and personal development through their work experience (Lane 1990). Therefore, moral and ethical imperatives in the form of values or norms in economic analysis cannot be reduced to utilities, and group identity often constitutes the motivation in individual behavior (Sen 1987; Etzioni 1988). The institutionalized rule of human behavior greatly constrains instrumental rationality. As Sen asserts, "the self-interest view of rationality involves inter alia a firm rejection of the 'ethic-related' view of motivation. Trying to do one's best to achieve what one would like to achieve can be a part of rationality, and this can include the promotion of non-self interested goals which we may value and wish to aim.

To see any departure from self-interest maximization as evidence of irrationality must imply a rejection of the role of ethics in actual decision taking (other than some variant or other of that exotic moral view known as 'ethical egoism')" (Sen 1987:15-16). In real life, people do not maximize but balance: they balance not only between self-interest and public interest, but also between work and leisure (Etzioni 1988).

Even neoclassical economics, despite claims to be purely rational, is constrained by the value system. The principle of individual utility maximization, according to Robert Bellah and his associates, is in fact simply a manifesto of the utilitarian individualism of the American middle class. This class believes that "individual and social behavior are predominantly determined by the application of technical rules to any situation that arises.....It is the middle-class orientation toward technical education, bureaucratic occupational hierarchies, and the market economy that encourages the greater emphasis on universal rules and technical rationality" (Bellah et al. 1985:132). Moreover, neoclassical economics is not only influenced by certain values, it also reproduces them. Enhancing the doctrine of individualism through various types of professional education, neoclassical economics has played a crucial role in reproducing American middle-class utilitarian individualism. This has resulted in a managerial culture which is characterized by low commitment to others and even what can be described as empty self definition. For this reason, Americans must reconstruct their social sciences in order to reconstruct their society. Social sciences, including economics, must be based on public philosophy, giving themselves a function as "a form of social self-understanding or self-interpretation" (Bellah 1985:301).

In Japanese economic reasoning, the impact of the value system was reflected in other forms. Japanese economists are intellectuals. Intellectuals in a late-industrialized country, as Japan was between the 1930s and the 1960s, are what Mary Matossian called long ago the "assaulted" intellectuals who share a contradictory psychology. While they are overwhelmed by the contrast of living standards and degree of development between their own countries and Western countries and support radical change to narrow the gap, they often resent the West for they feel that they are neither truly native nor truly Western. They try very hard to find "a 'true self'" in order to be an equal and genuine partner of the West. Such a psychological condition tends to make economists "merge fact and value, to superimpose upon things as they are the things they are desired in economic thinking" (Matossian 1971 [1958]). In other words, economists in late-industrialized or late-developing countries hardly think in the same way as neoclassical economists do in Western countries. According to this perspective, the Russian Revolution might not have broken out without the intensive discussions in the 19th century which stressed that economic development would result in the strengthening of the communal good (Gerschenkron 1962), and communism or socialism would not appeal to late developed societies if they did not "reconcile the requirements of economic change with group-focused image of change" (Hirschman 1958:13).

While the Japanese value system strongly constrains the pursuit of individualistic rationality, it facilitates a function of enabling the collective rationality. This is particularly obvious when the Japanese economy faced a threatening international environment, which often stimulated the emergence of various nationalist ideologies.

The impact of indigenous values via nationalist ideologies on economic reasoning in policy-making is reflected in two dimensions: One is that they create an environment, favoring a native Japanese orientation towards the collective welfare as the social-psychological root of nationalism lies in the emphasis on group-consciousness. When the Japanese are in a threatening situation of us versus them, the sense of belonging to a group or a nation creates a feeling of security, homogeneity and conformity for individuals (Degenaar 1982:12). In nationalist ideologies, the unit of analysis is never the individual, but the collective. Assuming that the people of each nation have had to put forth efforts and make sacrifices in order to sustain their nation, it is also much easier to establish collective solidarity based on an ethnic foundation. Under such circumstances, economists as intellectuals tend to stand as the representatives of collective interests, calling for overcoming the difficulties created by domestic class conflicts and power struggles.

The other dimension of the impact of nationalist ideologies on Japanese economic thinking is a preference for the state as the instrumental means for collective interests as they demand "devotion to the interests of a particular community" (Davis 1967:x), seeking to "bind together people in a particular territory in an endeavor to gain and use state power" (Breuilly 1982:365). According to the doctrine of nationalism, the nation-state is the "ideal form of political organization" and nationality is the "source of all creative cultural energy and of economic well-being" (See Degenaar 1982:9-10). For this reason, nations can only be fulfilled in their own states, and loyalty to the nation-state overrides other loyalties (Smith 1971:21). Nationalism often leads to a socialist

orientation in economic thinking, because socialism is a particular program to further the welfare of a whole community (Davis 1967:xi). In the Japanese case, economic nationalism has constituted the foundation of industrial policy, though giving priority to the interests of Japan does not necessarily involve protectionism, trade controls, or economic warfare (See Johnson 1982:26).

The dual function of the Japanese value system in constraining individual rationality while enabling collective rationality in a threatening international environment helps to explain why the transition of indigenous values into modern economic institutions during the process of industrialization in twentieth-century Japan was realized not in the form of stable and continuous permeation, but in the form of volcanic and periodic enhancement of nationalist ideologies, marked by two big reversals between Western influence and indigenous values. The first reversal occurred in the 1930s after the Taishō democracy through which the nation-state replaced individualism and class analysis, becoming the new unit of analysis for the program of managed economy. The second appeared in the 1950s after the democratic reforms during the Occupation through which the assertion of group harmony prevailed over the assertion of class conflicts, laying out a foundation for the program of technological innovation. In an oriental country like Japan, indigenous culture has always been in great tension with the process of industrialization, indicated by the rise and fall of various ideologies and concomitant alternations of institutional continuity and discontinuity. It is not only that culture permeates industrialization, industrialization also selects some aspects of culture, over those parts of indigenous values that are not able to catch up with the increasing

complexity of modernity. In this sense, these revivals of indigenous values were not mere repetitions of the past, they constituted a process of spiral development. As an outcome of this process, the collectively shared meanings of social order and rationality have been distilled in modern economic institutions.

Economic Reasoning as Trajectory of the Institutional Structure

Adopting methodological individualism, neoclassical economics focuses on the analysis of aggregations of atomized behaviors, paying little attention to institutions--the "complex whole that guides and sustains individual identity" (Bellah et. al. 1991). As a natural product of individualism that developed in the process of capitalist industrialization in the West, neoclassical economics reflects the institutionalized belief in rationality in Britain and American societies. Once it became a doctrine, this institutionalized belief acquired great power for self-reproduction, exerting a profound impact on modern economies by reinforcing its values in people's cognition and behavior patterns. Influenced by the individualistic doctrine of neoclassical economics, "Americans tend to think that all we need are energetic individuals and a few impersonal rules to guarantee fairness; anything more is not only superfluous but dangerous--corrupt, oppressive, or both" "The idea that institutions are objective mechanisms that are essentially separate from the lives of the individuals who inhabit them is an ideology that exacts a high moral and political price" (Bellah et al 1990:12). As a result, the meanings of individual achievement and self-fulfillment in American economic life have been overstressed at the expense of losing commitments to others, in either the private sphere

or public life (Bellah et al 1985).

Furthermore, as neoclassical economics obscured institutional factors completely, it explains little about how economic activities are actually carried out, and cannot provide good strategies for action and suggest institutional means for achieving economic ends. In reality the practice of neglecting the institutional side of rationality has created some serious problems in the American management system. Driven by the concern for short-term performance as indicated by quantitative data, American companies have been slow to make institutional efforts to promote R & D and productivity effectively. This practice has greatly weakened American competitiveness in the global market.

In contrast to neoclassical economics, institutions are the major concern in another tradition of economic thinking, which is basically reflected in the discussion of two dimensions. On the one hand, institutions are constraining for they produce many competing forces that restrict the pursuit of rational actions. The structure of economic organization, for example, is not determined solely by the need for efficiency. The demands for legitimacy, internal control, and predictable order are virtually as important as those of the market mechanism (Weber 1968; Meyer and Scott 1983; DiMaggio and Powell 1983; Weick 1979). Institutional constraints sometimes are organizational. The structure of industrial organizations in East Asia, Hamilton and Biggart argue, is shaped by the authority pattern in the social structure (Hamilton and Biggart 1988). In the case of state policy-making, "if a given state structure provides no existing, or readily foreseeable, 'policy instrument' for implementing a given line of action, government officials are not likely to pursue it, and politicians aspiring to office are not likely to

propose it (Weir and Skocpol 1985:118). Institutional constraints sometimes can also be cognitive. The logic of industrial culture in a given nation always constrains the paradigms of industrial policy (Dyson 1983; Weir and Skocpol 1985; Hall 1989; Dobbin 1992). "When nations face a new policy dilemma they design new institutions around the logic of existing institutions.....policy approaches are reproduced because state institutions provide cause-effect logic that policymakers apply to new problems" (Dobbin 1992).

On the other hand, institutions are also enabling. The relationship between actors and institutional constraints is reciprocal. Actions are indeed constrained by structure. At the same time, actors also re-create institutions through their contingent actions (Weber 1947; Giddens 1982). Institutions do not only constrain the rationality of actors but also endow them with the ability to enlarge the set of structurally given feasible alternatives (Wipperfurth and Lindenberg 1987). Besides, institutional factors are not necessarily inconsistent with rational actions for competition and efficiency. In East Asian capitalism, the social networks have a paramount role in the market-regulated and technically dominated environment, and converge harmoniously with technical components of environments, turning the institutional constraints into strategic instruments for pursuing success in economic competition (Orri, Biggart and Hamilton 1991). The reason is that economic activities are not carried out by atomized individuals but are "embedded" in the social structure. Social networks are extremely important for "generating trust" and "discouraging malfeasance" in economic life. Such social networks not only provide cheap and trustworthy information to economic actors, but

also "make behavior more predictable and thus close off some of the fears that create difficulties among strangers" (Granovetter 1985:490). Furthermore, institutions are a tool that competes with market forces. When transaction costs rise, they can be counteracted by the organizational hierarchy (Williamson 1975). Such "embeddedness" of economic activity was once believed to be predominant in premarket societies and much weaker as modernization increases. According to Mark Granovetter, however, "it has changed less with 'modernization' than economists believe and it has always been and continues to be more substantial than is allowed for by economists" (1985:482).

Institutions are important to collective actors in pursuing collective rationality. Therefore, how to improve institutions has always been the key issue in Japanese economic thinking whenever the unit of analysis in the economic reasoning is altered significantly from the individual to the collective by the threatening international environment. In the Japanese rationality, one effective way to make institutions enabling was to revive old institutions for new purposes because they had a solid social foundation and constituted an efficient instrumental means to respond to the urgent situation quickly. Many scholars have pointed out that the Japanese style of industrial relations did not emerge under the prewar Emperors Meiji (1868-1912) and Taishō (1912-1926) (Gordon 1985; Garon 1987). Two distinctive periods--one was the 1920s, and the other was the late 1940s and the early 1950s--were characterized by "the massive outbreak of strikes and the widespread formation of assertive labor unions" (Garon 1987:2). When the Japanese were challenged by the international environment in the 1930s and the 1950s, much effort was invested in quieting labor relations.

Even the role played by the Japanese state varied over time. In modern Japanese history, more direct state intervention in the economy was not evident until the 1930s (Johnson 1982). Given the desire for collective survival from the Great Depression and wars, the laissez faire economic theories lost legitimacy quickly, as did their methodology. In political discourse, the unit of analysis shifted from the individual to the collective as economists shifted their attention from the market to the state because the critical issue of concern to Japanese economists was what kind of institutional solutions they needed to "break the current deadlock". The institution of the managed economy operated by the state turned out to be the alternative.

The positive correlation between institutional efforts and threatening environment confirms the logic of interdependence asserted by game theory: even behavior driven by self-interest can, under certain conditions, also lead to cooperation, pursuing the collective welfare (Elster 1986[1979]). When competing interests become a big obstacle for a simple solution in one's favor, "the agent may forego short-term benefits in order to realize long-term benefits, that collective actors may subordinate special interests to common interests" (Windhoff-Heritier 1991:31). Under such circumstances, a proper methodology in the analysis of rationality is "to identify the empirically acting units and reduce your explanation to their behavior, and not to assume that the acting unit is an individual and then reduce the behavior of the institutions to these individuals" (Stinchcombe 1990:297). Institutions are the most important element in "social rationality" or "collective rationality". "If you accept that it is rational for an actor to build up his own identity or to consolidate some collective identity", Albert O.

Hirschman once pointed out, "then participation in collective action and the refusal of any 'free ride' become perfectly rational" (Hirschman 1990:160).

The Dynamics in the Fluctuation of Economic Policy Paradigms

In the following empirical chapters, I chronicle the impact of institutional settings on the Japanese rationality in three distinctive paradigms which were reflected in four programs in Japan's industrial policy between the 1930s and the mid 1960s: the program of managed economy in the 1930s and the early 1940s, the program of priority production in the late 1940s, the program of technological innovation in the 1950s, and the program of high growth in the 1960s. My analysis proceeds along four dimensions.

First, in each case the changing perception of international order challenged the existing paradigm in economic thinking, making Japanese economists define and redefine the most important goals for state economic policy. In the program of managed economy between 1931 and 1945, that meant the rejection of laissez faire and the establishment of state control over resource allocations, responding to the Great Depression and international tensions involving Japan in that period. In the program of priority production between 1946 and 1949, it meant the reconfirmation of the managed economy, driven by the pressures of national isolation from the international market while suffering from hyper inflation and a severe shortage of materials. In the program of technological innovation in the 1950s, it meant the rejection of the proposal of developing the economy through rearmament, and the adoption of a series of institutional reforms at the micro level to promote production efficiency, when Japan was confronted

with the urgent task of achieving economic independence by engaging in international competition. In the program of high growth in the 1960s, it meant the rejection of conservative financial policy and combining macroeconomic policy with industrial policy, facing the challenge of internationalization of trade and both domestic and international demands for improving social welfare.

Second, when the Japanese economy was confronted with new tasks, the state looked for new alternatives from other countries through academic economists, formulating new paradigms of economic policy according to the leading academic agendas. In the 1930s, they borrowed the German experiences during and after World War I, combining the Marxian concept of planned economy with the German theory of total war. In the early postwar era, they applied the Marxist approach again, and the Keynesian theory as well. In the 1950s, they chose the Schumpeterian perspective to build up the theoretical foundation for the program of innovation, stimulated by the ongoing process of the fourth industrial revolution. In the 1960s, they combined Keynes and Schumpeter together, sustaining investment-led high growth by increasing public expenditures.

Third, during this process, both old and new policy paradigms encountered various challenges from popular ideologies, reflecting the moral and ethical assertions of different social groups on timely issues concerning economic affairs. The manifesto of a such value system functioned in both rejecting the old paradigms and selecting the new ones. In the 1930s, the emergence of nationalist movements rejected both individualism asserted by the laissez faire doctrine and the Marxist approach of class

struggle and internationalism, laying down a foundation for the rise of state-led capitalism in the form of the managed economy. In the late 1940s, the ideological relapse of Marxism and individualism in the postwar democratic reforms, after a long time of state control over thought during the war, delivered a strong challenge to the priority production program which was needed urgently. In the 1950s, the reemergence of nationalist movements helped Japanese transcend the limitations of Marxism and individualism, shaping a framework toward the nation-state again in the social construction of rationality. This trend was further strengthened after the national division over the extension of the U.S.-Japan security treaty in 1960, building up a national consensus for the program of high growth.

Fourth, the institutional structures, both within the state and in the state business relations, were often the crucial factors to determine whether economic actors could find the appropriate means to carry out the new policy paradigm. In the program of managed economy of the 1930s and the early 1940s, the struggle around the establishment of an "economic general staff" largely determined the fate of the program of managed economy. The success of the program of priority production in the early postwar era was strongly supported by the institutional establishment of the Economic Stabilization Board. In the 1950s the implementation of the technological innovation program was greatly benefitted by the Productivity Headquarters where representatives gathered for all parties concerned. The adoption of the high growth policy by the Ikeda cabinet in the 1960s caused a series of bureaucratic struggles and finally Ikeda was able to assume strong leadership to overcome various institutional barriers. The central theme of my

argument is that the Japanese rationality reflected in the state economic policy was influenced by many institutional factors. The universal rationality arguments are unable to explain why economists in Japan constantly asserted collective goals which contradicted the methodological individualism in neoclassical economics, preferred ends other than consumption and leisure, and adopted non-market means to achieve their ends. It was true that assertions of the interests of individuals and firms did exist, but they eventually failed to dominate the direction of policy-making by the Japanese state. In the leading paradigms of Japanese economic policy through the period between the 1930s and the mid-1960s, the collective orientation prevailed. Without understanding the institutional conditions in various periods, one cannot explain why sometimes the assertions of individual interest had a bigger impact while at most times their impact was marginal.

Like the universal rationality arguments, the cultural arguments failed to account for the dynamics behind the collective orientations. In fact, during the process of state policy-making, the collective orientations were never taken for granted and shared naturally by every economic actor in Japan. Rather they were often the outcome of intensive struggles around each alternative by different social groups, functioning as a solution by which each party could be better off under a particular set of institutional conditions. The indigenous values were indeed often advocated in economic debates, but were never so for their own sake. They were used by various actors as a weapon to serve their interest. Without taking the purpose of actors and the institutional conditions into consideration, the cultural arguments cannot explain the conflicts and changes around

each paradigm in Japanese economic policy.

CHAPTER THREE: THE MANAGED ECONOMY

The managed economy was the leading paradigm in Japanese economic policy during the period of the "fifteen-year-war", which began with the Manchuria Incident on September 18, 1931 in which the Japanese army occupied Northeast China, and ended with the surrender to the Allies on August 15, 1945. In this period, the Japanese rationality of running the economy changed drastically in comparison with the past. Driven by the pressures of the Great Depression and wars, the laissez-faire market lost its legitimacy as the major means to organize economic life. In the logic of managed economy, the unit of analysis was the nation-state. Accordingly, the state became the major actor in the economic arena, exercising great power in resource allocation at the macro level, controlling almost every aspect of the economy. In order to achieve the end of promoting production, the Japanese state employed various instrumental means to realize the direct state intervention. First, it depended on the legal system to control the freedom of the private sector in business activity by enacting several important laws which bestowed the state with great power in controlling resources. Second, the state adopted various economic policies which set up the order of priority regarding how to allocate resources. Third, it established many semi-official institutions, whose major functions were to realize the will of the state by integrating and controlling activities of individual firms.

Different from the paradigm of technological innovation in the 1950s, which emphasized the production efficiency of individual firms at the micro level, and the paradigm of high growth in the 1960s, which focussed on the leadership of the state in

initiating economic development while it depended upon the dynamics of the private sector, the paradigm of managed economy in the 1931-1945 period paid exclusive attention to state planning, which left many legacies in terms of ideas, personnel, policy instruments, and institutions, exerting a profound impact on Japan's postwar development (Nakamura 1974; Johnson 1982). In the economic reasoning during this period, economists "were influenced both consciously and unconsciously by the socialist planned economy and by their wartime experience of economic controls. They believed that the government must exercise strong leadership, formulate plans, and guide and regulate the activities of the private sector across the whole gamut of industrial activity" (Komiya 1986:23). Many distinctive phenomena in postwar Japan, as Itō Takashi argues, cannot be understood without reference to Japanese experiences over these fifteen years (Itō 1976:16-20).

The great transition of industrial policy in Japan in the 1930s, as in many industrialized countries in that period, provides us with a good example to elaborate the theoretical issues which I discussed in the previous chapters: why was the market oriented policy paradigm, which had been in practice for more than half a century, suddenly given up, making the neoclassical claims for universal market rationality invalid in the 1930s? How could the unit of analysis in economic reasoning shift rapidly from the methodological individualism asserted by the laissez faire doctrine and social Darwinism, and the Marxist perceptive of class struggle to the nation-state? Why did the state emerge as the major actor on the economic arena, exercising great control over society? Among many changes occurring in Japan at the time, what were the major

dynamics behind the great transition in the state policy paradigm towards the managed economy? Was this transition caused by Japanese culture? Applying the framework presented in Chapter Two, I argue that the Japanese rationality for the managed economy was constructed in a special environment in which several institutional changes were responsible for deriving this new paradigm in the Japanese economic policy. My analysis begins with an introduction of how economic hard times strongly challenged the old market oriented policy paradigm. I show that the Great Depression made the Japanese believe that the doctrine of *laissez faire* was the major evil of capitalism. After describing in the following section what kind of new logic the Japanese adopted in the managed economy, I show that economic policy in the Japanese case during the 1931-1945 period, as before, was not purely an economic matter; it was heavily influenced by the institutional environment.

First of all, I show that the goal of collective survival in the incoming war, which was the foundation in the logic of managed economy, was directly derived from the Japanese perception of international order at the time that sooner or later they would be involved in a total war with Western powers to redefine the world order. This perception of international order, I contend, worked to set up the most urgent goals for the Japanese in policy-making--to organize the economy as a whole around defense, and to allocate the limited resources through state control in order to survive the incoming war. According to this logic, the market would not be able to assume the function of allocating resources, and only the state could exercise leadership in establishing a managed economy.

A second critical factor identified by this study was the impact of institutionalized beliefs in economic laws that the Japanese adopted in cross-national learning with respect to policy-making. I show that the German theory of "der totale krieg" (total war), which was introduced to Japan during World War I, became very popular in the 1930s. This theory, plus the Marxian concept of "planned economy" and the American New Deal were diffused effectively in state policy-making through brain trusts--the special channels that linked academia with the political center. I argue that these foreign economic ideas played an extremely important role in providing a theoretical framework and an intellectual foundation for the paradigm of managed economy in Japanese economic policy.

Then, I further suggest that the adoption of managed economy was morally and ethically supported by two separate nationalist movements which significantly altered the unit of analysis in Japanese economic thinking from the individual and social class to the nation-state. Firstly, many former communists renounced the Marxist doctrines of class struggle and internationalism in the "tenkō" (conversion) movement, converting themselves into supporters of indigenous political values associated with the "emperor system". Secondly, right-wing radicals forcefully attacked the laissez-faire doctrine in the "state reform movement" (kokka kakushin undō), launching a sweeping reform in order to "get rid of the evils of capitalism". Consequently, state-led capitalism was perceived as the only alternative to the laissez faire market. Nevertheless, I argue that the impact of these indigenous values on Japanese economic policy was not realized through the natural individual internalization but through a much more complicated

process of political economy in which actors asserted these values for the political purpose of responding to the changing environment.

In the last section, I show how the institutional structures of the Japanese state and state-business relations helped shape the instrumental means for the managed economy. I argue that while the state capacity in policy-integration was strengthened greatly, the initiative of establishing a genuine "economic general staff" was still constrained by the long-time tradition of sectionalism in state bureaucracies. For this reason, the Cabinet Planning Board was never able, though it tried hard, to obtain the power to supervise the implementation of the general mobilization plans it made as an integrative agency. Meanwhile, despite the fact that the state gained great power to exercise control over the economy, the resistance of the private sector still could block successfully some of the most radical policy initiatives of the state, such as the efforts to separate management from ownership and to bestow on managers an official status.

As a whole, this chapter argues that the economic rationality contained in the practice of managed economy in Japan, as any particular type of rationality, was a product of institutional environment, and it cannot be understood without reference to the contextual conditions. This chapter also shows that as early as the 1930s, the Japanese had already transcended both the Western type of market rationality and the socialist type of planned rationality, landing at a third type of rationality in which the state acquired strong power over resource allocation and state planning replaced the function of the market in organizing the economy, which was based on private ownership. This chapter sets up a starting point of analysis for the following chapters. Chapter Four will examine

why the policy legacy of managed economy could continue in the early postwar period. Without a better understanding of what happened in the 1930s and the 1940s, one will not be able to understand and explain the Japanese experience in the postwar period.

"The Emergency Era"

The Great Depression greatly challenged the orthodoxy of laissez faire, and some actors in Japan responded to this unprecedented situation in radical ways. "In political history, the first ten years of the Showa era (1926-1935) were a period full of terrorism and coups, in which Japan stepped quickly towards war and fascism, beginning with the fire in Manchuria (Northeast China). In economic history, it was a period in which Japan experienced a rapid transition from 'financial panic' and the 'Showa crisis' to hyperinflation and militarization of the national economy against the background of the 'May 15th Incident' and the 'Manchuria Incident'" (Arisawa 1974:19). For these reasons, the Japanese often use the term "emergency era" (hijoji) to describe the situation at the time. The Great Depression and the wars with China and the U.S. in the 1930s and the early 1940s imposed two urgent issues on the Japanese economy: one was how to respond to the failure of the market, and the other was how to mobilize its limited resources effectively for the purpose of supporting the wars.

The emergency era came to Japan two years earlier than did the Great Depression to other countries. Beginning in mid-March, 1927, Japanese banks were attacked by a storm of withdrawals from saving accounts, resulting in bankruptcies at thirty-one banks in two months. In 1928, the government enacted a "Bank Law", aimed

at rationalizing the Japanese banking system by eliminating small banks, which enabled Mitsubishi, Mitsui, Sumitomo, Yasuda and Daiichi to emerge as the "big five" capitalist monopolies. In order to tighten finances and reduce the national debt, Inoue Junnosuke, the finance minister in the Tanaka cabinet, also lifted the ban on gold exports. By doing so, however, the Japanese economy opened its door to the international economy at an inappropriate time. When the Great Depression occurred in the West, its influence, together with Inoue's deflationary policy, drove Japan into the "Showa crisis". Between 1929 and 1931, Japan's GNP declined 18 percent; exports, 47 percent; household consumption, 17 percent; and plant & equipment investment, 31 percent. The rate of capital gains in manufacturing went down from 5 percent in 1929 to 1 percent in 1931. The stock market also crashed. Taking January, 1921's market average as 100, the average in 1930 was only 44.6. In urban industrial areas, cartels and trusts were created one after the other to deal with the failure of the market, which had brought about an estimated two to three million in unemployment (at the time there were no reliable statistical data in Japan). The economic hard times also aggravated labor disputes. In 1930 195,805 Japanese workers were involved in 2,289 labor disputes and 81,329 joined in 906 strikes. In rural areas, the net production of agriculture, forestry and fishing in 1931 was equal to only 57 percent of that in 1929. Many families felt compelled to sell their daughters to serve as prostitutes. In one hard-pressed village, one fourth of the young girls were sold and the village office was even turned into a market for transactions in prostitution. As in many other industrialized countries, the failure of the market greatly undermined the orthodox belief in laissez faire in Japan. Under such

circumstances, many Japanese believed that state intervention was the only solution to their problems.

How should a country respond to the economic hard times? Among different alternatives, the proposal made by the Japanese Army was the most influential and changed the course of modern Japanese history. On September 18 1931, the Japanese Army provoked the Manchuria Incident without the knowledge of the Japanese government, seeking a military solution for Japan's economic problems by expanding its military power in mainland Asia. Although this incident was organized by a small group of radical military officers, it had far-reaching consequences for the whole nation as it pushed Japan into a series of international conflicts, not only with China that it invaded, but also with Western powers which had vested interests in East Asia. After the Manchuria Incident, Japan was branded as an aggressor, being ostracized by the world. As Japan strongly opposed any intervention by the League of Nations, Japan became more and more isolated from the international community. When the League of Nations refused to recognize the Manchurian government and came to a conclusion in its investigation not in favor of Japan, the Japanese government withdrew from it in 1935. In the end, Japan committed a great military misadventure by waging two wars: one with China beginning in 1937 and the other with the United States starting in 1941.

By doing so, the Japanese economy was confronted with a new challenge, namely, to prepare for the major military confrontations with Western Powers and eventually to support the wars with China and the U.S.. These military conflicts had some serious economic consequences. First of all, the rapidly increased military expenditures created

huge debts in government finances. The total military expenditures of the Japanese government in 1931, when the Manchuria Incident occurred, were 1.477 billion yen; in 1932, 1.950 billion; in 1933, 2.255 billion; in 1934, 2,163 billion; in 1935, 2.206 billion; in 1936, 2.282 billion and in 1937, it jumped to 3.452 billion yen (Rengō Jōhō-sha 1938:17). Secondly, the huge budget for military expenditures inevitably worsened Japan's international payments. The trade deficit in 1932 was 67 million yen; in 1933, 85 million; in 1934, 142 million; in 1935, 15 million; in 1936, 131 million, and in 1937, it climbed to as high as 636 million yen (Rengō Jōhō-sha 1938:203). Driven by these pressures, how to allocate limited resources at the macro level and how to promote production in order to survive the wars were regarded by the Japanese as the most critical issues to the Japanese economy, becoming the urgent goals for the policy-making of the Japanese state.

The Managed Economy

The major response of the Japanese state to the economic situation in the 1930s and the early 1940s was to run a managed economy in which the state became the organizer in the operation of the economy, exerting tight control over resource allocation through various institutional means. The institutional transition towards the managed economy, according to Andō Yoshio, developed along two lines: the first were the policy measures for the purposes of counteracting the depression and achieving industrial rationalization; and the second were the efforts for war preparations (Andō 1987:403). In the rationality of managed economy, the nation-state took over from the individual and

social classes in the perspectives of classical economics and Marxism respectively, as the new unit of analysis in economic reasoning. As a result, the preference of ends was shifted from the profits of shareholders and the interest of the working class to the promotion of production and the allocative effectiveness of resources at the macro level for the interest of the nation. Accordingly, the state and various state-led institutions became the major instrumental means, replacing the functions of markets, ranging from financial market to labor market, producer good market and consumer good market. In contrast to classical economics which regarded the economy as a natural process which runs according to its own rules, the logic of the managed economy treated the economy as the subject of social engineering, whose direction and operation could be controlled by human beings.

In comparison with the periods before the 1930s, the Japanese state made a great effort to strengthen its capacity of controlling the economy, which resulted in the development of various instrumental means for the program of managed economy. First of all, the state employed various policy instruments, ranging from industrial policy, to financial policy, relief policy towards rural areas, and social policy concerning labor relations. Secondly, the state enacted a series of new legislation which bestowed on it the power to control the resource allocation, and then made the annual "resource mobilization plans" (bushi dōin keikaku) which distributed resources according to the policy goals set by the state. Thirdly, the state sponsored many semi-official organizations, which functioned as important tools to control the behavior of the private sector. Among these organizations, various control associations (tōsei-kai), which

implemented control over resource allocation in each industrial field, and public corporations (eidan) which reflected the nationalized management of strategic industries, were the most important ones. In relation to society, so to speak, the Japanese state became much stronger than it was before. Finally, the Japanese state set up several central planning agencies in charge of policy-integration within the state bureaucracy in order to enable the state to act as a whole, operating the economy more effectively. For the first time since the Meiji Restoration, the Japanese state tried hard to oppose the sectionalism in the state bureaucracies.

State policies constituted the major instrumental means in Japanese efforts to survive economic hard times in the late 1920s and the early 1930s. In industrial policy, the Japanese state adopted measures to promote "industrial rationalization". It set up several bureaucratic organs within the Ministry of Commerce and Industry, for "control of enterprises, implementation of scientific management principles, improvements in industrial financing, standardization of products, simplification of production processes, and subsidies to support the production and consumption of domestically manufactured goods" (Johnson 1982:104). In order to mobilize the private sector to play a role in managing the economy, the state enacted "The Important Industries Control Law" (Jūyō sangyō tōsei-hō) in 1931 that replaced competition among enterprises with cooperation by introducing cartels, which functioned to "fix levels of production, establish prices, limit new entrants into an industry, and control marketing for a particular industry" (Johnson 1982:109). The enactment of this law is regarded as the beginning of a genuine managed economy (Nakamura 1974:18).

The financial and monetary policies adopted by the Japanese state in the early 1930s were aimed at three goals: to create effective demand and to enlarge the domestic market by increasing the money supply and lowering the interest rate; to reduce imports by depreciating the yen through lifting the ban on gold and increasing tariffs on heavy-chemical industrial products; and to promote exports by lowering the exchange rate (Miwa 1982). This is why Charles Kindleberger argued that Japan "produced Keynesian policies as early as 1932 without a Keynes" and why some Japanese regarded Takahashi Korekiyo as the "Keynes of Japan" (See Johnson 1982:6).

New legislation was another important means to carry out the program of managed economy. After Japan expanded its invasion in China in 1937, the state enacted "The National General Mobilization Law" in 1938 which bestowed on the state the power to control "almost every element in economic activities" according to its needs in the national general mobilization. According to Nakamura Takafusa's categorization, the state acquired the power to control four dimensions of the economy. The first was labor. The state could not only draft personnel by demanding cooperation from civilian individuals and corporations, but it could also issue orders to employers concerning the conditions of employment, layoffs, and wage and dispute resolution. The second was materials. The state could control the production, repair, distribution and exchange of materials that were related to general mobilization, which covered almost everything, set up limits or prohibitions to imports and exports, and decide levies or tax-reductions and tax-exemptions. The third was business operations. The state could issue orders to limit or prohibit the establishment of new firms, increases of capital, mergers, changes in the

nature of a business and the issuing of stocks and of dividends. It could control the capital investment of financial institutions as well. The fourth was business organization. The state could issue orders to reach agreement on the conditions for economic control and to organize associations for the purpose of managed economy. Finally, the state had the power to control prices, not only prices for consumer goods themselves, but also prices for their shipment, insurance, leasing and processing (Nakamura 1974:55-57).

Unlike in the West where the practice of war mobilization for World War II was treated by analysts as a temporary phenomenon which had no long-term significance, the war mobilization in Japan was regarded as one of the most important dynamics behind the development of Japanese managed economy in the 1931-1945 period by both Japanese scholars and Western scholars (Nakamura 1974; Johnson 1982). The major cause for this gap between the Japanese case and its Western counterparts was that the significance of war to the Japanese economy and German economy was quite different from that to the British economy and the U.S. economy. Britain and the U.S. were the first-comers in industrialization, and held an established share in the international market, the war mobilization was indeed temporary because it would become necessary for them to change their ways of running their economies only when somebody came to challenge their positions in the international market. Otherwise, they anticipated being able to keep their positions in the world economy by following their traditional strategies of running the economy. In contrast, both Japan and Germany were late-industrialized nations, and they had to fight with other great powers for a larger share in the international economy, which directly implied military conflicts. Therefore, they considered the war preparation

and mobilization as part of their national grand strategies to run the economy. In this sense, as discussed in detail in the following sections, one cannot explain the Japanese industrial policy in the 1931-1945 period without taking the Japanese efforts of war preparation and war mobilization into account.

The most important impact of war mobilization in Japan after 1937 on the economy was that the state limited the freedom of the private sector by exerting the General Mobilization Law and adopting the resource mobilization plan. The major instrument used by the Japanese state to control resource allocation after the China War began in 1937 were the "resource mobilization plans". Since Japan had few natural endowments and depended heavily in acquiring materials upon the international trade, the main aim of these plans was to guarantee the huge munitions demands during the China War and the Pacific War within the ultimate constraints exerted by Japan's international balance of payments. Through making and implementing these plans, the state controlled resource allocation among sectors and industries completely. These plans for distributing imported resources according to the priorities of the state based on estimated capacity and military demands were always the highest priority while civilian needs in daily life were minimized. The quotas in resource mobilization plans for each industry were highly dependent on the amount of imports permitted (Tanaka 1975:21). These plans indicate that in the managed economy the function of the market was completely replaced by the power of the state, and the major goal of the economy was not efficiency at the micro level to enable firms to produce goods at the lowest cost but allocative effectiveness at the macro level enabling the state to distribute limited resources more effectively in order



to achieve its priorities.

On the eve of the Pacific War, the Japanese state promulgated the Important Industries Association Ordinance in 1941, which resulted in the establishment of more than twenty Control Associations to implement "economic control" with the cooperation of the private sector. These Control Associations were run by the private sector, but they were entrusted by the state with administrative power ranging from production to management. They had the authority not only to decide the amount, varieties and methods of production, but also to decide the terms, prices, partners, and timing of transactions. They also held the power to decide profits, dividends and bonuses (Nakamura 1974:97-101, 128-133). On the surface, these associations were under the control of the private sector. In reality, however, they were virtually controlled by the state because many staff members in the Control Association came from state bureaucracies (Andō 1987:416-417).

During the same period, another type of organization for economic control also came into being. These were "Corporations" which were owned by state capital and managed by the government. The reason for establishing Corporations was that although the Control Associations were the agents for exercising control by the state, their members in the last analysis were private companies which could not be expected to undertake any project without consideration for potential profits. In order to maintain social stability during the war time, publicly owned corporations were needed in the fields that were closely related to the daily life of civilians, such as transportation, food production, agricultural development and housing (Arisawa 1976:203).

As the war situation worsened in 1943, the Japanese state further promulgated "The Law of Munitions Companies", putting important companies under the direct control of the state. It bestowed on the state with the power to select "munitions companies" (gunju kaisha) from the private sector. In "munitions companies", the major manager received an official status but without pay as the "responsible head of production" (seisan sekinin-sha), and all employees became "responsible workers for production" (seisan dantō-sha). Everybody in "munitions companies" had to obey the orders of "the responsible head for production". Whoever violated an order would receive a legal penalty. Before the war ended, more than six hundred companies were designated "munitions companies" by the state. By doing so, Nakamura points out, "the institution of private enterprises was changed to a production system with a command system, which was composed of 'the responsible head' and 'the responsible workers', and under the control of the state. It looked like a military institution with a ranking system which was composed of the army commander--the divisional commander--the brigade commander--the regimental commander" (Nakamura 1974:133).

In order to strengthen the state capacity in policy-integration, a series of institutional efforts were also made within the state bureaucracy to overcome the traditional sectionalism. These efforts began in 1935 with the birth of the Cabinet Survey Bureau (naikaku chōsa-kyoku), the first "national policy agency" (kokusaku kikan), under the leadership of the Okada cabinet. The purpose of the CSB was to formulate consistent policies for the state no matter how rapidly the cabinet was terminated. This agency was directly controlled by the prime minister in order to

strengthen the leadership in policy-making. The CSB gathered many experts to conduct policy research from the standpoint of the state as a whole, functioning as a central planning agency above individual ministries. Its establishment indicates that the Japanese state began to concentrate its power in macro-economic management. The CSB officials made several attempts but failed to reorganize the way administration functioned among the individual ministries or to simplify the process of policy-making. (*Yomiuri shinbunsha*, 1972:42) As the first "national policy agency", the CSB played an important role in planning the nationalization of the electronics industry and the establishment of the Ministry of Health and Welfare. Even the agricultural reform conducted by the Occupation Authority after World War II was based on the data collected by this agency. (*Yomiuri shinbunsha*, 1972:6)

In early 1937, the CSB was replaced with the Cabinet Planning Agency (naikaku kikaku-chō). The CPA was given more power than was the CSB. It held the responsibilities of making and integrating important policies according to orders from the prime minister, examining and evaluating policies proposed by ministers to the cabinet meeting and giving advice on the state control of the economy. The CPA took charge of the "deputy ministers' meeting" every week where the deputy director of the CPA was in charge of coordinating the legal, budget or policy preparations for the cabinet meeting. As the Japanese army extended its invasion in China in 1937, the Konoe cabinet established the Cabinet Planning Board (naikaku kikaku-in) by merging the CPA with the Cabinet Resource Bureau in charge of the "national general mobilization". One of its major functions was to make "resource mobilization plans".

The nature of managed economy in Japan is regarded by some Marxist scholars as a combination of the state and monopoly capitalists. According to Miwa, Johnson and Andō, however, the Japanese state had strong autonomy in the managed economy, often acting as a buffer between the conflicting interests of capital and the working class. The dominant position of the state in the economy, which was reflected in its direct control over resource allocation and its political leadership in organizing the national economy, was the most distinctive characteristic in the rationality of managed economy. The nature of managed economy was also reflected in its two contradictory dimensions. On the one hand, the goal of managed economy was to pursue the promotion of production quantitatively. On the other hand, the program itself was also "unproductive" in nature because the products for munitions would not be usable in reproduction. Furthermore, these two factors together nurtured a new preference of ends among actors in economic activities, namely, to pursue goals, important to the nation, regardless of the cost involved. In this sense, the practice of managed economy to a large extent rejected the principle of efficiency that used to function in the market economy before the 1930s. As discussed above, the most distinctive characteristic in the managed economy was the increasing power of the state in the economic sphere along two dimensions, both in relation to society and its own policy integration.

Before I turn to the next section, however, it is necessary to mention here that the above argument is made in comparison with the periods before the 1930s. The Japanese state could have even been much stronger in both dimensions, not only in relation to society, but also in integrating itself, if it completely succeeded in overcoming constraints

from the institutional structures of the state and state-business relations. These institutional constraints on the rationality of managed economy will be discussed in detail in the last section of this chapter.

Why was the program of managed economy accepted as a new paradigm in Japanese industrial policy? What kind transition was this in nature? Was it simply economic calculation? Was the managed economy simply an economic law newly discovered by the Japanese in the 1930s. Was it a product of Japanese culture? In the following sections, I argue that the transition to the managed economy was not an reactionary response of actors in Japan to the economic situation. It was rather a complicated intervening process in which the economic reasoning for state policy making was significantly driven by the Japanese perception of international order, and the institutionalized beliefs of what constitutes rationality through cross-national learning. I also argue that the moral and ethical claims of two nationalist movements for a nation-state perspective in economic thinking helped shift the unit of analysis, and the institutional structures of the Japanese state and state-business relations at the time also influenced the way the program of managed economy was carried out.

FROM THE MONROE DOCTRINE TO THE GREAT EAST ASIA CO-PROSPERITY SPHERE

Japanese perceptions of international order in the 1930s and the 1940s directly shaped the direction of goal-setting for state policy-making, which indicates how a nation's position in the world system could influence its corresponding strategies of how

to run the domestic economy. It shows that in a difficult and threatening international environment, a higher degree of integration of the national economy and a higher degree of effectiveness of resource allocation were believed to be necessary, which directly led to the introduction of the role of the state in operating the domestic economy. At the time, three propositions derived from the experiences of major industrialized countries during World War I and the currents in the international political economy after the war fundamentally changed Japanese economic thinking. First of all, the Japanese came to believe that the order in the international economy after World War I was no longer reflected in the mechanism of the international market but in the tendency for economic blocs to form, which resulted from the intensive struggle for resources and markets among imperialist countries not only with each other but also with colonial areas. Consequently, they asserted that to develop a bloc economy among Japan, Manchuria and China plus Japan's colonies Korea and Taiwan was the only way to assure the stability and operation of the Japanese economy. Secondly, they predicted that the struggle for resources and markets among the "Great Powers" in East Asia would inevitably result in military conflicts, and they even foresaw an inevitable war between Japan and the Western countries, either the Soviet Union or Britain and the United States, because Japan was in favor of the application of the Monroe Doctrine in the Asian context, instead of the principle of "self-determination" asserted by the United States. "As one of the Great Powers", Japan, they believed, had been "racially discriminated against by the Western countries". Thirdly, for this reason, they argued, Japan had to prepare for this war by highly mobilizing all its national resources, including both material and

human capital, and organizing them most effectively through a state-led program of managed economy. They embraced the German theory of total war, which assumed that the economy was no longer a separate sphere in the society, running according to its own rules, but was closely related to international politics and constituted the material foundation in military conflicts among nations for a share in the international market.

The Tendency Toward Bloc Economies and Regionalism

The major rationale for the managed economy was derived from perceptions of disorder in the international economy and the tendency toward bloc economies after World War I. The Japanese believed that before the war the international market worked well and nations used to produce goods which were suitable to their natural environment based on the principle of comparative advantage asserted by classical economics. Nevertheless, World War I had destroyed the international division of labor completely, and the above perception of the international economy was no longer regarded as legitimate. Yoshino Shinji, one of the most important economic bureaucrats in the 1930s who had been the Deputy Minister and the Minister of Commerce and Industry, pointed out in his book *Wagakuni Kōgyō no Gōri-ka* (the rationalization of Japanese industry): "because all of the major industrialized countries were involved in the war, the mechanism for the balance of materials between supply and demand in the world market was ravaged and international commercial transactions were seriously restricted. As a result, the whole world suffered from a shortage of materials. Besides, in those countries which were involved directly in the war the war munitions demands were very

strong and the demands for every kind of material increased day by day. For these reasons, the economic theory of self-sufficiency, which encouraged producing all necessary materials domestically, became fashionable everywhere for a time" (Yoshino 1930:1).

The consequences of the two world wars to the international economy and economic thinking were quite different. World War II brought about the emergence of the Brentton Woods system that laid out an institutional foundation for the postwar international economy as well as the rise of neoclassical economics in many Western countries. In contrast, World War I resulted in great chaos in the international economy and economic thinking. Most industrialized countries adopted a protectionist policy in order to safeguard their own industries, which in turn not only made the entry into markets in other industrialized countries more difficult, but also made the competition in markets in late-developing countries more intensive (Yoshino 1930:78). This caused not only political leaders but also academicians in many industrialized countries to believe that when a nation monopolized the production of certain goods it might be a threat to the international peace (Yoshino 1930:16-17). To prevent this danger, Sugimori Kōjirō argued that "present situations require that every country should obtain all its needs within its own territory or areas under its control and seek its own markets in the same areas as far as possible. There has arisen a tendency to restrict trade with areas outside a nation's influence and to avoid the use of gold or the currency of a third nation in the settlement of foreign accounts.....foreign trade in the future will be simply a means of maintaining and developing a nation's own economic sphere, a bare function

of national policy." (1940:967-968) As discussed in detail later, the rationale of state planning was directly derived from this kind of perception of the international market.

It is clear that in the 1920s and the 1930s there did not exist an international market into which every economic actor could enter and exit freely on the basis of their comparative advantages in terms of R & D, low prices and high quality, as classical and neoclassical economics assumed. An international market did exist, but it was divided into several blocs by the major industrialized countries. A nation's position in this market was determined more by its guns and warships than by its products. In the era of imperialism, military power was one of the greatest comparative advantages of a nation in international trade, which not only enabled this nation to open new markets in colonial countries but also helped it to protect and obtain markets from other imperialist countries.

How should Japan respond to this new trend toward bloc economies? In the Japanese discussion on this matter, they did not favor a simple protectionist policy but a strategy of regional cooperation. They believed that it was impossible for a single country especially Japan which had little national endowment to exist independently as an economic unit. Every nation in the world was moving towards a bloc economy, reorganizing herself into larger units which transcend the individual country. Ayusawa argued that nationalism in terms of protecting a country's domestic market from international products was "uneconomical", "unsafe" and "inefficient" as it appeared in Europe. He decried that nationalism was the direct source of the "inhumanity of the war in Europe" and proposed that regionalism was a better alternative as "a system of

ensuring security, order and peace, not for the whole world at once as the League attempted to do and failed, but within three or four separate regions of the earth such as America, Asia, Western and Eastern, etc." (Ayusawa 1940:801-802). Matsui Haruo (1938:251), the chief economist at the Cabinet Survey Bureau and later the Director of the Cabinet Resources Bureau, argued that "we by no means reject the international nature of our economy. We do not deny the inevitability that any economy would develop into the global economy either. Nevertheless, we must admit, at least to some extent, the tendency toward bloc economies in which many nations' economies in some sense draw an economic boundary for self-sufficiency or employ a kind of planned economy."

The direct implication of this regionalist strategy was to establish an economic bloc based on close integration among Japan, Manchuria and China and further including other countries in East Asia. The resources in Korea, Manchuria and China were regarded as indispensable to the Japanese economy. Korea's coal, iron, special steel, aluminum, magnesium, cotton, and wool; Manchuria's iron, coal, aluminum, gold, industrial salt, and agricultural forestry and products, Northern China's coal, cotton, salt, wool and meat were all regarded by the Japanese as important resources to the Japanese economy. Matsui argued that Japan's expectation towards Manchuria and Mongolia for the time being was to develop them as the supply base of industrial materials and fuel and meanwhile to cultivate them as a market for Japanese domestic products. But this was not all. He asserted that Japan must make efforts to absorb them into an integral economic bloc which would further strengthen the foundation of the

Japanese economy by mobilizing various resources in the bloc more rationally (Matsui 1938:254).

In order to realize this goal, economic planning was believed to be inevitable. Matsui further suggested that Japan should coordinate the economies of its colonies more closely and strengthen the integration among these economies according to the principle of the division of labor. The practice of managed economy should not be limited only to Japan, it should be extended to Mongolia, Manchuria and China in order to plan rationally and use effectively their capital, labor, technology and management. To realize these goals, he asserted that Japan must "conclude commercial treaties with Manchuria and China in order to make tariffs, business organizations and financial and monetary systems compatible, which is suitable to a bigger integral unit (Matsui 1938:250, 258). These statements by Japanese bureaucrats and economists show that the managed economy was indeed based on a highly rational principle but for the collective purpose. Although it had various problems, it was an instrumental means the Japanese constructed in the face of what was perceived to be a threatening international environment.

The efforts to build up a bloc economy under Japanese control reached their peak in the early 1940s when the Konoé Fumimaro cabinet officially adopted the proposal of the "Great East Asia Co-Prosperity Sphere". The ideology behind this idea, as the president of Seiyū-kai Kuhara Fusanosuke put it, was the assertion that "It is essential to make Asia a region for the Asiatics, by ousting the aggressive Western influences and by establishing a regional life for Asiatics in East Asia." (See Okada Tadahiko 1940:970)

Baba Shūichi in his study on the Shōwa Research Association, the designer of this proposal, points out, there were two different approaches on the issue of the Great East Asia Co-Prosperity Sphere. The military dreamed about Japan's status as the head of Asia, believing that it was the mission of the Japanese empire. In contrast, intellectuals gathered at the Shōwa Research Association perceived this regional order as a rational alternative to Japan and Asia in the existing international disorder. "This is a defensive and developmental regionalism". The highest goal of Japanese operations in the mainland must be the plan for regional development, which includes racial harmony.

A Racially Discriminated Great Power

The Japanese efforts of building up an economic bloc in East Asia, however, implied the high possibility of being involved in direct military conflicts with other countries because the Japanese efforts were strongly constrained by the vested interests of the Western powers, especially Britain and the United States in this region. After the Japanese Army provoked the Manchuria Incident, the conflict of interests between Japan and other Western countries was exaggerated, both sides wanted to restore an order which would reflect their own interests. In the political discourse during the 1930s, Japan was perceived as "a racially discriminated Great Power". On the surface, this perception itself was confusing and self-contradictory. In reality, however, it provided a coherent and consistent logic for a late-developed imperialism, which reflected Japan's position in the world system at the time. On the one hand, the Japanese stressed the issue of racial equality very seriously in the dialogue with the West. They argued that

the Japanese were not treated fairly by the Western countries, especially Britain and the United States, and they suffered from "racial discrimination". Therefore, they strongly demanded an equal position with the Western countries in international affairs. On the other hand, the Japanese asserted that racial equality in international affairs applied only to the relationship between Japan and the Western countries, but not to the relationship between Japan and its Asian neighbors, because this was an issue only among the Great Powers in the world and Japan was one of them. With regard to the conflict of interests in the territory of China between Japan and Britain and the U.S., the Japanese persisted in the outdated Monroe doctrine, rejecting the principle of "self-determination" advocated first by the American president Woodrow Wilson and the function of the League of Nations in reducing international tensions. The perception of Japan's dual position in the international order had direct implications for military conflicts.

Since the Meiji Restoration, the Japanese had believed that Japan's position in the world system would be based on her military power. Accordingly, the engagement of Japanese capitalism in the international economy was accompanied by a strategy of military expansion. Japan gained Taiwan as its first colony in 1895 after it won the Sino-Japanese War and colonized Korea in 1910. In 1905, Japan defeated Russia, one of the biggest Western Powers in East Asia, and gained many special privileges in Manchuria and Northern China. Utilizing the opportunity during World War I, Japan further increased its presence in China as one of the big four, along with the U.S., Britain and Russia. At the time, as James Crowley points out, "in one fashion or another, their common object was the acquisition of a privileged position in China" (1960:3-4). As the

American president Woodrow Wilson began to advocate during World War I the principle of "self-determination" for late-developing areas, the discrepancy between Japan and the U.S. in the implication of this principle for Chinese affairs appeared on every issue.

After engaging between 1918 and 1921 in an arms race with the U.S. in an effort to prepare for the military confrontation in Asia, Japan changed its policy at the Washington Conference to cooperation with the West by making the following commitments: 1. to respect the sovereignty, the independence and the territorial and administrative integrity of China; 2. to provide the fullest and most unembarrassed opportunity to China to develop and maintain herself as an effective and stable government; 3. to use its influence for the purpose of equal opportunity in commerce and industry of all nations throughout the territory of China; 4. to refrain from taking advantage of conditions in China in order to seek special rights or privileges which would abridge the rights of subjects or citizens of friendly states and from countenancing action inimical to the security of such states. (Crowley 1960:28-29)

Nevertheless, after a short period of peace resulting from the naval status quo established by the Washington Conference system, the Japanese military gradually came to believe that the restricted military force would not enable Japan to protect its privileges in Manchuria and China. At the time the nationalist movement in China and the presence of the Soviet Army in the Far East seemed a real threat to many Japanese. In 1927, the Tanaka cabinet adopted an aggressive policy toward the mainland, explicitly claiming Manchuria and Mongolia as Japan's life line. "If disturbances should spread

to Manchuria and Mongolia and menace Japan's special position and interests in these regions, the Imperial government must be prepared to combat this menace, regardless of where the danger may originate." (Crowley 1960:32)

When the Great Depression came to Japan and drove the Japanese economy into a "dead block", radical young officers in the Army looked for a military solution for the economic crisis, namely, to obtain resources and markets by directly occupying Manchuria. The public opinion in Japan at the time was characterized by a nationalist atmosphere. The masses showed great enthusiasm for the actions of the Japanese Army. As the Japanese invasion caused strong international protests, to fight against the racial discrimination of whites became a popular slogan.⁸ According to the Japanese logic, they did nothing wrong because Manchuria was the life line of the Japanese economy. As Tanaka Tokichi asserted, "the United States and other Western Powers can afford a laissez faire policy in China, because their interests there are relatively inconsiderable and are not essential factors in their own existence. Japan cannot share that fortunate detachment from the fate of a nation of 400 million people at her door." (1933 376-377)

The Japanese perception of international order failed to keep pace with the new tendency of applying the principle of "self-determination" in the international community. The Japanese showed a highly skeptical attitude towards this principle asserted by the United States. First of all, they did not believe that Western countries really intended to carry out the principle of self-determination in international affairs. Talking about the impact of World War I on the Japanese mind at the semicentenary celebration of the University of California in 1918, Masaharu Anesaki, a professor of comparative religion

at the Imperial University of Tokyo, argued that "the general distrust of the Western nations with regard to their practice of international morality is a great obstacle for the Japanese, at the present crisis, in their effort to comprehend the moral claims of the Allies as directed against Germany. Some of the Japanese ask: Can British rule in India be called just? Has not the American occupation of the Philippines a strong military aspect? Has not the Far East for some time been the prey of international competition? Has not Japan often been frustrated in her legitimate claims? These impressions, either well founded or suspiciously construed or instilled by dubious agents, are pretty widely current among the people. Thus a pointed question is often asked: How could the British or the Americans have become so suddenly converted in their moral sense that they really stand for peace and justice, for the liberty of smaller nations and against German aggression?" (1921:144-145)

Secondly, perceiving Japan as one of the great powers, the Japanese did not want to apply the principle of equality to late-developing countries. Tachi Sakutaro, the most famous authority on international law in Japan at the time and who had been a professor at the Imperial University of Tokyo and served as Legal Adviser to the Japanese Delegation at both the Peace Conference and Washington Conference, asserted in a lengthy article that "originally the purport of the Open Door policy was to secure equality of treatment among nationals other than Chinese in commercial matters within the Chinese districts forming part of the spheres of influence or interest of some major Powers.....As China is not to be considered as a direct party in the relations concerning the Open Door principle, it would be out of the question for China herself to raise the

question of the validity of rights or privileges stipulated in previous arrangements between herself and some Powers, on the strength of stipulations concerning that principle, unless express provisions to that effect were especially added to the stipulations in question."(1934:574, 581-582) Following the same logic, the Japanese denied the significance of establishing the League of Nations, Ayusawa Iwao, the deputy director of the Foreign Relations Bureau of the Japan Economic Federation, who held B.S., M.A., and Ph.D degrees from Columbia University, regarded the establishment of the League of Nations as a "unfortunate misapplication of 'democracy'" because it placed "all States, regardless of their political or economic importance, on an equal vote indiscriminately to big Powers with a population of more than 100 million as well as to tiny political units, with only a few million inhabitants". For this mechanical application of 'democracy', the League of Nations suffered from an inherent weakness (1940:800).

Since the basic framework used by the Japanese to construct an order in international affairs was still the outdated Monroe doctrine, the leading opinion in the political discourse asserted that Japan had every reason to claim an equal status with the Western countries as "one of the Great Powers": it won the war with China, which used to be the only power in East Asia; it defeated Russia, "one of the strongest white nations, with a most powerful army"; it began to export industrial products to other countries, transporting them by its own ships; it made a great effort to modernize its domestic institutions, trying hard to imitate the Western countries; and it had already become one of the Big Five. The application of the principle of self-determination in the case of China, for example, was rather perceived by the Japanese as a strategy adopted by

Western powers aiming at containing Japan's right of protecting her interest in China. As Okuma Shigenobu, a prominent Japanese politician, argued, "some whites regard the development of Japan as an unjustifiable encroachment upon their own rights. They either instigate racism against Japan as non-white or plan to organize a league of white nations to perpetuate white supremacy in the world" (Okuma 1921:169-170). Facing racial discrimination from the whites, the Japanese believed that they had to fight, preparing a total war for the future. These cognitive gaps between the Japanese image of the world order and the images held by other countries were one of the most important dimensions to understand and explain the Japanese rationality in the 1930s and the 1940s, which gave rise to the managed economy.

Organizing the Economy Around Defense

The Japanese perception of a threatening international environment functioned to set up two goals for the Japanese economy in the near future in the economic reasoning for state policy-making. First was to develop heavy-chemical industries, which were believed to be the foundation of national defense and military needs. The Japanese held that the demand of markets among nations for domestic products and for important natural resources would inevitably result in military conflicts among major powers. For these reasons, major industrialized countries worked hard to strengthen their military capacity by developing a defense-oriented economy though they also advocated the peace movement (Yoshino 1930:141-142). After World War I, Japanese economists keenly recognized the necessity of mobilizing more strongly and more directly all the "forces

beyond the gun" from every dimension in order to sustain the war. These forces included not only various types of resources and human capital but also the organizational skill which would enable a nation to coordinate smoothly all elements in the national economy for military purposes. The development of heavy-chemical industries was regarded as one of the most important tasks for war mobilization. In order to get rid of hyper inflation and a high unemployment rate, and to revive the economy, they believed that they had to conduct rearmament.

Second was the necessity of state planning. In order to prepare for the military confrontation with the Western countries, the Japanese believed, they had to carry out a state-led program of managed economy, organizing the national economy around the need of national defense. Since the national survival was the primary goal in this managed economy, the preference of ends and instrumental means had also to be arranged accordingly. As Matsui Haruo pointed out, "since modern war was by no means a war only by military force but by national forces as a whole, the state is becoming increasingly important. It had to plan and organize the comprehensive employment of national force even in peacetime" (1938:35). Arisawa Hiromi wrote in 1937, "in the past, the state tried hard to avoid carrying out through its power the managed economy. As an alternative, it had tried to realize the will of state control through automatic management within industries. The state depended upon the initiative of entrepreneurs in economic control, pursuing the goal of managed economy through protection and assistance to the private sector. This method of managed economy might be effective in an effort to create economic revival. In this new stage, however, the goal

of managed economy has become different in the first place. It is impossible to realize this goal by still depending upon entrepreneurs' initiative. Nowadays, the power of the state has to be employed in the managed economy. The state has to assume the leadership directly in economic activities. The economy led by the power of the state should be a coercive economy in the semi-war situation. This is the genuine nature of managed economy today "(1937:2). As a result, the Japanese believed that there not only had to be an economic staff in charge of economic planning for the national economy, the supplies of raw materials also had to be assured and in order to achieve this goal, Manchuria and China became more critical to the Japanese economy (See Yomiuri Shinbun-sha 1972:vol.18:332-335).

LEARNING THE MANAGED ECONOMY FROM OTHER COUNTRIES

When the changing market situation set up new goals for economic actors, where did the Japanese derive their strategy to achieve these goals? Neoclassical economists argue that it is derived from the pure economic calculation of economic actors's interests. The study of the process of economic reasoning in the state policy-making during the 1931-1945 period, however, reveals that the construction of rationality for the managed economy was heavily influenced by the leading academic agendas shaped by foreign economic ideas that diffused in Japan through cross-national learning. In other words, when the old orthodoxy of laissez faire lost legitimacy, economic actors searched for new solutions from various sources, especially the successful experiences in other countries. In this sense, the institutionalized beliefs of rationality in one country often have cross-

national impact on economic policies in other countries.

Responding to the economic hard times brought about by the Great Depression and the following conflicts in the international environment, the leading agendas in academic discussions asserted the necessity of direct state intervention in the economy, and how to strengthen the state capacity became a critical issue in the economic reasoning. In the Japanese context during the 1931-1945 period, the implications of state capacity in the managed economy had two equally important dimensions: one was the state capacity to carry out its will in economic policy, exerting tight control over resource allocation and replacing the function previously played by the laissez faire market, and the other was the state capacity to integrate policy-making among bureaucratic organs, overcoming the difficulties created by the sectionalist orientation within various state bureaucracies.

The economic reasoning for the managed economy was a process of cross-national learning. To seek a solution, the Japanese tried very hard to learn from other countries. As a result, the ideology of managed economy consisted of elements from various foreign economic theories and practices, ranging from the German theory of total war, Nazi national socialism, the Marxian concept of planned economy, socialist practice in the Soviet Union, and the American New Deal. The diffusion of these foreign ideas in state policy-making was sustained by special channels between academia and the political center. The private brain trusts to leading politicians in the 1930s played an important role in this process. The Shōwa Research Association and the National Policy Research Association, which produced many blueprints for the state policy concerning the managed

economy, functioned as places of communication between economists and other intellectuals, as well as politicians, bureaucrats and military officials. All these theories and practices shared one thing in common: they all rejected the methodological individualism and the legitimacy of the laissez faire market in economic thinking, asserting strong state intervention. Western theories and practices constituted not only useful information but also intellectual constraints to the Japanese alternative. The Japanese were able to adopt them selectively, cutting these theoretical frameworks into pieces and organizing the parts that seemed useful into a new integral program.

Linkage Between Academia and Political Power

The diffusion of foreign economic ideas in state policy-making was sustained by several important linkages between academia and the state in the form of brain trusts. The emergence of these brain trusts in Japanese politics was an institutional response of the Japanese state to the urgent need of policy-integration when it intended to strengthen its intervention to deal with the perceived failure of the market. Through these brain trusts, the ideas of intellectuals exerted a great impact on policy-making. Two of the most important brain trusts, the Showa Research Association (SRA) and the National Policy Research Association (NPRA) came into being in 1933. These two brain trusts gathered many intellectuals, including economists, political scientists, philosophers, and journalists, and political actors, such as politicians, bureaucrats, business leaders and military officials. More importantly, many bureaucrats at the Cabinet Survey Bureau, the Cabinet Planning Agency and the Cabinet Planning Board held membership in these

brain trusts. Since they were in charge of planning for the state program of managed economy, what they learned in these brain trusts could be immediately reflected in policy-making. Furthermore, because these organizations gathered together bureaucrats from various agencies of the state, they helped to nurture a common understanding and agreement on how to implement new ideas in policy-making. For these reasons, both organizations acted as the intellectual leaders in state policy-making for the managed economy.

The SRA was established by Gotō Ryūnosuke as a private brain trust for Prince Konoe Fumimaro. During his one-year trip to Europe and the United States between June of 1932 and May of 1933, Gotō listened to a speech by Hitler in front of a mass gathering in Berlin, saw Stalin at the ceremony for the annual celebration of the Bolshevik Revolution in Moscow, and also read the news about Roosevelt's campaign for his New-Deal policy in the U.S. (see Sakai 1979:11). As Gotō perceived the situation after he came back to Japan, he believed that it was urgent for Japan to conduct a sweeping reform. When he visited Konoe Fumimaro, they shared a common understanding that the present pattern of decentralized policy-making could no longer respond to the needs of the emergency era and reached an agreement to establish a brain trust to conduct research on national policies. They believed that the state needed a theoretical foundation for its leadership in the managed economy (Showa Dojin-kai 1968:7).

The SRA linked academia with political power through various activities. Its core members, including 34 members of both the Committee and the Standing Committee in

November 1936, could be largely divided into four groups: The first were "reform bureaucrats", comprising around 15 of the 34 members; the second group were intellectuals most of whom were professors at the Imperial University of Tokyo; the third group were journalists from *Tōyō Keizai Shinpō-sha* (Oriental Economic Press), one of the most influential economic magazines in Japan; and the last group consisted of some politically-oriented business leaders. Most names included in the analysis of this chapter were members of the SRA. Matsui Haruo's idea for an economic general staff, Rōyama Masamichi's criticism of sectionalism in state bureaucracies, Ryū Shintarō's *Reorganization of the Japanese Economy*, and the whole policy package of Konoe's new order, to name a few, originated at the SRA.

The background of the National Policy Research Association was more complicated for its founder Yatsugi Kazuo had many connections with socialists, anarchists and nationalists. In contrast with the SRA, the NPRA was closely associated with the Army. Yatsugi regarded military bureaucrats who worked for the Bureau of Military Affairs at the Ministry of the Army and the Ministry of the Navy and military officials in the General Staff as his major working targets, believing that these people were not only military officials but also bureaucrats. Yatsugi intended to channel the development of the state reform movement onto a rational track by influencing these people and suppressing the right-wing radicals. Although Yatsugi himself supported the reform, he disagreed with Kita Ikki's opinion in favor of conducting the reform through revolution. He asserted that the Army should act only within the limits set by the constitution (Yatsugi 1971:94-96). It would be very dangerous for Japan, Yatsugi

(1971:97) argued, if young military officials of the Army left the right-wing prodigals alone to act as they please. Instead of waiting, it would be better to stand by the Army and to influence them. The famous document entitled "Comprehensive National Policy," prepared by the NPSA, influenced the birth of the Army's "Pamphlet of the Army" which asserted that "war is the father of creation and the mother of culture".

Ideas of Managed Economy

Through these strong ties between the Japanese state and academia, various foreign economic ideas diffused effectively in the policy-making process, exerting great impact on Japanese economic policy. The method of theorizing in the logic of managed economy was inductive, primarily based on the German experience during and after World War I, and the ongoing practices in many industrialized countries in dealing with the Great Depression. How to strengthen the state capacity was one of the major concerns in the economic reasoning for state economic policy during the 1930s, and several perspectives responded to this issue from different angles.

In the 1930s, the German theory of total war was a leading perspective in academic discussions concerning the managed economy. This theory stressed the important relationship between war preparations and the way of running the economy and the critical role played by the state in controlling resource allocation. In his *Industrial Mobilization Plan*, which was published in 1934, Arisawa Hiromi argued that in the era of imperialism, the study and knowledge of economic laws and conditions which do not have any direct connection with military considerations are no longer essential.

Economic reasoning could not neglect the fact that World War I involved 66.3 percent of the land, 88.1 percent of the population, 85.6 percent of the trade, 83.4 percent of the ships and 84.4 percent of the railways on the earth. He believed that "in a war like world wars, the magnitude of the war is great, the cost of the war is surprisingly high, and tremendous munitions are needed to support the war. Therefore it is essential to conduct the general mobilization of whole industries.....In today's war, victory or defeat is directly determined by not only the fighting strength on the battlefield, but also by the strength of industries which make weapons." (Arisawa, 1934:54) In order to survive a "total war", he contended, the state has "to employ every economic instrument, mobilize all available materials in order to fight until the last minute". The most important task for the Japanese economy, perceived by Arisawa at the time, was to establish the leadership of the Japanese state in the economy. He argued that "Just like an army which developed quickly from a handful of warriors to millions of well-trained soldiers, the development of industry also demands organization in order to formulate plans and issue orders. The power to supervise the planning and implementation of industrial mobilization should be bestowed on such experts who know business and production well as on the commander in the battlefield." (Arisawa, 1934:117) To Arisawa Hiromi, the market in this emergency era would not be able to organize economic life, and the state was the only actor which had not only the expertise but also the political power to take over the function of the market through its program of managed economy.

The diffusion of the German theory of total war in Japan had been sustained by the Japanese Army since the mid-1910s. Until World War I, the Japanese military had

only fought for its interests in the governmental budget, seldom speaking on economic policy. Such an attitude changed dramatically in World War I. Stimulated by German experience, the head of the Military Geographical Division in the General Staff Koiso Kuniaki organized his staff to write a famous book, *The Defence Sources of Imperial Japan*, in 1915. In this book, they estimated the total amount of food, clothes and other materials needed for daily life and of munitions, and the degree of domestic production decline in a war time situation. Then they prescribed various methods for promoting production and guaranteeing resources.⁹ According to modern standards, their methodologies were very simple, and their propositions were primarily based on Japanese data. Yet, these ideas were quite influential, having a lasting impact on the social construction of rationality for the managed economy in the years that followed. The theory of total war constituted the theoretical foundation for the "Law of the Mobilization of Munitions Industries" of 1918. As Koiso later became the Vice Minister of the Army, the General Commander of the Army in Korea, the Minister of Colonial Affairs and finally the Prime Minister, the theory of total war acquired more and more political currency. When the Japanese Army became more influential in Japanese politics in the 1930s and the 1940s, the German theory of total war obtained a powerful agent in the state policy-making.

Marxism provided another influential framework in the economic reasoning for the managed economy in the 1930s. In Japan there has been a distinction between political Marxism and intellectual Marxism. Political Marxism was expressed by Japanese communists, who appealed for direct actions against the capitalist system. In

contrast, intellectual Marxism simply stood as an analytical framework in academic discussions. Although the "tenkō" (conversion) movement, which will be introduced in the next session in detail, led to the demise of political Marxism with its assertions of class struggle and internationalism, intellectual Marxism remained influential. In academia, many Japanese intellectuals were convinced by Stalin's analysis of the "general crisis of capitalism", and the success of the first five-year-plan in the Soviet Union was believed to offer promising prospects for socialism. Even within the state bureaucracies, intellectual Marxism was the leading framework in economic thinking. Wada Hiroo, a high ranking bureaucrat in the CSB and later the CPA, for example, knew well Marx's *Das Capital*, Bukharin's *Imperialism and the World Economy*, Kautsky's *The Problems of Agriculture* and Lenin's *The Development of Capitalism in Russia*. (Otake, 1981:69-70)

Because of the similarities between the socialist planned economy and the Japanese managed economy, bureaucrats at the CSB paid great attention to the experiences of the Soviet Union. It even set up a Soviet Section headed by a major from the Army, which consisted of twenty staff members collecting information on the Soviet economy. At the time, the practice of both the planned economy in socialist Soviet Union and national socialism in Germany were regarded as models for the Japanese managed economy. (*Yomiuri shinbunsha*, 1972:49) Under the coercive control of thought by the state during the 1931-1945 period, however, the Marxist approach was presented in a different format, shifting its unit of analysis away from class towards the nation-state. Ōkouchi Kazuo's theory of production forces was a good example. According to his interpretation, the adoption of social policy in modern capitalism was no longer

interpreted as for the interests of the working class. It was rather based on "economic consideration" of the "aggregated capital" as a whole for "sustaining the order of reproduction". This is "a capitalist effort to eliminate the contradictions contained in a capitalist system". He argued that in reality individual capitalists always acted according to their own interests and did not support the adoption of social policies. The state, however, should take action to adopt social policies because it reflects the interests of "aggregated capital". By presenting his analysis in this way, Okokazu's Marxist approach functioned to find a compromise in the conflicts between the capitalist class and working class from the point of view of the nation-state.

John M. Keynes's book *The End of Laissez-faire* published in 1926 caused great repercussions among Japanese intellectuals, as did the New Deal policy in the United States. The nationalization of part of the electricity industry, for example, conducted through the TVA, was heralded as a well-known achievement in the American New Deal. In choosing instrumental means, the Japanese were able to transcend ideological restrictions, searching for answers from various sources. Without understanding the Japanese ability to adopt Western ideas selectively for pragmatic reasons, one cannot explain how intellectual Marxism and Soviet economics could coexist with Nazism peacefully at the CSB when Japanese militarism emerged as a blazing prairie fire. (*Yomiuri shinbunsha*, 1972:43)

In the 1930s, to establish an "economic general staff" was believed to be an instrumental means to strengthen the state capacity in policy-integration in the Japanese context. Matsui Haruo, the director of the Cabinet Resources Bureau and a core member

in the Showa Research Association, first applied this idea to the Japanese context. In his book *On the Economic General Staff* published in 1934, he introduced the activities of the "Economic General Staff" in Germany, France, Italy, the Soviet Union, Britain and the U.S. and then came to the conclusion that the establishment of such an agency in Japan was also institutionally necessary. He believed that the German experience was most suitable to Japan, arguing that since state control enabled Germany to mobilize its national resources successfully during World War I, it might also be a good method for Japan to run its managed economy. Matsui believed that the establishment of an "economic general staff" would be an efficient measure to counter sectionalism within state bureaucracies (1934:245) and "the present situation is urging Japan to set up a powerful agency under the direct control of the Prime Minister to formulate 'national policy' concerning economic affairs" (1934:242)

At the same time, the relation of the state to society became another critical issue in the economic reasoning for the managed economy. In the state bureaucracies, the rationalization of industry driven by the pressures of the Great Depression and the threatening international environment caused major concern about the function of the state in economic life. Yoshino Shinji argued that the rationalization of industry in the late 1920s and the early 1930s was different from scientific management by the private sector. The essence of the rationalization of industry lies in its approach, which analyzed everything from the point of view of the national economy. According to this approach, Japan needed to establish a rational industrial structure because a situation in which everyone in the same industry competed by producing the same products is totally

irrational. For the sake of the national economy, the interests of some companies had to be sacrificed (Yoshino 1930:102-103). Matsui Haruo perceived the function of the state in the economy from a historical dimension. He read the Western intellectual history of the nineteenth century as did Charles Gide, believing that it began with contempt of the state but ended with respect of the state. By the end of the century, he argued, the doctrine of laissez faire asserted by Adam Smith and the doctrine "the best government governs least" asserted by Bastiat had been replaced by Friedrich List's "national economy", Karl Marx's class struggle, and Karl Rodbertus and Ferdinand Lassalle's national socialism (Matsui 1934).

FROM THE INDIVIDUAL AND THE SOCIAL CLASS TO THE NATION-STATE

The above analysis shows how academic agendas in cross-national learning influenced the state policy-making for the program of managed economy in the 1931-1945 period. This section further argues that the economic reasoning in the 1930s was also influenced by the changing popular economic values at the time. In particular, two separate nationalist movements provided moral and ethical support to the program of managed economy by significantly altering the unit of analysis in economic thinking from the individual and the social class to the nation-state. To be sure, the program of managed economy might not be the only alternative at the time. After the unit of analysis in economic thinking was shifted to the nation-state, however, it became the most acceptable program in the policy debate because it transcended the methodological individualism of classical and neoclassical economics and Marxist class analysis when the

nation was in an emergency. The close relationship between the challenging international environment and the emergence of nationalism which was equipped with indigenous values indicates that the cultural argument in Japanese studies is not valid. Indigenous values had stronger impact on economic policy only under certain circumstances, and economic actors always tried to reinterpret the meanings contained in these values.

The ideology of managed economy emerged as an intellectual rival to two leading frameworks in Japanese economic thinking in the 1930s: classical economics characterized by its laissez faire doctrine and Marxism characterized by its assertions of class struggle and internationalism. First of all, it differed significantly from these perspectives in terms of the unit of analysis. Rejecting the methodological individualism of classical doctrine and the class analysis of Marxism, the rationality of managed economy asserted the importance of the nation-state as the unit of analysis in economic thinking. Secondly, unlike classical economics and Marxism whose frameworks were primarily based on the logic of material interests, the ideology of managed economy explicitly acknowledged its moral and ethical position, stressing the importance of collective welfare in economic thinking and seeking its legitimacy from a new interpretation of modernity which directly applied indigenous values as a framework to construct rationality. Without answering the challenge from these two leading perspectives, the ideology of managed economy could not have been able to influence the social construction of rationality. As mentioned in Chapter Two, classical economics as an economic perspective was popular in the 1870s before the German historical school captured the dominant position in Japanese economic thinking. It regained a strong

presence in Japanese academia after World War I. Meanwhile, it also had a solid institutional foundation in reality. After the Japanese state in the 1880s sold out the publicly owned enterprises to the private sector, it seldom intervened directly in the economy. Despite the German historical school serving as the leading ideology, the real operation of the economy to a large extent was left in the hands of the private sector. The state rather concerned itself with social legislation, focusing on the problems in labor relations which emerged during industrialization. In this sense, the Japanese state had been a regulatory state more than a developmental state. As the power of the private sector reached a peak in national politics and the economy, the classical doctrine of laissez faire further strengthened its legitimacy, standing as the bible to business circles in the ideological conflict with the working class. After World War I, Marxism also became an influential framework in economic analysis. In contrast to the methodological individualism held by the classical and neo-classical doctrine, Marxism provided a powerful framework which analyzed the reality of the Japanese economy in terms of class struggle. According to this conflict perspective, the nature of capitalism lies in the exploitation of the surplus value created by the working class, which inevitably leads the society towards revolution.

The economic hardship created by the Great Depression and the international conflicts following the Manchuria Incident apparently disproved both approaches. The dominant position held by the analytical tools of methodological individualism and class analysis in Japanese economic thinking was gradually taken over by the ideology of managed economy. This transition in economic thinking was sustained by two parallel

processes: one was the trend of socialism towards nationalism which rejected the Marxist concept of class struggle; and the other was the trend of nationalism towards socialism which denied the legitimacy of the classical assertion of individual interests. Yamaguchi Ichirō once pointed out that nationalism and socialism were two major themes in European political thought in the late 19th century, which merged together in the fascist movement in the 1930s (Yamaguchi 1979:140-152). In the Japanese context, each of the above two processes was realized in a political movement. The shift of socialism towards nationalism was reflected in the "tenkō" (conversion) movement in which many radical communists renounced their ideological commitment to the Marxian doctrine of class struggle and internationalism, converting to indigenous political values--the emperor system established by the Meiji constitution. The shift of nationalism towards socialism was reflected in the "state reform movement" (kokka kakushin undō) in which right-wing nationalists launched a powerful attack on laissez faire capitalism, not only its ideology, but also its representatives--the political parties and capitalist class--announcing a sweeping reform in order to get rid of the "evils of capitalism".

"Tenkō" (conversion)

The "tenkō" movement was a good example to show how popular economic values could exert a great impact on the unit of analysis in the economic reasoning for state policy-making. It demonstrates the strong correlation between the nation-state as the focus in economic thinking and the nationalist movement which was stimulated by the threatening international environment. "Tenkō" began in 1933 when Japan was in

a feverish nationalist atmosphere after the Japanese Army provoked the Manchuria Incident. Facing strong criticism from the international community, the general public in Japan showed strong support for the actions taken by the military. Under such circumstances, two imprisoned leaders of the Japanese Communist Party, Sano Manabu and Nabeyama Sadachika, made a public statement on June 8, 1933 to renounce their Marxist ideology. Their action shocked the whole country and received a quick response from their comrades. Within one month 30 percent (415 among 1,370) of the unsentenced and 34 percent (133 among 393) of the sentenced political prisoners who were involved in cases related to the Japanese Communist Party repented. By the end of the third year, only 26 percent of them (114 among 438) still kept their political beliefs. (Tsurumi, 1984:10-11) From then on, whenever Japan involved itself in a war with other countries, there was always a wave of "tenkō". Besides the one following the "Manchurian Incident" in 1931, two other peaks of "tenkō" took place after Japan's invasion of China in 1937 and the outbreak of the Pacific war in 1941. "Tenkō" started with political Marxism which demanded political action directly against the capitalist system. But it was later extended to intellectual Marxism, including democratic socialism, that was held by scholars simply as an academic framework. Eventually, the "tenkō" movement swept away "all modern ideologies which came from the West, including bourgeois liberalism". (Maruyama, 1982:119) The "tenkō" phenomenon indicates that actors do not always use the same unit of analysis in economic reasoning. Rather they choose the appropriate unit according to contextual conditions.

In the "tenkō" movement, Japanese communists shifted their unit of analysis from

class to the nation-state as the nation was confronted with a threatening international environment. In this sense, the "tenkō" phenomenon was a direct product of "conflict between nationalism and Marxism" in a particular contextual setting. At the time the Marxian doctrine of class struggle was perceived by many Japanese communists as a "threat" to the "national identity" in a late-developed country like Japan. Since imperialism tended to divide nation-states into different statuses in the world system as capitalism divided classes in each individual country, Japanese communists felt that Marx's analysis of class struggle was now applicable at the international level. For this reason, the internationalist perspective contained in the Marxist framework did not fit the Japanese needs for national independence, which were met by a doctrine of "national or state socialism, premised on organic ethnic unity which does not allow class struggle." In this sense, the "tenkō" movement indicated an effort among Japanese Marxists to adapt the European ideology of Marxism to their native context, seeking a "predominant means" to reconcile Marxism and nationalism in a challenging international environment (Hoston 1983).

Tenkō was an action not only based on emotional stimulus but also on rational considerations. It reflected the interaction between moral and ethical considerations and the pursuit of collective rationality in Japanese economic thinking. Class struggle and internationalism were once believed by Japanese communists to be the only ways towards the socialist future of human society. Once the reality of international political economy shattered their dream, this classical Marxism seemed no longer "rational" to Japanese communists, so they shifted their reference system from a materialistic framework to a

moral and ethical one in which the interests of family, community and the nation constituted the foundation for the construction of rationality. According to a secret Japanese police document, 31.9 percent of political prisoners claimed that "the consciousness of being a member of the Japanese nation" was their major motive to renounce their Marxist beliefs. (Tsurumi, 1984:12) After Nabeyama announced his "tenko", he told the mass media that when he learned that Japan had left the International League he felt that Japan might be involved in a big tragedy. As he recognized the danger Japan was risking, he felt that his heart had returned to his "nation" from the working class. He believed that Marxist doctrine was wrong in assuming that the failure of an imperialist country in war would result in the victory of proletarians in that country because "once in war, no matter who is the enemy, the Soviet Union or China, the bullet from the enemy will kill whomever it hits without distinguishing between capitalists and workers". (Iriye, 19 :539) The same change also happened to Koizumi Shinzo, a famous liberal who had a strong international perspective in the prewar and postwar periods. As his wartime diary indicates, he "lost sight of the people outside of Japan", concerning himself only with his own nation. (Tsurumi, 1984:17-18) These facts indicate that the revival of indigenous values in the social construction of rationality was stimulated by rational motivation under some special circumstances. For this reason, culture in terms of value systems cannot be used directly to explain Japanese capitalism because it was an intervening variable in the analysis which was influenced by the international environment instead of an independent variable itself.

The proposition that economic reasoning involves moral and ethic considerations

was further sustained by the fact that nationalism played an important role in shifting the unit of analysis in economic thinking from class to nation-state. According to Tsurumi Shunsuke, "tenkō" was rooted deeply in the Japanese psychology of "insularity", which resulted from the national isolation policy of the Tokugawa bakufu. This character later became "a latent feature of the Japanese experience" and "an unexpressed postulate of Japanese thinking". Such an insulative psychology had once been overcome by the enthusiasm for pursuing modernity in an international environment perceived as favorable by Japanese who believed that Japan had already become one of the great powers in the world. Accordingly, the assertion of individual interests and class interests was tolerated in economic discussions. Once the nation was involved in international confrontation, the insulative psychology revived, calling for support to one's own country unconditionally because "it is my country whether it is right or wrong". Under the influence of an insulative psychology, any unit of analysis other than the nation-state simply lost legitimacy in the social construction of rationality. To Japanese communists who were involved in the "tenkō" movement, both positions were rational. The only difference was that the changing international environment significantly altered the unit of analysis of domestic actors in the construction of rationality from the social class to the nation-state.

The "State Reform Movement"

The "state reform movement" in the 1930s reflected the movement of nationalism towards socialism, which served to undermine the legitimacy of methodological

individualism in Japanese economic reasoning. It cleared the way in state policy-making for collective rationality based on the nation-state. The "state reform movement" developed along two lines: the right-wing radicals consisting of young military officials acted as a destructive force to the old system, while the "reform bureaucrats" (kakushin kanryō) stood as a constructive force in building new institutions for the managed economy (Hata 112-113). The dynamic of young military officials was generated by the strong resistance of indigenous values to rapid industrialization. The social foundation of the Japanese military had traditionally been rural areas. When the Japanese economy was quickly redirected towards the heavy-chemical industries, it also intensified the conflict of interests among different sectors in the national economy. The hardship rural areas suffered in the early 1930s caused a strong reaction to the Western style of capitalism, which, by many accounts, resulted in a series of terrorist assassinations in 1932. The major targets were the leaders of political parties and business circles. In February, the former Minister of Finance and the head of the Democratic Political Party Inoue Junnosuke was assassinated. In March, so was the leader of the Mitsui zaibatsu Dan Takuma. In May, a group of young military officials broke into Prime Minister Inokai Tsuyoshi's home and shot him to death, which marked the end of an era in which the party that had won the election would be able to organize the cabinet by itself. These assassinations committed by right-wing radicals shook the political foundation of laissez faire capitalism, creating a good opportunity for the emergence of managed economy.

The "reform bureaucrats" were the major agents in asserting the ideology of managed economy in the state policy-making. Although their opinions and behavioral

patterns differed from case to case, they shared some characteristics in common. All of these bureaucrats had intimate knowledge of Germany, most of them had experience running a planned economy in Manchuria, they all were influenced by Marxism in their early years and shared an orientation toward Asianism and Japanism (Hata 1983:124). These "reform bureaucrats" also held a strong "technocratic" orientation. They not only had mastered the planning skills but also had the ability to turn their proposals into concrete policies. In politics, they were often able to manipulate policy-making because the aged politicians in the political parties could not catch up with the rapid development of science and technology or understand the demands from the younger generation. (Kawahara, 1976:10) The emergence of reform forces on the political arena resulted from the context at the time. Under strong domestic and international pressures "the military and bureaucratic elites were able to persuade many of their counterparts in other elites and much of the populace that Japan had entered a period of national crisis in her foreign and domestic affairs, which required an application of military and bureaucratic expertise the parties could not provide" (Berger 1977:32).

The "state reform movement" emerged in the 1930s as a radical reaction to the failure of laissez faire capitalism indicated by the Great Depression. Its target concentrated on the classical doctrine of individual interests asserted by the capitalist class and its political representative--the political parties. The activists in this movement believed that "the political parties, the zaibatsu, and a small privileged group attached to the ruling class are all sunk in corruption. They conspire in parties to pursue their egoistic interests and desires, to the neglect of national defence and to the confusion of

government."¹⁰ It is clear that from the beginning, both the criticism of the laissez faire doctrine and the assertion of managed economy involved moral and ethical judgments. Nationalism embraced some central propositions of socialism. The managed economy was believed to be the most hopeful solution for the whole country. As "an agent of reform", argued Ryū Shintarō, "the state is the only force capable of challenging the capitalist system" and "stricter state controls could modify Japanese capitalism on behalf of the national welfare".¹¹ The right-wing represented by Kita Ikki pushed this tendency one step further directly advocating national socialism. Kita held that the state should limit private wealth and the major industries should be owned and managed by the government. (Fletcher, 1982:51) Despite the influence of "democracy", "socialism" and "liberalism" in their early lives, "emotional nationalism" turned many Japanese towards the state in a struggle to "break the deadlock of the current situation". This indicates that moral and ethical elements in the ideology of managed economy were the indispensable ingredients in a collective rationality.

The transition from the individualism asserted by the classical doctrine to the collective welfare of the nation-state was rendered as a cultural choice between the Western value system and the indigenous value system. In Japan the failure of laissez faire capitalism caused not a temporary shift in policy paradigm, as happened in the United States, but a critical reexamination of economic beliefs back to the Meiji Restoration. It was argued that "because of indiscriminate introduction of occidental capitalism since the beginning of the Meiji Era, selfish principles, disregarding the solidarity of the family, have crept unawares into our national thought." (Fujiwara

1932:449) Influenced by Western utilitarianism, "leaders in politics and business also encouraged the spread of the new social motives and standards of value.....As they developed, business and industry themselves helped to diffuse material ideals, and our civilization took on many aspects of capitalism." (Fujiwara 1932:444) According to Watsuji Tetsurō, the real danger lay in the fact that capitalism was mercenary in spirit, and Japan at the time was completely dominated by it. The only solution to this problem, he argued, was to abolish this framework completely. To explain this Japanese rejection of laissez faire doctrine in the 1930s, I argue that we should recognize that in the Japanese perception of stereotypical laissez faire capitalism, there was little room for Western liberal ideas. Therefore, when necessary, the Japanese had to turn to their indigenous values as ideological support for alternatives which were equivalent to liberal policies in the West. For this reason, the indigenous values were often in tension with the process of industrialization, indicated by volcanic and periodic revivals and declines in their popularity.

From "Economic Men" to "Functional Men"

The program of managed economy reflected an ideology which was different from both Marxist analysis of class struggle and the orthodox doctrine of laissez faire. The ideology of managed economy shared Marxist criticism that "the social system of Japan is not perfect. The sway of capitalism allows only a small and privileged class to spend for comfort and pleasure; the masses are plunged into misery, they struggle against heavy odds" (Fujiwara 1932:443). At the same time this ideology rejected the Marxist solution



because Marxism too looked on society as a mechanical structure founded on selfishness which was not different in nature from the classical doctrine. "If we seriously intend to overthrow capitalism because of its ethical deficiencies", Fujiwara contended, "we shall thereby strangle Marxism, which is being nurtured by the pressure of capitalist influences on our lives" (Fujiwara 1932:447). As an alternative to Marxist solutions, the ideology of managed economy asserted that Japan should adopt "the practicable oriental idealism that accepts society as a co-operative organization, founded on morality and the family system" because "the Japanese Empire is a huge family, and the people are tied by close blood-relationships into a tight spiritual unity. It is thus quite different from states in Europe and America that have been organized to meet the rational needs of the people.....Instead of the principles of freedom and equality for individuals held essential in occidental states, the Japanese rely on parental love and deep affection among brothers and sisters. These feelings are more deeply rooted and permanent than the rational claims for freedom and equality. Though dormant in the bosoms of the people in ordinary times, they manifest themselves unmistakably in times of national emergency." (Fujiwara 1932:448-449) In this argument, moral and ethical considerations form the beginning point of analysis from which the whole arrangement of rationality was derived.

The ideology of managed economy did not treat morality and ethics as exogenous variables to economic analysis. Rather it explicitly asserted that the economy contained its own intrinsic ethics. This position even transcended the German historical school with its long tradition of concern for morality and ethics as external standards in the social construction of rationality. The Japanese ideas of managed economy rejected the

proposition that rationality could be constructed only at the individual level. With timely implications for the managed economy, there was a heated revival of Friedrich List in academic discussions by Japanese economists and the comparison between Adam Smith and Friedrich List became a popular topic in studies of the history of economic theories. Awakening to the tension between these two different intellectual traditions in economic thinking, Japanese economists favored List over Smith, indicating that they were making a rational selection between "economic men" and "national economy" as a starting point in their economic analysis. According to Okokazu, the logic of managed economy had transcended the moral and ethical criticism of laissez faire capitalism from the tradition of the German historical school and it had become a truly rational foundation for collective action. Rejecting List's assertion that ethics are separated from the economy and thus selfish "economic men" should be replaced by "ethical men" as Germany faced the practical tasks of conducting "social reform" and establishing a "national economy", Okokazu argued that economic ethics did not come from politics, churches and rulers. They existed within the economy, providing a legitimate and intrinsic order (Okokazu 1969 [1943]:99). In other words, the ethics of managed economy were not introduced by external forces influencing the existing order of economic life but were demanded by the needs of the economy itself (1969 [1942]:414-415). In this sense, the rejection of the individual utility maximization principle in the managed economy was not due to separate consideration of morality and ethics, but from the internal demands for a new order resulting from the war economy. "Production in war time managed economy is not based on the organism of individuals in pursuing profits but depends upon the men

who can understand it as an intentional and planned activity for promoting the productivity of economic life as a whole, and have objective judgment and consciousness about their own social function as parts of the integral body of managed economy to realize the will of the state.....In contrast with Smith's assumption that the organism of economic men for profits unconsciously guided by the 'invisible hand' will result in the increase of material wealth of society, the 'responsible ethic' based on the social consciousness of functional men is directly and consciously connected with the expansion of productivity by planning (Okokazu 1969 [1942]:421, 424).

The ideologies and economic propositions of managed economy in 1931-1945 Japan were connected with the fascist movement, bearing close resemblance to the German situation. In both Japan and Germany, the fascist movement involved both the assertion of indigenous values for the purpose of political mobilization, and the revival of the German historical school in the social construction of rationality for a war time economy. Ruth Hadass-Vashitz observes that "publications before and after 1933 show clearly that at least some Nazis were sufficiently well read to look for prior scholarly models.....Those models were in the first place Adam Muller and Friedrich List, quoted abundantly by the Nazis and their collaborators". A famous Nazi activist Hans Buchner described the Nazi economic principles as the realization of "the traditional idea of a German state economy", "the economic ideal of National Socialism revives the best characteristics of German economic theory" (See Hadass-Vashitz 1990:103-104). In the Japanese case, as Ito Takashi once pointed out, "scholars usually put too much emphasis on 'the semi-feudal nature' and the 'irrationality' of Japanese fascism without

acknowledging the discussion and policies of industrial rationalization conducted by the 'reform forces'". It has been assumed for a long time that the democratic reforms conducted by the occupation authorities cleaned up the entire social foundation of fascism in these two countries, but if we take heed of these explanations then we may be obliged to recognize that the reality of history implies some meaningful institutional continuities.

The point at issue here is not whether Japan established genuine fascism or not, but to what extent fascist ideology of that period influenced the logic of economic reasoning in the future. At least one thing is for sure: the fascist ideology in 1931-1945 Japan strongly shook the social foundation of laissez faire doctrine in economic thinking. For the same reason, to explain Japanese capitalism from the cultural perspective by simply connecting the present institutions with some traditions in the past is too simplistic, neglecting the complicated mechanism in cultural heritage. As a matter of fact, Japanese indigenous values themselves were not inherited naturally but were mobilized for political purposes. They were perceived as rational only in certain circumstances of history.

The Japanese experience in the managed economy contradicts both notions of universal rationality and cultural explanations of Japanese capitalism simultaneously. On the one hand, the assumption of individual utility maximization was rejected completely in the policy debates during this period, demonstrating the discrepancy between the claim of universal rationality and historical reality. On the other hand, the eruptive revival of collective orientation in economic hard times also reveals the inadequacy of cultural explanations of Japanese capitalism, showing that the predominance of indigenous values

in this period was strongly subject to contextual conditions, especially the threatening international environment.

FIGHTING AGAINST INSTITUTIONAL CONSTRAINTS

To be sure, the capacity of the Japanese state in economic intervention was strengthened enormously through the program of managed economy in comparison with the periods before the 1930s. It does not mean, however, that the Japanese simply found a new economic law and organized their economic life accordingly without any institutional constraint. In fact, the way the state carried out the program of managed economy and the degree of state intervention were still strongly constrained by the institutional structures of the Japanese state and state-business relations. According to the plan of establishing the economic general staff, which was asserted by some economists and reform bureaucrats, the Japanese state should have been much stronger than it was. In reality, however, the efforts to strengthen the state capacity did not achieve the original goal despite the fact that the state tried hard to lead the nation to act rationally. The program of managed economy faced two major obstacles in operation: one was the strong resistance to the direct state intervention of the business management in the private firms; and the other was the sectionalism in the state bureaucracies which opposed the efforts of centralizing policy-making power. After doing business by depending upon the market for more than half a century, the Japanese business circles had a legitimate reason to oppose state control over their daily management: they simply employed the label of "communist orientation" as a weapon against the proposals for

"separating management from ownership" and "providing managers an official status". In contrast, the time-honored practice of decentralized administration in the state bureaucracy had nurtured a strong tradition of "jurisdictional disputes" (nawabari araso), which tended to block any initiative to centralize policy-making power in bureaucratic politics. The process of implementing the program of managed economy provides a good opportunity to critique the prevailing theories in predicting the outcome in state policy-making: the struggles around the program of managed economy show that while interest groups were able to block some policy proposals for radical state intervention, they could not resist the general direction of managed economy. In the meantime, while the state was able to develop its capacity to exercise control, its efforts were still bounded internally by sectionalism and externally by social resistance to the managed economy. These facts indicate that as the unit of analysis shifted to the nation state in the Japanese economic thinking, both business circles' perception of self-interest and the rationale of the state action also changed accordingly. For this reason, both business circles and individual bureaucratic agencies accepted the program of managed economy to some extent because they believed that when Japan was involved in military conflicts with other countries Japan had to depend upon the function of state in resource allocation and this also fit their own interest. Yet, after these actors gave up certain claims for self-interest, there was still a hard core and clear perception about what was too much to lose as an individual unit for the sake of collective interest.

These institutional constraints on economic rationality were reflected in two series of debates and controversies on the issue of how to strengthen the state capacity for

implementing the managed economy: one was on the establishment of a "national policy agency" within the state bureaucracy in the 1930s, and the other was on the "economic new order" in the early 1940s. The outcome of these debates had a profound impact on the future, not only on what kind of instrumental means the Japanese state selected for the program of managed economy, but also on how should we perceive the nature of the Japanese state. Even today, students of Japanese politics still have not reached agreement on the last issue, holding different images of the Japanese state. In his classic study on MITI, Chalmers Johnson portrayed a strong Japanese state whose industrial policy implies a strategic, or goal-oriented, approach to the economy (Johnson 1982). In contrast, Karl van Wolferon argues that statecraft in Japan entails a balance between semi-autonomous groups that share power, and furthermore, "no one is ultimately in charge" (van Wolferon 1989:5). These two competing images of the Japanese state suggest different dimensions of the outcome in this struggle. Johnson's view tells us that in its relation to society Japan indeed became a strong state, while van Wolferon's view indicates that the effort made by the Japanese state to strengthen its capacity in policy integration may not have reached its goal. It is necessary to distinguish the relationship between these two dimensions here in the context of the managed economy during the 1930s and the early 1940s. The impact of sectionalism did prevent the Japanese state from adopting some more radical measures in economic intervention. Nevertheless, the strong state control over resource allocation was still exercised effectively by individual bureaucratic agencies. In other words, the existence of sectionalism kept Japan away from a Soviet type planned economy. It by no means, however, indicates that the

Japanese state was not able to establish its control over society.

Conflicts Around the Establishment of the "National Policy Agency" (kokusaku kikan)

The structure and the sectionalist orientation of the state bureaucracy exerted a great institutional constraint on the implementation of the program of managed economy. The planning and implementation of managed economy as a collective rationality required strong leadership of the Japanese state, which meant that the Japanese state needed to establish a powerful agency in charge of policy-integration among various bureaucratic agencies which had a long tradition of decentralized policy-making. Without this institutional support, the state capacity in policy-integration for the managed economy would not be established. The realization of a "national policy agency", however, was bounded by the present structure of state bureaucracies. The agents of managed economy in this bureaucratic struggle had to make compromises with various vested interests, seeking to make their way out from the crevices of power.

In the 1930s the sectionalism of the state bureaucracy, which was institutionally authorized by the Imperial Constitution of 1889, was perceived by many Japanese as the major obstacle to strengthening the state capacity in policy-integration, and to eliminate sectionalism was believed to be the most critical issue in the operation of the managed economy. Although the state building after the Meiji Restoration established an effective control over the society, it did not achieve the goal of centralizing the political power within the state bureaucracy. This facet of the Japanese state, however, has not been

given enough attention in the studies of Japanese political history in English speaking countries. Until recently the transformation from the Dajokan system to the cabinet system after the "1881 crisis" has been regarded as "an effort to create institutional obstacles that would prevent the parties from capturing control of the government at some future date" (Flanagan 1983:241), or as "a selfish attempt by the oligarchies to perpetuate their power behind a facade of constitutionalism" (Pittau 1983:2). In other words, it was an action against the threat from outside rather than within. Royama Masamichi, a leading scholar in the discussion at the time, exposed this agenda forcefully. He asserted that "many writings concerning the political history of the Meiji period emphasize the political function of the cabinet as a place where the power of han cliques united and as an organization to fight with political parties in the Diet. Nevertheless, little research was done to stress the function of the cabinet as a central administrative agency. The cabinet should act as both an agency to make and carry out policies concerning national affairs and as an integrative agency that possesses the function of administrating ministries." (Rōyama 1936 [1965]:127) Sectionalism, according to Royama's analysis, was a product of contradictions in functional arrangements contained in the Imperial Constitution of 1889. On the one hand, this constitution bestowed the prime minister with the power to control ministries. On the other hand, however, it also admitted the right of ministers to assist the emperor directly. According to this constitution, the "supreme authority was vested in the emperor, and all state organs--the state ministries, the military, the Privy Council, the Imperial Household Ministry, and the Diet--were responsible to the emperor." This arrangement

strengthened the position of ministries by providing them with opportunities to increase their own power in the name of "serving the national interests". Rōyama (1936 [1965]:131-132) argued that the Imperial Constitution of 1889 institutionally authorized sectionalism. Although it ostensibly bestowed great power on the prime minister, it did not provide him with a cabinet agency under his direct control to execute his power. As a result, the prime minister only functioned as "speaker of the cabinet" while sectionalism gradually gained strength in the decentralized administration.

The state bureaucracy defined by the Meiji Constitution was characterized by the co-existence of "vertical centralization" and "horizontal decentralization". The equal access of ministries to the emperor enabled them to develop their personal networks in a linear direction. The state bureaucracy grew like a crotch of a tree, with the emperor at the top. At the same time, it was difficult for the state to achieve integration at the horizontal level as each ministry, bureau or division often exercised a veto over decisions by its counterparts. Although the ministers were expected to act as members of the cabinet, cooperating with the state policy integration, in reality they always acted as "the head of a ministry", standing for the interests of their own domains (Ide 1982:252-253). This is why Gordon M. Berger (1977:233) argues that "although Japan moved with relative smoothness from a semicentralized administrative system of bakufu and han in the Edo period to a centralized nation-state after 1868, the process of political integration was not considered complete by Japanese leaders even in 1940." It was clear that although the Japanese state had absolute power in relation to society, it never rid itself of the sectionalist orientation caused by pluralistic politics and independent

administrations (Andō 1985:77).

At the time sectionalism was further exacerbated by the "ringi" system in decision-making. In the "ringi" system, decisions were made through a process in which the lowest-ranking bureaucrat drafted a document and sent it to his immediate superior for individual examination rather than circulating it to all of the officials in other ministries it concerned for discussion. After the superior approved the document, he would hand it in to his superior for his personal assessment. At the end of this procedure, the minister would decide whether to approve the final draft as an official document after a series of approvals rank by rank. One of the problems with the "ringi" system was the absence of leadership in the process of decision-making because any effort of assuming leadership by high ranking bureaucrats would result in inner disorder in the bureaucracy. As a result, high ranking bureaucrats would either be driven out of their offices or follow the rule of the "ringi" system. Influenced by the "ringi" system, bureaucrats were apt to reach an agreement on any issue within a single unit and adhere stubbornly to their own opinions on the issue when they were at loggerheads with other bureaucracies. As Tsuji Kiyooki (1981 [1969]:164) pointed out, "it may be inappropriate to attribute the source of sectionalism solely to the "ringi" system. Nevertheless, this pattern of decision-making remains as one of the major factors which preserves sectionalism in the state bureaucracies even today."

The establishment of an economic general staff was well received and regarded as the indispensable step for building up an instrument for the managed economy in the economic reasoning in the 1930s. In reality, however, the realization of this idea

confronted strong institutional constraints. First of all, in making "national policy", which broke the administrative boundary of individual ministries and required integration and cooperation among several bureaucracies, there were intensive struggles among bureaucracies to turn their "ministerial policy" into "national policy" in an effort to protect or even promote their interests. Even some "reform bureaucrats" still upheld the stand of their home agencies in discussions of national policy.¹² Secondly, any move to set up a new agency would face strong resistance as it threatened to reduce the power of existing bureaucracies. Bureaucrats at the Cabinet Survey Bureau intended to take over the budgeting power from the Ministry of Finance, arguing that since they were the ones who made "national policy" for the Prime Minister they should have the power to decide how to spend the money. Nevertheless, they were defeated badly by the Ministry of Finance in this political struggle. Before the Cabinet Planning Board was established in 1937, the Army proposed to set up a more powerful agency as the genuine economic staff with intentions to control it. This move, however, was successfully blocked by the Navy and other bureaucracies because the new agency's planning power would have been in conflict with the administrative power of individual ministries and especially with the budgeting power of the Ministry of Finance (Ide 1982:118). Eventually, the Cabinet Planning Board functioned simply as an office of general affairs for national general mobilization and failed to obtain a superior position above individual ministries.

Contests for "Economic New Order"

The institutional constraints came not only from the structure of the Japanese

state, but also from the structure of state-business relations. The efforts of the state to exert its control over society were confronted with strong resistance from the private sector. As mentioned before, despite the fact that the Japanese state had been powerful since the Meiji Restoration, it did not intervene in the economic sphere directly. Even when the Japanese state began to carry out its program of managed economy, it first tried to mobilize the private sector through incentives by exerting control over resource allocation through cartels. This type of control left ample room for the private sector to maneuver. As Japan involved herself in the China War more deeply, its economic power became more and more unequal to its tasks. Under such circumstances, the Kono Fumimaro cabinet decided on the eve of the Pacific War to make a big step forward towards complete control over the private sector in 1940 by establishing the economic "new order". At the time Germany had just won a series of military victories (the invasion of Norway in April and the conquest of France in June) and the Japanese military intended to utilize this opportunity to occupy Southeast Asia. The military officials and "reform bureaucrats" held that Germany's victories had directly resulted from its political institutions. They believed that what had made Germany strong were totalitarianism and the planned economy, and what caused Britain and France to get into trouble were their utilitarianism, capitalism and democracy. Liberalism would not do any good to help Japan win the war and the international competition. Therefore, it had to be replaced by totalitarianism. (Miyachi, 1970:392)

The policy proposals prepared by the Showa Research Association for the "new order" reflected the efforts of the Japanese state to transfer the Japanese economy from

"laissez-faire capitalism" to "cooperative capitalism". According to the SRA's document, economic control at the time was from "outside" and "above", namely, it only controlled the distribution of materials but not production itself. As a result, private firms would either cease production when there were not enough profits to earn or skimp on work and stint on materials in order to save inputs and make more profits. This kind of control also brought about many black markets and black exchange rates for foreign currency. Exercised in this way, economic control had lost its significance. Thus, because the profit orientation had become the major barrier to the nation in the war economy, the proposal called for a transformation from profit orientation to production orientation by exerting the state's control over profits and revising laissez-faire capitalism. In order to enlarge the production scale and to support the war, the state should regard production for the nation instead of profits for shareholders as the first priority. The SRA documents suggested that the state nationalize manufacturing industries or establish a mixed economy. In such a system, managers of enterprises would have responsibility as public servants. Their only responsibility to shareholders would be to guarantee certain amounts of profit based on quotas set by the state. They should commit themselves primarily to the state. The evaluation of their performance should be largely based on their contribution to production.¹³

The state intervention in the economy was perceived as an inevitable measure to deal with the economic situation during the wartime. Japanese economists believed that rationality was institutional. When markets did not work, other forms of economic governance must be installed in order to organize economic life. When control by cartels

could not achieve the goal of supporting the war economy, they argued that management should be separated from capital ownership. Ryū Shintarō pointed out that the managed economy had been basically run in the form of state control over resource allocation. It alone, however, would not promote production. In order to achieve the goal of managed economy, the state must control profits.¹⁴ Arisawa Hiromi argued as early as in 1937 that the phenomenon of the "separation between capital and management" had been increasingly evident as the managed economy was evoking on. He further predicted that "the tendency of separation between the social function of capital and capital ownership would eventually result in the state capitalism.....the stronger the economic control, the nearer state capitalism will be." (Arisawa, 1937:212) In designing the "economic new order," both Ryu and Arisawa were influenced by the Marxist perspective. As for Ryu, such an influence was perhaps imperceptible. Ryu himself did not employ the Marxist perspective consciously. Rather, he tried his best to reject historical materialism and to criticize Marxist theories of forces of production and relations of production. (Showadojin-kai, 1968:232-233) Nevertheless, "at the time many economists were nurtured by Marxism. Even under the economic controls of the war, they were still inclined to think in a Marxist framework. Ryu was one of those people. He dreamed that he could get rid of the evil of capitalism by using these instruments and move towards a socialized economic institution." (Nakamura, 1974:94) As for Arisawa, such an influence appeared in a more complicated form. "At the time, Marxist economics shifted its focus to the 'theory of production forces' pressured by the tight control of the state. Japanese Marxism in this period emphasized neither class and

exploitation, nor the antiwar movement. It rather utilized the war as a 'precondition', taking a stand for promoting production to approach the relations of production." (Uchida, 1948:39)

The proposal for the economic "new order" was strongly constrained by vested interests of the zaibatsu. While these policy proposals made by the SRA and the CPB were well received by intellectuals, "reform bureaucrats" and the military, they were seriously criticized as "aka" (communist oriented) and opposed by a united front which consisted of business leaders and the so-called "spiritual right-wing" (seishin uha). United with their allies in the Ministry of Home Affairs, zaibatsu were successful in blocking this move. A group of "reform bureaucrats" in the CPB who were involved in planning for the new order were even arrested, including Wada Hiroo and Inaba Hidezō--two important figures covered by this study. In order to avoid a possible purge, Ryū Shintarō had to leave for Europe. At the time, seven national business associations representing the interests of the private sector expressed their opinions to the state, asserting two major points as their political position regarding the proposal for an economic new order. First, the urgent task for Japan was to promote production. Therefore, the state should avoid any radical change which would shake the foundation of present economic institutions and decrease production. To pursue profits was not necessarily at loggerheads with national interests and it should not be criticized. The state rather should encourage business circles to pursue profits in order to stimulate production. Second, the Japanese economic institutions were not based on the laissez-faire principle but on the Japanese spirit which the managed economy should also follow.

Direct state control over profits would not promote production as it itself deviated from the Japanese way of doing business. Ownership and management should not be separated, and the major managers in private firms should not be appointed by the state. Even when control was necessary and inevitable, it should be exercised by the business circles themselves.

The agents of the economic new order failed to generate enough support to form a united front among the major political actors. The attitudes of the military, business circles and the bureaucrats towards the economic "new order" were complicated. The military supported the control of the state and the efforts to militarize the national economy. Nevertheless, they also recognized that their goals could not be achieved without support from business circles. Therefore they had to admit the principles of capitalism. The bureaucrats also dared not deny the principles of capitalism completely as they themselves were the managers of state capital though flaunting the banner of "public interest" and asserting the necessity of "economic control" and "planned economy in the war". The business circles had no excuse to oppose the managed economy because to support the war was the highest priority of the nation at the time. What they could do to secure their interests in the managed economy was to insist that the managed economy should be operated according to the principles of capitalism. (Asanuma, in Kawahara, 1976:38)

Since the present structure of economic institutions would largely determine the direction of change, the principle adopted by the Japanese state for the "new order" turned out to be a moderate one. The statement "to separate capital and management and

to shift the priority from profit to production" in the CPB's plan was revised into "the enterprise is an organic entity of capital, management and labor. As a component of the national economy, its activity should be limited within the comprehensive plan of the state and at the same time should be based on the creativity and responsibility of managers, and automatic management".

Conclusion

This chapter shows that the Japanese rationality of running the economy changed dramatically in the 1930s from a laissez faire framework to the managed economy. During this process, the nation-state became the unit of analysis in economic reasoning, transcending the previously dominant analytical frameworks of individualism and Marxist class analysis. The Japanese state emerged as the major organizer of the national economy, exercising a tight control over resource allocation. Under the pressure of the Great Depression and the wars, production became the highest priority in state policy-making. In order to mobilize the limited resources to support the wars, various state-led institutions were established, functioning as the instrumental means to achieve economic goals.

The Japanese practice of managed economy, as various types of state intervention in many industrialized countries during the 1930s, shows the falsity of the argument of universal rationality asserted by neoclassical economics. It shows that the laissez faire doctrine cannot explain the variety and changes of human rationality overtime; economic actors are able to formulate their strategies according to the environmental conditions.

The market may be one way to organize economic life under certain circumstances, but to what extent it is applied or to what extent it is replaced is highly subject to the institutional settings. In this sense, the emergence of neoclassical economics in the postwar era by no means indicates that new economic laws were discovered, but some economists constructed the economic rationality in a new way according to the changed institutional settings in both international and domestic economies. Without the institutional support by the hegemony of the United States, the orders in both the international economy and domestic economies of industrialized nations might be very different. Accordingly, the neoclassical doctrines might not be well perceived as it was. Economic science is not only evolutionary, but also *historical* in nature. Certain propositions may not prevail forever.

The emergence of the nationalist movements and their impact on state policy making did not reconfirm the cultural explanation. It shows that the popular economic values as an explanatory variable needs to be examined through an intervening process. Indigenous values were indeed asserted in economic reasoning in the 1930s and the early 1940s, and they indeed exerted a great impact on state policy making. Nevertheless, they were asserted not for their own sake, but for a rational purpose by some collective actors. At the same time, they influenced the state policy-making by shifting the unit of analysis in the economic reasoning by which economic actors came to believe that to assert indigenous values under the present situation was a rational choice, instead through a process of individual internalization in which economic actors took them for granted. Before the 1930s, the leading analytical frameworks in Japanese economic reasoning

were either the laissez faire doctrine, which asserted methodological individualism, or Marxism, which advocated class analysis. Both frameworks denied the assertions of harmony and cooperation among different economic actors. Only under the pressures of international tensions which made national survival the highest priority, did indigenous values become a solution which was acceptable to all parties involved.

The institutional settings of economic reasoning provide a better explanation to the emergence of Japanese managed economy. This chapter shows that the changed perception of the international order had a direct impact on the goals set in state policy making. To a large extent, the state control over resource allocation, the preference of production, and the establishment of state-led economic institutions in Japan can be attributed to the Japanese perception of a total war between Japan and the West, and their efforts to mobilize the limited resources to survive the war. This chapter also demonstrates that the academic agendas in the process of cross-national learning played a very important role in selecting policy paradigm. Through some special channels between academia and the state, the German theory of total war and defense economy, which were closely associated with fascism, the Marxian concept of planned economy, and the practices of the New Deal in the U.S. and the planned economy in the Soviet Union, exerted a great impact on state policy making in Japan. The diffusion of these foreign economic ideas provided the Japanese with a theoretical foundation for the program of managed economy.

The popular economic values reflected in two nationalist movements in the 1930s and the 1940s were an important factor in reinforcing the ethical dimension in the

program of managed economy by the Japanese state. As mentioned before, the impact of indigenous values on policy-making needs to be understood as an intervening process. In this chapter, I paid special attention to the connection between these movements and state bureaucrats and economists in order to show how indigenous values were asserted by collective actors and how confirmation of these values could be regarded as rational as the unit of analysis in economic reasoning was altered to the nation-state. The institutional structures of the Japanese state and the state-business relations, I argue, had a dual impact on state policy making. On the one hand, they did constrain the selection of instrumental means. Any policy alternative could not transcend the institutional structures because the collective rationality had to be based on the balance of power among various actors. On the other hand, these institutional constraints also provided the source of change because how to overcome them was perceived as the beginning point of economic reasoning. In this sense, the institutional structures themselves are not something that last forever, but subject to change. To what degree they constrain and to what degree they can be changed are dependent upon the interaction between them and the strategic actions taken by various political actors.

The program of managed economy in the 1930s and the early 1940s also provides us with a good opportunity to examine two empirical arguments in Japanese studies concerning whether the Japanese experience in the 1930s and the 1940s could be regarded as fascism. Some emphasize the institutional constraints on this movement, especially the strong resistance from the zaibatsu, arguing that fascism was not the right term to describe the nature of Japan in the 1930s and the early 1940s (Duus and Okimoto

1979). In contrast, some others focus on the similarities between Japan and Germany and Italy, assuming that the concrete form of fascism is subject to national variation (Gordon 1990). This study takes a third position. Rather than using a simple term to define the nature of Japanese history in this period, it emphasizes the profound difference in Japanese economic institutions between the beginning and the end of this period, and then identifies the major dynamics behind the change. Analyzing the managed economy in this way, we are struck by the rise of the Japanese state as a major actor in economic life during the process of domestic response to international tensions. On the one hand, the Japanese state mobilized whatever it could in an effort to fight for its privileges and interests in Asia. Fascism was only one of the leading ideologies. On the other hand, fascism, especially its ideology, indeed exerted a great impact on the state policy making, although its realization was constrained by the institutional structures.

CHAPTER FOUR: THE PRIORITY PRODUCTION

The major policy paradigm of the Japanese state for the postwar economic reconstruction during the 1946-1949 period was the "priority production program" (keisha seisan hōshiki), which referred to the practice of concentrating capital and materials in the production of coal, iron and steel, and fertilizers in order to provide the basic production material for the economic reconstruction in all fields. The priority production program to a large extent reflected the policy legacy of managed economy during the 1931-1945 period. Fighting with the hyper inflation and the severe shortage of materials in the early postwar era, the Japanese state exercised tight control over resource allocation by heavily depending upon the institutions of managed economy that developed in wartime. In comparison with the 1931-1949 period, the capacity of the Japanese state in controlling resource allocations in the 1946-1949 period became even stronger. In the logic of the priority production program, the most important task of the Japanese economy was to promote production. In order to achieve this end, the Japanese state established a powerful policy integration agency--the Economic Stabilization Board--in the state bureaucracy, which took away all authority over policy planning and supervision from individual ministries. Meanwhile, the state became more powerful in relation to society, effectively channeling the distribution of production materials and daily life products according to its policy goals by reutilizing various institutions of managed economy. The state even nationalized the ownership of the coal industry in 1947. These practices were what the reform forces had tried hard to accomplish but failed to do in the 1931-1945 period.

The continuing practice of managed economy in the early postwar era had profound significance to the later development of Japanese capitalism. It served to preserve the wartime institutional legacies of managed economy, which otherwise might have been exposed, criticized, and abolished in the storm of democratic reforms. By doing so, the practice of state planning and intervention obtained legitimacy in the postwar era, which enabled these legacies to permeate state policy-making in the future. In the logic of priority production, the market was not allowed to resume its function in organizing economic life until 1949 when the implementation of the Dodge plan stopped the practice of state control over resource allocation. As Chapters Five and Six show, the new situation may stipulate many institutional developments along new dimensions, for example, the focus of economic reasoning was drastically shifted to production efficiency at the micro level in the 1950s. The logic of state intervention, however, has been institutionalized in the operation of the Japanese economy, which constitutes part of the foundation of Japanese capitalism. In this sense, the new institutional developments at the micro level in the 1950s and the 1960s were some additions to, and sometimes combinations with what Japanese had built up in the 1930s and the 1940s, but certainly not the pure replacements.

In comparison with the wartime practice of managed economy in the 1930s and the early 1940s, the priority production program adopted by the Japanese state poses some intriguing theoretical puzzles regarding economic rationality from another dimension. Why did the Japanese state continue to choose the strategy of managed economy, which was closely associated with fascism in wartime, in the postwar era?

Why did the market not become the major instrument to organize economic life when Japan experienced some drastic reforms toward democracy? Did the political reforms not influence the state economic policy at all? How could the Japanese state gain greater power in economic intervention in this period even than it did during the wartime? Did the popular values change during the democratic reforms? If they did, did they have an impact on the formation of state policy? This chapter starts with the analysis of Japan's economic situation between 1946 and 1949, which shows that the hyper inflation and the severe shortage of materials in the early postwar period made the Japanese policy-makers believe that the resource allocation by the state at the macro level and the promotion of production by all means were still the most urgent tasks to the Japanese economy. After I show in the following section the Japanese rationales for dealing with these issues, I examine the changes that took place in the institutional settings along the four dimensions, which explain why the Japanese state continued the practice of managed economy.

First of all, I argue, although Japan's defeat in World War II resulted into some big changes in her international environment and the international perspective began to appear in economic reasoning for state economic policy, the perception of national isolation of the Japanese economy from the international market remained influential in policy-making circles. Under such circumstances, Japanese policy-makers believed that they would not be able to deal with the economic hard times by waiting for either foreign aid or the market's functioning, the state must take the leadership in promoting production in order to overcome the difficulties created by the hyper inflation and the

severe shortage of materials by assuming the role of distributing the limited domestic resources among industries. Some leading economists were highly skeptical about the introduction of foreign capital, asserting that Japan must achieve economic reconstruction by herself in order to avoid any danger of being controlled by foreign countries. These factors functioned to set up the goals for state economic policy. In the logic of priority production, the image of isolation from the international market played an important role in sustaining the nation-state as the unit of analysis, and supporting the state intervention.

Secondly, I argue that the continuing practice of managed economy by the Japanese state could be partially attributed to some institutionalized beliefs regarding state intervention in economic reasoning, which permeated the policy-making process through some strong ties between economists and the Japanese state. At the time, several economists, who held a strong orientation toward the state intervention, were either very close to the leading politicians or themselves occupying important offices directly. Due to these linkages, the intellectual foundation of the priority production program was multi-dimensional. The legacy of wartime managed economy was represented by Arisawa Hiromi, who was the chief advisor to Prime Minister Yoshida Shigeru and designer of the priority production program; the Keynesian approach was advocated by Ishibashi Tanzan, who became the Minister of Finance and the director of the Economic Stabilization Board successively and contributed greatly to the financial policy; the new deal type of economic policy was championed by Tsuru Shigeto, a high-ranking official in the ESB in charge of the integration of macro-economic policy for the Japanese state, who endowed the distribution system for the priority production program.

In comparison with the managed economy in the 1931-1945 period, the popular economic values and the institutional structures of the Japanese state and state-business relations were the two variables that changed dramatically. This chapter shows that the priority production program interacted with these two major institutional factors in the opposite direction. Unlike the program of managed economy in the 1931-1945 period which was morally and ethically supported by the nation-state oriented popular values, the priority production program was confronted with many moral and ethical criticisms influenced by the postwar democratic reforms; individualism and class consciousness revived rapidly, becoming the major challenges to the priority production program which was based on the unit of analysis of the nation-state.

From the point of view of the priority production program, however, the difficulties created by the ideological chaos were effectively counterbalanced by the changes in the institutional structure of the Japanese state and state-business relations. In contrast to the 1931-1945 period in which the state capacity was constrained considerably by the resistance from business circles and sectionalism in the state bureaucracies, the Japanese state gained unprecedented power in the early postwar era, not only because the power of the private sector was significantly weakened by the zaibatsu dissolution conducted by the GHQ, and the military forces were completely eliminated, but also because the General Headquarters (GHQ) exercised its occupation authority through the Japanese state so that the policy of the Japanese state was equal to the order of occupation authority and no one in the civilian sector could refuse to obey. Meanwhile, no individual state bureaucracies could resist the orders from GHQ as Japan

was under occupation. This in turn enabled the Japanese state to overcome the impact of sectionalism on policy-integration successfully.

As a whole, this chapter argues that the unchanged perception of international environment, the institutionalized beliefs of what constitutes rationality, and the unique structures of the state and state-business relations were the major factors to explain the continuing practice of managed economy in the early postwar Japan. So long as the economic actors perceived the external environment as isolated, they tended to adopt the nation-state as the unit of analysis, and rely upon the state to achieve their urgent tasks in resource allocation. Under such circumstances, none of the so-called universal laws of market economy applied. This chapter shows that without strong institutional support, popular values may not shape the direction of the state policy effectively. Culture as a variable to explain the cross-national variation in economic rationality must be institutional. This chapter stands not only as a followup for what happened before, but also as a contrasting basis for what happened in the near future, which will be discussed in detail in the next chapter.

Postwar Lethargy

The 1946-1949 period was really a hard time for the Japanese economy, which suffered greatly from the hyper inflation and the severe shortage of materials. As an American observer pointed out, "in the three years under the occupation two basic but divergent trends have been paramount. A hare-and-tortoise race has been in progress between a mounting inflation on the one hand and a slow revival of industrial activity on

the other hand. The two are, of course, in effect tied together. Inflation has retarded industrial recovery while the dearth of output in the face of mounting monetary claims to goods has only accentuated the price spiral" (Cohen 1949:447). Under such unusual circumstances, policy-makers came to believe that Japan was unlikely to depend upon the functioning of the market in allocating resources, and the state must assume the leadership in controlling the economic situation, and initiating and organizing the postwar reconstruction.

The shortage of supplies of both production and daily-life materials confronted by the Japanese economy was due to several reasons. First of all, much of Japan's wealth was destroyed in World War II. In a fifteen-year "total war", Japan spent its whole energy and staked its whole wealth. After Japan surrendered to the Allies on August 15, 1945, awakening from the nightmare, the Japanese found that this war had cost their country one-fourth of its national wealth, including buildings, harbors, canals, machine tools, products, railways, ships, vehicles, electricity-gas-sewer facilities, telephones and other communication facilities (Arisawa 1976:241). 9 million people lost their homes. Secondly, the defeat in World War II resulted into a great contraction of Japanese access to the international market. Japan lost all of its colonies, which, apart from later occupied areas, constituted 44 percent of its prewar territory. This meant that they could no longer obtain the cheap materials and labor and the markets captive in these countries, which considerably reduced the total supplies in the operation of the Japanese economy. Meanwhile, Japan's international trade was also prohibited until 1948.

Thirdly, at the same time that Japan could not get much external supplies of materials, the domestic demand increased rapidly, which was created by the repatriation of millions of military and civilian Japanese from overseas. And finally, as a result of defeat, Japan was experiencing a crisis of underproduction as equipment in manufacturing was either destroyed or overutilized. Taking the 1934-1936 level as 100 percent, in 1945 the production of rice was equal to 66.5; wheat, 76.0; cotton yarn, 4.2; cotton textiles, 1.4; raw silk, 12.8; coal, 58.0; iron, 35.6; and marine products, 44.5 (Tsusan Daijin Kanbō Chōsaka 1954:35). Taking the 1937 level as 100 percent, the production level of the national economy in 1945 was 37%, in 1946 it was only 20%, rising to 25% and 33% in 1947 and 1948 respectively (Economic Planning Agency 1990 vol.2:10). In addition, Japan had one of its worst harvests in history in 1945 and the shortage of food became a big crisis.

The severe shortage of supply further deteriorated into hyper inflation. When Japan wantonly engaged in military adventure in the 1930s and the early 1940s, the Japanese state spent most of the governmental budget on munitions. In 1930, military expenditures occupied 32.3 percent of the governmental budget. In 1937 when Japan increased its aggression in China, this percentage jumped to 69.0. At the end of World War II, it further increased to 85.5 percent. In order to sponsor the fifteen year "total war" financially, the Japanese state issued 99.1 billion yen in public debts. At the end of 1945, the amount of public debt was 143.9 billion yen (See Arisawa 1976: 242-243). This became the fuse of postwar inflation. Taking the 1937 level as 100, the wholesale price index for major industries in 1945 was 442, in 1946 it was 1210, in 1947 it was

3860, and in 1948 it was 10508 (Economic Planning Agency 1990 vol.1:10).

Under such circumstances, how to allocate limited domestic resources, how to control inflation, and how to promote the production once again became the most urgent issues in the economic reasoning for state policy-making. Meanwhile, the Japanese also understood that they had to stand on their own to survive the economic hard times and to conduct the postwar reconstruction. At the time, Japanese policy-makers believed that the market could not realize an equilibrium between supply and demand by itself, and the state had to intervene in one way or another. Without the state intervention, the spectacular behavior in the black markets would further worsen the inflation which might destroy the whole economy, while the underproduction might further intensify as materials were in great shortage, which might cause social instability.

The Priority Production Program

In order to control inflation and to promote production, the Japanese state adopted the program of priority production, continuing the practice of managed economy. In the logic of priority production, the unit of analysis was still the nation-state. The major goal of the program of priority production was the reconstruction of the national economy as a whole. The state tightly controlled both production materials and daily life products and distributed them through various state-led institutions according to quotas it set up. Moreover, the quotas were not based on the strength of each firm and each industry in political influence or some measure of past success, but based on the assumed importance in the postwar reconstruction. The way the Japanese state distributed

resources indicates that production was the exclusive preference of ends in the program of priority production because all the materials and financial resources were concentrated in strategic industries, such as coal and iron and steel. In order to sustain the production, the state not only reutilized various institutions of managed economy that developed during the wartime, it even nationalized the coal industry in 1947. In order to strengthen the state capacity of implementing the priority production, the Japanese state also established the Economic Stabilization Board, centralizing the power in policy-making by taking over the planning function from all individual ministries in order to allocate resources more effectively at the macro level by state planning. In this sense, the program of priority production adopted by the Japanese state to a large extent duplicated the practice of managed economy in the wartime. Among various policy paradigms adopted by the Japanese state in the twentieth century, the program of priority production was the one which was closest to the socialist planned economy.

To be sure, the program of priority production was not the only alternative for running the economy at the time, and it was not a functional response either. As a matter of fact, the active state intervention in the economic situation did not begin until March 1946. Right after the surrender, the bureaucrats lost the confidence to continue the state intervention in the economy and the Japanese government withdrew its controls over 19 production materials on August 20 and October 9, and its control over fresh foods on November 15, 1945. In the meantime, the occupation authority did not intervene either. Relinquishing these controls aggravated the inflation quickly. According to an American observer, "the early reluctance of SCAP to intervene in this

area, and the incompetence of successive Japanese cabinets, produced an administrative fumbling which, if anything, accentuated the dislocations and impaired recovery efforts provided in other fields by factors such as food and raw material imports." (Cohen 1949:447)

As the economic situation was worsening, the Japanese state decided to adopt some emergency pressures in early 1946. It established the Economic Stabilization Board in May 1946 to carry out its priority production program in an effort to begin the economic recovery, after several months' reluctance. facing a severe shortage of materials and hyper inflation. The formation of the priority production program occurred along several dimensions: the first was state control over the distribution of materials, concentrating on materials in short supply in the strategic industries such as coal, iron and steel and fertilizers; the second was the mobilization of state capital, providing a huge amount of governmental loans to basic industries through the Reconstruction Finance Bank, from which forty percent of the loans went to the coal industry, and governmental subsidies which went directly or indirectly to the iron and steel industry; the third was state control over market prices by establishing an official price system; and the fourth was state management of trade and multiple exchange rates (See Arisawa and Nakamura 1960:65-66). Through this priority production program, the Japanese economy was under the strong control of the Japanese state, which to a large extent replaced the functioning of the market. All major resources were distributed through government channels, and the economic activity of the private sector was strongly constrained by the state planning. In this program, production was the most urgent

priority. Other issues, such as equality and justice in material distribution were of secondary importance. Following this logic, most financial and material resources were concentrated in the coal, iron and steel, and fertilizer industries because the Japanese believed that the promotion of production in these industrial fields would stimulate the revival of the whole economy.

In this period, how to strengthen state capacity, which was measured by both the capacity to control the activities of the private sector and the capacity for bureaucratic policy integration, was still the most critical issue in the state policy-making. In comparison with the managed economy in the 1931-1945 period, the capacity of the Japanese state was strengthened enormously in both dimensions. In the 1930s, the strong resistance from business circles successfully blocked the initiative of the Japanese state to separate management from ownership and to bestow on managers official status. Meanwhile the sectionalism in the state bureaucracies also undermined the effort of the state to promote policy integration. In the early postwar era, these factors were no longer major barriers to state policy-making. Since the occupation brought about a big change in the political and social structure, it became much easier for the Japanese state to achieve its goals. On the one hand, the postwar democratic reforms destroyed two major potential rivals of the bureaucrats, the military and zaibatsu. Meanwhile, the allies conducted an indirect occupation in Japan in which the Supreme Commander for the Allied Powers (SCAP) depended upon Japanese bureaucrats for all manner of daily operations. These favorable factors enabled the bureaucrats to strengthen their power greatly in economic intervention. As Hata Ikutako points out, "never has the Japanese

bureaucracy exercised greater authority than it did during the occupation" (cited in Johnson 1982:176). On the other hand, the pressure from the Occupation Authority also helped the Japanese state to overcome the difficulties created by sectionalism, strengthening the state capacity in policy integration. Unlike the prewar and war periods in which there was no ultimate authority who could give orders to individual ministries when the efforts to reach agreement on policy issues failed, GHQ had the authority which every individual ministry in the Japanese state had to obey.

The Economic Stabilization Board (keizai antei honbu), which was established in July 1946, demonstrated the state capacity in both dimensions. This agency, to a large extent, realized the dream for an "economic general staff", which had not come true in the 1931-1945 period. First of all, this agency had great power in policy integration. It enjoyed a "superior status over ministries in dealing with policy issues", and "the general director of the ESB had authority to direct and order ministers" (Economic Planning Agency 1964:11-12). In the reform on the ESB in April 1947, the Japanese state further centralized the power of policy-making to the ESB, transferring all of the state planning functions concerning economic administration away from individual ministries to the ESB. From then on, the ESB was the only bureaucratic agency in the Japanese state in charge of making economic plans and supervising the policy integration for all economic administrative bodies, including balancing the supply and demand of materials, trade, labor, prices, finances and money, transportation and construction, and all individual ministries had to implement policies made by the ESB. The size of the ESB was enlarged from five departments to ten bureaus, two departments, and forty-eight

divisions plus a Minister's Secretariat, and its personnel numbered more than three thousand (Economic Planning Agency 1964:47-48). For this reason, it is argued that the ESB was the most powerful bureaucracy in policy-making in the history of Japanese economic bureaucracies. The establishment of the ESB enabled the Japanese state to act more effectively, and made the state planning more like in a socialist-type of economy.

At the same time, the Japanese state established more effective control over the private sector in terms of resource allocations. It employed several means to initiate economic recovery. First of all, the Japanese state set up fifteen "public corporations" (kōdan) which distributed basic materials through a rigid stamp system. State control was not only over materials used in production in strategic industries, such as coal, iron and steel and fertilizers, but also over materials for people's daily life, such as food, household fuel, cloth, and soap (Arisawa 1976:281; Economic Planning Agency 1964:57). The ESB assigned 349 professional economic inspectors, whose major duty was to investigate and disclose economic crimes such as hoarding materials. At the time, the ESB was so powerful that there was a well-known saying that "even the crying babies become silent when they hear of the name of the ESB" (Arisawa 1986:281).

Secondly, the Japanese state controlled the direction of business activities through its priority financing by the Reconstruction Finance Bank, being backed up by a huge amount of state capital. The RFB played an important role in providing the urgently needed capital for economic reconstruction. This was clearly reflected in the rapidly increasing weight of the RFB in the total capital supply. The percentage of loans provided by the RFB in the total for all financial agencies was only 4.2 in March 1947,

but it was increased to 17.6 in September 1947. From March 1948 to March 1949, it was kept at between 24.0 and 24.6. Most loans provided by the RFB were guaranteed by the Bank of Japan and forty percent of currency newly issued by the Bank of Japan went to the RFB. This easy money policy exacerbated the inflation. Nevertheless, productivity also improved quickly. If the integral productivity index between 1934-1936 was 100, it improved rapidly from 22.6 in March 1947 to 55.2 in March 1949. In the coal industry, production reached the goal of three million tons at the end of 1947 and annual production per miner jumped from 5.8 tons in April 1948 to 8 tons in March 1949. In 1946, reconstruction finances were mainly spent on the daily operations and salary subsidies in private firms while the private sector had no capacity to invest in equipment which had been damaged seriously during the war. Once the RFB was established, it began to provide equipment loans immediately. In the total loans provided by the RFB, 47.7 percent went to equipment in March 1947, 59.0 in March 1948 and 69.1 in March 1949 (Shimura 1976:646-647).

Thirdly, the Japanese state even directly controlled prices, replacing the function of the market. In order to assure the actual income of salaried men, the Japanese state established an officially approved price system in July 1947. In this system, the average salary in all industrial fields was set at 1,800 yen. The state made a commitment to improve the distribution system by eliminating the black market and enforcing controls on food and transportation costs. After a time, the new schedules for prices and wages were revised in an effort to raise the standard of living. Nonetheless, these policies did not succeed. Inflation was exacerbated while the regular distribution of materials could

not be conducted smoothly. This situation exerted a negative impact on the priority production program. The government decided to further strengthen the priority production in October 1947. (See Tsūsan Daijin Kanbō Chōsa-kai, 1954:48-49)

Another new development in comparison with the managed economy in the 1931-1945 period was to begin to make long-term governmental plans, whose function in the state economy intervention transcended the material mobilization plans made in the 1931-1945 period. They assumed a role not only in controlling short-term resource allocations, but also in linking these controls with the long-term goals of the state in guiding economic development. The logic of managed economy contained in the priority production program, which was represented by its production orientation and state control, was further employed to formulate a long-term plan for economic recovery. According to *The Plan of Economic Recovery* (keizai fukkō keikaku) made by the ESB in 1948, the Japanese state would continue to operate the planned economy by exercising control over resource allocations. Meanwhile, production was identified as having a higher priority than the stabilization of inflation, namely, the Japanese state would not take aggressive measures immediately to eliminate inflation until production had recovered to sixty percent of the prewar level.

Eventually, the priority production program was stopped by the implementation of the "Dodge Plan," which reflected a rapid change of American policy towards Japan. In the early stage of postwar occupation, the American policy towards Japan was "to insure that Japan will not again become a menace to the United States or to the peace and security of the world" (SWNCC-150/3 1945 [1945]). In order to achieve this goal,

GHQ conducted a series of democratic reforms. Meanwhile, GHQ did not involve itself in economic reconstruction, leaving this task primarily in the hands of the Japanese government. Nevertheless, the U.S. government had to provide roughly five million dollars in aid to Japan every year. As Joseph Dodge described it, the Japanese economy at the time was a "stilts" economy which stood on two feet: the private sector in the Japanese economy depended on subsidies from the government while the Japanese government depended on financial aid from the U.S..

The U.S. government decided to change this situation in 1948. On January 6, 1948, K.G. Royall, the Secretary of the U.S. Army, delivered his famous speech at San Francisco asserting that the U.S. government had realized that it "cannot forever continue to pour hundreds of millions of dollars annually into relief funds for occupied areas", and the U.S. should help Japan "to promote recovery and thereby hasten the day when Japan will cease to be a financial burden to the United States" and be able to sustain "a self-sufficient democracy, strong enough and stable enough to support itself and at the same time to serve as deterrent against any other totalitarian war threats which might hereafter arise in the Far East" (Royall 1982 [1948]). In October of the same year, the U.S. government adopted new policies towards Japan proposed by George F. Kennan and William H. Draper, Jr. including decreasing aid, eliminating state control on the private sector, stabilizing labor relations, controlling inflation and adopting balanced finances. In December 1948, the U.S. government sent Joseph M. Dodge, president of the Detroit Bank and financial consultant to the U.S. government, as envoy to Japan. He designed a systematic policy dealing with the economy. It was the so-called "Dodge Line" which

soon ended the practice of managed economy in the early postwar era.

The continuing practice of managed economy in the early postwar era had a profound impact on the evolution of the Japanese economy in the future. It inherited the legacy of wartime institutions, and avoided radical reforms, providing legitimacy to state intervention in the economy. As the following chapters show, even after Japan regained access to the international market at the end of the 1940s, the state from then on still played a very important role in guiding Japan's economic development. The Japanese experience indicates that once a practice was institutionalized it was able to have an enduring impact on the future. But why, one may ask, could all of this happen in the first place? Since Japan was experiencing a rapid transition towards democracy at the time, and many practices associated with the wartime were abolished, why did the state intervention in the economy, which to a large extent was part of the war machine, remain untouched? In the following sections, I show that while many environmental factors changed, the institutional settings of the Japanese economy at the time were still in favor of the practice of managed economy.

A LONELY NATION IN THE WORLD

The Japanese feeling of national isolation from the international market in the 1946-1949 period played an important role in choosing the program of priority production in state economic policy, which reflected continuity with the prewar and wartime periods. The fact that the Japanese state decided to continue the practice of managed economy despite the fact that Japan was in a great transition towards democracy

indicates that the state tended to strengthen its intervention when the international environment was perceived as difficult no matter what kind of political institutions the state was based on. Some policy-makers believed that so long as the Japanese could not obtain access to the international market, they did not have other alternatives. Japan had to depend upon the state to allocate limited resources in order to survive economic hard times in the early postwar period even in a democratic country.

The nationalist response to the American policy towards Japan in the early occupation period was another dynamic behind the priority production program. At the very beginning of the occupation a tough war-reparation plan was proposed, and the Occupation Authority showed great enthusiasm for democratizing Japan but little for Japan's economic reconstruction. Some Japanese believed that the major concern of the Occupation Authority was to eliminate the social foundation of fascism for the future and it would not adopt significant measures to support Japan's economic reconstruction. This perception was particularly shared by several important figures in policy-making circles at the time and was reflected in their policy orientations. Both Arisawa Hiromi's priority production program and Ishibashi Tanzan's financial policy, for example, focussed on how to conduct the reconstruction independently without foreign aid, by either employing a Keynesian style financial policy to stimulate production, or exercising state control over resource allocation in order to make the best use of limited capital and materials. In this sense, Arisawa and Ishibashi remained two representatives of a particular type of nationalism in an era in which nationalism had lost its legitimacy almost completely.

To be sure, an internationally oriented perspective also existed throughout the

1946-1949 period, from which a very different strategy of running the economy could have been derived. This had been a competing perspective in economic reasoning for the postwar reconstruction. After Japan's surrender in World War II many politicians and intellectuals held that Japan had entered a new era in which she would be able to and had to benefit herself by participating in the international division of labor. Meanwhile, since Japan had lost all of its colonies, her economy would not be able to survive without capital, technology, markets, and resources from the international market. Before Japan was allowed to engage in international trade in 1948, however, this idea sounded like idle theorizing. After the United States changed its policy towards Japan in 1947 away from "democratization" to support its recovery in order to give it a stake in the cold war system in East Asia, some Japanese felt that the chance for Japan to pursue this strategy had come. Both the famous Yoshida doctrine and the proposal for introducing large-scale foreign investment by the Ashida cabinet, which will be discussed later, were derived from this new perception of the international environment.

Despite this positive image of the international environment that appeared in the economic reasoning for state policy-making, the negative image mentioned above had been institutionalized in the policy-making at the Economic Stabilization Board, not only because the policy legacy of managed economy from the wartime had strong inertia, but also because when Japan was confronted with a serious economic crisis those who held this perception of isolation in the international environment were able to derive some pragmatic strategies from it, and they occupied some important positions to influence the state policy-making. This was part of the reason to explain why the policy paradigm of

the Japanese state did not change greatly until the U.S. pushed the Japanese government in early 1949 to adopt firm measures to stop inflation and abolish state control over resource allocation.

A Defeated Nation in its Second Stage of National Isolation

The logic of the priority production was based on an assumption that Japan was confronted with a difficult international environment. Since the Japanese held that they could not expect substantial help from external sources for the postwar reconstruction, they believed that the state must assume the leadership in dealing with economic hard times and organizing the postwar economic reconstruction. At the time, two major concerns shaped the Japanese perception of international order: one was Japan's new position in the world economy, and the other was the international demand for war reparations from Japan.

After its self-image as one of the great powers in the world was broken by its defeat in World War II, Japan's new position in the international economy was perceived in ongoing economic reasoning as unstable and difficult. The first plan made by the Japanese state for economic reconstruction through the Special Survey Committee for the Ministry of Foreign Affairs held that Japan would be in a sensitive position between the U.S.-British bloc and the Soviet bloc, and both sides would have a great impact on the Japanese political economy. Meanwhile, since China would replace Japan as a major Asian country after the Japanese defeat in World War II, whether the U.S. would directly integrate the Chinese economy into its own economy or integrate the East Asian economy

while allowing cooperation based on the division of labor within this region would determine the future direction of the Japanese economy. This document assumed that the industrialization in China, India and other Asian countries would not only reduce Japanese exports of light-industrial products to these countries, but also strengthen the ability of these countries to compete with Japanese products in international markets, and meanwhile make imports of industrial raw materials from these countries more difficult (Gaimu-shō 1990 [1946]:149-151).

The war reparations at the time stood as another major factor which made many Japanese believe that the international environment was challenging and even threatening. As a defeated nation in World War II, Japan faced huge demands for war reparations from countries she had invaded and occupied during the war, which would pose a big burden on the Japanese economy. According to the proposal prepared by the Parley delegation sent by the U.S. government, which was published on September 22, 1945, half of its manufacturing capability, all of the factories for the Army and the Navy, all of the factories which made airplanes, all of the factories which made ball-bearings, all of the equipment in factories which made the engines for airplanes, all of the equipment and supplementary equipment of twenty shipbuilding factories, the annual 2.5 million tons of iron and steel production capacity, half of the power stations and many other manufacturing parts in Japan would be confiscated for war reparations (Nakamura 1990:v). Besides, while the Occupation Authority did not take responsibility for the Japanese economic recovery, it blocked several Japanese initiatives such as to provide war compensation by the state to the private firms which were involved in munitions

production for debts during the war.

These perceptions of a difficult international environment sustained the nationalist orientation in state policy-making which supported the collective efforts led by the state when the economy was confronted with a great crisis. Although nationalist ideology was no longer popular in Japanese society at large in the 1946-1949 period, it was still very influential in policy-making circles, constituting part of the intellectual foundation of the priority production program. Both Arisawa Hiromi and Ishibashi Tanzan's views concerning the priority production program were motivated by this orientation. Arisawa asserted that Japan should conduct the economic reconstruction by herself, not relying upon foreign aid. This patriotic belief was his major motivation for participating in policy-making (Arisawa and Ōkita 1966:277). Ishibashi Tanzan shared the same attitude. From the very beginning as the Minister of Finance, Ishibashi was involved in the conflicts with GHQ. He strongly insisted on providing war compensation to private firms, regarding GHQ's opposition as not responsive to Japanese interests.

The intellectual associations between the nationalist ideology and the policy orientation towards the managed economy were further reflected in several important documents of the Japanese state at the time. The reports prepared by the SSCMFA held that the international economy in the postwar era would be divided into two blocs which were controlled by the U.S. and the Soviet. The operation of the national economy could not solely depend on *laissez faire*. After the Japanese economy was democratized, it would be necessary to nationalize monetary institutions as well as some basic industries, to make economic plans, and to exercise strong state control. In order to strengthen the

state capacity in economic planning, these economists suggested that the Soviet Union's five-year plan, the American New Deal, and Britain's postwar recovery plan be the models for Japan. Meanwhile, they advocated large-scale investigations of the domestic and international economy, politics and society in order to provide a foundation for the social construction of rationality. The nationalist orientation was further reflected in *The Plan of Economic Recovery* drafted by a special committee in the ESB headed by Inaba Hidezo. This document was initiated as a countermeasure to Pauley's report on Japan's war reparations, which proposed a tough solution to the economic position of Japan. It held that "the peoples oppressed by Japan have the first priority while Japan has the last." According to Pauley's opinion, in order to weaken Japan's capacity for another war, Japan's economic scale must be restricted within a certain level. For example, the annual production of iron and steel should be under 180 million tons and chemical industries should not be allowed to develop. After Pauley's report was published at the end of 1945, it was perceived as a threat to the Japanese economy. Therefore, young bureaucrats at the Ministry of Foreign Affairs, the Ministry of Commerce and Industry, the Ministry of Agriculture and Forestry and the Ministry of Finance started their study on the future industrial level in order to formulate an official position of the Japanese government. (See Keizai Kigaku-chō, 1964:79) In 1947 some officials drafted a policy proposal regarding the future of Japan's economy. One official leaked this proposal to his friend Ando Ryuichi, a bureaucrat at the ESB. After reading this document, Wada Hiroo and Inaba Hidezo decided to make a formal proposal to the Japanese government immediately in order to counter Pauley's proposal. Soon the ESB established an

Economic Planning Division headed by Inaba Hidezo to take care of the ESB's proposal. The task of this proposal was to make clear the position of the Japanese government and to persuade the Occupation Authority to change its policy.¹⁵

Responding to the Challenge of the International Perspective

The defeat caused not only a severe drop in material wealth but also the collapse of the spiritual pillar of nationalism which had supported the Japanese worldview since the Meiji Restoration. As the myth of the "unmatched Imperial Army" was shattered and the emperor disowned his divinity, the national identity was weakened. Meanwhile, internationalism regained popularity. Many Japanese intellectuals began to reexamine their own responsibility for not strongly resisting fascism during the war, embracing universal values, such as freedom, equality, peace and esteem for human beings, and perceiving Japan as a member of the international community. In this period, according to criticism, the progressive intellectuals neglected the reality of Japan being occupied by a foreign country, enjoying the liberation bestowed by the allies (Maruyama 1982:113-114).

The international perspective appeared again in Japanese economic thinking right after the Japanese defeat in World War II. After Japan lost all of her colonies and privileges in Asia, many Japanese economists recognized that international trade would be the only foundation for the Japanese economy in the future. As early as 1946, Japanese economists had already begun to assert the importance of promoting technology, foreshadowing the later development of Japan's economy in the 1950s. As indicated in

the reports prepared by the Special Survey Committee Regarding Economic Recovery at the Ministry of Foreign Affairs, some Japanese economists argued that since the foundation of the Japanese economy had been seriously damaged by the war, the future of Japan would be determined by whether Japan could return to participation in the international economy. The first step towards this goal, they believed, was to obtain financial aid for postwar recovery. They held that Japan should actively participate in the division of labor in the international economy. Assuming that Japan would soon be challenged by Asian countries in light industrial products, they suggested that Japan should focus on heavy and chemical industries. For the promotion of trade, one of the urgent tasks was to upgrade technology. Only when Japan established its superiority in technology, would it be possible to export industrial products to Asia. In this document of the early postwar era, these economists had already identified the future business strategy in Japan's international competition. They held that since Japan lacked resources and had abundant cheap labor at the time, it should focus on labor-intensive but material-saving and quality-improving technology.¹⁶

The Japanese were divided on the issue of how to conduct the priority production though they all agreed that the most urgent goal of the Japanese economy was to promote production. In contrast to those who asserted that the priority production program should emphasize self-efforts through state control over resource allocations, those who held an international orientation intended to conduct the postwar economic construction through introducing foreign capital and foreign technologies. Classical and neoclassical economists in Japan regarded foreign investment as the key factor in the stabilization of

the domestic economic situation and reconstruction of the Japanese economy. The introduction of foreign capital became a big issue in policy-making in early 1948. In March of that year Democratic Party politician Ashida Hitoshi became the prime minister. He intended to rely on foreign investment to revive the economy and reestablish Japan's international credit. The rationale was that in order to eliminate inflation, the first priority was to promote production. Production needed capital accumulation and foreign investment was an important source of capital accumulation. Thus, foreign investment soon became a hot topic in political discourse. Among economists, Nakayama Ichiro was an active advocate of foreign investment. He believed that the only future of the Japanese economy was to participate in the international economy. According to him, the importance of participation in the international economy was reflected in two dimensions. One was to accumulate capital. The major obstacles in promoting production were the poor conditions of equipment and shortage of materials. Only as Japan could import industrial materials and introduce capital, would it be possible to establish a modern industrial structure. The other was to feed the huge population. Nakayama (1948b) believed that population was one of the biggest problems in Japan's economy. In order to realize full employment, Japan had to participate in international trade and solve this problem outside of Japan. He also believed that foreign investment would help to stabilize exchange rates and consequently enable Japan to tide itself over the hard times through international trade and to pursue economic stabilization independently in an isolated environment would never create conditions for fixing the exchange rate (Nakayama 1948c).

Drawing on the Russian and German experiences of economic reconstruction after their defeat in World War I, Nakayama argued that the crucial issue of postwar reconstruction to a national economy was to build up a solid foundation through accumulating production capital and transforming it from a monetary to a material form in terms of production equipment and technology. This would not be realized without trade. Meanwhile, by participating in the international division of labor, Japan would be able to bear the burden of its big population and solve its unemployment problem. He examined the great famine which occurred in Ireland and England in 1846 in which Ireland's population declined to one-tenth that of England, concluding that the major difference was that Ireland primarily depended upon its domestic crop while England benefitted greatly from the international trade with its colonies (Nakayama 1948:66-73). When Japan was allowed to reopen trade with foreign countries in 1948, Nakayama Ichirō argued that "the Japanese economy, which was almost suffocated by the long-time isolation, eventually became able to breathe the fresh air of the world" (Nakayama 1948:66). According to him, Japan would not be able to reconstruct its economy without escaping from its isolated situation. Participation in the division of labor in the international economy had been the most important reason for the development of the Japanese economy since the Meiji Restoration; the postwar reconstruction would be no exception.

In contrast, Marxist economists and the left-wing liberals held that to introduce foreign capital would make the Japanese economy risk the danger of being controlled by other countries and Japan should prevent the dominance of foreign capital in the domestic

economy. Marxist economist Nawa Dōichi regarded the initiative of business circles in introducing foreign capital as a strategy of the capitalist class to avoid tough measures against inflation, which would hurt its interest, and to counter the domestic demands for institutional reform. Occurring before inflation was brought under control, the introduction of foreign capital would result in a situation in which not only domestic production would fluctuate because of a flood of cheap foreign products and the domestic economy would be dominated by foreign capital, but also domestic capital would be redirected to other countries in order to keep its market value. This would further damage the productivity and the export capacity of the Japanese economy (Nawa 1947:26).

Under the Marxist framework, the introduction of foreign capital was not a purely economic issue but a political one, concerning the issue of political independence. Arisawa Hiromi agreed, arguing that "capital is not a philanthropic present. The dominance of huge foreign capital and 'uebergremdung' will lead to loss of economic independence". To Arisawa's understanding, the two alternatives before the Japanese working class at the time were either to reconstruct the economy with their own efforts or to depend on foreign capital. It was a tradeoff. Arisawa preferred the first alternative. He said that " I have no intention to charge the working class with the responsibility of rebuilding the Japanese economy independently (with minimum foreign aid). They can choose to do nothing if they want. Nonetheless, what I want to tell them is that if they do nothing, the Japanese working class then will perhaps fall into a fate of suffering double exploitation." "If the economic recovery only depends on foreign aid,

the working class will lose its right to speak." (See Ouchi, Arisawa et al., 1949:266-267) Arisawa asserted that it would be better for Japan to accomplish the economic recovery through its own effort. Even if the foreign aid was needed, the amount should be kept to the minimum. In his thinking, foreign investment was not a technical or economic issue regarding how to accumulate capital but a political issue concerning national sovereignty and the class interests of labor.

Both these competing perspectives had their own rationales, but only the policy strategy of priority production, which was derived from the image of a challenging and difficult international environment, prevailed in the state policy-making. The reason was that to implement this strategy would solely depend upon domestic efforts which were under the control of the Japanese state. In contrast, to engage in the international economy would not only require many external conditions, but also entail some profound reforms in Japan's economic institutions, especially at the firm level. These reforms might cause great social instability. At the time, the cost for these reforms was perceived as too high, and no one who was involved in the state policy-making would consider trying them when the Japanese economy was still confronted with many other challenges. No alternatives but one was left to the Japanese state; as it happened after the implementation of the Dodge plan; the continuing practice of managed economy was believed to be the easiest and safest strategy to pursue. The above discussion indicates that the selection of economic strategy for state policy-making was constrained partially by the image of the international market. When the Japanese did not perceive the international market positively, the ideas in support of participation in the international

economy could hardly prevail in state policy-making.

The implementation of the Dodge plan, and, as the next chapter shows, the Korean War, changed the international environment of the Japanese economy dramatically. Their impact were so strong that the Japanese economy was directed into a new direction. Reviewing the long-term development of the Japanese economy after 1950, it is clear that the international orientation has been predominant. Unlike many Latin American countries who adopted an import-substitution strategy in the late 1940s and the early 1950s, isolating themselves from the international market, the Japanese economy since 1950 has been strongly internationally oriented, continuously pursuing a larger share in the international market. Although the perception of an isolated international environment in the 1946-1949 period was a temporary phenomenon, it contributed significantly to the continuing practice of the managed economy in the early postwar reconstruction, which in turn transmitted many policy and institutional legacies of the wartime into the future development of Japanese capitalism.

THE IDEAS THAT LED TO THE PROGRAM OF PRIORITY PRODUCTION

The formation and implementation of the priority production program was heavily influenced by two institutionalized beliefs of rationality at the time: one was the legacy of managed economy in the 1930s and the early 1940s, which consisted of elements from various sources, and the other was Keynesian economics, which became popular during World War II in many countries. The close ties between economists and the Japanese state enabled these ideas to prevail in the process of policy-making. The 1946-1949

period was a golden era of economists becoming involved in state policy-making not only because the Japanese state was very eager to find solutions for the difficulties confronting the Japanese economy, but also because many economists took office directly, becoming high ranking state officials who had the power to make the decisions by themselves. At the time, Arisawa Hiromi and Ishibashi Tanzan stood as two leading intellectual authorities on the program of priority production, representing two competing rationalities.

Arisawa's idea of priority production represented the policy legacy of managed economy from the 1930s and the early 1940s, asserting that under pressures of the hyper inflation and the severe shortage of materials the market would be unlikely to function well in organizing the postwar reconstruction, and thus the state must exercise its control over resource allocation, including both production materials and daily life products, through a stamp and quota system, concentrating all capital and materials in strategic industries such as coal and iron and steel in order to make a breakthrough in reconstruction. In this theory, the state was the major actor, exercising its power and realizing its will through various instrumental means. The private sector had only a secondary importance, following the guidance of the state to achieve the goal of economic reconstruction. In contrast, Ishibashi Tanzan's idea of increasing the money supply reflected an effort of applying Keynesian economics in the Japanese context, focussing on stimulating the economy by increasing public spending while depending upon the market for resource allocation. This theory was based on the assumption of the full functioning of the market. Although the state would intervene when the market did

not work well, the purpose of this intervention was nothing more than to create effective demand. Unlike Arisawa who took the failure of the market for granted and derived his solution from it, Ishibashi believed firmly in the dynamics of the market and the creativity of the private sector, perceiving state intervention only as a supplementary factor.

Although Arisawa and Ishibashi's ideas represented two competing perspectives in economic reasoning, both of them were very influential in the policy-making concerning the program of priority production in part because both of them occupied important positions in politics, which enabled them to present their ideas effectively in the policy-making process. At the time, Arisawa Hiromi was the chief advisor to the prime minister Yoshida Shigeru while Ishibashi Tanzan was the Minister of Finance and then the director of the Economic Stabilization Board. The ideas of these economists were influential in state policy-making, especially when the combination of economic hard times and political instability mixed with the spiritual shock brought by the defeat in World War II. Suffering in the struggle for survival from ruin and famine, many Japanese fell into a "stupor", having no idea where they should start again after they lost their sense of "mission" which had been sustained by nationalism and was closely associated with military expansion since the Meiji era (Maruyama 1951:176). As the last section of this chapter further indicates, when the state had strong autonomy in policy-making, the ideas of these economists who had close access to the state were particularly influential.

The Prominence of Economists in Policy-Making

The close ties between economists who asserted the need for state intervention and the Japanese state, and the active participation of these economists in policy-making were major factors in explaining why the rationale of managed economy was reflected in the program of priority production. The early postwar period became a golden era for Japanese economists' participation in the policy-making process for several reasons. First of all, in the postwar lethargy, the ideas concerning economic reconstruction were naturally valued highly. Secondly, the severity of the unprecedented economic crisis was far beyond the capacity of Japanese bureaucrats to handle, so they were very eager to search for new ideas from outside the state. Thirdly, the postwar democratic reforms strengthened the willingness of Japanese intellectuals to be involved in politics. And finally, ties developed before and during the war between economists and the state provided an institutional foundation for the diffusion of foreign economic ideas from academia to the political center.

The direct participation of Japanese economists in policy-making in postwar Japan began with the Special Survey Committee at the Ministry of Foreign Affairs (the SSCMFA), which provided the Japanese state with the first blueprint for postwar reconstruction. The deliberations of the SSCMFA indicated not only the strong interest of the Japanese state in new ideas concerning the postwar recovery, but also the great enthusiasm of Japanese economists to be involved in state policy-making. The SSCMFA organized by Ōkita Saburō, a young bureaucrat at the Ministry of Foreign Affairs, began its research on the future of the Japanese economy on August 16, 1945, the day after

Japan's surrender. It gathered together many prominent economists in postwar Japan. The membership of the SSCMFA reflected the complicated nature of Japanese economic thinking at the time. It included important spokesmen for both Marukei (Marxism) such as Ōuchi Hyōe, Arisawa Hiromi, Uno Kōzō and Yamada Moritarō, and Kinkei (modern economics) such as Nakayama Ichirō, Tōbata Seiichi, and Tsuru Shigeto. It also included the core members of the first generation of government economists in postwar Japan, such as Inaba Hidezō, Ōkita Saburō and Goto Yōnosuke, who later became important links between academicians and state bureaucracies. The SSCMFA indicated the importance of the formal involvement of Japanese economists in policy-making; it provided the legitimacy and experience for similar activities in the near future. In the postwar lethargy, the ideas of economists reflected in the SSCMFA reports heavily influenced the direction of economic reasoning for the postwar reconstruction in many ways.

The close access of Japanese economists to the state bureaucracies was an important factor to explain why the priority production program which reflected the policy legacy of managed economy in the wartime could be formulated and implemented. Arisawa Hiromi, as shown in Chapter Three, played an important role in designing Konoe's new economic order. His framework of managed economy was again articulated in the discussions concerning how to deal with the severe shortage of materials with Inaba Hidezo, Yamamoto Takaiki and other bureaucrats at the Ministry of Commerce and Industry. At the time, bureaucrats at the Ministry of Commerce and Industry were also concerned with the problem of underproduction in the Japanese

economy. The high unemployment rate and the shortage of food had made the situation very unstable. Power failures often occurred and the trains could not run because of insufficient energy. If the transportation of food fell into any trouble, it would become a serious political problem too. Thus, officials and bureaucrats of MCI went to mines in person to stimulate production.¹⁷

The involvement of economists in policy-making was further sustained by their close connection with the leading politician Yoshida Shigeru, who keenly recognized the value of new ideas to the state policy-making in economic hard times. Yoshida believed that the economy ran as theories predicted more than politics did and therefore it would be helpful to rely upon economists to run the economy, especially when it was experiencing a great transition (Yoshida 1957, vol 1:259-260). When he became the Prime Minister in March 1946, he tried to persuade economists to become his ministers. Among the posts related to the economy, the Minister of Agriculture and Forestry, the Minister of Finance and the director of the Economic Stabilization Board were the key positions. When Yoshida shuffled his first cabinet, he tried to ask Tōbata Seiichi to be his Minister of Agriculture, Ōuchi Hyōe and then Nakayama Ichirō to be his Minister of Finance, and Arisawa Hiromi to be his director of the ESB. Eventually, none of these economists took his offer. Yoshida then assigned instead Ishibashi Tanzan as his Minister of Finance, Wada Hiroo as his Minister of Agriculture and Zen Keinisuke as his director of the ESB. Besides, economist Tsuru Shigeto later became the Chairman of the Comprehensive Integration Committee at the ESB in charge of the comprehensive adjustment of economic policy.

The linkage between academia and the state was sustained by personal networks between economists and politicians. The ties between Yoshida and his economic advisors were established by Yoshida's father-in-law Makino Nobuaki, the second son of Ōkubo Toshimichi, one of the major leaders in the Meiji Restoration. Makino himself was also an important politician, who previously served as the Minister of Education, the Minister of Agriculture and Commerce, the Minister of Foreign Affairs, the Minister of Home Affairs, and the Minister of Imperial Affairs. Makino from back in the 1930s often played *Go* with Wada Hiroo, Tōbata Seiichi, Nakayama Ichirō and Arisawa Hiromi. (Takemi, 1968:106) Such activities continued in the postwar period. Makino regarded his fellow players as the "backbone of Japan" in the future and he urged Yoshida to learn from these economists after Yoshida became the Minister of Foreign Affairs in early 1946. (Takemi, 1968:108) Yoshida was very much impressed by the ideas of these economists. (Takemi, 1968: 109)

Through the connection with the leading politician Yoshida Shigeru, Arisawa Hiromi, Nakayama Ichirō, and Tōbata Seiichi became the Gosanke, the major advisors to the Japanese state. Although they did not accept Yoshida's offers for official appointments, they became his private advisors on economic policy, meeting him regularly at lunches organized by Yoshida's Minister of Agriculture Wada Hiroo, a good friend of theirs. They served together in many important brain trusts in the 1946-1949 period. The Gosanke were comprised of one Marxist economist Arisawa and two modern economists Nakayama and Tobata, indicating that at the center of the Japanese state the weight of Marxism was already overtaken by modern economics though

Marxism would still remain influential at the time and in the near future. From then on, at the highest level of the brain trusts to the Japanese state, in comparison with the SSCMFA, Tōbata Seiichi remained the only one who was formally associated with the Showa Research Association in the late 1930s and the early 1940s, Arisawa Hiromi was the only one left among members of the Marxist group. Nakayama Ichiro, a prominent representative of modern economics, emerged as an important advisor to the state. On the surface, it was a natural decision for Yoshida, a conservative politician, to get rid of those who held a strong ideological orientation toward Marxism or Nazism. This selection, however, had a profound significance for the Japanese economy at large, which would become more and more visible in the 1950s and the 1960s.

Arisawa's connections with the Japanese state were not limited only to the leading politician, but also extended to many bureaucrats. This was particularly visible at the ESB under the leadership of Wada Hiroo. When Wada Hiroo took the directorship of the ESB under the Katayama cabinet, Arisawa's influence on policy-making at the ESB was further increased, which can be attributed to several reasons. First were his connections with the major officials in the ESP, including Wada Hiroo, Inaba Hidezō and Ōkita Saburō. After Wada became the director of the ESP, he also appointed several of his associates, who were arrested together with him for the Cabinet Planning Board Incident in 1941, to several posts in the ESP. Inaba Hidezō became the deputy in the minister's secretariat, Katsumata Seiichi became Wada's secretary, and Sada Tadataka became the Bureau Director of Finance and Monetary policy. These people shared the experience of running the managed economy during the war time so they supported

Arisawa's priority production. Second, before the Wada ESP came into being, some of its core members had already discussed policy issues with Arisawa Hiromi many times regarding how to implement the priority production program and they had reached a consensus. After the Coal Committee stopped functioning as a private brain trust to Yoshida Shigeru, its members still met frequently to discuss policy issues. Their activities were first shifted to the Planning Division at the Ministry of Commerce and Industry (MCI) where MCI bureaucrats Yamamoto Takayuki, Tokunaga Hisatsugu and Satō Hisakuni, who later also became the core members at the Wada ESP, were involved in discussions.¹⁸ From April, they shifted the location to Inaba Hidezō's Research Association of the National Economy where Wada Hiroo himself attended the discussion. Wada at the time was the president of this association after he had quit his position as the Minister of Agriculture in the Yoshida cabinet (Sugita 1989:139-140). Third, Arisawa himself was directly involved in the personnel arrangements for the "Wada ESP". In fact, appointments to major posts in the Wada ESP were initially decided by Arisawa Hiromi, Inaba Hidezō, Tsuru Shigeto and Ōkita Saburō because at the time Arisawa Hiromi was still considering the possibility of taking the directorship of the ESP (Tsuru 1988b:227). Nevertheless, Katayama himself did not prefer Arisawa; Yoshida Shigeru also recommended Wada to Katayama, so eventually this position went to Wada Hiroo, despite the opposition of Inaba and Wada himself. Fourth, the Wada ESP, backed up by the GHQ, had strong autonomy, not only from societal demands, but also from the leadership of the Prime Minister. At the time Inaba Hidezō was an important go-between in politics. Before encouraging Wada to take the directorship of the ESP,

Inaba Hidezō sought two preconditions from Katayama. One was that as the Prime Minister, Katayama had to accept whatever policy decisions the ESP made. If Katayama disagreed with this condition, Wada would not take this offer. The other was that the ESP should hire some non-professional bureaucrats for its high ranking posts, including representatives from both business circles and labor. Katayama accepted both preconditions.¹⁹ Through his connections with the leading politicians and bureaucrats, Arisawa exerted a great impact on the policy-making of the Japanese state in the early postwar era.

Taking the governmental posts directly was another way of diffusing economic ideas to the state policy-making process. Although Arisawa never took an official post in the state bureaucracy, he was assigned by Yoshida to be the head of the Coal Committee which functioned as a liaison between the prime minister and state bureaucracies. Its membership consisted of Inaba Hidezo, Tsuru Shigeto, Okita Saburo and Goto Yonosuke from the Economic Stabilization Board, Yoshino Toshihiko from the Bank of Japan, Oshima Kanichi from the Ministry of Finance and Sato from the Ministry of Commerce and Industry. This committee developed a detailed program of priority production for the Japanese state.²⁰ Later, when the ESB drafted *The Plan of Economic Recovery*, the first long-term government plan concerning economic reconstruction, Arisawa served as the director of the Special Committee in charge of the macro framework for the plan. Influenced by his logic of priority production, this plan asserted that the future of Japan's economy should be based on the heavy and chemical industries, which implied that Japan would go beyond any restrictions set by GHQ. Meanwhile, it

argued that the government would wait for another two years before it adopted any strict policies to stabilize the inflation (Hara 1990:14).

In contrast with Arisawa Hiromi, Ishibashi Tanzan and Tsuru Shigeto exerted their impact on policy-making by assuming office directly. Exercising his power as the Minister of Finance at the first Yoshida cabinet, Ishibashi actively carried out a Keynesian financial policy. In his famous speech delivered at the Diet on July 25 1946, Ishibashi announced that to promote the production of coal was the highest priority in the reconstruction of all industries and that the Japanese government was going to adopt some epochal measures (Ishibashi 1970 [1946]:194). One of these measures was to establish the Reconstruction Finance Bank, which would not hesitate to provide the capital for production, and the government would try its best to provide financial aid to the private sector (Ishibashi 1970 [1946]:196). In May 1947, Tsuru Shigeto became the chairman of the Comprehensive Policy-Integration Committee at the ESB. In contrast to Arisawa's emphasis on the balance between production and consumption, Tsuru focused on the balance between salaries and prices. Trained at Harvard in the 1930s, he was strongly influenced by "New Deal" policy, believing in the importance of establishing order in distribution (Tsuru 1947:16-18). Tsuru's economic ideas were reflected in the Policies for Economic Emergency announced on June 11, 1947. In this document, the government made a strong commitment to improving the distribution system by eliminating black markets and enforcing control over food and transportation. Meanwhile, the schedules for prices and wages were revised in an effort to raise the standard of living (Tsusan-shō Kanbō Chōsaka 1954:48-49).

The Policy Legacy of Managed Economy and Arisawa's Idea of Priority Production

How to use the limited imported materials provided by the Occupation Authority effectively to stimulate the whole process of economic reconstruction was the starting point in the logic of priority production, and the legitimacy of continuing the practice of managed economy in the 1946-1949 period was directly derived from it. Resource allocation became an urgent issue in policy-making in mid-1946. At the time there was a big dispute between the Minister of Finance Ishibashi Tanzan and GHQ over whether the Japanese state should issue war compensation to the private sector. During World War II the Japanese state ordered many civilian enterprises to produce munitions under the General Mobilization Law, which caused these enterprises to owe a huge amount of debt. After the defeat in the war, the survival of these enterprises as well as the banks which provided loans to these enterprises was jeopardized. The Japanese government intended to assist them by providing them with war compensation which was as high as ninety-five billion yen. This solution stood as a dilemma. Without financial compensation from the state, many enterprises would fall bankrupt and unemployment would jump to a high level. Nevertheless, if the war compensation policy were carried out, the inflation that Japan had already suffered would be further exacerbated. After a series of negotiations, GHQ eventually turned down the proposal of the Japanese government for war compensation (Masuda 1988:61-74). This exerted a negative impact on the Japanese economy. The Japanese Prime Minister Yoshida Shigeru asked General McArthur to provide help. McArthur agreed to provide some goods and asked Yoshida

to supply a short list. Since Arisawa and his colleagues at the private brain trust to Yoshida knew that they would not be able to get everything they wanted, they suggested that Japan should ask for the most important materials, including iron and steel, crude petroleum, gum, smokeless coal and trailer. Their rationale was that the imported crude petroleum would be used in iron and steel production, which could be used to further improve the production of coal. Since coal was the only source of energy in Japan at the time, the promotion of coal production would stimulate production in other industries.

Among several theoretical sources of the priority production program, the Marxist formula of reproduction was a major one, which emphasized the balance between production and consumption. Arisawa's idea of priority production in coal and the iron and steel industries was derived from the following logic: the priority of production materials for munitions production during the wartime had nothing to do with the process of reproduction, which not only greatly reduced the foundation of reproduction but also seriously restricted the production of consumption materials; in the early postwar economy, the priority of production materials was rapidly replaced by the priority of consumption materials, which led to a serious decrease in production materials after their stocks were released after the war ended. The Japanese economy was risking the danger of running out of stock of many production materials because most stocks were being used in the production of consumer goods while nothing was being directed toward promoting reproduction. For the above reasons, Arisawa asserted that the existing materials must be used in the production of coal, iron and steel and fertilizers because they are the production materials which constitute the foundation for reproduction of the

national economy (see Shimazaki 1970:309-311). Arisawa believed that the priority production in the postwar economy was different from the focal point production during the war because the products of focal point production in munitions during the war were kept away from the process of reproduction. In contrast, the increase of coal production could be further used in the process of reproduction of the economy, providing the production materials for production of other goods. For this reason, the priority production would function to promote reproduction. (Nakamura, 1990, vol.2:160) Okita also held that the weight of the coal industry in the national economy at the time was much smaller than that of the munitions industry during the war. Thus, priority production in the coal industry would not bring about a disastrous impact on other fields. (See Nakamura, 1990, vol.2:160)

The Marxist approach reflected in the program of priority production was primarily the so-called intellectual Marxism, which was an analytical framework for policy-making, instead of the political Marxism which asserted the need for class struggle and revolution. At the time, the Russian and German traditions of democratic socialism were very influential. The concept of "sozialisierung" (socialization) became very popular in Japan's political discourse, reflecting the loss of strength of capital and the distrust of people towards the state. Progressive forces advocated the participation of the working class in management, and some radicals even supported the nationalization of basic industries. Arisawa also argued that the participation of the working class in management was progressive in nature because it would help to eliminate the feudal relationship in private firms although the participation itself was far from the liberation

of the working class (see Shimazaki 1970:301; Arisawa 1947).

The German experience of economic stabilization after World War I provided a reference system for the program of priority production. Drawing upon German experience, Arisawa argued that to eliminate inflation by adopting a tight money policy might cause a stabilization panic because the German experience indicated that the industrial production would decline fifty percent after the state tightened the money supply. In order to survive this stabilization panic, the state should not tighten the money policy immediately to stabilize inflation until production had recovered to sixty percent of the prewar level (Arisawa 1966; Miyazawa 1971:333).

The instrumental means Arisawa Hiromi prescribed for the program of priority production were primarily based on the legacy of the managed economy of the 1931-1945 period, depending heavily upon tight state control over resource allocation. Without tight control, he argued, the limited stocks of materials would not be channeled into the process of reproduction and the Japanese economy would collapse as it ran out of materials. Based on these ideas, Arisawa designed a grand strategy for the Japanese reconstruction. He asserted in December 1946 that "we should concentrate our priority in economic policy on the production of coal, the only manipulatable basic resource we have, and organize the economy centered around coal for a short while. It is for a coal oriented economy. Needless to say, it is an unstable economy and cannot be kept and will not be necessary to keep for long. Since it is impossible to stimulate production horizontally and simultaneously due to insurmountable difficulties and barriers, we have to choose a priority in our economic plan in order to increase production in basic

industries quickly aiming at a turning point in the promotion of productivity" (Arisawa 1948:69). From July 1946, Arisawa Hiromi, Inaba Hidezo and Okita Saburo started their research on the "priority production plan". They set a goal of increasing the monthly production of coal to 2.5 million tons, or 30 million tons annually, and then designed a nationwide program to realize this goal.

Keynesian Economics and Ishibashi Tanzan's Financial Policy

If Arisawa's idea of priority production reflected the legacy of managed economy in the 1931-1945 period, Ishibashi Tanzan's idea of stimulating the process of reconstruction by increasing the money supply represented the theory advocated by John M. Kenyes. As the Minister of Finance and the director of the Economic Stabilization Board successively, Ishibashi was the most important minister in charge of economic policy at the time. Ishibashi always claimed himself as a Keynesian. He often asked himself "what kind of policy Keynes would adopt if he were in Japan now". Ishibashi was regarded as the first Japanese who deliberately employed Keynesian theory in economic policy (see Chō 1974b:18). As a famous conservative (jiyū shugi-sha) in Japan since the late 1920s, Ishibashi's perspective on the economy was a mixture of Keynesian macro economic policy and laissez faire doctrine. He argued in 1946 that "the most urgent task of government finance, especially under the current circumstances in Japan, is to create business opportunities for people, to revive industries, and to develop a national economy with full-employment. If domestic unemployment increases and numerous production elements are not being used, no matter how balanced the finances

seem, they can not be called truly healthy finances." (Ishibashi, 1946:190) According to Ishibashi, when unemployment and idle production elements exist, the first financial task is to mobilize those idle production elements and to organize them into economic reconstruction. "For this goal, additional currency has to be issued even when a deficit arises in finances." (Ishibashi, 1946:192)

Although both Ishibashi and Arisawa asserted the need for state intervention and the promotion of production, Ishibashi's idea concerning the priority production program differed sharply from Arisawa's on two issues regarding how to proceed. The first was whether the government should adopt an active financial policy. Arisawa and his fellow Marxists, especially Ōuchi Hyoe, held that inflation was the biggest danger to the Japanese economy. Therefore, they strongly opposed any kind of easy money policy, urging the Japanese state to take action to control the situation immediately (Ōuchi et al 1946; 1949). In their criticism of Ishibashi's financial policy, they repeatedly used the German case after World War I as proof. In contrast, Ishibashi argued that true inflation did not exist at all. Although some phenomena such as the issuing of a lot of currency and rapid jumps in prices and salaries looked like inflation, he contended, true inflation would appear, according to the Keynesian definition, only when additional purchasing power were added after full-employment had been achieved, and all production elements, both labor and materials, had been fully employed. Ishibashi further argued that the real problems in the present situation were unemployment, idle production capacity and poor productivity. These phenomena signified not full-employment but rather under-employment, and thus there was no inflation at all (Ishibashi).

The second issue which divided Ishibashi and Arisawa regarded state control over resource allocation. Arisawa believed that the major instrument to sustain priority production was state control over the distribution of materials. In order to guarantee coal production and mobilize workers, the government should "apply bold and special treatment to miners in food, housing, medicine, and health care" and "forbid the unnecessary use of timber, iron and steel products and gum". (See Nakamura, 1990, vol.2:87) In contrast, Ishibashi's (1951 [1972]:207-210) position showed a departure from the principle of managed economy in the wartime. He held that business freedom was the better means for a poor country like Japan and the failure of state control over the economy during the war was due to the fact the state controlled everything. He argued that although the state controlled the distribution of minerals, timber, food, and even miners' underground socks in an effort to promote the production of coal, it was very difficult for the government to guarantee the supply of those materials. Consequently, miners might lose their enthusiasm in coal production. Ishibashi urged the state to keep consumption prices at the current level, to raise producer prices and at the same time to provide government subsidies. He intended to let the market mechanism increase production.

Both ideas became institutionalized during the implementation of the priority production program, and both of them exerted great impact on Japanese economic policy in the future. Arisawa's idea prescribed a means for the Japanese state to control resource allocation while Ishibashi's idea demonstrated the power of finance in state intervention. Arisawa's state control over resource allocations for the purpose of

assuring production in basic industries was adopted again in the 1950s, as the next chapter shows, but in a different form--the state began to control credit and foreign currency while abolishing controls over prices and material distribution in an effort to adjust to the changing international environment, which played an important role in nurturing Japan's strategic industries. Ishibashi's activist financial policy was adopted again in the mid-1950s when he became the prime minister and was further implemented later by Ikeda Hayato, who was Ishibashi's deputy at the Ministry of Finance and became the prime minister himself in 1960, in the famous National Income Doubling Plan, generating economic growth through increased public spending.

VALUE CONFLICTS AROUND THE PROGRAM OF PRIORITY PRODUCTION

Among the four institutional settings in this study, popular economic values were the one that changed dramatically in the 1946-1949 period. In this section, I show that Japan's defeat in World War II brought a vacuum in intellectual authority, and the subsequent collapse of the old emperor system as a political institution significantly weakened the impact of nationalist ideologies. Under such circumstances, the nation-state as the unit of analysis in economic reasoning was strongly challenged by various versions of individualism and Marxist class analysis, which regained popularity in the political discourse. In comparison with the managed economy in the 1931-1945 period, the priority production program received much less moral and ethical support from the general public. Yet, it succeeded. The 1946-1949 period provides us with a good example to explore the strong dependence of popular economic values on other

institutional structures to influence the process of state policy-making.

There were three factors to explain the change in the unit of analysis in economic reasoning. First, the basic values of Western societies, such as democracy and individual freedom, were introduced to Japan forcefully by the Occupation Authority through a series of democratic reforms which were aimed at assuring that Japan would not become a military threat to world peace again. These reforms were quite successful in attacking nationalist ideologies. Second, as state control over thought was abolished, the demands of civil society, represented by freedom, equality, esteem for the human being, and international peace, rose to the surface, becoming a great challenge to the state-centered approach in economic thinking (See Maruyama in Umemoto et al 1966:10-13). Japanese intellectuals as much as the ordinary Japanese enjoyed new civilian freedoms. They were determined to do almost anything to prevent the dark period from coming back. Under such circumstances, the priority production program, which still asserted the supporting of collective efforts under the leadership of the state, inevitably came under strong criticism. Third, the absence of international crisis in the Japanese perception could hardly generate enthusiasm among individuals for collective efforts. In the 1946-1949 period, the facts of the defeat in World War II and the ongoing occupation by a foreign country were interpreted not as a threat to the nation, but as a result of misconceived collective efforts during the fifteen years war.

Generally speaking, the logic of priority production, which asserted the the supporting of collective efforts under the leadership of the state, had two intellectual rivals. One was the anti-state theorem presented by the left-wing liberals and supported

by Marxists as well. It opposed any initiative to strengthen the power of the state in relation to society. This anti-state theorem was a product of self-reexamination by Japanese intellectuals who felt guilty about their responsibility for the war. Adopting the attitudes of civic responsibility expressed by intellectuals in the West, Japanese intellectuals blamed themselves for not organizing together to resist fascism in the 1930s and the early 1940s. They held that in Japanese society intellectuals as a social group had long been isolated from the ordinary people and their social prestige resulted primarily from their close ties to the state. Therefore, they were unable to resist fascism and militarism during the fifteen-year war (Takeuchi 1980, vol.6:88-90). To assume their responsibility as intellectuals in the Western sense, they became convinced of the need to draw a clear line with the state, protecting the interests of civil society. In this line of economic thinking, the interests of civil society, as opposed to those of the nation-state, were the major concern. In part because the dissolution of the zaibatsu and the rise of the labor movement were under way at the time, the interests of shareholders and private firms had yet to become the legitimate units of analysis in the social construction of rationality. In such an intellectual environment, those who held an orientation against state power often went to extremes. "They were irresponsible and lopsided. What they said was nothing but poignant and caustic abuse. Such characteristics of critics in the Japanese mass media were formed in the special environment of the postwar period and have lasted even until today" (Ōtake 1981:474). Even though many Japanese intellectuals believed that there were many opportunities in the early postwar period to conduct major reforms on Japan's economic institutions, they were obstructed by the political chaos and

the absence of political consensus among the progressive forces. One of the major reasons for this failure, according to Tsuru Shigeto, was that "the reform group at the time did not hold a realistic perspective" (Tsuru 1965:7).

The other rival of the priority production program was the assertion of the interests of the working class by the revived political Marxism. The priority production program was based on the assumption of cooperation between the working class, management and the state. Although it applied some elements of Marxism, as a perspective, it was largely intellectual Marxism in nature. In contrast, political Marxists employed a conflict approach in economic analysis, emphasizing whether the interests of the working class would gain or lose through distribution, rejecting the agenda of cooperation between the working class and the state and management in the first place (Miyazawa 1968:297-303). Marxism regained popularity in Japan in the early postwar era. As a group of political prisoners, who refused to convert to belief in the emperor system but survived the difficult environment in prison, were released, they were regarded as the only heroes who resisted the fascist movement before and during the war. In these circumstances, many previous communists reconverted to Marxism, stirring the third wave of "tenkō" in Japanese intellectual history. For them and others as well, class became a legitimate unit of analysis again in the social construction of rationality for the economic recovery. According to Marxist analyses, the priority production program was not simply for promoting production. Rather it served to strengthen the dominance of "state-monopoly capitalism" because it employed "the coercion of the state" for the "original accumulation of capital" through governmental subsidies to big business, state

control over the distribution of materials, and favorable financing to big businesses from the Reconstruction Finance Bank (See Miyazawa 1968:306-307).

Despite these moral and ethical challenges from society, the Japanese state was still able to pursue its priority production program thoroughly because in the center of policy-making the leading economists still held a strong national identity, asserting the need for self-efforts by Japan in the economic reconstruction. As the following section discusses further, this nationalist orientation was institutionally supported though those who asserted it were small in number because the Japanese state had a strong autonomy during this period backed up by the Occupation Authority. In this section, I show the conflicts between those who advocated the priority production and those who opposed it in one way or another. In the next section, I explain how these challenges were counterbalanced by the institutional structure of the Japanese state and state-business relations, which in turn sustained the implementation of the priority production program.

Class Interest or National Interest?

The emerging individualism and Marxism created some serious challenges to the unit of analysis adopted in the logic of priority production. The unit of analysis in the priority production program was still the nation-state, assuming that since the national economy was in a big crisis, the collective survival was the highest priority. Only after limited financial and material resources were concentrated in several key industries, their revival would stimulate the whole process of postwar reconstruction. Nevertheless, to distribute resources according to the priorities set by the state neglected a very important

issue, namely, how to ensure equality and fairness among different social groups. The debates caused by the publication of the first government white paper on the economy entitled *The Report on the Economic Situation* (keizai jisson hokokusho) by the ESB in July 1947, which called for cooperation between the working class, management and the state, well reflected the moral and ethical challenges confronted by the policy legacy of managed economy as Japan's political institutions changed rapidly toward democracy.

The publication of this white paper in Japan was directly preceded by the publication of a similar document in Britain. Implementing the analytical tool of macro-economics developed by Keynes that he learned at Harvard University, Tsuru Shigeto, who was in charge of writing this white paper, conducted a national income analysis in this document. Because there were no complete statistical data concerning national income, he used government finances to indicate the budget balance of the government, the accounting in the iron and steel and coal industries as the balance of enterprises, and a survey of households as the balance of households (Kanamari 1985).

The unit of analysis in the White Paper on the Economy of 1947 was clearly the nation-state. It assumed that the implementation of the priority production program would increase the collective welfare and its success would very much depend upon mass participation in economic reconstruction. It argued that "it is the responsibility of a democratic government to report on the situation without hiding any facts no matter how critical the situation is". Only by doing so, would the state be able to gain the public's support. The general public in Japan used to be controlled by the state through coercion during the war. As such control was abolished in postwar reform, the public lost any

consensus about the future and became fragmented. "In democratic Japan the instrument to mobilize the fragmented public in the direction of economic recovery is neither the whip nor the carrot--the whip is not allowed to be used while the carrot is not available due to the poor conditions. Good cooperation is based on the spontaneous consent of eighty million citizens."²¹ Following this logic, the White Paper asserted that "since the Japanese people are the very essence of the national economy, they should be the master of countermeasures themselves. They should encourage the government, which is elected by them, to pursue the success of countermeasures as its own business" (see Keizai Antei Honbu 1965 [1947]:178). It held that the Japanese should regard their endurance of temporary shortages of materials as something they have to do for themselves in an effort to carry out the mission of economic recovery.

To those who held the Marxian framework of class struggle and asserted the interests of the working class, however, the call for cooperation between the state and society was perceived as "wartime psychology". They argued that in Japan, the will of the state and the claim of "national interests" had been superior to the interests of society and individuals since the Meiji Restoration. As the postwar democratic reforms eliminated the control of the state over civilian life, the interest of society was no longer inferior to that of the state in the social construction of rationality. The wartime control over civilian freedom created a countereaction in the early postwar era, and any call for sharing national cares and burdens found it difficult to gain legitimacy in the political discourse. According to one critic, "the call for national endurance through material shortages and for national unity had greatly polluted Japanese society and economy", the

white paper was "simply some dregs of the wartime ideology.....The present issue is not national endurance, but the fair distribution of the materials in short supply among the people.....the real task is to eliminate injustice, which should not be neglected in the name of national endurance" (Kishimoto 1947:12)

The negative impact of the priority production on the interests of the working class was the major concern of Marxist criticism. The cooperation between state and society justified by the white paper as "mainly designed for labor" was rejected. "Throughout its content, it kept asking labor to support the policy of freezing salaries. In exchange, what the government promised them was simply to eliminate the black market.....In the last analysis, only labor would bear the cost though the white paper claimed to serve all the people" (Ōuchi 1947:2). According to Marxist analyses, while the white paper enumerated many phenomena of economic crisis, it did not touch on the nature of the crisis at all (Kawasaki 1947:4). The huge deficit resulted from munitions spending during the war, which was followed by abnormal price skyrocketing. "Focussing on the black market without touching those important issues reflects simply a perspective of pure laissez faire economics or naive equilibrium theory" (Ōuchi 1947:3) "If the government really intends to plan the economic recovery based on the stability of daily life of ordinary people, the question would not be how to rebuild capital but how to abandon the capitalist mode of production" (Kawasaki 1947:5) As the first socialist cabinet in postwar Japan, the Katayama cabinet bore high expectations. For this reason, Marxists asserted that "the socialist Party is a party which should represent the interests of labor. Although sometimes political compromise is necessary, abstaining from the

position of labor is equal to suicide" (Kishimoto 1947:12).

Although class itself was also a collective unit of analysis, its policy implications in the 1946-1949 period were significantly different from those of the nation-state. To those who asserted the nation-state as the unit of analysis in deriving the rationality for postwar reconstruction, class as the unit of analysis was rather like an enlarged individual in nature. Kinkei economist Nakayama Ichiro criticized the labor movement influenced by Marxism at the time for representing the "group egoism". Labor unions, according to Nakayama's analysis, were not a constructive actor in the economic reconstruction because they adopted the strike as the only strategy and did not care about the interests of others. Nakayama held that "it is understandable that labor adopted an aggressive strategy, especially in an anti-labor atmosphere of capitalist society, as the labor union is an organization to protect group interests. Nonetheless, as the representative of new workers and the master of economic recovery, it is not a right attitude at all." "When the economy was disintegrated by defeat and not reorganized as an organic whole, group egoism was the biggest obstacle imposed artificially which hampered the recovery" (Nakayama 1948 [1947]:14)

To some extent, Tsuru Shigeto's view on the priority production which was significantly different from Arisawa's had already reflected the popular values at the time. In contrast with Arisawa who was in favor of balance between production and consumption, treating the recovery of the national economy as one integral task, Tsuru, who was influenced by the American New Deal policy, advocated the abolishment of the black market and of a balance between salaries and prices, paying more attention to the

equality of distribution in economic welfare among different economic actors (Tsuru 1947:16; Miyazaki 1985:42; Otake 1981:472). At the same time, what distinguished Tsuru from political Marxists was that he did not stand for a revolutionary action to overthrow the whole capitalist system immediately, asserting a gradual institutional reform instead. He argued that under current circumstances to control and to eliminate the black market was more realistic, "even in order to establish an institution in which those who worked would be benefitted in the long run, we have to start with this urgent and difficult problem as our current goal" (see Keizai Antei Honbu 1965 [1947]:185).

Another big difference between Tsuru and Arisawa was that Tsuru was opposed to relying upon big business to carry out the priority production program but supported institutional reform to break apart the state-big business complex which was built up during the war. He argued that the priority production might not improve productivity; so long as the government tolerated monopoly profits and black market profits created by privileged financing and contracts through the priority production program, Japan had to face the reality of "honored people being regarded as foolish and hard working people suffering losses". Miyazaki points out, "to regard the impact of black market profits in distribution on prices and income as the culprit of the vicious salary-price-cycle, to call for their elimination and to pursue a simultaneous determination of salaries and prices, were not simply aimed at establishing order in distribution, but imply a policy direction against the nature of monopoly capitalism. It raised an institutional issue" (Miyazaki 1985:29).

How did Arisawa respond to these intellectual challenges? He asserted that it

would be a mistake to use units of analysis other than the national economy, such as class, in deriving the rationality for economic reconstruction. According to him, class was still a secondary unit in economic thinking in comparison with the nation-state; and the working class would not be able to obtain its own interests without a successful economic reconstruction. In this sense, he argued, "the struggle for class liberation today has to be conducted in the form of a struggle for production" (Arisawa 1948d:99). From the beginning, Arisawa did not believe that to focus on the issue of equality would solve Japan's problem. He argued that the effort to establish order in distribution would not work for several reasons. First of all, it was impossible to establish order in distribution and realize equality under severe inflation. Even if they were realized, they could not bring about any increase in the amount of materials available for equal distribution. Because "even if the effect of measures such as the distribution order could be realized one hundred percent, the savings in consumption realized by those measures would be only about five to seven percent" (Arisawa 1948d:93). Arisawa Hiromi was disappointed with the Katayama cabinet. In an article written in November 1947, he wrote, "the first policy adopted by the new cabinet was to establish order in distribution and a new system of salaries and prices. It also asked people for tolerance of material shortages.....which should not be expected." "To my understanding, the government has recognized the necessity of promoting production. Since it is almost impossible to conduct priority production with full speed due to the severe shortage of materials, the government has given up all hope of increasing production quickly.....Instead of choosing a difficult change, it chose an easy covering shot." (Arisawa 1947, Nov. 5:88)

He concluded that even if the government had not gone in a totally wrong direction, it is not heading for the major goal at all.

*Immediate Stabilization versus Mediate Stabilization*²²

The Marxist framework of class struggle delivered another challenge to the priority production program in late 1947 when the dilemma between ceasing inflation and stimulating production caused a big debate on whether the state should take firm action to eliminate the inflation immediately. The nature of this debate still reflected the conflicts between different units of analysis in economic reasoning. As mentioned before, Arisawa asserted that the state would not take action to eliminate inflation until production had recovered to sixty percent of the prewar level. Arisawa's logic of priority production was based on the unit of analysis of the nation-state. According to this logic, reconstruction was the business of Japanese themselves, they should not depend on foreign aid but themselves to realize this goal. Following this logic, organized labor had to intensify its work. According to Arisawa, to participate in the struggle for production was not simply to serve the interests of capital but for the interests of the working class itself. Through participating in this struggle, the working class would gain the power to determine the patterns of business management (Arisawa 1948 [1947]:99)

Concerning the interests of the working class, Marxist Kimura Kihachirō argued that the state should adopt a tight money policy to dampen down the inflation immediately. In Kimura's analysis, the interests of labor were much more important than the promotion of production. Without controlling inflation, it was impossible to promote

production and revive the economy because under severe inflation, even after production was increased, it would not result in an increase in reproduction or ultimate consumption immediately. Inflation would accelerate underproduction because it prioritized consumption over production. Since the elimination of inflation could not be done without reducing the floating capital which was formed during the war and levying a tax on the unfair profits gained during the implementation of the priority production program, the elimination of inflation had to be at the expense of business interests. Therefore, the current state policy of strengthening priority production simply served to provide an excuse for capital to avoid this loss and burden (Kimura 1947). Kimura also did not believe that intensification of work could increase production when materials, electric power and equipment were in severe shortage. He pointed out, "the output of coal in Japan reached its peak at 50 million tons in 1940. The well-known condition enabling Japan to keep the output of coal at the 50 million tons level in 1941, 1942 and 1943 was the employment of foreign labor in terrible working conditions by cruel coercion. Now, such labor is no longer available. It has been replaced by Japanese workers who have the same rights and freedom as we do, liberated by democracy. In such a radically changed situation, in order to encourage workers' creativity and determination to strengthen production, coal mining equipment, which was not initially well furnished and then was further damaged during the war, must be improved. Any Japanese who once visited a mine must ask the question: who would like to work here under this kind of working conditions."

Concerned with the issue of economic reconstruction as a whole instead of the

interest of a particular social class, Arisawa spoke in favor of mediate stabilization. Although he was well known for his anti-inflation policy and strongly opposed Ishibashi's Keynesian style of financial policy, he disagreed with the idea that the Japanese state should adopt a tight money policy immediately, believing that the major problem for the Japanese economy was underproduction. According to his analysis, the Japanese economy faced a big dilemma. On the one hand, the black market and speculative behavior of economic actors were nurturing a severe crisis for the economy. "The longer the underproduction continues, the more severe the inflation will become. The larger the black market is, the more the short-term behavior in production will crop up.....Even if the economy could be sustained for a while by inflation and black markets, sooner or later, the day will come in which the economy will collapse". On the other hand, the existence of the black market and speculation at least were "protecting enterprises from bankruptcy and delaying the explosion of underproduction". If the state adopted tough measures to stabilize the inflation at this moment, there would be a "stabilization panic" in which "the elimination of inflation and the black market may result in many bankruptcies. Even if we have done so, production may still decline and streets will be full of the unemployed. They are terrible, but their damage to the whole economy will be more terrible. We will have no means at all to control the situation" (Arisawa 1948 [1947]:77-78) In order to reduce the impact of stabilization on the economy to a minimum, Arisawa, as noted earlier, asserted that production must be increased at least to sixty percent of the prewar level before adopting tight money policy.

Production was a dominant theme in Arisawa Hiromi's policy orientation before

and after the war. It was also a central theme in the policy paradigm of the managed economy. As critics said, while Arisawa made a great contribution to identifying the direction for the economic recovery and development, he failed to stress the necessity of establishing institutions which distributed income more equally. The implementation of the priority production program exerted a great impact on the orientation of state policy-making and the pattern of development in the future. (Hayasaka Tadashi and Masamura Kimihiro, 1974:58) As mentioned in the beginning of this section, the moral and ethical challenges to the priority production program reflected the competing ideologies in the early postwar Japan, and these challenges could have successfully blocked the implementation of this program, but they did not. The failure of these moral and ethical challenges to the priority production program indicate that the choice of value system as a variable itself has some difficulties to explain the economic choices in state policy.

THE INSTITUTIONAL SUPPORT TO THE PRIORITY PRODUCTION PROGRAM

To a large extent, the moral and ethical challenges to the priority production program were counterbalanced by the institutional structures of the Japanese state and state-business relations. The fact that the Japanese state was able to carry out the program of priority production despite strong resistance can be attributed to two factors. One was that Japan was under the occupation of allies which conducted a series of democratic reforms that greatly weakened the power of state officials' political competitors, and the other was that GHQ heavily depended upon the Japanese state for its implementation of the occupation, whose authority suppressed the sectionalist

orientation of state bureaucracies. These two factors significantly changed the institutional structure of the Japanese state, not only in relation to society, but also within itself. They together greatly strengthened the state capacity in policy-integration and policy-implementation, which effectively countered the social resistance to the program of priority production.

The power of the Japanese state in relation to society was greatly strengthened by democratic reforms conducted by the Occupation Authority. These reforms destroyed all major political rivals of the state bureaucrats, which in turn enormously increased the state autonomy in policy-making and implementation. The Japanese military forces were eliminated completely. Many business leaders were purged, and the strength of business circles as a whole was significantly weakened by the zaibatsu dissolution. Although new business groups reemerged as the U.S. government changed its policy towards Japan in 1948, the power of these new "keiretsu" in politics in the late 1940s was very much weaker than that of the zaibatsu in the 1930s and the early 1940s. In the land reform, landlords who lived in villages were left only one hectare of land, and all the rest of the land was forcibly bought by the state and sold to peasants. This reform eliminated the landlord class. The newly established political parties could hardly constitute a threat to the state bureaucracy. As the Supreme Command for the Allied Powers (SCAP) conducted the occupation indirectly, it depended heavily upon Japanese bureaucrats for all manner of daily operations. All these changes in political structure helped state bureaucrats to strengthen their power in relation to society. As a result, "never has the Japanese bureaucracy exercised greater authority than it did during the occupation"

(Johnson 1982:176). Meanwhile, the practice of managed economy during the war left many institutional legacies in terms of organization and personnel. After Katayama Tetsu became the Prime Minister in May 1947, he assigned Wada Hiroo, who was intensively involved in the practice of managed economy in the late 1930s and the early 1940s, to the directorship of the ESB. Wada appointed many former bureaucrats at the Cabinet Survey Bureau, the Cabinet Planning Agency and the Cabinet Planning Board to high-ranking posts at the ESB, who constituted the core team to implement the priority production program. Due to these factors, the Japanese state was able to carry out the priority production program, though the Japanese society was much less homogenous politically than it had been during the war, the Western value systems exerted some sweeping impact on Japanese thinking, and the rise of labor movements, which were influenced by the Marxist ideology of class struggle, constituted a big challenge to state policy-making.

At the same time, the Japanese state was also able to strengthen its capacity in policy integration enormously under the command of GHQ, which, as the Occupation Authority in Japan, had the irresistible power to give order to the Japanese state bureaucracy. In the early postwar era, sectionalism still had a great impact on policy integration, which prevented the ESB in its early stage from assuming its full range of functions as had been expected. Meanwhile, the economic bureaucracies were controlled by conservative politicians, who were highly skeptical of direct state control over resource allocations; even bureaucrats were hesitant to rely upon the institutions of the managed economy which had developed during the war because they were not sure

whether state control over society still had legitimacy in a democratic era.

The capacity of the Japanese state in policy integration was directly strengthened by the intervention of GHQ in policy-making. It was GHQ's intervention that first pushed the Japanese state to establish the Economic Stabilization Board in June 1946 for policy integration, and then further strengthen its power in June 1947. Different from any Japanese actor in politics, GHQ as the Occupation Authority had the ultimate power to determine the direction of policy-making. At the time, many GHQ officials were influenced by the American New Deal policy in the 1930s and the early 1940s. Therefore, when the Japanese government failed to exercise control in the economic crisis, GHQ would intervene directly by giving orders to the Japanese government. Eventually, it was the external force of GHQ that backed up the efforts to strengthen the state capacity by either suppressing labor movements or ordering the Japanese state to concentrate all the planning functions of individual ministries in the ESB. In this sense, the state capacity in policy integration in the 1946-1949 period was not based on consensus among state bureaucracies but based on the intervention of the Occupation Authority in Japanese policy-making. Once this factor disappeared in the 1950s, the Economic Stabilization Board was also replaced by a much less powerful agency. As Chapter Six shows, even the state capacity in policy-making became an urgent issue again when the Japanese state was confronted with a big transition in its policy paradigm in the early 1960s and the pattern of policy integration was quite different from that in the late 1940s.

As a whole, this section argues that the institutional structure of the Japanese state

was one of the major reasons to explain the continuing practice of the managed economy in the early postwar era. In the following pages, I show how it influenced the way the priority production program was implemented at the Economic Stabilization Board.

Priority Production Program in Its Early Stage

Right after World War II, the policy paradigm of managed economy was confronted with a big crisis. The Japanese state intended to withdraw state control and reintroduce the functions of markets. This was not only because the private sector strongly demanded such actions, bureaucrats themselves also had lost confidence in continuing the practice of the managed economy. Under such circumstances, the Japanese state withdrew its controls over many production materials on August 20 and October 9, and on food on November 15, 1945 (the Economic Planning Agency 1964:9; Arisawa and Ōkita 1966). In fact, it was GHQ that gave orders to the Japanese state to tighten the state intervention in the economy. On December 26, 1945, GHQ sent a memorandum to the Japanese government, rejecting the Japanese proposal to withdraw controls over prices and the distribution of daily-life products and stressing the necessity of tight state control over resource allocation (Economic Planning Agency 1964:9-10).

The intervention of GHQ in the process of policy-making of the Japanese state was one of the important factors to explain why the policy paradigm of managed economy could be continued in the early postwar era. In January 1946, the Japanese state under pressure from GHQ decided to take emergency measures to deal with the crisis. After numerous meetings of economic ministers, the Economic Stabilization

Board was established in August 1946, aiming at ending the practice of decentralized policy-making and centralizing the political leadership within the state bureaucracies. GHQ expressed several concrete implications of this decision: first, the ESB was superior to individual ministries in policy-making; second, the ESB would be a temporary agency; third, the existence of the ESB would be subject to changes in the cabinet; fourth, the general director of the ESB should be given strong power. At the news conference on the establishment of the ESB, an official of GHQ asserted that "the crisis of the Japanese economy, which was created by the shortage of coal, food and fertilizers and the difficulty of obtaining resources for the textile industry, necessitated a sound planned economy. In order to get rid of this crisis, we expect the Japanese state bureaucracies to eliminate the traditional sectionalism, and cooperate on the important policy issues" (Economic Planning Agency 1964:12).

How to strengthen the state capacity was also a major concern for Arisawa Hiromi and his colleagues in developing the instrumental means for the priority production program. The "Special Measure on Improving Coal Production" (sekitan zosan tokubetsu taisaku) prepared by the Coal Committee on October 18, 1946 asserted that "the confusion and inefficiency of the bureaucracy must be prevented". In order to promote production, the state needed to "establish a cooperative system for coal production which integrates all relevant bureaucracies". In particular, the state should "establish a Coal Committee in the Economic Stabilization Board and put it under the direct control of the Prime Minister in order to take charge of the bureaucracies". On the issue of state capacity to control society, this document asserted that if the private

coal mines failed to achieve the goals of production set by the government, "the government should change their managers or even finally buy up ownership". In order to promote production, the coal industry would not have to be managed according to the principles of capitalism. In case private ownership restricted production, it should be changed to public management (see Nakamura and Miyazaki 1990:161).

Despite these efforts, the implementation of the priority production program in reality was strongly constrained by the institutional inertia of decentralized administration. The components of the program basically included two major parts, state control over resource allocation and an easy money policy. The impact of sectionalism on the implementation of the priority production program was well reflected in the different fates of these two policy fields. Prime Minister Yoshida Shigeru himself used to be a professional diplomat, who did not have enough knowledge about the economy. Therefore, he mainly concentrated on diplomatic issues, especially the relationship with GHQ, leaving most domestic policies to his cabinet members (Yoshida 1957, vol.3:187; Wada 1966:44). Under such circumstances, the implementation of the priority production program was highly dependent upon the ministers who controlled the relevant ministries. In an organizational perspective, the implication of the former was a duty of the Economic Stabilization Board and it involved the cooperation of many administrative agencies. In contrast, that of the latter was primarily a duty of the Ministry of Finance. A comparison of the implementation between these two policy agendas demonstrates how important the institutional factor was to state policy.

Generally speaking, the ESB in its early stage, between June 1946 and June 1947,

failed to exercise its power in controlling resource allocation effectively due to the ideological orientation of leading politicians and the sectionalism in the state bureaucracy. The first two directors of the ESB, Zen Keinosuke and Ishibashi Tanzan, as well as Prime Minister Yoshida Shigeru, were famous conservative politicians, and they disliked direct state control over resource allocation and were in favor of the functions of the market. "The Emergency Measures to Break the Crisis of Coal in the Second Half of 1946" prepared by the ESB did not demonstrate an effort at policy integration, rather they simply listed the responsibilities for each individual ministry (Miyazaki Masayasu in Nakamura 1990:12). By October 1946, the monthly output of coal was only about 1.8 million tons. Since the ESB under the leadership of Zen Keinosuke did not take strong action to implement the priority production program, Yoshida had to depend on the Coal Committee headed by Arisawa Hiromi, his private brain trust to search for solutions (Nakamura 1990, vol.2:237). The Coal Committee, however, was not an official body, and it did not possess the power to control the action of individual ministries.

Sectionalism had a great impact on state policy-making and integration. In an article written in 1952, Sherwood M. Fine, the chief of the Government Division of the Civil Affairs Section (G-5) at GHQ, recalled how sectionalism, along with the ideological orientation of leading politicians constrained the functioning of the Economic Stabilization Board in controlling the economic situation. He argued that "the failure of a more satisfactory recovery to materialize through 1947 was due not in small degree to the Japanese government's understandable disorganization. Despite requests by ESS that an economic coordinating organization be created no response was forthcoming. Instead,

such agencies as the Ministry of Finance, Ministry of International Trade and Industry and Ministry of Agriculture and Forestry frequently pursued mutually inconsistent or antagonistic policies. After extended persuasion had failed, SCAP directed the Prime Minister to establish a cabinet level organization to formulate basic economic policy and coordinate the activities of the various governmental agencies concerned. Accordingly, there was organized a new agency, the Economic Stabilization Board, established under the immediate jurisdiction of the prime minister, in August 1946. The ESB was made responsible for the formulation of production, distribution, price and financial policies. The various competing ministries were enabled to issue orders pursuant to plans and policies formulated by the ESB. However, despite the creation of this central economic authority, the Japanese government chose not to utilize the new board in the fashion contemplated. The concept of governmental economic planning and the use of publicly directed as opposed to private controls was foreign to the party in power. It was not until June 1947 with the formation of the Social Democratic led cabinet that the ESB made a serious effort to perform as a planning body, a move viewed with ill concealed hostility by the business community" (Fine 1952:193-194).

In comparison with the ESB headed by Zen Keinosuke, the Ministry of Finance led by Ishibashi Tanzan was able to carry out the easy money policy forcefully since the ministry itself had complete control in this policy domain. Ishibashi's authority in financial policy was backed up by the Prime Minister Yoshida Shigeru who shared the same policy orientation. Yoshida once recalled, "when Ishibashi became the Minister of Finance, many people wondered what would happen after such a person entered the

cabinet who opposed economic control and was in favor of inflation. Ishibashi's idea of abolishing economic control, however, was the same as what I thought. We believed that we should get rid of the barriers of economic control as soon as possible, letting the economy vigorously run by itself.....Ishibashi held that the first priority was to end the shortage of materials and to stimulate production. This was a fundamental way to prevent inflation. If we could manage financial and monetary policies at a suitable level, there would be no big problems. Since it was a difficult time, I entrusted him with everything. I believed that I should trust Ishibashi, letting him do as he thought. Entrust was the word to describe my position, I had no other alternative" (Yoshida 1957, vol.3:182-183). Ishibashi and bureaucrats at the Ministry of Finance were in favor of state intervention too, though they preferred a type of intervention through financial and monetary policy instead of direct control over resource allocation. They held that city banks could little afford to assume the responsibility of financing the priority production program; they asserted that the state must intervene. Under the leadership of Ishibashi, the Reconstruction Finance Bank (RFB) was established in charge of providing state capital for the priority production. In order to prevent his easy money policy from being revised by those who believed in classical economics, Ishibashi fought several times with GHQ against the selection of a director of the RFB from the Bank of Japan where were gathered many classical economists (Yoshino 1975:116-117).

Ishibashi's easy money policies have left an enduring controversy in studies of postwar economic history. They have often been criticized as responsible for accelerating inflation. Nevertheless, many Reconstruction Finance Bank officials

disagreed. They argue that whenever people talk about the postwar inflation, the RFB was believed to be guilty. But the RFB was the only alternative at the time to stimulate production. The elimination of inflation could not be achieved without an increase of production and history has proved this point (Tanimura 1985:244). They admitted that the financial policies of the RFB indeed exacerbated the inflation. But they contended that at the time capital was in extreme shortage. New capital had to be created in order to replenish industrial equipment quickly. Despite creating some short-term inflation, the RFB played a critical role in the postwar recovery in terms of stimulating production.

The Wada Hiroo ESB

It was the intervention of GHQ that enabled the Japanese state to further centralize the power of policy-making through the Economic Stabilization Board, integrating the whole state bureaucracy to an unprecedented degree. On March 22 1947, General MacArthur sent Japanese Prime Minister Yoshida Shigeru a letter, saying that "the Allied Powers, of course, are under no obligation to maintain or to have maintained any particular standard of living in Japan, nor is there any responsibility to import foodstuffs to meet deficits arising from the failure of Japan to assure the just and efficient distribution of its own food supplies.....it is essential that the Japanese Government, through the Economic Stabilization Board which was created for this purpose, takes early and vigorous steps to develop and implement the integrated series of economic and financial controls which the current situation demands." (See Ōkurashō Zaiseishi-shitsu, 1982, Vol.20:517-518) In early February 1947, the Section of Economy and Science at

GHQ sent an informal memorandum to the Japanese government, suggesting that the Japanese government remove all planning functions as well as personnel concerned with economic policy from the individual ministries to the ESB. From then on, the ESB would have the authority to make all important economic policies, and individual ministries would be responsible for their implementation. The ESB would have the power to supervise the implementation and exert relevant controls over the economy, ranging from production, distribution and consumption of materials, to trade, labor, pricing, finance, money and transportation. Under the strong pressures from the GHQ and the economic situation, the Yoshida cabinet had to abandon the conservative ideology which it had followed for a year, admitting that the ESB as the core of the economic recovery had to be given great weight in the Japanese state (Keizai Kikaku-chō 1964:46). This was an unprecedented reform in the institutional arrangement of Japanese state bureaucracies, a goal the reform bureaucrats during the war years had tried very hard but failed to achieve. For this reason, the ESB under the leadership of Wada Hiroo was regarded as "the most powerful economic bureaucracy in Japanese history".

The ESB recruited a group of former bureaucrats who used to be in charge of operating the managed economy during the war. Members of the "Wada Hiroo group" in the prewar CSB occupied some important positions. Katsumata Seiichi became the secretary to Wada Hiroo, Sada Tadataka became the director of the Financial and Monetary Bureau, and Inaba Hidezo became the Deputy Secretary-General of Minister's secretariat. Besides, a new generation of government economists also obtained important positions. Academician Tsuru Shigeto became the Vice-Chairman of the Comprehensive

Policy-Integration Committee with the status of Deputy Minister, in charge of final integration of macro-economic policy. Okita Saburo became the director of the Planning Division and Shimomura Osamu was the director of the Price Division. These people constituted an effective team to carry out the priority production program.

The process of the implementation of the priority production program indicates that sectionalism was always a big barrier to the effort of the Japanese state to strengthen its capacity in policy integration. The complicated relationship between the decentralized administrative system and the Japanese perception of democracy has always created controversy in Japanese politics. In the Japanese context, sectionalism is inclined to be regarded as a political indicator of a laissez faire system while efforts at centralizing the leadership are often labelled "planning" or a socialist orientation. According to Nakamura Takafusa, this was not an instrumental issue concerning what means the state should adopt in an emergency situation, but an ideological assertion of New Dealers, represented by Sherwood M. Fine who "believed in all purpose planning" and the "superiority of planning and economic policy" over laissez faire freedom.

Conclusion

This chapter shows that the paradigm of state economic policy in the early postwar era demonstrated a striking continuity with the 1930s and the 1940s. The logic of managed economy was applied again in the program of priority production. Despite the strong challenges from individualism and Marxist class analysis, the nation-state still stood as the unit of analysis in the state policy making. In this period, production was

the only preference of ends in the economic reasoning as the Japanese economy experienced a severe shortage of materials. At the same time, the effectiveness of resource allocation by the state at the macro level was still the major policy goal in economic reasoning. In order to achieve this goal, the Japanese state used various institutions of managed economy that developed during the wartime. Backed up by the Occupation Authority, its capacity was improved greatly in both policy integration of its bureaucracies and policy implementation which directly constrained the behavior of the private sector.

The continuing practice of managed economy by the Japanese state in the 1946-1949 period refuted the market argument from a new dimension. It shows that close association between democratic political institutions and market economy may not always occur. Under certain circumstances, economic actors might choose direct state intervention as the major means to organize economic life even when the nation was moving quickly towards democracy. This further indicates the dependent nature of the market in economic rationality on the contextual conditions. When the Japanese economy confronted the challenges of hyper inflation and severe shortages of materials, it was unlikely for the Japanese to depend upon the market to survive the economic hard times and to initiate postwar construction. The market in the conventional sense did not work at all. The only market which was working at the time was the black market. It was unable not only to realize an equilibrium between demand and supply, but also proved disastrous to the existing economic order. The Japanese experience in the 1946-1949 period has special significance to peoples in formal socialist economies. It shows

that even after a nation has made a commitment to the transition towards democracy, strong state intervention may still be needed so long as the economy faces some big difficulties. The Japanese experience in the 1946-1949 period also contradicts the cultural argument in a significant way by demonstrating how indigenous values could be interpreted differently. It shows that the assertions of harmony and collective welfare did not always represent the popular economic values in Japan. In fact, they were rather reinterpreted as a feudal element, which had contributed to the rise of fascism in the 1930s. This chapter also reveals the eruption of various versions of individualism and the revival of Marxist class analysis. Released from the long-time state control and enjoying the freedom brought about by the democratic reforms, individualism and the interests of the working class became very popular and virtually no one active in influencing public opinion was in favor of the group harmony.

This chapter explains the continuity in the state policy paradigm from four dimensions. It shows that the program of priority production was under the shadow of the perception of national isolation. Although Japan was no longer in a military conflict with other nations, the Japanese did not feel that they had become a full member of the international community either. This perception directly functioned to set up the goal for the economy--to conduct the postwar reconstruction by the Japanese themselves. Since materials were in great shortage, how to allocate the limited resources at the macro level to promote production was still the major concern in economic reasoning. This chapter also shows that the close connections between economists and the Japanese state and the active participation of a group of Japanese economists in policy-making were important

factors in understanding why the policy legacy of managed economy could obtain intellectual legitimacy, and continue its impact on state policy-making.

The failure of popular economic values, which were represented by various versions of individualism and Marxism in the 1946-1949 period, to influence the formation of state policy indicates that popular economic values may change quickly over time. These popular values that have not been institutionalized in the state may not be as influential as those that have been institutionalized, and their impact can be counterbalanced by other factors. Although the democratic reforms eroded the legitimacy of nationalism, directly challenging the rationale of priority production, the intervention of GHQ in the Japanese state policy-making during the 1946-1949 period created a favorable political environment for state control. This factor effectively countered the impact of popular economic values on economic reasoning.

During the period of managed economy as a whole, beginning from 1931 and ending in 1949, the Japanese economic reasoning was characterized by an orientation towards the effectiveness of resource allocation by the state at the macro level rather than production efficiency at the micro level. It was primarily the isolation from the international market that made the efficient use of limited resources by the economy as a whole a critical issue. Since national survival was the major goal, the cost to achieve the goal was not a point at issue. This orientation in Japanese rationality resulted in the emergence of the state in the economic arena, which acted as the major organizer of the economy, replacing the functions of the market. Meanwhile, much attention given to the micro level was not concentrating on how to produce efficiently, but how to function

better as part of the whole economic system guided by the state. As the following chapters show, this institutional orientation in economic thinking had a strong influence on the future of the Japanese economy, not only providing an intellectual foundation for state intervention, but also leaving many institutional legacies which enabled the Japanese to rely upon subsequent variants to achieve different tasks in different environments.

CHAPTER FIVE: THE TECHNOLOGICAL INNOVATION

The focus of Japanese economic reasoning shifted dramatically from the macro level to the micro level--from the effectiveness of state control over resource allocation to the competitiveness of the private sector in the international economy. Under the strong pressures of realizing economic independence through increasing exports, the production costs and the competitiveness of Japanese firms became urgent issues. Under such circumstances, the state controls over resource allocation and prices were perceived as irrational and were abolished step by step, the function of the market was reintroduced to organize economic life, and, more importantly, a comprehensive program of technological innovation was adopted in an effort to meet the new challenge confronted by the Japanese economy. In this new rationality of technological innovation, the preference of ends was no longer how much firms produced--the quantity of production--, but how to produce--the production technology and the quality of production. In order to sustain the program of technological innovation, many reforms were initiated at the micro level. First of all, sponsored by the state, Japanese firms made large-scale investments in equipment and technological transfers in an effort to narrow the technological gap between Japan and the West and to build up a man-made comparative advantage in the international competition. Second, the Japanese state revised the anti-trust law twice, which had been enacted during the occupation period, giving private firms more freedom to engage in a radical reorganization into keiretsu around banks in order to develop the heavy-chemical industries with limited capital. Third, the so-called Japanese managed system came to be patterned, which was characterized by life-long

employment, seniority-based salaries, and firm-based labor unions. And fourth, supported by the Productivity Headquarters, a semi-official agency consisting of representatives from different sides, the American management system was systematically introduced into Japanese firms in the second half of the 1950s, and labor and management began to cooperate with each other in a consensus to promote production technology.

To say that the focus of Japanese economic reasoning shifted from the macro level to the micro level by no means implies that the role played by the state became less important. On the contrary, the Japanese state still played a very important role in guiding the direction of economic development, but it changed the manner of its intervention from direct control over resource allocation to influencing the behavior of the private sector by employing policy instruments such as controls over credit and foreign currency exchange. These changes in the 1950s had a profound impact on Japanese capitalism in the future. After almost two decades of practicing a managed economy, the institutional developments at the micro level added new strengths to the Japanese economy. Without the changes in the 1950s, the operation of the Japanese economy would have had no solid foundation at the micro level, solely depending upon state intervention. The reforms conducted in the 1950s, however, provided the Japanese with more alternatives in changing their strategies of running the economy.

Why did all these changes happen? How could the Japanese economic policy shift its focus from the macro level to the micro level so rapidly after two decades of managed economy? What were the major dynamics behind these great transitions? Was this

micro oriented paradigm the same as the market rationality asserted by neoclassical economics? If it was not, where were the major sources of difference? In this chapter, I answer these questions by analyzing the changes in four independent variables. If the continuing practice of managed economy described in Chapter Four stands as a good case to examine why an institutionalized policy legacy would continue while the nation was experiencing some profound transitions, the adoption of technological innovation as a new policy paradigm discussed in this chapter is a good case to reveal under what kind of institutional environment a new paradigm in state economic policy could emerge and be institutionalized quickly, which enables us to examine the determinant factors of economic rationality in a dynamic process. In this chapter, I first show the twisted course the Japanese economy went through. The major challenge confronted by the Japanese economy after the implementation of the Dodge plan in 1949 was how to promote exports in order to realize economic independence. After I portray the rationality adopted by the Japanese to cope with this new evolving situation, I further develop my analysis among the four independent variables.

First of all, I argue that the changing Japanese perception of international order in the 1950s played a significant role not only in drawing people's attention away from the domestic dimension to the international dimension of the Japanese economy, but also in choosing a better strategy than rearmament through technological innovation to engage in international competition. After the Dodge plan was implemented, the Japanese believed that the only way to realize economic independence would be to promote trade. Facing the reality of the Korean War, there were three competing positions in economic

reasoning. Some business leaders held an opportunistic perspective, asserting that Japan should be organized into the cold-war system economically and militarily, seeking benefits from the international tension. Marxist economists and left-wing liberals strongly opposed this initiative, warning of the danger of becoming involved in military conflict between the Eastern bloc headed by the Soviet Union and the Western bloc headed by the United States. They advocated for Japan a neutral position in international politics. In contrast, the leading politician Yoshida Shigeru took a middle position, seizing the economic advantages created by the international situation while avoiding the danger of being involved in the military conflicts between the two blocs, namely, standing on the U.S. side politically in exchange for economic aid while limiting defense expenditures to a minimum, concentrating all resources on economic development. Although the business leaders' ideas prevailed during the Korean War, the Marxist perspective indeed constrained initiatives for rearmament over the long-run. As the Korean War ended, all these were soon replaced by a new image of the fourth industrial revolution. This new image of global industrial revolution, I argue, led the Japanese to the alternative not based on the polarization of international politics, but based on competitiveness derived from production technology and better management.

Second, I show that the paradigm of technological innovation in the Japanese economic policy during the 1950s was a direct product of the diffusion of Joseph A. Schumpeter's theories of innovation and entrepreneurship. During this process, economists not only influenced policy-making as they took some important posts in semi-official agencies, such as the Headquarters of Productivity, they also exerted a great

impact on the construction of rationality by the general public through the publication of white papers on the economy which became very popular in the 1950s, exercising the intellectual leadership in the institutional reforms of the Japanese enterprise system. After Schumpeter passed away in 1950, his Japanese students translated almost all of his major works into Japanese. Influenced by modernization theory which was introduced to Japan in the mid-1950s, Japanese economists turned Schumpeter's explanatory theory of the long-term economic change of capitalism based on innovation and entrepreneurship into a prescriptive strategy in international competition, deriving a rationale for building up a man-made comparative advantage in production technology.

The analysis then turns to the moral and ethical conflicts caused by both rearmament and technological innovation. In this section, I argue that the Japanese popular values by the mid-1950s began to shift from the Marxian framework of class struggle and the laissez faire principle, which were very popular in the late 1940s and the early 1950s, to new assertions in favor of group harmony, cooperation, and national identity. This in turn laid out a social foundation for the new paradigm of technological innovation in state economic policy. The reemergence of nationalism after the San Francisco Peace Treaty, I argue, played an important role in selecting economic strategy. On the one hand, it constrained the possibility of rearmament, which seemed to only serve the interest of business circles while the nation would have to risk the danger of becoming involved in the military conflicts between the two blocs. On the other hand, it functioned to generate a consensus for technological innovation, which would make every party involved better off. The popular values had an impact on the formation of

the paradigm of technological innovation because they were institutionally supported by other factors.

In the final section, I examine the institutional dimension for both rearmament and technological innovation programs. I argue that the program for rearmament was seriously undermined by the conflicts among business leaders and among state bureaucracies. In contrast, the program for technological innovation was strongly supported by the Headquarters of Productivity, which was established in 1955 and brought together representatives from all parties involved.

As a whole, this chapter argues that the rapid transition in the policy paradigm of the Japanese state from managed economy to technological innovation was sustained by great changes in the perception of the international order, the diffusion of foreign economic ideas, the direction of popular economic values, and the institutional changes in the Japanese state and state-business organizations. The reintroduction of the functions of the market was not because the Japanese discovered the universal laws eventually or reconfirmed orthodox doctrine, but a strategic decision according to the changing situation in the international market. This chapter contrasts with previous chapters sharply in terms of the orientation of Japanese economic reasoning, which in turn illustrates a new dimension of Japanese capitalism. The comeback of the state in economic reasoning introduced in Chapter Six must be understood based on what the Japanese achieved in the 1950s. Otherwise, the role of the state might be misinterpreted.

The Pressures for Economic Independence

The paradigm of managed economy which lasted for almost two decades encountered a great challenge at the end of the 1940s. The implications of the Dodge plan in 1949 and the breakout of the Korean War 1950 changed the environment of the Japanese economy enormously, creating both pressures and opportunities. On the one hand, as the U.S. government informed the Japanese that it would ease financial aid to Japan in the near future, the Japanese came to realize that they must achieve Japan's economic independence, and many of them held that the only way to do it was to participate in the international division of labor. On the other hand, the Korean War brought a big economic fortune to the Japanese economy because a huge amount of hard currency came along with the special procurement orders for military goods and services from the U.S. government, which not only gave a shot in the arm to the Japanese economy, but also greatly stimulated the capital accumulation that Japan needed badly for the postwar reconstruction. How to ensure a position in the international division of labor proved to be a very difficult task, not only because of the poor competitiveness of Japanese firms at the time, but also because of uncertainty over the international situation in the early 1950s.

The leading opinion at the time held that the major problem left by the war and the continuing practice of managed economy to the Japanese economy was at the micro level. Ōkita Saburo pointed out in April 1949, "the economy so far has been a material mobilization economy in which the production of materials is regarded as the highest priority while the cost is treated as a secondary consideration" (Ōkita 1949). In both the

wartime and the early postwar period, the focus of economic reasoning for state policy-making was on the effectiveness of resource allocation through state control at the macro level instead of the production efficiency of firms at the micro level. The operation of the Japanese economy in the 1946-1949 period was dependent upon what the U.S. government envoy Joseph M. Dodge called two "stilts": private firms heavily depended on subsidies from the Japanese government while the finances of the Japanese government heavily depended on American aid. In this "stilts economy", seventy percent of consumer prices were supported by the subsidies of the Japanese government and about five million dollars in the annual budget of the Japanese government was provided by the U.S.. In short, the Japanese economy lacked a solid foundation of its own.

This "stilts economy" was ended by the Dodge plan initiated by the U.S. government, which delivered a big challenge to the paradigm of managed economy. On December 11, 1948, the Department of the Army sent SCAP the "Nine-Part Interim Directive on Stabilization", setting two major principles for the Japanese economy. First of all, the inflation must be stabilized immediately. The Japanese government should carry out a program of economic stabilization by adopting whatever measures are needed to quickly achieve fiscal, monetary, price and wage stability. In order to realize this goal, the Japanese government should "achieve a true balance in the consolidated budget", "pursue maximum expansion in total government revenues", and "assure rigorous limitation in the extension of credit". Secondly, the Japanese economy would be linked with the international market by a fixed exchange rate with one dollar equal to 360 yen. From then on whether the Japanese economy could balance their international

payments would depend upon their competitiveness in the international market. The Japanese must promote exports by themselves. In his letter to the Japanese prime minister Yoshida Shigeru on December 19 1948, General McArthur told the Japanese that "the fundamental objective of this action.....is the prompt achievement of that degree of economic self-sufficiency". He called for "a reorientation of Japanese thought and action, with both subordinated to a primary purpose common to all of the people" (MacArthur 1982 [1947]:27). The "Dodge plan" was carried out immediately. From the end of 1948, the Reconstruction Bank stopped issuing loans. Meanwhile, the budget deficit which in 1946 was 92.3 billion yen, in 1947 103.9 billion and in 1948 was 141.9 billion, was also ended. The government budget of 1949 achieved a "super balance" of 156.9 billion yen in the black (Masamura 1985:359). It was clear to the Japanese that after the Dodge plan was implemented, the operation of the economy could no longer solely depend upon state-planning; its micro foundation must be rationalized in order to promote exports. Without production efficiency, Japanese firms would never be able to compete with foreign firms in the international competition. Influenced by the deflation policy, however, business circles suffered a shortage of capital. Under such circumstances, the Japanese state decided to adopt a dis-inflation policy to lighten the impact of the stabilization panic on the economy, providing 92.1 billion yen of credits to the private sector.

The Japanese economy was in a bad shape when it was pushed to confront the alternative either "to export or to die". After World War II, Japan lost its overseas markets in Asia and its major instrument for commercial transportation--teams of ships.

In international trade, Japan's position had fallen from number 5 in 1934 to number 33 in 1947 as measured by the amount of exports. If the average level of Japanese exports between 1930 and 1934 was 100, then it was only 8.8 in 1946, 11.7 in 1947, 16.2 in 1948 (Tsusan-shō Kanbō Chōsa-ka 1954:93). As an American observed at the time, "Japan's trade, like her production, the first three years under the occupation has been very small compared to prewar levels. Imports have been dominated by foodstuffs, exports by textiles, though the former have far exceeded the latter in value, resulting in a large unfavorable balance which has been largely financed by U.S. grants under GARIOA (Government and Relief in Occupied Areas). Imports have come mainly from the United States, while recently exports have been going largely to Far Eastern areas and the sterling bloc. Instead a complicated series of implicit multiple rates, which vary from time to time depending on both Japanese costs and prevailing world market prices, have been established." (Cohen, 1949:492-493) The structure of the international market exerted another constraint on Japanese exports. At the time, most industrialized countries in the West suffered from a shortage of dollars due to the postwar reconstruction, which greatly restricted imports and made the competition in the international market for exports more intensive. Meanwhile, the fact that many developing countries started their industrialization after World War II further aggravated the global shortage of dollars, which, in turn, restricted imports of consumption goods in many countries.

The structure of Japanese exports was also a big disadvantage at the time. Despite the rapid development of heavy-chemical industries during World War II, the

structure of Japanese exports in the early 1950s was still dominated by textile products whose weight in total exports was 75.5 percent in 1947 and 61.1 percent in 1948. At that time, using cheap labor was the major strategy for the Japanese firms to increase exports. According to a survey, the average hourly salary in Japanese industries in May 1949 was 62.74 yen, while those in Britain and the U.S. were 221.20 yen and 494.28 yen respectively; workers' salaries in Britain and in the U.S. were 3.5 and 7.9 times higher than that in Japan. The cheap labor policy was particularly sustained in the textile industry. The hourly salary in the textile industry at the time was only 21.55 yen, in comparison to 183.49 yen in Britain and 428.15 yen in the U.S.. In the spinning industry, the hourly salary was only 13.50 yen in Japan, in comparison to 156.24 yen in Britain and 387.36 yen in the U.S.. The cheap labor policy caused strong reactions both internationally and domestically. Not only did Britain and the U.S. protest Japanese "dumping practices", the labor unions in Japan also often went on strike and asked for increases in salary (see *Ekonomisuto* 1950). Under such circumstances, it seemed unlikely that Japanese firms could generate enough hard currency from their exports.

The low quality of Japanese products was another big problem. Until the early 1950s, Japanese products in the international market were well known for their low price but poor quality. From the end of World War II to April 1950, MITI received 634 claims from foreign consumers. 327 of the 634 complained about the poor quality of products, and 366 of the 634 came from the U.S., the biggest trading partner of Japan. Before War World II, the state or an authorized agency had the power to examine all major export products. During the democratic reforms after the war, this system was

abandoned. In the new system, the government defined grades, standards and conditions for export products, and firms examined their products by themselves according to these criteria. Poor quality resulting from the absence of competition became a life-and-death issue when Japan came under strong pressure to promote exports in the early 1950s. Under such circumstances, the state had to abolish various controls over resource allocations and market prices, relying on market competition to improve the competitiveness of Japanese firms in the international market. As a result the private sector regained much of the power that it had lost for more than a decade. During this process, however, the state continued to intervene in the economic sphere but in a different form, controlling the direction of economic development by allocating capital through its financial policy into strategic industries.

When many Japanese wondered whether they could survive the stabilization panic, the Korean War broke out, bringing an unpredictable fortune to the Japanese economy. Contracts from the U.S. for military products and services came swarming in, which provided the Japanese economy with a huge amount of dollars to balance its international payments, in 1950 149 million, in 1951 592 million, in 1952 824 million, in 1953 809 million, in 1954 596 million and in 1955 557 million. (Economic Planning Agency, 1990:134) These special procurement orders also greatly stimulated Japanese exports which increased from 510 million in 1949 to 820 million in 1950, and 1.3 billion in 1951, an annual growth rate of more than 60 percent (Masamura 1985:359). The economic boom improved the capital return in manufacturing industries, whose rate jumped from 2.75 percent in the first half of 1950 to 5.07 percent in the second half of

1950, and 10.56 percent in the first half of 1951. Employment also increased rapidly. (Rekishigaku Kenkyū-kai, 1990, vol.2:140-141) In some sense, the Korean War delayed the process of rationalizing the micro institutions as it provided the Japanese firms with a great opportunity to earn profits not based on their competitiveness in the international market.

According to government economist Kanamori Masao, the implementation of the "Dodge plan" and the "Korean War" constituted "a wonderful combination", sustaining the transition of the Japanese economy from the managed economy of the wartime to a market economy in peacetime. The former was the driving force to rationalize the micro economic institutions after the long practice of managed economy, while the latter functioned as a blood transfusion which enabled the Japanese to survive the stabilization panic which was inevitable. Without the Korean War, the Japanese economy might have headed in a very different direction. Among many factors, the impact of the Korean War was a key to understanding the postwar Japanese economy. Many people from former socialist economies have gone to Japan to learn how the Japanese succeeded in the transition from a managed economy to a market economy. The special opportunity created by the Korean War to the Japanese, however, is something no one could expect to happen again.

The delayed process of rationalizing the micro institutions became an urgent issue again when cease-fire negotiations started in the summer of 1951 as the economic boom created by the special Korean procurement began to decline. As Masamura points out, "the 'riot boom' (dōran keiki) helped the Japanese economy escape from the Dodge panic

quickly. It did not, however, solve the fundamental problem. As the 'riot boom' ended, the necessity of industrial rationalization, which was intensively discussed during the implementation of the "Dodge plan", again became urgent" (Masamura 1985:360).

The Program of Technological Innovation

The Japanese state responded to the challenging economic situation by adopting a new policy paradigm, the program of technological innovation, which shifted the focus of economic reasoning from the effectiveness of resource allocation through state planning at the macro level to the production efficiency of individual firms at the micro level. Although the program of priority production focussed on the competitiveness of private firms, the unit of analysis was still the nation-state because in the 1950s the Japanese were not only concerned about how to strengthen the competitiveness of private firms, they were more concerned about how to organize these private firms together in order to obtain a strategic position for Japan in the international economy. This was why the Japanese employed many macro institutions to ensure the outcome of this policy. The preference of ends in this policy paradigm contradicted the orthodox doctrines sharply. According to classical and neoclassical economics, a nation should organize its economy according to its comparative advantages in the international market. An economic advisor at GHQ, who was obviously a believer in neoclassical economics, suggested that it would be impossible for Japan to develop heavy-chemical industries, Japan would be better off by building up the foundation of its economy around exporting textile products, raising chickens and exporting eggs, and developing tourism, because

these things were Japan's comparative advantages (See Nakamura and Ōmori 1990, vol.:115-116). If the Japanese had accepted this advice, the Japanese economy might look very differently from what it looks today. The Japanese, however, believed that a nation would not prosper economically without producing value-added products. If there was a comparative advantage at all, it was not the one which referred to something naturally bestowed on a nation but that of man-made superiorities. It might be necessary for a nation to begin by exporting textile products and eggs, once capital was accumulated, however, it must be used in developing heavy-chemical industries, which would enable the nation to compete at the frontier of the international market. Following this logic, the Japanese interpreted the notion of production efficiency differently. In the conventional understanding in the West, the notion of efficiency is basically used in the sense of accounting, which means that firms produce more profits by making more products with less inputs. This is usually measured by how much profit firms make within a quarter, half a year, or a year. In the 1950s the notion of efficiency in Japan, in contrast, was rather used in the sense of strategic planning, which means whether firms would be able to win the competition over the long-run. Accordingly, the indicator of efficiency was not how much profit firms make but how much market share firms obtain in the international competition. Therefore, efficiency in the Japanese sense often became "inefficiency" in the Western sense. This contrast resulted from not only the goal but also the time span in economic reasoning.

In order to achieve the goal of building up comparative advantage in production technology, the Japanese state sponsored a series of institutional reforms. First of all the

state changed its manner of economic intervention from controls over the distribution of materials and market prices to controls over financial credits and foreign currency exchange, giving the private sector more freedom in business activities. By doing so, market competition once again became a driving force in economic life. Second, this by no means, indicates that the state had become less important. In the 1950s the most crucial issue in the economic reasoning was how to compete in the international market, which was believed to be the only way to realize Japan's economic independence. Although the functions of the market were reintroduced, it was not left alone. Rather, the state played an important role in organizing the market, and directing the competition toward the development of Japan's strategic industries. In the state bureaucracy, the Ministry of Commerce and Industry and the Board of Trade were merged into the Ministry of International Trade and Industry (now well known as MITI). The establishment of MITI signaled a rapid transition of state policy. To demonstrate this transition, MITI reorganized its structure, placing all of the bureaus in charge of energy problems into the Resource Agency, a separate bureau external to MITI, while putting the prefix "international trade" in front of the name of each of its bureaus. As Chalmers Johnson points out, all of these internal arrangements were intended to reorient state policy away from MCI's focus on state control over resource allocations and priority production toward international trade and the promotion of exports. This transition in state policy orientation "probably had as great an impact on the Japanese and world economies as any of Dodge's measures." (Johnson, 1982:191-192)

Third, in an effort to use limited capital to develop strategic industries, the

Japanese state revised the anti-trust law, which was enacted in 1947 under the pressure of the Occupation Authority, three times in 1949, 1953 and 1958, and dismissed the Share Holding Company Readjustment Committee in July 1951, softening the anti-trust efforts. These revisions encouraged the reorganization of former zaibatsu firms around banks, which resulted in the emergence of keiretsu. Through these revisions, the Japanese state stopped prohibiting common actions taken by firms, allowing cartels to operate during a recession and for the purpose of rationalization. Meanwhile, it released its control over share-holdings and the appointment of personnel across firms, which used to be regarded as indicators of monopoly. Furthermore, it did not object to the elimination of firms which did not have the capacity to participate in the competition, encouraging the concentration of capital and materials (Tsusan-Shō 1989, vol.5; Arisawa 1976:351-352). At the same time, firms which used to belong to prewar zaibatsu began to reorganize themselves into keiretsu around banks in an effort to deal with the shortage of capital, which made banks the centers in these business groups. One of the biggest differences between prewar zaibatsu and postwar keiretsu was that zaibatsu were organized around the central holding companies which were under the control of zaibatsu families while keiretsu were organized around banks. As Japanese firms suffered a shortage of capital, especially when they hurried to develop heavy-chemical industries, banks became very powerful in controlling their activities. In 1952, for example, 7.1 percent of the shares of Mitsui, Mitsubishi and Sumitomo were held by banks. This was raised to 11.5 percent in 1955. From 1952, the famous presidents' meetings became regular activities, which functioned as the headquarters for each keiretsu organization.

These keiretsu, especially Mitsubishi and Mitsui, also reorganized their trading companies, which had been dissolved during the occupation. In the case of Mitsubishi Trading Company, the share-holding by the Mitsubishi group jumped from 11.7 percent to 33.5 percent after it was reunited in 1954 (Arisawa 1976:341) There was a distinctive logic underlying this transition. In the rationale of anti-trust practice in the U.S., competition is believed to be the instrument to ensure equality of business opportunity and to protect the consumer interest. In the Japanese rationale, however, competition could be excessive. They believed that the "excessive competition" (kado kyōsō) among firms would not only further dissipate the limited capital and material resources but also would further weaken the competitiveness of Japan as a nation in the international market. These different propositions were derived from different units of analysis and different preferences of ends. Since the Japanese believed that their primary goal was to obtain a strategic position for the nation in the international market, and the structure of the Japanese economy was characterized by duality, the limited capital must be concentrated in big firms, instead of being scattered among small firms, in order to develop the heavy-chemical industries quickly. The nation as a whole would not be better off, if they put much emphasis on equality.

Fourth, the state sponsored private firms to conduct large-scale investment in equipments and technology transfers. The following table shows that Japanese investment in equipment during the 1955-1964 period was significantly higher than that of any other major industrialized countries.

Table Four: The Increased Rate of Investment in Equipment in the Major Industrial Countries

Year	Japan	West Germany	Italy	Britain	The U.S.
1955	-0.8	20.4	10.5	4.5	12.4
1956	28.0	7.3	7.7	5.6	0.7
1957	26.3	0.6	9.2	5.4	-2.7
1958	9.1	6.1	1.8	0.3	-7.7
1959	21.2	12.9	10.0	7.8	10.3
1960	31.8	11.6	15.1	9.9	0.1
1961	30.7	9.4	12.3	8.7	-2.8
1962	10.7	5.7	8.8	-0.8	9.6
1963	7.1	2.3	7.3	3.3	4.4
1964	19.6	10.9	-10.1	16.0	6.7

SOURCE: Arisawa Hiromi. Seisansei to Nihon Keizai. 1969:28.

The state assumed the leadership in developing strategic industries. In the iron and steel industry, for example, the private sector and MITI together devised a rationalization plan in which the annual growth rate of investment was set at ten percent. Even this investment in the iron and steel industry was far beyond the financial capacity of individual firms at the time; they pursued it anyway by becoming strongly dependent upon external financing in which the state provided fifteen percent of the total capital while the internal firm capital comprised less than twenty-five percent of total investments (Arisawa 1976:345). At the same time, the Japanese firms intended not only to bridge the technological gap with the West, but also to go forward to occupy the frontier in each strategic industry. From 1950 to 1966, Japan imported 4,135 technological patents. Among them seventy-seven percent were for machinery and chemical technologies. The United States was the biggest technological exporter to

Japan; it sold 2,471 of the 4,135 (Arisawa 1969:30-32).

Fifth, the Japanese realized that they would not be able to build up their competitiveness in technological innovations simply by investments; the software of management also deserved more attention. Therefore, Japanese firms comprehensively introduced American management technologies in the 1950s, including industrial engineering, quality control and top management. Industrial engineering was introduced to Japan in 1955 by the first delegation sent to the U.S. for the purpose of improving productivity in the iron and steel industry. From then on, there occurred a boom in industrial engineering. Many American experts in industrial engineering were invited to Japan to give seminars and for guidance. The Japan Iron and Steel Federation organized a study group, emphasizing the American experience of industrial engineering in the iron and steel industry. In 1959, the Japanese Association of Industrial Engineering was established, and in the same year the first professional journal *Industrial Engineering* began to be published. The well-known Statistical Quality Control was introduced to Japan in the early 1950s. In its initial stage, this was primarily a matter for technicians or engineers in the firms. After Professor Joseph M. Juran of New York University was invited to Japan to give seminars to Japanese managers, Japanese firms extended this practice to Total Quality Control, which involved all employees in the firm. The Japan Science and Technology Federation began to organize seminars for directors at division and department levels of private firms in 1955 and for top managers in 1957. In the late 1950s, both shortwave broadcasts and television were used for diffusing knowledge about quality controls nationwide. The new approach to top management

centered around decision-making. The power of CEOs in management was strengthened according to the American model, and from then on the practice became popular that CEOs made decisions while boards of trustees approved these decisions. Meanwhile, the controller system was established, serving the function of internal supervision (Tsusan-Shō 1990, vol.6:389-391).

And finally, the Japanese state established some semi-official agencies which brought representatives from different sides to settle differences in labor relations. This transition indicates a shift in the unit of analysis by which rationality was constructed. At the micro level, the focus of Japanese firms began to shift from property at the disposal of shareholders to a community shared by employers and employees. The Japanese state sponsored the establishment of the Headquarters of Productivity and the Central Committee of Labor. Both agencies brought representatives from management, labor unions, mass media, and academicians together, seeking better labor relations and solving the conflicts between management and labor.

In the early 1950s, the Japanese efforts to increase production efficiency in firms were not very different from those of their western counterparts. They made large-scale investments in replacing and upgrading equipment and laid off workers, in an effort to reduce production costs. Nevertheless, these steps did not enable management to resolve the problem of production costs completely because the practices mentioned above were to a large extent sustained by the boom created by the Korean War. As the war ended, the old issue of how to compete in the international market returned.

The selection of technological innovation in the state policy paradigm was not a

functional response. As a matter of fact, both the state and business circles initially emphasized the "rationalization" of production--to reduce production costs by layoffs, taking advantage of the special procurement for the Korean War. After several years of confrontation between labor and management during the occupation period, management gained power in the struggle, supported by GHQ. As the Korean War broke out, GHQ decided to take a tough policy toward Japan's labor movement. Many leaders of labor unions were arrested. This was the famous "red purge". As a result, the balance of power in the confrontation between management and labor unions experienced a U-turn from labor's favor to management's. When the implementation of the "Dodge plan" drove the Japanese economy into a "stabilization panic", many middle and small sized firms went into bankruptcy. In order to reduce production costs, 10,375 private firms laid off 400,000 employees from February 1949 to May 1950. In the same period, government and public agencies also laid off 419,000 employees (Rekishigaku Kenkyūkai 1990:137).

This strategy, however, was changed quickly for several reasons. First, the economic crisis resulted in political instability. The layoffs resulted in many conflicts and disputes between firms and labor. Within two months, there occurred three striking incidents. On July 5, the president of the National Railway Shimoyama Sadanori was missing and later his dead body was found on the railway. Ten days later, a driverless train suddenly emerged from the garage and killed six passengers in Mitaka station. On August 17, a train turned over near Matsukawa station. Three men died and five were injured. It was found that the joints in the rails were removed and many spikes which

connected sleepers and rails were pulled out. The government arrested many activists in the labor unions (Masamura 1985:268-270). Second, as the Korean War ended, the special procurements also disappeared. Japanese firms again had to face the urgent need of promoting their productivity in order to compete in the international market. It seemed clear that without cooperation from workers the Japanese firms would be unlikely to absorb and apply the latest technologies, and to control the quality of products. It was under such circumstances that for the first time in postwar history management had the incentive to stabilize labor relations.

The selection of man-made comparative advantage based on technological innovation over natural comparative advantage based on cheap labor reveals a meaningful insight in the wisdom of Japanese economic thinking. It tells us that the major point in economic strategy is not whether the market mechanism should be chosen over state planning and control, but how to compete in the market. In this sense, the debate in Japanese studies between the state centric approach and the market centric approach has missed a critical issue. It does not make any sense in the Japanese case to simply argue that individual firms responded to the opportunity created by the market because the major point at issue here is not whether the market functioned or not but how economic actors competed in the market. Economic actors might respond to the market situation in various ways. There was a significant difference, for example, between the first half and the second half of the 1950s. The distinctive characteristic of Japanese rationality in the 1950s was that they identified innovation as the most important preference and derived various instrumental means to achieve this end. Building a man-made

comparative advantage based on production technology for the future instead of depending upon the naturally given cheap labor was what Japanese rationality was all about in the 1950s. According to a short-term perspective, it was not efficient at all because it cost a great deal in inputs and did not achieve the expected effect until many years later. In the long-run, however, the Japanese laid out a solid foundation for their future, whose implications overwhelmed the world in the 1980s.

FROM THE COLD-WAR TO THE FOURTH INDUSTRIAL REVOLUTION

The Japanese perception of international order experienced a drastic twist in the 1950s, responding to the changing international situation. It underwent a clear transition from the central theme of the cold-war to the central theme of the fourth industrial revolution. This changing perception of international order exerted a great impact on the goal setting process. The image of international order in terms of the cold war system prevailed in the early 1950s from which two distinctive strategies were derived. Marxist economists and the left-wing intellectuals regarded the cold war as a threat to the Japanese economy. They asserted that Japan should separate herself from the international market, emphasizing development based on domestic resources and meanwhile taking a neutral position between the socialist bloc headed by the Soviet Union and the capitalist bloc headed by the United States. In contrast, conservative politicians and business leaders perceived the cold war as an opportunity to the Japanese economy, asserting that Japan should adopt a political strategy by standing on the side of the U.S. in the cold war system in order to ensure Japan's access to the international

market, capital and technology.

In the early 1950s perceptions of the international order had a direct impact on what kind of strategy Japan would adopt to negotiate ties with the world system to obtain the biggest net gains. This was the primary issue in Japanese economic reasoning. At the time, the Japanese economic reasoning for state policy-making was overwhelmed by international tensions. The Japanese were confronted with an uneasy task: on the one hand, Japan was under strong pressure to promote exports in order to achieve economic independence, on the other hand, the international order was strongly clouded by the military confrontation in Korea and the subsequent cold-war tension between two blocs. Influenced by the perception of international conflicts, various strategies prescribed for the Japanese economy had gone beyond the framework of economics, emphasizing the impact of international politics on the domestic economy.

By the mid-1950s, the leading perception of international order in Japan shifted to a new theme, the fourth industrial revolution. In contrast to the theme of the cold war which focussed on the political strategy in international politics, the impact of this new perception of international order on the Japanese economic reasoning was much more fundamental because the strategy it suggested had several institutional implications. According to this perception, the international economy was entering an era of modernization in which the winners and losers would be determined by technological innovation. Therefore, the locus of economic reasoning should shift back from politics to the economy, emphasizing the importance of technology.

International Trade or Domestic Market?

How to perceive the international environment in the early 1950s was a critical issue in state policy-making. There were three competing approaches in the debates. The Marxist approach advocated by Arisawa Hiromi and Tsuru Shigeto argued that the international environment was threatening. If Japan linked its economy with the international market it would risk the dangers of not only becoming involved in the military conflicts between the U.S. and the Soviet Union, but also become more and more dependent upon the U.S.. Therefore, Japan should pursue her economic reconstruction through domestic development. The classical economics approach asserted by Nakayama Ichirō before the Korean War broke out held that the international environment was enabling. It emphasized the importance of participating in the international division of labor, suggesting that the international market was the only source for Japan to obtain capital, technology, and markets, and Japan must build its economic foundation on trade.

As the Korean War broke out, this debate between the Marxist approach and the classical economics approach was accompanied by a broader political controversy which involved not only intellectuals but also politicians and business leaders. The political strategy approach asserted by the prime minister Yoshida Shigeru held that the international environment was both threatening and enabling. While Yoshida shared the opinion of business leaders' that the international tension provided an opportunity to Japan to pursue her own interests, he believed that dangers indeed existed in the international environment. He argued that Japan should obtain the benefits while

avoiding the dangers by taking no side in the conflicts between two blocs but concentrating her financial resources in economic reconstruction, instead of defense.

The debate between the Marxist approach and the classical economics approach first started as an internal discussion in 1949. At the time, Nakayama Ichirō, Arisawa Hiromi and Tsuru Shigeto, along with Ōuchi Hyōe and Tōbata Seiichi, were members of the advisory committee to Ichimada Naoto, then president of the Bank of Japan, attending monthly meetings with Ichimada to discuss various issues concerning economic policies. At the time, the Japanese emperor was also interested in economic issues and Ichimada was asked to provide tutors to give lectures to the emperor. Ichimada recommended all of his five advisors. Each economist gave a lecture to the emperor and each lecture was followed by discussions by all five members together. During these discussions, these economists were divided on the issue of what should be the foundation of the Japanese economy in the future. Soon this debate appeared in the mass media.

The function of the international market in "solving economic problems of one country at the global level" was the theoretical foundation of Nakayama Ichiro's idea of international trade. His analytical framework consisted of three dimensions of the Japanese economy: population, trade and national income. According to Nakayama, since Japan was a country which had little natural endowment but a huge population, to enter the division of labor in the world system was the only way for Japan to solve its economic problems internationally. Drawing lessons from the history of Britain, Nakayama argued that the capital accumulation for economic growth had to be sustained by international trade. He believed that "no country can solve its problems without

applying this method. So long as capitalism exists, this principle will continue to function" (Nakayama 1970:11). International trade would enable Japan to accumulate capital and realize full-employment. In order to compete in the international market, the Japanese must promote productivity instead of depending on cheap labor (Nakayama 1948b). This required Japan to import heavily. Without imports, there would be no industrialization in Japan. Since the cost of imports must be paid by exports, "imports and exports are the two pillars to support Japan's industrialization and high population". For this reason, "the focus of postwar recovery must be on the promotion of trade" (Nakayama 1949:3-6). Nakayama's perception of the international environment was evidently influenced by the doctrine of classical and neoclassical economics. It excluded political factors while emphasizing pure economic laws. Admitting that the present situation in the international market was not stable and some countries were practicing managed trade at the time, Nakayama believed that they were just some temporary phenomena but not the long-term trend. Sooner or later a new order of the international economy would be established as a result of efforts made by Western countries through the Bretton Woods Treaty and European Treaties in the late 1940s (Nakayama 1949:12).

The potential negative impact of linking the Japanese economy with the international market on Japan in general and the interests of the working class in particular were the major concerns in the Marxist approach asserted by Arisawa Hiromi and Tsuru Shigeto. Both Arisawa and Tsuru perceived the international environment within a framework of political economy. First of all, they were highly skeptical about the prospects of international trade for several reasons. They believed that the practice

of managed trade would persist for a long time, despite various efforts and goodwill to rebuild an order in the international economy. The state intervention in the economy during World War II in Western countries seemed to them not to be a temporary phenomenon but "economic arteriosclerosis", an inevitable development in the monopoly stage of capitalism. Although some economists and businessmen dreamed of returning to a free international market, it would be simply a form of "nostalgia" (Tsuru 1970 [1950]:33-34). They argued that since the world was divided into two blocs by the cold war, the scope of the international market and the amount of global trade would be seriously restricted. Besides, as the development of manufacturing industries would be primarily based on advanced technologies, the demand for the primary products of East Asia would decrease; the industrialization of developing countries would decrease exports of their domestic primary products; and with most wealth, production and money concentrated in the U.S., the shortage of dollars would restrict the amount of international trade.

Secondly, they held that if Japan connected herself with the international economy, it might suffer from an economic crisis transposed from the U.S.. Since the purchasing power of Western countries in the early 1950s was primarily based on the financial aid provided by the U.S., whenever an economic recession occurred in the U.S., it would be exported to all those who were connected with the American economy. Besides, participating in the international economy by allying with the U.S., Japan would also risk the danger of becoming involved not only in the cold war between the capitalist bloc and the socialist bloc, but also in the conflicts among capitalist countries

for a share of the international market (Tsuru 1970 [1950]). Thirdly, they argued that to link the Japanese economy with the world system would exert a negative impact on Japanese domestic living standards. Japan had been engaged in international competition on the basis of cheap labor before World War II. Now if Japan were to build its economy on the foundation of exports, the Japanese state would have to continue its cheap labor policy. This would not only ruin the achievements of postwar democratic reforms but might also be protested by the international community. If Japan had to practice a cheap labor strategy through coercion, the foundation of its democratic political institutions might be jeopardized (Tsuru 1975 [1950]:100).

After the Korean War broke out in June 1950, political circles and business circles were also involved in this debate. This time, the critical issue was no longer whether the international environment was threatening because danger had already become the given reality, but how Japan would seek benefit from the existing international tensions. As the war began, Nakayama withdrew from the debate, while Arisawa and Tsuru, with many other Japanese intellectuals, continued to warn of the dangers of connecting Japan with the international environment.

In contrast with the anxiety of intellectuals, political leaders and business leaders emphasized the positive impact of the military conflicts between two blocs on the Japanese economy. They regarded the Korean War and later the cold war as good opportunities for Japan to reconstruct its economy through strategic maneuvering in international politics. The prime minister Yoshida Shigeru himself was well known for his conservative economic position. He believed that "the best medicine for the Japanese

economy would be to open it up to the world economy and the discipline of international competition" (Johnson 1982:189). Nevertheless, as a politician Yoshida based his strategy for Japan's return to the international community not on pure economic principles, but on political economy. He saw both enabling elements and constraints in the international environment, and he tried to take advantages of the former while avoiding the disadvantages of the latter. The grand strategy he prescribed for Japan was well reflected in the famous Yoshida doctrine, which asserted that Japan would achieve its economic independence by depending on the U.S. politically and militarily in exchange for economic advantages, and meanwhile Japan would limit its defense expenditures to a minimum in order to concentrate all resources on the economy. In his assumptions, to depend upon the U.S. was both constraining and enabling. On the one hand, it was a constraint on Japan's economic reconstruction because the U.S. constantly put pressure on Japan for rearmament. On the other hand, it was also enabling because the U.S. had a very strong economy which would provide enormous support in terms of market, capital and technologies for Japanese efforts toward economic independence.

In Yoshida's perception, the Japanese position in the world system would be determined by her relationships with the United State and Britain. Working as a Japanese diplomat through most of his career beginning from the end of the 19th century, Yoshida believed that throughout Japanese history after the Meiji Restoration, when Japan cooperated with the U.S. and Britain politically, Japan had a prosperous destiny economically. In contrast, after the Manchuria Incident Japan lost this principle in national policy, involving herself in a reckless war with the U.S. by allying with

Germany and Italy. For this reason, Japan suffered greatly from the defeat in World War II. In short, Yoshida believed that Japan would prosper so long as it stood with the U.S. and Britain, and it would go to ruin when it betrayed them. According to his logic, "The importance of Japan-U.S. relations can be understood not only from historical inevitability, but also from the fundamental nature of Japan's national economy. Japan is an island country and an ocean country. It has by world standards an exceptionally dense population in a narrow territory. In order to feed this population, the promotion of international trade is by all means necessary, in order to pursue constant economic growth, the introduction of capital and technology from the advanced countries is indispensable. For either international trade or introduction of capital, Japan should associate herself with the countries which are the richest economically and the most advanced technologically in the world. It is not a question of ism or ideology, but the most convenient way to the most net profits. From this point of view, it is the U.S. and Britain that deserve the most respect of Japan in the world." (Yoshida 1957, Vol. 4:23-25).

As a matter of fact, Yoshida was realistic in choosing the strategy of connecting the Japanese economy with the U.S. because after World War II the U.S. became Japan's biggest trading partner. In the 1930-1934 period 24 percent of Japanese imports were from the U.S. and 23 percent of exports went to the U.S. while 53 percent of Japanese imports were from Asia and 60 percent of exports went to Asia. This relationship changed dramatically in the postwar era. In 1947, 92 percent of Japanese imports were from the U.S. and only 6 percent from Asia. Meanwhile Japan shipped only 12 percent

of her exports to the U.S. and 66 percent to Asia (Cohen 1949:494).

In comparison with leaders in Latin American countries at the time, Yoshida perceived the international order and the Japanese position in this order in a very different way. Overwhelmed by the unfavorable external environment, many Latin American countries regarded the international market as a real threat to their political independence. Therefore, they decided to keep themselves away from the international market, choosing import substitution as a primary strategy for their economic developments. In this sense, their positions were very similar to that of the Marxist approach asserted by Arisawa Hiromi and Tsuru Shigeto in Japan. In contrast, Yoshida took the facts that nations' positions in the world system were not equal and that the world after World War II was divided into two blocs for granted. He believed that Japan could do nothing to change them but was given enough room for manipulation.

Therefore, Yoshida was willing to make a tradeoff between economic development and political independence. General MacArthur (1989 [1947]:26) once told Japanese that "for there can be no political freedom so long as a people's livelihood is dependent upon the largess of others." Yoshida turned his logic the other way around, believing that political independence must be given up for economic recovery when it was impossible to get both simultaneously. Yoshida further believed that "just as the United States was once a colony of Great Britain but now it stands as the stronger one. Even if Japan becomes a colony of the United States, it will eventually become the stronger one!" (See Masumi, 1985:192) At the same time, Yoshida also believed as long as Japan would not have to spend too much on defense and rearmament the cold war

would not be a big threat to the Japanese economy. In this sense, Japan should make the cold war situation serve her purpose of economic reconstruction, instead of doing anything to oppose it. History has shown that different perceptions of international order resulted in different strategies of economic development between Japan and Latin American countries, and different strategies might create different outcomes. If the Japanese had followed the strategy prescribed by the Marxist approach, the Japanese economy might have had a very different future.

The Fourth Industrial Revolution

By the mid-1950s, the Japanese perception of the international order began to transcend the framework of the cold war, foreseeing the era of the fourth industrial revolution in which the capitalist bloc and the socialist bloc would coexist and international competition would shift its locus from military confrontation to a "peaceful race"--"a competition for economic growth rate and the promotion of productivity" (Keizai Kikaku-Chō 1956:43). This new world view was well presented in the 1956 White Paper on the Economy, which turned out to be a cornerstone in the postwar Japanese economic thinking in the sense that it prescribed a totally new rationality for Japan's economic development. The impact of this new rationality on the global economy became highly visible in the late 1960s and beyond.

This new image of the world economy regarded technological development and industrial revolutions as the major dynamics in the economic history of the world. According to Japanese understanding at the time, the world had experienced three

industrial revolutions in the past, the first took place between 1788 and 1815, which was represented by the invention of the steam engine; the second occurred between 1843 and 1873 created by the spread of the railroad; the third appeared between 1897 and 1920 brought by the emergence of the electronics, chemical, automobile and airplane industries. The Japanese economists argued in the mid-1950s that now the fourth industrial revolution was coming, stimulated by the use of atomic power and automation. More importantly, long-term growth of the global economy was always present in a period of industrial revolution. Even if short-term recessions might occur, they would simply be minor episodes between waves of economic growth (Keizai Kikaku-Chō 1956:33-35). Drawing upon the observations of the postwar development of the global economy which had been in a boom despite two small recessions in 1949 and 1953, and especially the American experience in the early 1950s, Government economist Gotō Yōnosuke, the author of this white paper, argued that the sturdy growth could not be explained solely by the postwar economic reconstruction and the Korean War, and technological innovation in fact was the most important factor. He predicted that the world had entered the era of the fourth industrial revolution, in which technological innovation would not only cause competition in investment in equipment but also enlarge the consumer market (Gotō 1956:10).

This new worldview exerted a profound impact on the economic reasoning by changing the focus of discussion completely. It portrayed the emergence of a new order in the international economy and the possibility for Japan to participate in the international division of labor. In previous discussions, the international environment

was perceived by Marxist and left-wing economists as full of danger. Even when kinkei economist Nakayama Ichirō asserted the importance of trade, his idea did not provide a direct solution concerning what kind of strategy Japan should adopt in order to win the competition. Although Yoshida's doctrine clearly defined the relationship between Japan's economic development and Japan's diplomatic policy, it was a political approach, having no direct implications to individual firms. The opinions held by business leaders in favor of developing the Japanese economy through the production of weapons were more opportunistic in nature; they could not stand as a grand strategy for the nation in its long-term economic growth. In comparison to these worldviews, the perception of the fourth industrial revolution asserted by Gotō Yōnosuke not only offered a prediction of the long-term trends of history, but also clearly defined the goal for the Japanese economy, namely, to obtain a position in the international market by sponsoring technological innovation and to sustain economic growth by joining the fourth industrial revolution.

IDEAS CONCERNING PARTICIPATION IN THE INTERNATIONAL ECONOMY

What kind of strategy Japan should adopt to compete in the international market was the most critical issue in the Japanese economic reasoning in the 1950s. In this sense the diffusion of Joseph A. Schumpeter's theories of innovation and entrepreneurship played a very important role in prescribing the program of technological innovation in the Japanese economic thinking during the 1950s. In the early 1950s, the Japanese were overwhelmed by the Korean War. Consequently, their attention was

directed toward non-economic factors. The basic line in Japanese economic thinking was political, emphasizing the strategies either to ensure Japan's ties with the international market by being a political and military ally of the U.S. or to oppose any connection with the world system at all. It was Schumpeter's theories of innovation and entrepreneurship that provided Japanese economists with a new analytical tool to grasp the new trend in the international economy, which completely changed the Japanese strategy of running the economy.

Different from economic theories which were previously influential in economic thinking, Schumpeter's theory had clear implications for the rationalization of Japanese economic institutions at the micro level. This was particularly important after the Japanese had run a managed economy for more than a decade, which had enabled them to shift gears on time with a clear direction. Before Schumpeter's theory was formally applied in state policy-making, the Japanese construction of rationality was primarily concerned with macro economic institutions, especially the state capacity in resource allocations. The introduction of Schumpeter's perspective in Japanese economic thinking resulted in a managerial revolution in Japanese firms, the impact of which was reflected not only in business organizations, but also in investment strategy, management system and labor relations. In this sense, if the managed economy during the 1930s and the 1940s greatly strengthened the institutions of Japanese capitalism from the top down, creating a strong state in directing economic development, the program of technological innovation and managerial reforms stimulated by Schumpeter's theory in the 1950s at the micro level made a great contribution to improving economic institutions from the bottom

up, laying a solid foundation for Japan to outperform its international competition in the future.

Debates Regarding Military Production

The impact of cross-national learning on the social construction of rationality can be well illustrated by a comparison between two competing agendas before and after Schumpeter's theories of innovation and entrepreneurship became the leading perspective in Japanese economic thinking. It shows that the diffusion of an economic theory may result in a rapid change in the way economists construct economic laws and derive relevant strategies. As mentioned before, in the early 1950s the nature of Japanese economic thinking was more political than economic. After the Korean War ended, how to negotiate ties with the international market became an urgent issue. Business circles intended to develop munitions production, making the export of military weapons the foundation of the Japanese economy. They believed that since American policy toward Asia was characterized by a huge amount of military aid to countries in the East and Southeast Asian regions, organizing them in the cold-war system, Japan could benefit from playing the role of go-between by producing weapons for the U.S. and exporting them to Asian countries. At the time they took this business very seriously. According to a keidanren (the federation of economic organizations) document, in contrast to the special procurement during the Korean War, which was temporary in nature, the American efforts to help Asian countries to strengthen their defense in order to constrain communism would be a long-term task. Therefore, contracts for military goods would

gradually become a long-term business. According to their prediction, military production would benefit the Japanese economy in several ways. First of all, it would become possible to implant the defense industry in Japan's industrial structure. Secondly, since the defense industry involved the application of high technologies, Japan would be able to achieve industrial modernization by depending on American aid through the production of military weapons. Thirdly, the export of military weapons would promote Japanese trade. And fourthly, it would improve Japan's international payments.

Deriving its economic logic from international politics, the strategy chosen by Japanese business leaders was political in nature. According to this strategy, the Japanese would pursue their economic interests by political means, especially diplomatic policy. In this sense, the Japan-U.S. security treaty was a trade off for economic cooperation, which implied that Japan would play a special role as a broker between the U.S. and its Asian allies in the American-led cold-war system along two dimensions. At the time, the United States provided enormous financial aid to its Asian allies for building up a security system to contain communism in Asia. The financial aid appeared in two forms, one was military aid to strengthen the defense capacity in these countries, and the other was developmental aid to help the industrialization of these countries. According to the proposal by Japanese business leaders, Japan should produce both weapons and industrial goods and then sell them as products to Asian countries. By doing so, Japan would not only make the money the U.S. provided to its Asian allies, but also obtain a guaranteed market (See Keidanren 1952). The selection of this strategy is meaningful to our discussion concerning rationality in two dimensions. On the one

hand, it proves that the strategy of running an economy in the international context can hardly be purely economic. To a considerable extent, a nation's position in the world system is politically determined. A nation could benefit from linking herself to an economic superpower, creating opportunities in the international market. On the other hand, it also indicates the weakness of the market explanation of Japanese economic development because actors might define their interests in various ways, resulting in different strategies to respond to the market situation.

The Agenda of Technological Innovation

The diffusion and application of Schumpeter's theory of innovation in economic reasoning caused a revolutionary change in Japanese rationality, and the leading agenda shifted away from an opportunistic position of being a free-rider in the cold war to a long term point of view of building a solid and self-reliant foundation for the economy. The enduring impact of this transition on the international economy can be felt even today.

Among Joseph A. Schumpeter's many contributions to economics, his theory of innovation, which refers to putting new products and services on the market and new means for producing them, was particularly important to our discussion here. Schumpeter gave a central role to innovation in his analysis of economic growth, asserting that innovation was an important source of economic expansion and productivity. Since he himself related economic phenomena and ideas to a wider context of social analysis, the institutional implications of his theory were easier to be perceived. For this reason, the Japanese application of Schumpeter's theory of innovation was not

only reflected in the large-scale investment in equipment and technological transfer, which were usually associated with specific products, but more importantly in a series of reforms of micro economic institutions, which greatly improved the means of production.

Promoting technology had long been a major concern in Japanese economic reasoning, which can be traced back to the legacy of the managed economy in the 1930s and the 1940s. The development of heavy-chemical industries during the war was perceived by many Japanese economists as a future direction for the Japanese economy, which was clearly reflected in the Economic Independence Plan of 1949. The rationale underlying this perspective was that the industrialization of other Asian countries would take away the Japanese advantage of cheap labor in the international market, and the development of heavy-chemical industries would be the only way for Japan to survive the international competition. In the early 1950s, both sides in the debate between domestic development and international trade, despite holding competing positions on other issues, shared one understanding--the necessity to upgrade Japan's industrial structure and to promote technology. Tsuru Shigeto argued that promotion of the industrial structure was an important task for the Japanese economy. In order to obtain foreign currency for realizing economic independence, Japan must export manufactured goods, especially heavy and chemical industry products, because they were more value-added (Tsuru 1975 [1950]:98). Nakayama Ichiro (1972b [1953]:78-80) elaborated this position from a historical view, arguing that the reason Japan had been able to establish its modern economy and gain a share in the international market so far was its constant

effort to accumulate capital and its efficient use of capital. It cost Western countries a great deal to develop modern industrial institutions, machines, instruments and equipment. As a late-comer, Japan benefitted by importing them without the trial-and-error costs of development. Nonetheless, it would be very difficult for Japan to further improve the efficiency of capital because Japan had reached a similar level of development as European countries. Japan would not be able to sustain and increase efficiency in using capital without improving technology on its own. Arisawa Hiromi (1970 [1950]:20-22) in his analysis even linked the issue of technological development with the future of capitalism itself. He argued that Japan would not be able to accumulate capital by depending upon the private sector alone. It must introduce state capital in order to sponsor a revolution in production technology and the development of national resources. By doing so, Japan would be able to abolish capitalism eventually because introducing state capital would lead to socializing the economy.

The explicit application of Schumpeter's theories of innovation and entrepreneurship in the 1956 White Paper on the Economy, however, perceived the importance of technological innovation at a much higher level. Although the Japanese took technology seriously in the early 1950s, it was not treated as the most important agenda in state policy-making because Japanese were overwhelmed by the issue of how to ensure their access to the international market by political means. From 1956 the Japanese began to step out from the shadow of the cold war, perceiving the future of the Japanese economy from a new direction--technological innovation. This new agenda was nurtured by two factors. First was the systematic translation of Joseph A. Schumpeter's

works into Japanese. After Schumpeter passed away in 1950, three of his Japanese students, Nakayama Ichirō, Tōbata Seiichi, and Tsuru Shigeto, who became very influential in Japanese economics at the time, translated all of Schumpeter's major works into the Japanese language. Therefore, Schumpeter's theories of innovation and entrepreneurship spread quickly among Japanese economists. Second the opportunity of international travel to the West, and especially to the United States, became available to Japanese economists for the purpose of cross-national learning. After being isolated from the international community for many years, these travels broadened the vision of Japanese economists, creating a new image about the nature of the capitalist economy. Before writing the 1956 White Paper on the Economy, Gotō Yōnosuke spent one year as an exchange student in the United States, sponsored by the Eisenhower Foundation. Gotō was deeply impressed by the automation, labor unions and productivity movement in the U.S.. Drawing upon what he saw in the U.S., Gotō came up with the new idea of using Schumpeter's theories as a basic framework to comprehend the nature of the economy.

In the mid-1950s Schumpeter's theory of innovation was explicitly linked with the modernization approach in Japanese economic reasoning. Gotō was intellectually stimulated by a report submitted by a Swedish economist to the United Nations entitled "the Growth and Stagnation of the European Economies" in which the author asserted that innovation did not only change production technology but also changed the relationship of inputs and outputs, the patterns of consumption, the structure of trade, and the division of labor among industries and professions. The author used the term

"transformation" to describe the social consequences brought about by innovation. When Goto Yonosuke (1956) translated the term "transformation" into Japanese, he directly used the term "modernization of economic structure". "Modernization", according to Goto, "is a process to make economic resources including human capital in a given country interact with each other in order to sustain the process of promotion of productivity." He asserted that modernization would not only create economic growth but also determine its tempo. In the process of modernization, investment would be an important factor, which would determine the levels of employment and productivity.

The agenda of innovation asserted by Goto Yōnosuke in the 1956 White Paper on the Economy attracted great attention in the second half of the 1950s. In 1957 many books on the topic of automation, which were originally published in the United States, were translated from English into Japan. As a Marxist critique described the situation at the time, "the American literature has become the bible for automation in Japan". Goto himself was invited more than fifty times by firms and the mass media to give lectures on innovation, and his phrases "it is no longer the postwar era" and "innovation" became extremely popular, which set the leading agenda not only in political discourse at the time, but also in almost every book about the postwar history of the Japanese economy even to today. The 1956 White Paper on the Economy apparently exerted a great impact on the social construction of rationality. According to a MITI report, "industrial investment, which was not active at all in 1955, became active in 1956. It showed an orientation to emphasize the development of basic industries and to catch up to the global trend of technological innovation by investing in new industrial fields and

new technologies" (Tsusan-shō 1957).

The diffusion of Schumpeter's theories of innovation in Japan had a profound impact on the Japanese understanding of economic institutions. In the second half of the 1950s, the agenda of innovation demanded a series of institutional reforms in Japanese firms. First of all, the agenda of technological innovation led to new efforts to stabilize labor relations. As Nakayama Ichirō pointed out, the attention in economic analysis concerning productivity had been focussing on production costs and prices, while labor relations had been neglected. Even in labor economics, the major concerns were either salaries or costs, and little attention was paid to human affairs. Following such a logic, it was inevitable to conduct rationalization through layoffs. When technological innovation became the dominant agenda in the social construction of rationality, Nakayama argued, labor relations had to be given ample attention. The reason was that the development of technology would not automatically result in economic growth. No matter how useful an innovation was, firms had to consider production costs in order to transfer it from the lab to the factory. In an era of technological innovation, the conflicts between capital and labor were the biggest obstacle to the promotion of productivity (Nakayama 1972:vii).

Stimulated by the idea of innovation, Nakamura raised three famous principles for the nationwide productivity movement. First, the ultimate purpose of promoting productivity was to increase employment. The state and business circles must make every effort to prevent unemployment, transferring surplus employees to new positions. Drawing upon the British and German experiences of the productivity movement, he

argued that technological innovation would not be able to gain the support of labor without sustaining full employment. Second, management and labor must cooperate with each other, building consensus on how to promote productivity according to the actual situation in each individual firm. Third, the benefits created by the promotion of productivity must be distributed fairly among economic actors. "The productivity movement would not have any reason to be supported without proving empirically that its achievements fit not only the interest of managers and capitalists but also the interests of labor and the general public" (Nakayama 1972 337-344).

The agenda of innovation also resulted in a new understanding of business organization in Japanese economic thinking in the late 1950s. As mentioned before, the movement of industrial rationalization in the prewar period was based on the principle of eliminating excessive competition and promoting cooperation among firms. During the occupation, an American style anti-trust law was enacted, encouraging competition among firms. From the early 1950s, business circles took the initiative in reorganization, and many keiretsu emerged based on the organizational foundation of prewar zaibatsu. At the time, the major concern was how to concentrate limited capital in big business in order to strengthen the capacity of Japanese firms in international competition. In the second half of the 1950s, the Japanese understanding of keiretsu showed some new developments. First of all, stable growth was given more attention. The Japanese economists admitted that laissez faire competition stimulated economic growth. Nevertheless, as firms competed for large-scale investment in equipment, a crisis appeared in Japan's international payments, exerting a negative impact on the economy.

In order to sustain long-term and stable economic growth, the Japanese business circles needed to integrate themselves through reorganizing private firms.

By the end of the 1950s, the Japanese had rejected the American view of anti-trust. As MITI's document pointed out, it is highly skeptical that anti-trust law would work perfectly everywhere as it did in the U.S.. "There are several conditions in the environment of a national economy or the market structure in reality which might constrain the function of competition. Where there are not abundant resources but a huge population, the freedom of economic activity itself is restricted and competition may become inadequately excessive. Sometimes, human beings may not be expected to behave according to economic rationality. If a national economy is deeply dependent upon the international market, it is strongly influenced by fluctuations in the economic situation, which often become the reason for disturbing economic stability unnecessarily. Especially, when the economy of a nation has been late to develop in comparison with other nations, to achieve modernization and rationalization of the economy necessitates active assistance from the state. Competition can never be the best method. There exist various factors in the late-developed social and economic structure which prevent competition from functioning well" (Tsusan-Shō 1957:287).

The agenda for innovation in Japan had direct implications for the state policy in support of big business. As Arisawa Hiromi argued, big businesses play a very important role in R & D. At the time R & D in Japan were seriously constrained by financial capacity and size of the firm. In order to overcome these constraints, Arisawa contended, Japanese firms had to concentrate their limited finances in big businesses.

Drawing upon history, he argued that it was big businesses that commercialized various outcomes of basic research. In this sense, unlike his Marxist fellows who primarily emphasized the relations of production, Arisawa paid great attention to the production forces (See Koizumi and Mayazaki 1967:276-277).

New Ways of Influencing

In the 1950s, the linkage between academia and the state changed rapidly. Economists no longer participated in policy-making directly in the state bureaucracies, because as the Yoshida cabinet abolished the institutions of the managed economy in the early 1950s, the functions of economic planning and policy integration performed by the Economic Stabilization Board were given back to individual ministries. The Economic Stabilization Board was changed to the Economic Deliberation Agency. From then on, economists were basically involved in the activities of various advisory committees, expressing their ideas concerning economic policy, but did not have direct access to the leading politicians until the late 1950s when government economist Shimomura Osamu became the chief advisor to the leading politician Ikeda Hayato.

At the same time, however, economists also found some new ways to exert their impact on the social construction of rationality. First, the periodic publication of the White Paper on the Economy provided government economists with a powerful instrument to diffuse their ideas within the political discourse, which significantly increased their impact on the general public. At the time, Gotō Yōnosuke was the director of the Survey Division at the Economic Deliberation Agency and then the

Economic Planning Agency, directly in charge of writing the White Paper on the Economy for the Japanese government. Second, semi-official agencies which consisted of representatives from state bureaucracies, the private sector, labor unions and academicians became more and more influential in policy-making because the Japanese found them a good place to build up consensus. During the productivity movement, even the implementation of state policy was carried out through these agencies. Nakayama Ichirō, as a representative of the public interest, took an important position as the vice president at the Headquarters of Productivity, holding the power to shape the direction of the productivity movement. The three principles he designed for the productivity movement not only greatly influenced the movement itself, but also had a profound impact on the future development of Japanese economic institutions. These new channels of influence well suited the characteristics of state policy which focussed on improving micro economic institutions, enabling economists to present their ideas directly to the ordinary managers and workers, the agents of these managerial reforms.

REEMERGENCE OF NATIONALIST IDEOLOGY

In the 1950s, the nationalist ideology, which reemerged as a response to the changing international environment, played an important role in selecting the leading paradigm in state policy-making. It changed the unit of analysis from individualism and class to the nation-state, creating a new framework for economic reasoning. The impact of nationalist ideology in the 1950s was reflected in two dimensions. First, its assertion of national interest in international politics functioned against the initiative of a group of

business leaders to build the foundation of the national economy on the development of the munitions industries. Second, its ideological orientation towards Japan's national identity helped in the adoption and implementation of the program of technological innovation, assuming that it would benefit Japan as a nation-state instead of particular interest groups. In contrast to Japan's prewar nationalism which was closely associated with militarism, the postwar version of Japanese nationalism in the 1950s was explicitly anti-militaristic. The impact of national ideology on economic reasoning in the 1950s in Japan demonstrates that economic issues are rarely purely economic. They are often shaped under moral and ethical scrutiny. Policy proposals which are in serious conflict with the popular economic values in the society can hardly generate enough support, while successful policy initiatives are always able to gain moral and ethical support from the general public.

The constraints of popular values on state policy-making is well reflected in the debate concerning rearmament. In the first half of the 1950s, the major concern in the nationalist movement was how to protect Japan from becoming involved in the military confrontation between two blocs headed by the U.S. and the Soviet Union. As the U.S. government intended to organize Japan into the security system in East Asia, which was aimed at preventing communism, strong resistance appeared in Japan and intellectuals became the leaders in the nationalist movement. They strongly opposed the proposal by business leaders to build the foundation of the Japanese economy on rearmament and the production of military weapons, arguing that in doing so, Japan would risk the danger of becoming a colony of the U.S. and be involved in the military confrontation between

the U.S. and the Soviet Union. In this sense, the nationalist movement functioned as a strong social constraint, which had a broad moral and ethical foundation, on the program of rearmament asserted by some vested interests.

The enabling side of popular values to the state policy-making was reflected in the impact of the nationalist movement on the adoption of the program of technological innovation. Fighting with a negative self-image since the defeat in World War II, the Japanese began to search for a new national identity and a new position in the world. Such a pursuit altered the unit of analysis in Japanese economic thinking to the nation-state, which in turn not only weakened the legitimacy of Marxism which asserted class struggle, creating room for cooperation between management and labor, but also created a favorable environment for building consensus among economic actors. As a whole, the reemergence of nationalist ideology in the 1950s was a critical factor in understanding the institutional development of Japanese capitalism in the period. After a decade of uncertainty between 1946-1955 in which the unit of analysis in Japanese economic thinking showed multiple orientations, the nationalist ideology began to support a new tendency of prescribing developmental strategy and integrating competing interests based on the nation-state.

Debates Concerning Rearmament

Rearmament became an economic policy issue during the Korean War. When John F. Dulles visited Japan in June 1950 as the advisor to the Secretary of the State, he strongly urged Japan to rearm at the meeting with Yoshida Shigeru concerning the

conclusion of the peace treaty. As the Korean War broke out, the U.S. government was more eager to push Japan to start rearmament, asking the Japanese to establish a national police reserve. General MacArthur's consideration was that four divisions of the American army in Japan were sent to Korea and 250,000 dependents who stayed in Japan needed protection. After former military officers were released from the purge on August 6, 1951, many of them joined the national police reserve (see *Rekishī Kenkyū-kai* 1990, Vol.2:93). In January 1952, GHQ had several meetings with officials of the Japanese government, demanding that Japan establish an army with 325,000 soldiers. The initial response to this initiative from the general public in Japan was rather positive because the concern for national security prevailed over other considerations when Japan's closest neighbor Korea was involved in a large-scale military confrontation. According to a national survey conducted by *Asahi shinbun* in September 1950, 53.8 percent of respondents supported the rearmament, 27.6 percent opposed it and 18.6 had no idea. In December 1950, *Mainichi shinbun* conducted another national survey, in which 23.1 percent of respondents supported full-scale rearmament, 42.6 percent supported a certain scale of rearmament. Only 16.5 percent wanted to stay in the present condition and 15.0 had no ideas (see *Rekishī Kenkyū-kai* 1990, Vol.2:100). After cease-fire talks started in Korea, special procurements declined rapidly which resulted in a shortage of Japanese foreign currency reserves, and the economy experienced a new recession. Under such circumstances, some business leaders expected that the international payments could not be improved quickly and the economic recession would last for a long period so they came up with the idea of reconstructing the Japanese

economy by developing military industries and exporting weapons to Southeast Asian countries.

This initiative confronted strong opposition from the nationalist movement in which Marxists and left-wing liberals were the major spokesmen. In this context, Marxism was particularly powerful because under its analysis the initiative of rearmament was simply a pursuit of the capitalist class, which was in conflict with the national interest for several reasons. First of all, the rearmament would increase the unnecessary burden of government finances and delay the process of economic reconstruction because Japan had not realized its economic independence. According to Arisawa Hiromi, rearmament would require a huge amount of new investment, which would inevitably restrict the accumulation of capital. As a big population and weak competitiveness in the international market remained the most urgent issues to the Japanese economy, Japan should not sacrifice capital accumulation for the purpose of rearmament.

Secondly, rearmament would further lower the living standards of the Japanese people. According to Arisawa Hiromi's calculation, if Japan spent 10 percent of its national income on rearmament, the living standard would further decrease 15 percent. If the former was 6 percent, the latter would be 10 percent. Since the Japanese living standards at the time were only equal to 70 percent of the prewar level, it would be very difficult for Japan to rearm by further lowering the living standard (Arisawa 1952a). More importantly, Arisawa asserted that rearmament would result in a change in the distribution between the state and the working class, because the purchasing power of the

working class would be further weakened by the state through taxation or inflation policy for the program of rearmament. Arisawa believed that rearmament was a real danger "within" the economy. It was "invisible" at the beginning, and once it became visible, it would be an unsolvable problem.

Thirdly, to develop the economy by rearmament might put Japan in danger of becoming more and more dependent upon the United States. As Arisawa pointed out, the boom created by special procurements during the Korean War did not originate within, but was cleaved to Japan's economy from the outside (Arisawa 1953d:3). If the Japanese economy continued to depend on military production, Japan would become "a colony of the United States". Even after the occupation ended, Japan still looked like "the fifty-first state of the U.S., under national suppression and imperialist exploitation." If this scenario became true, independence would be simply an illusion (Usami 1952:18). Rearmament, after all, would serve to "strengthen the control and leadership of the U.S." and bring "increased economic difficulties" for Japan and other Western European countries. It would make these economies weaker and more dependent on the U.S.. This was suitable to the interests of the U.S. instead of those of Japan. Therefore, it was "an instrument of the U.S. to further curb its own financial burden while making these countries more effectively incorporated into its global strategy and war economy." (Ikumi, 1953:4-5)

As happened in the 1930s, the application of the Marxist approach in the analysis of the international political economy often resulted in an orientation which was significantly different from the one produced by the same approach in domestic analysis.

The difference came from the unit of analysis. When the Marxist approach was applied in domestic analysis, class was the unit of analysis, which often suggested social conflicts between the capitalists and the working classes. Once the Marxist approach was employed by Japanese economists in the analysis of the international political economy, the concept of the nation-state often replaced the concept of class, and the world was divided by nations between the core and the periphery instead of between the capitalist class and the working class. As a result, the Marxist approach functioned to support the transition in the unit of economic analysis from the lower level to the nation-state. In the 1930s, it resulted in the "tenkō" movement, which was introduced in Chapter Three. In the 1950s, it not only rejected the idea of rearmament, but also created a foundation for the coming paradigm of technological innovation.

Returning to Harmony

The role of nationalist ideology in selecting and supporting a collectively oriented rationality in economic reasoning was reflected in the process of adopting and implementing the program of technological innovation. In the mid-1950s, there was a renewed trend in Japan to search for national identity, which had disappeared for a decade after World War II but regained momentum after the San Francisco Peace Treaty. Consequently, it was involved in a confrontation with Marxism in the debates concerning the productivity movement. As mentioned before, when the Marxist approach was applied in the analysis of domestic affairs, it often suggested class conflict between capital and labor. This was particularly true when business leaders tried to reduce

production costs by laying off workers after the implementation of the Dodge plan. In this sense, Marxism functioned as a rival theory against the laissez faire doctrine. In the first half of the 1950s, both Marxism and the laissez faire doctrine were influential though they represented the interests of different economic actors. Meanwhile, both approaches took either social classes or the individual as the unit of analysis, demonstrating no attention to the interests of the nation-state. The changing environment in the international market in the mid-1950s pushed economic actors in Japan to adopt a new approach to deal with the new situation. After the Korean War ended, the golden opportunity for Japanese economic reconstruction created by the special procurement no longer existed. As technological innovation was identified as the strategy for economic growth, labor relations became a major issue because without the cooperation of labor it would have been difficult to introduce new production technology in Japanese firms.

Under such circumstances, nationalist ideology was utilized to serve the goal of building up consensus between management and labor by a new generation of managers gathered at the Japan Committee for Economic Development (keizai dōyū-kai), who obtained their positions after the zaibatsu dissolution, challenging orthodox thinking in management practices and state policy. Rather than carrying out rationalization and promoting efficiency for the purpose of "increasing the profits of the firm", these managers emphasized the significance of labor as one of the most important components of the firm, asserting that "the esteem of the human being" should not be neglected in the processes of economic growth and technological progress. The JCED demonstrated a willingness to transcend laissez faire capitalism, moving toward the prevention of class

conflict between capital and labor, the promotion of labor relations and the introduction of what Japanese managers believed to be "scientific business management," which was quite different from that asserted by the popular movement of Taylorism in America. According to their new definition, business management that disregards human relations is not "scientific" at all. "Scientific" management refers to practices which fit reality well.

The reemergence of nationalist ideology in the 1950s was not purely domestically rooted: it was also stimulated by cross-national learning. Drawing upon his experience visiting West Germany in 1953 for the purpose of studying labor relations in the postwar era, Kōshi Kōhei, the deputy director of the JCED, came to realize the value of nationalist ideology in promoting productivity. He believed that healthy labor relations did not simply refer to labor's participation in business management. The tie between management and labor was also found somewhere else. According to Kōshi's observation of the German experience, this tie first of all lies in nationality, which makes the Germans cooperate with each other automatically for the interests of the nation in postwar reconstruction. Secondly, it is supported by the realistic principle held by German labor unions of not turning labor movements into political struggles for they understand that the living standard could not be improved without an increase in production. Thirdly, when the leaders of German labor unions led their fellow members to actively participate in reconstruction during the most difficult period in the postwar era, German managers highly appreciated their efforts, which in turn further stimulated cooperation between capital and labor in economic restriction. According to Kōshi, when

the above three factors interacted with each other, "blood ties" emerged naturally between management and labor, which became a medium of continued communication. It was these "blood ties" that constituted the foundation of healthy labor relations in West Germany (See Nihon Seisan-sei Honbu 1985:30-32).

This new nationalist ideology provided Japanese economists with a new framework in economic reasoning, transcending the Marxist framework of class struggle and arriving on new grounds at the nation-state. As the Productivity Headquarters was established, Nakayama Ichirō became its Vice-President. Arisawa Hiromi and Inaba Hidezō became its board members. After Nakayama published his article to present his ideas regarding the three principles for the productivity movement, he was challenged by Marxist Horie Masanori. Horie argued that the promotion of productivity was not something which would transcend class interests in society and be beneficial to everybody. Production forces could not develop automatically without production relations. Production relations would influence the nature, direction and speed of the development of production forces. According to Horie, the productivity movement was in fact a part of the efforts of the capital class to remilitarize the economy sponsored by the United States. It resulted from dependence of the Japanese economy on the U.S. economy because Japan was under the pressure of a shortage of dollars as it imported too much material, equipment and capital from the U.S.. Therefore, the productivity movement was, by its nature, a movement for the interests of the U.S. and the Japanese capitalist class (Horie 1955).

When innovation emerged as a rival agenda to Marxist economics, it caused some

strong criticism from Marxist economists. At the time, the mainstream economics and Western theories of business management were labelled by Japanese Marxists as the "twin sons of economics which serve the interest of capitalists". Automation was perceived by Marxists within the framework of class struggle, which held that innovation was "a dangerous right-wing approach" which asserted the universal nature of technology for the purpose of reversing the decline of capitalism. "Admitting that the development of the natural sciences and technology may transcend class struggle, their applications in reality are very capitalistic. Automation itself promises human society more benefits and happiness, yet its capitalist application brings about many negative impacts and unhappiness to human society." (Kanbayashi, 1958:53) Automation, for example, would be the primary source of alienation. It would cause a decrease in salary for male workers because it would further simplify the working process so that capitalists could hire female and young workers. Automation was also believed to increase the intensity of work and to create unemployment especially in the middle- and small-sized firms. As a result, automation would strengthen the power of capital and weaken the power of labor in the class struggle. (Kanbayashi, 1958:54)

Despite its ideological orientation toward class struggle, the Marxist assertion of the interests of the working class also functioned to push management to accept a collectively oriented state policy. The impact of technological innovation on employment was a big issue at the time. Okochi Kazuo stressed the unique nature of the Japanese economy. He believed that automation would have different social consequences in Japan than in Western countries. Because Western countries had

realized full-employment they could be optimistic even though the trend of automation had resulted in some unemployment and intensity of work because the problems brought about by automation were only temporary in nature. According to Ōkochi, Japan would be a different case. Since Japan had a huge population, unemployment would be a big issue to take into account when pursuing innovation. In order to pursue technological innovation, Japan needed to be able to enlarge its market constantly. Otherwise, innovation would not do any good for employment and domestic living standards. He asserted that the benefits created by innovation and the promotion of productivity must be "fairly distributed in society". For this purpose, the state must adopt the minimum salary system, to complete the social security system, to realize full employment and to enlarge the domestic market (Ōkochi 1957).

Although the program of innovation was challenged by intensive Marxist criticism, it gradually obtained support from some labor unions. The major reason was that unlike the program of rearmament which seemed to only benefit the capitalist class, the program of innovation was based on a collective purpose. Therefore, it was able to generate much support. Besides, after the Korean War broke out, the Japanese state conducted the "red purge" in which many leaders of labor unions were arrested, and the balance of power in politics was no longer in favor of labor. Under such circumstances, the program of technological innovation became a good opportunity to have labor's interest presented. The Japan Federation of Workers (sō-dōmai) decided to join the efforts to promote productivity based on several conditions. First of all, the productivity movement should aim to achieve the independence of the Japanese economy and to

promote the civilian life, which were very different from the rationalization movement that only aimed at protecting the interests of firms by reducing production cost and increasing profits. Second, it was to be aimed not at increasing the profits of firms through intensifying work, but at the promotion of better working conditions and increases in salary. Third, it was aimed at increasing employment, stabilizing middle and small sized businesses, and improving workers' lives. Fourth, it had to consult with labor unions (Nihon Seisan-Sei Honbu 1985:155). The impact of nationalist ideology on the social construction of rationality in the 1950s shows that it can be used by different actors. Business leaders used it to demand cooperation from labor while labor unions used it to demand more benefits for themselves. It was the double nature of nationalist ideology in that period that enabled Japanese to compromise with each other and to build up a national consensus for innovation, transcending the old frameworks of both Marxism and the *laissez faire* doctrine.

CONSTRAINING REARMAMENT AND ENABLING INNOVATION

The institutional structures of the Japanese state and state-business relations changed rapidly in the 1950s during the conservative relapse in both politics and the economy, which had a great impact on the state policy-making. Within the state bureaucracies, the Economic Stabilization Board, which was established to centralize leadership in policy integration, was replaced by the Economic Deliberation Agency. The planning functions were given to individual ministries. The process of policy-making demonstrated a U-turn after earlier centralization shifting from a centralized to

a decentralized pattern. This structural change in state bureaucracies exerted a great impact on the outcome of policy-making. As a result, bureaucratic disputes again became the major obstacle in policy integration. Meanwhile, the Occupation authority, which functioned previously as an effective check on sectionalism in Japanese state bureaucracies, was no longer present. The failure of the program to develop military industries to a large extent can be attributed to these factors.

In state-business relations, the state relaxed its control over resource allocations and market prices, marking a big departure from the practice of managed economy. In order to build up consensus for state policy, the Japanese state depended more on semi-official agencies, where government officials, business leaders, representatives of labor unions and academicians gathered for the purpose of drafting policy proposals. This kind of development in policy-making evolved through a twisted course. As the Korean War broke out, GHQ conducted the red purge, cracking down on the labor movements. This was a response to the emergence of McCarthyism in the United States. Under such circumstances, the private sector regained power which enabled Japanese firms to carry out a program of rationalization by laying off workers in the early 1950s. Nevertheless, business leaders soon recognized the limitations of their power after the Korean War ended. Without the cooperation of labor it would be almost impossible for Japanese firms to mobilize mass participation in technological innovation and other relevant managerial reforms. For this reason, some progressive business leaders took the initiative to establish the Productivity Headquarters, gathering representatives from various sides in an effort to build up a consensus for promoting productivity.

The Politics of Rearmament

The institutional constraint of sectionalism on policy-making and the conflicts among business leaders were the major factors accounting for the failure of the program of rearmament. As mentioned before, the power of policy-making of the Japanese state reverted to individual ministries. The sectionalist orientation resulted in an intensive struggle over the program of rearmament among MITI, the Ministry of Transportation, the Defense Agency, and the Ministry of Finance within the state bureaucracies. Constrained by the decentralized administration, MITI officials, who intended to expand the military industries, failed to gain support from other state bureaucracies and the leading politician Yoshida Shigeru. Meanwhile, business circles were also divided on the issue of rearmament. Many banks showed strong resistance to the proposal of rearmament. For these reasons, this program ended up with nothing definite.

Among economic actors in Japan, some business leaders and MITI officials were very active in pursuing rearmament in an effort to promote exports and sustain the economic reconstruction. On January 25 1951, the Keidanren (the Federation of Economic Organizations) and seven other national business associations delivered a statement to the American envoy John F. Dulles, suggesting that the United States sign a treaty with Japan in order to strengthen the cooperation between these two countries. This proposal was aimed at developing defense industries in East Asian countries through American aid and subcontracting the U.S.'s program of economic development assistance to its Asian allies by providing these countries with Japanese products. In particular, they sought the establishment of a bilateral organization, including representatives of the

U.S. government, the Japanese government and Japanese business circles, to carry out this mission. In order to carry out the program of rearmament, the Committee of Defense Production (bōei seisan iin-kai) was established in the Keidanren, whose function was defined as conducting surveys and investigations of defense production, drafting policy proposals, integrating relevant industries and firms, and conducting research on how to promote defense production. Meanwhile, MITI officials worked hard to pursue this program, regarding the development of military industries as a good strategy to promote trade.

Nevertheless, the program of rearmament was resisted by many important economic actors. First of all, some business leaders, especially those in the banking industry did not like the idea of building the foundation of the Japanese economy on military industries. One of the major reasons for this failure was that many former officials of the imperial military who participated in the deliberation division at the Committee of Defense Production advocated a radical position on the issue of rearmament. This in turn created some severe conflicts within business circles as well as state bureaucracies. (Kondo and Osanai, 1978, vol.3:215) According to an ambitious proposal drafted by these former military officials, Japan would build up an army with 300,000 personnel, which was even 30 percent larger than the imperial army had had in normal situations, a navy with 300,000 ton warships and an airforce with three thousand military aircraft. If this plan had been carried out quickly, the ratio of defense expenditures to national income would have reached as high as ten percent. Even if the U.S. government would have provided financial aid constituting forty-four percent of

total expenditures, the Japanese government would still have had to spend five percent of the Japanese national income on defense. At the time, the total annual expenditures of the MSA (mutual security assistance) permitted by the U.S. Congress was 100 million dollars. These former military officials expected the U.S. government to provide them with one billion dollars in financial aid for the rearmament program (See Senga 1978:228-231).

This radical proposal caused a big dispute within business circles. Not only were some manufacturers reluctant to take this risk, many banks also held a negative attitude toward the program of rearmament. Many business leaders held that the proposal paid too much attention to military production, asserting that economic independence must depend upon a natural increase of trade but not upon special procurement and MSA aid. They even demanded that the Committee of Defense Production be separated from the Federation of Economic Organizations. The former military officials also supported the separation. They asserted that Japan should pursue its rearmament more independently. The promotion of military production required large-scale investments in equipment, but the resistance to this program from commercial banks who refused to provide financial credits was very strong. Horie Shigeo, the deputy director at the Bank of Tokyo at the time, argued, it was a gamble to organize the industrial structure by relying upon military industries in a country like Japan where war was not present. The resistance of commercial banks to the program of rearmament was particularly visible in those firms which used to belong to the prewar zaibatsu and had just reorganized themselves into keiretsu because they were under tight control by banks which constituted the center of

each keiretsu (Otake 1984:22-23).

In state bureaucracies, the program of rearmament was defeated by the bureaucratic struggle. Although the proposal to develop military industries was strongly supported by MITI, bureaucratic struggles and the conservative financial policy of the Ministry of Finance were big obstacles to carrying out this program. There occurred some intensive struggles among state bureaucracies around the program of developing military industries. MITI tried and succeeded in obtaining administrative authority over the military industries. It first won the competition with the Ministry of Transportation in a dispute regarding administrative power over the aircraft industry, and later successfully repulsed the challenge from the Defence Agency, which intended to establish its administrative power over the military industries too. The irony was that although MITI won these competitions, it also lost its major allies in the state bureaucracies in pursuing the program of developing military industries. The officials at the Defence Agency initially planned to nurture military industries as the base for the national defense, perceiving the nationalization of military production as a long-term goal--one important step towards independence from the U.S. in the supply of weapons. After MITI took away its power, however, officials at the Defense Agency lost the incentive to purchase domestic products at all.

The conservative financial policy adopted by the Ministry of Finance was the biggest obstacle to MITI's initiative to develop the military industries in Japan. From the time of the "Dodge Line" until 1965, the policy orientation of the Ministry of Finance was always influenced by classical economics, regarding the balance of finance

to be the highest priority in state budgets. Such a position was also supported by an understanding that the easy money policy adopted by the Ministry of Finance in the prewar period under pressure from the military had contributed to economic panic and eventually to the outbreak of the Pacific War. For these reasons, the Ministry of Finance always blocked MITI's demand to increase public expenditures for the purpose of developing military industries.

The program of rearmament failed to gain support from the leading politician too. Prime Minister Yoshida Shigeru always supported the position of the Ministry of Finance because he himself strongly opposed full-scale rearmament. His logic was quite simple, "we cannot calculate the armed forces only based on the military need under the present situation of Japan. Now the urgent problem is to build up the economic power for the nation and to stabilize civilian life. Due to the defeat, Japan lost its national strength and became a thin horse. If we put too heavy a burden on this thin horse, it will collapse." (Yoshida, 1957, vol.2: 181) He asserted that the strong military forces of the U.S. resulted from its victory in World War II and its enormous economic power. It was impossible for Japan to do the same thing. For this reason, "rearmament itself was the most stupid idea. It sounds like a day-dream by an idiot who does not understand the international situation." (Yoshida, 1957:160) The above analysis indicates that a collective rationality must be pursued institutionally. Whether a policy strategy can be successfully carried out may not depend on whether it is perceived as rational, but depends on the balance of interest of all parties involved.

The Success of the Productivity Headquarters

In contrast to rearmament, the program of technological innovation in the second half of the 1950s demonstrated the enabling side of institutional structures on policy-making. The success of this program also proves that the collective rationality is primarily institutional and institutions themselves are ethical in nature. The Productivity Headquarters, a semi-official agency which brought representatives from all parties involved, functioned as a place to balance the conflicts of interest and to build consensus among economic actors. It turned out to be an important factor to explain the success of the program of technological innovation.

The establishment of the Productivity Headquarters was based on a fundamental transition in economic thinking from pursuing the interests of firms and shareholders by fighting with labor unions to sharing some interests with the labor unions to obtain their cooperation. By the mid-1950s some Japanese business leaders began to recognize the limitations of the traditional strategy of reducing production costs by layoffs. They also began to realize that business management could not depend upon purely economic means which would simply create more social conflicts and cost a lot of energy to the nation. Breaking with the rationality prescribed by mainstream economics in the West, they began to take an approach rooted in social economics, assuming that any economic rationale must be supported by social institutions. "They intended to get rid of the arbitrariness of the old capitalism, which was based on the instinct of pursuing profits, by taking actions according to the new wisdom of management" (Nihon Seisan-sei Honbu 1985:35). According to the new perception, it was necessary for managers to establish

the autonomy of shareholders, to restrict and revise the "arbitrariness of capital", and to recognize the social function, mission, and responsibility of firms. Following this logic, management should transcend the self-centered principle, taking the perspective of the national economy which recognizes the subjectivity and positive role of labor in production activity. Based on such recognition and understanding, instead of asking workers to sacrifice their own interests for those of managers and firms, managers and workers would cooperate with each other in an equal position for the purpose of improving and developing firms (Nihon Seisan-sei Honbu 1985:39-40). To be sure, the productivity movement was not driven by culture. It was rather perceived as a rational choice to pursue economic goals by utilizing indigenous values when economic actors faced an international environment in which Japanese firms would not be able to compete with foreign firms without the cooperation of labor. Nevertheless, the assertion of indigenous values in state policy-making provided institutions with a moral and ethical foundation which was able to generate support from various economic actors.

With the support of a collective orientation, the Productivity Headquarters, which was established to promote productivity and sustain technological innovation, obtained support from various sides. The most obvious characteristic of this agency was its civilian nature. As the director of the Enterprise Bureau at MITI, Tokunaga Hisaji, pointed out, the productivity movement initiated by business leaders was very different from the industrial rationalization movement which was sponsored by the state bureaucracy. Since the productivity movement was initiated from the private sector, it possessed strong power to penetrate into firms. Besides, a fundamental difference

between the productivity movement and the industrial rationalization movement was that the former had a bigger vision and deeper significance; it concerned the interests of not only management and producers, but also labor and consumers (See Nihon Seisan-sei Honbu 1985:124). With this powerful institutional support, the productivity movement became a social movement, involving mass participation.

The Productivity Headquarters indeed became a center to sustain and to promote the productivity movement. In the second half of the 1950s, it sent various delegations overseas; invited many experts to Japan to give lectures; studied, investigated and diffused knowledge regarding production, marketing and personnel management, and provided training and consulting in these fields. In the first five years, the Productivity Headquarters functioned as the academy of management, systematically introducing the latest developments in management science in the West, especially in the U.S.. From the 1960s, the Productivity Headquarters began to pay more attention to making the imported knowledge of management suitable to the Japanese context, deriving the principles of Japanese management system which are praised widely today. In the late 1950s, the productivity movement only gained partial support from the labor unions. From the 1960s, all major labor unions began to be involved in this movement (Kurokawa and Satake 1970:25-29).

Conclusion

This chapter demonstrates the great transition in Japanese economic reasoning towards the paradigm of technological innovation in the 1950s. Different from the



managed economy in the 1930s and the early 1940s, the preference of ends changed dramatically from the effectiveness of resource allocation at the macro level to production efficiency at the micro level. Accordingly, instrumental means also changed from state planning and control to the dynamics of the private sector in the market. Nevertheless, the nation-state still remained as the unit of analysis in Japanese economic reasoning in the 1950s. In other words, although the Japanese state decided to relax its control and to reintroduce the functions of the market, this market was never the same as the laissez faire one. Rather, this was an organized market, which was not only guided by the state through its control over credit and foreign currency exchange, but also dominated by business groups in the form of keiretsu which functioned as coordination networks among individual firms. During this period, the Japanese management system was also institutionalized, characterized by life-long employment, seniority-based salaries, and firm-based unions. In short, the introduction of market functions was not for its own sake, but for the collective purpose of achieving Japan's economic independence by promoting the competitiveness of Japanese firms and obtaining shares in the international market.

The program of technological innovation in the 1950s Japan sheds light on the discussion concerning the market in several ways. First of all, the Japanese experience suggests that the state and the market may not be necessarily exclusive from each other. One way of state intervention is to organize the market. To say that the Japanese economy in the 1950s was primarily under the control of the state may be exaggerating. To say that nothing but the market is major in explaining the Japanese economy is also

misleading. Secondly, the important issue concerning our discussion here is not whether there was a market or whether this market worked in the 1950s, but how the Japanese firms competed on the market. This directly links the discussion of the market to a much broader context in which innovation is considered to be the major dynamic of long-term economic growth; therefore, the negative impact of business strategy that emphasizes short-term market efficiency in the form of capital returns at the cost of losing long-term competitiveness in production technology must be given serious attention. Thirdly, the Japanese case shows an unusual combination between the orientation towards market efficiency and the orientation towards collective welfare shared by both management and labor, which is considered to be alien by neoclassical economics. This indicates that there is not a universal tie between the market economy and individualism, and the market economy can be also collectively oriented in which economic actors pursue their interests through cooperation.

The twisting course of Japanese economic policy in the early 1950s once again refutes the cultural argument by showing the strong dependence of indigenous values on contextual settings. It shows that business leaders in Japan asserted indigenous values of group harmony and collective welfare only after they realized that as the Korean War ended they could no longer depend upon special procurements to obtain foreign currency and they had to depend upon the promotion of production technology which required the cooperation of labor. Indigenous values were never asserted for their own sake but for utilitarian purposes. When Japanese firms conducted rationalization by layoffs in the early 1950s, none of the indigenous values applied. Instead, the conflict approach of

Marxism attracted more attention from labor unions. Only when every party in the competition for individual interests could be better off, did a return to the collectively oriented paradigm become a good alternative.

This study traces the dynamics behind the transition of Japanese economic reasoning in the 1950s from four institutional settings. First of all, the Japanese state defined its goals in policy making for the economy according to its perceptions of the international environment in which Japan competed with other nations. The focus on promoting the competitiveness of Japanese firms in the international market was directly derived from the perception of the fourth industrial revolution. The shift of the agenda in Japanese economic thinking before and after the Korean War ended well reveals this relationship. Nevertheless, it is not an overdetermined relation because actors did have choices. The function of perceptions of the international environment was rather to set certain missions to fulfill, and how to do so had to be influenced by other factors.

Secondly, this chapter shows that the diffusion of foreign economic ideas through cross-national learning played a very important role in providing the Japanese with an intellectual foundation for the program of technological innovation. Schumpeter's theory of innovation enabled Japanese economists to choose a strategy based on the understanding of the dynamics behind the long-term economic growth. The impact of Schumpeter's theory of innovation on the transition in the paradigm of Japanese economic thinking illustrates how powerful a grand theory could be in changing the way economists perceive economic laws. In this sense, it proves that the process of cross-national learning, especially the availability of economic ideas, is a crucial factor in

constructing rationality. The diffusion of Schumpeter's theory of innovation in the 1950s also indicates the importance of structural conditions to the process of cross-national learning. By the 1950s, Schumpeter's students in Japanese academia had well established themselves and thus their advocacy of Schumpeter was more powerful in the political discourse.

Thirdly, the impact of nationalist movements on Japanese economic reasoning in the 1950s reveals both the constraining side and the enabling side of popular values on state policy making. Those policy proposals which contradicted the moral and ethical assertions could hardly gain legitimacy. In contrast, those policy proposals which responded to the existing orientation of the general public could generate support easily. In this sense, the transition to the paradigm of technological innovation in the mid-1950s indicates that popular values functioned in selecting the policy alternatives. The process of formatting the paradigm of technological innovation in state policy making once again demonstrates the dependence of popular values on power relations in order to influence the construction of rationality.

Finally, the institutional structures of the Japanese state and the state-business relations exerted a great impact on the selection of instrumental means. The failure of the program of rearmament and the success of the program of innovation reveal from both sides that without a proper agency which integrates competing interests, it was unlikely for a policy proposal to successfully proceed. After the Japanese state changed the process of policy-making in the early 1950s, returning the power of planning to the individual ministries, it was difficult to carry out a program which would involve

cooperation among many bureaucratic agencies while the agency which designed the program excluded representatives from many bureaucracies. In other words, to implement the program of rearmament was beyond the state's capacity. In contrast, the program of innovation was well supported by an institutional establishment--the Productivity Headquarters--where were gathered representatives from all who were concerned. This kind of policy-making and implementation helped to build up a consensus for the program.

CHAPTER SIX: THE HIGH GROWTH

The most significant change in Japanese rationality in the first half of the 1960s was the adoption of the high growth paradigm in state economic policy. In contrast to the 1950s in which the focus of state policy shifted from state control over resource allocation at the macro level to technological innovation in individual firms at the micro level, the state came back to the center of economic reasoning, assuming strong leadership in sustaining economic growth and dealing with the new situation created by the liberalization of trade and foreign currency exchange. By the end of the 1950s, the under-developed infrastructure had become a serious constraint on economic growth, the uncertainty in the economic cycle exerted a great impact on business behavior, and Japan was under strong domestic pressures for more economic equality and international pressures for the liberalization of trade, foreign currency exchange and capital investment. Responding to this new situation, the Japanese state adopted the high growth paradigm in its economic policy, making a strong commitment to economic growth by adopting the famous "National Income Doubling Plan" (NIDP) in December 1960. Meanwhile, the Japanese state began to push the process of liberalizing the economy. The unit of analysis in the NIDP was clearly the national economy. The NIDP set up a goal for the Japanese economy: to double the actual national income within ten years, and in the first three years the annual growth rate would be sustained at 9 percent. In order to realize this goal, the state made a strong commitment to increasing public spending for the purposes of developing infrastructure, promoting social security and social welfare, developing human capital and reducing the dual structure in the economy.

Following the plan's inception, high growth, demand management and liberalization of the economy became new policy agendas, transcending the previous practices of simple counter cyclical adjustment, supply capability promotion and domestic market protection. In comparison with the program of managed economy, the role of the state in the program of high growth was no longer to exercise direct control, but to influence the behavior of the private sector through various policy instruments. In comparison with the program of technological innovation, the state itself played a much bigger role in sustaining the economic growth through its direct commitment to the public sector. The instrumental means characterized by state-business cooperation adopted by the Japanese in the implementation of the high growth program set the contemporary pattern of state-business relations in the Japanese economy.

Why did the role of the state become the focus in Japanese economic reasoning again after the Japanese shifted their attention to the micro level in the 1950s? Why did the Japanese state not exercise direct control over resource allocation this time, as it did in the 1930s and the 1940s? Since Japan was not isolated from the international market as it was in the 1930s and the 1940s, what kind of perceptions of the international order and foreign economic ideas stimulated the transition towards state intervention? How could the Japanese establish the new type of state-business cooperation since the state did not have any policy legacy in that direction for it had either exercised direct control or given more freedom to the private sector?

Below I show that the perception of an emerging order in the international economy provided a strong stimulus for change in the state policy paradigm. At the

time, the Japanese were under strong pressure to begin the liberalization of their economy, starting with trade and foreign currency exchange, as Japan joined the International Monetary Fund and the General Agreement on Trade and Tariffs. The Japanese came to realize that the liberalization of the economy was a historical trend to which Japan had to catch up. If it did not do it, Japan would be left behind by other nations. Liberalization, however, implied that the protectionist measures through high tariffs had to be withdrawn, and consequently, the Japanese economy needed an urgent domestic adjustment in its industrial structure. Without improvement in infrastructure, they believed, Japanese firms would not be able to compete with foreign firms in the near future. Especially, after the nation was largely divided on the issue of extending the U.S.-Japan security treaty, the failure of the anti-security-treaty movement shifted the Japanese attention away from issues in international politics to the priority of domestic economic growth. Although new images of the international environment had nothing to do with isolation, they certainly raised the urgent issue of state intervention.

If the new perception of international environment provided a stimulus for change in terms of setting up some urgent tasks for the Japanese economy, I argue, the diffusion of Keynesian economics played a very important role in prescribing the responding strategies. I show that economists made a great contribution to making the National Income Doubling Plan, exercising the intellectual leadership in formatting the high growth paradigm in state policy-making. I further show that the linkage between economists and the state was a crucial factor to explain why the Japanese state adopted a new policy paradigm so quickly. Different from previous paradigms in Japanese

economic policy which were basically asserted by a group of economists, bureaucrats, politicians or business leaders, the agenda of high growth was primarily advocated by one government economist Shimomura Ōsamu, and supported by one leading politician, Ikeda Hayato. The close tie between an economist and the leading politician was the crucial factor in the diffusion of Keynesian ideas through Japanese economic policy.

I also show that despite the intensive debates over some moral and ethical issues concerning the implementation of the NIDP, the formation and the adoption of the high growth program in Japanese economic policy was sustained by a process of consensus building in which the nation finally regained the self-confidence to become a member among the "first class of nations", coming to believe that Japan would be able to accomplish something no nation had done before.

In the final section of this chapter, I argue that the ways the high growth policy and the liberalization of trade were adopted and implemented were shaped by the institutional structures of the Japanese state and state-business relations. I show that the major reason that the Japanese state depended more upon policy instruments than more direct intervention was that the power of bureaucrats began to decline in the political arena. Initially, the state bureaucracies tried to resist politician Ikeda's initiative to adopt the NIDP and the liberalization of trade. Meanwhile, MITI tried to convince the Diet to enact the Law of Temporary Treatment Concerning the Promotion of Special Industries, which would bestow on the state bureaucracies, especially MITI great power in controlling the behavior of the private sector. Both efforts, however, failed eventually. The increasing power of the ruling political party and the private sector, I

argue, reshaped the institutional structure of policy-making, which constrained the selection of instrumental means for the program of high growth. This also had a great impact on the state-business relations in the future. From then on, the state depended more and more on cooperation from business circles, instead of trying to control them directly, and the role of the private sector became more and more important in the Japanese economy.

A Turning Point in Economic History

At the end of the 1950s, the Japanese economy was confronted with several structural problems, which strongly challenged the existing financial policy, which was characterized by a rigid balance in the state budget, and the trade policy, which was characterized by tight protection of the domestic market from foreign products. These challenges resulted in a great transition in the policy paradigm of the Japanese state.

During the 1950s, the Japanese economy had developed rapidly. Between 1950 and 1955, the annual average growth rate of GNP was 8.9 percent, of private investment in equipment was 10.2, and of exports was 13.9 percent (Kosai 1989, p.285). Various economic indexes reached a record level in Japanese history: GNP in 1954, industrial production in 1955, consumption per capita in 1956 and GNP per capita in 1957. Benefiting from the special procurement of military goods from the U.S. during the Korean War, Japanese firms accumulated a huge amount of capital and began to invest heavily in equipment. In the second half of the 1950s, the Japanese economy driven by the high rate of private capital investment successively experienced two unprecedented

booms. Meanwhile, a consumption revolution was beginning, marked by the popularity of "three sacred treasures", the TV, the washing machine and the refrigerator.

At the same time, however, the Japanese economy was confronted with several structural problems. The first was strong international pressures for liberalization of trade and foreign currency exchange. The postwar reconstruction in Western European countries and Japan was strongly dependent upon American dollars. Meanwhile, these countries continued the practice of managed trade in an effort to balance their international payments. As these countries caught up, however, the U.S. share in world export of industrial products declined from 38 percent in 1948 to 22 percent in 1959. Accordingly, the outflow of dollars worsened the international payments of the United States. Under such circumstances, the U.S. government strongly urged Western European countries and Japan to abolish their discriminatory restrictions on imports from the United States. Responding to this demand, Britain, France and Italy rescinded many restrictions on the import of American products, and meanwhile resumed the exchange ability between the dollar and their own currencies in 1958 (Keizai Kikaku-Chō 1976). Japan, as a member of the International Monetary Fund (IMF) and the General Agreement on Trade and Tariffs (GATT), was strongly required to catch up with the trend of liberalizing trade and foreign currency exchange occurring in Western European countries. At the time, Japan's domestic market was tightly protected. By the end of August 1959, only 26 percent of imports faced no state-imposed restrictions (the Economic Planning Agency 1989, p.102). In 1959, for the first time in postwar history, Japanese exports to the U.S. outperformed imports, ending in the black by 113 million

dollars (Arisawa 1976:440). At GATT's Tokyo conference in 1959, the U.S. representative warned that if Japan did not hurry to rescind restrictions on imports from the dollar areas, the U.S. might apply import restrictions on Japanese products (Masamura 1985). It seemed clear that the Japanese interest in the international economy might be jeopardized if Japan would not respond to these pressures.

The second problem confronted by the Japanese economy was the constraint posed by an under-developed infrastructure on economic growth supported by technological innovation. From 1953 the scale of the Japanese economy surpassed the prewar level. From then on, despite rapid growth of the economy, the construction of infrastructure was given little attention, primarily depending upon what had been accomplished in the prewar period. In the late 1950s, infrastructure became a big obstacle on the way to further economic development. At the same time, Japan's domestic living standard still remained low. In comparison with other industrialized countries, the living environment, educational institutions, recreational facilities, and transportation in Japan required an abrupt infusion of funds to catch up.

The third problem was the urgent need to further promote changes in the industrial structure. Japanese exports in the 1950s were basically supported by cheap labor, and textile products still occupied 37.2 percent of total exports in 1955 (the Economic Planning Agency 1989, p.285). Since these labor intensive products could not generate enough hard currency, the imbalance in international payments acted as a bottleneck which often restricted the growth of the economy. Besides, the changing structure of population indicated that despite the existence of unemployment at the time

still not far removed from a rate that had been high for many years, a comprehensive shortage of labor would occur in the second half of the 1960s, as the fertility rate in Japan declined rapidly, becoming more similar to other industrialized countries. International demands for opening Japan's domestic market were added to the pressure to further upgrade industrial structure, especially, in the context of the global trend of technological innovation. All these reasons pushed Japan to promote human capital and science and technology, and to produce and export more value-added goods in the international competition.

The fourth problem was the existence of a dual structure in the economy and inequality in the distribution of welfare. Although the situation of employment improved quickly in the 1950s, most job opportunities were for low-income or part-time work. Even during the two economic booms in the second half of the 1950s, the increasing employment was still concentrated in small and middle sized firms. Big firms tended to employ more temporary workers on a daily basis (Arisawa 1956). Differences in firm size, in the degree of concentration of capital and labor, and in technology created a big gap in income and economic welfare between employees in big firms and employees in small- and middle-sized firms, resulting in a distinctive inequality. Issues of economic equality often became the target of international criticism. When the Economic Minister of West Germany visited Japan in 1958, he severely criticized Japan's cheap labor policy and poor social welfare measures (Tanaka 1959).

As a whole, these pressures, both international and domestic, became the driving force in the transition of the policy paradigm of the Japanese state. They at least made

some Japanese political leaders and economists realize that they had to take firm action to gain control over the situation.

The Program of High Growth

The Japanese state responded to these challenges by adopting the program of high growth, which reflected a great transition in the state policy paradigm. The unit of analysis in the program of high growth was apparently the nation-state, and the Japanese came to believe that the problems they confronted at the time were some macro problems to the economy as a whole. Therefore, they were not going to be solved without state intervention. In framing the rationality for high growth, the Japanese state again became the major actor. It made a strong commitment to sustaining high growth by adopting various policies. In comparison with the program of technological innovation in the 1950s, the most distinctive character of the program of high growth was that the focus of economic reasoning shifted back to the state. In comparison with the programs of managed economy in the 1930s and the 1940s, the instrumental means employed by the Japanese state in the program of high growth were primarily guidance-oriented instead of control-oriented. The state influenced the behavior of the private sector by its policy instruments, instead of exerting direct control over resource allocation. The National Income Doubling Plan adopted by the Japanese state in December 1960 had a huge psychological and political impact on Japanese society, and the future it envisioned greatly influenced the behavior of the private sector, deriving strong incentives to increase investment. The increasing public spending stimulated massive investments by

the private sector. The investments of the state caused the investments of civilians. One day after the announcement of the NIDP, the average price on the Tokyo stock market jumped to its historic record (Kobayashi 1989).

This program innovatively expanded the Keynesian theory of demand management to development policy, making the increase of public spending not only an instrument to deal with fluctuations in the economic situation, but also an instrument to sustain the growth of the whole economy. Economic growth was clearly the preference of ends in state policy-making. Believing that economic growth would solve all the problems Japan confronted at the time, the state adopted a comprehensive policy package--the NIDP, aiming at sustaining economic growth through various policy domains.

In trade policy, the Japanese state decided to start the process of liberalization in November 1959, responding to the international demands for access to the Japanese market. By the end of October 1962, 88 percent of imports to Japan were liberalized in contrast with 26 percent at the end of August 1959.

In macro economic policy, the Japanese state significantly increased public expenditures, not only in the construction of infrastructure, including roads, harbors, railways, airports, transportation equipment, and telephone and telegraph stations, but also in improving the living environment which included the construction of houses, water supply lines, hospitals, social welfare establishments and educational establishments. The total amount of investment so earmarked over a ten-year period was 16.1 trillion yen. In the NIDP the Japanese government adopted Keynesian policy innovatively, expanding the function of public spending through government financing

from adjusting to the economic situation to stimulating economic growth. It explicitly regarded the money supply as a means to sustain economic growth and the appropriate distribution of these funds as among the most important tasks of state finance. In 1965 when the Japanese economy fell into recession, the Japanese government broke with its long-time practice of a balanced budget since the implementation of the Dodge Plan in 1949, beginning to issue increased national debt as an instrument to adjust the economic situation, fully practicing the Keynesian theory.

In industrial policy, the Japanese state decided to adopt various policies to upgrade the industrial structure, shifting the economy along the direction toward heavy-chemical and high tech industries, and meanwhile strengthening productivity, responding to the liberalization of trade. Two directions characterized Japanese industrial policy in the first half of the 1960s. The first was the transition of industrial structure from the labor-intensive industries, such as textiles, foods and other daily-use products, to the capital-intensive industries, such as manufacturing and the chemical industries. General machine tools, electrical engineering, the automobile industry, the high polymer chemical industry, and new metal industries were identified as the major strategic industries. The second direction in Japan's industrial policy in the early 1960s was the promotion of trade. In the NIDP, the Japanese state explicitly asserted its interest in economic diplomacy, aimed at eliminating various barriers to Japanese exports. Meanwhile, in order to enlarge the share of Japanese products in the international market, the Japanese state paid special attention to investigations of overseas markets, advertising, the promotion and establishment of exports, and credits for exports.

In educational policy, the Japanese state explicitly adopted the concept of human capital, making a strong commitment to promoting education, science and technology based on the prediction that the future competition in the global market would be determined by technological innovation and knowledge intensive industries. It greatly increased public expenditures in sponsoring R & D in strategic industries, promising that by the end of the period covered by the NIDP, namely the fiscal year of 1970, the ratio of research funding in the total national income would be increased from 0.9 percent to 2 percent. Meanwhile the state also sponsored cooperation in R & D by the private sector and co-investment by individual firms. In the educational system the state sponsored the establishment of middle-level vocational education in order to train a new generation in the labor force. At the same time, the enrollment rate in general high school was also planned to increase from 59.8 percent in 1960 to 72.0 percent in 1970.

In social policy, the Japanese government decided to spend 130 billion yen in developing publicly owned housing facilities and to provide long-term and low interest public loans to modernize urban areas, to provide affordable housing to low-income families, and to promote social mobility. Sewers had long been a big problem in Japanese cities. In the NIDP, the government spent 570 billion yen for the development of sewers and other sanitary facilities in urban areas. Besides, it also decided to spend 400 billion yen to promote national parks, hospitals and other social welfare establishments (Keizai kikaku-Chō 1960:200-201). In the NIDP, the development of a national insurance system and national pension system also began to draw attention.

These changes indicated a sharp transition in state policy paradigms. By

liberalizing trade, the Japanese state began to push the country to pursue its prosperity by fully participating in the international economy instead of being a free rider. By adopting the high growth policy, the Japanese state began to use macro-economic policy towards the public sector as an instrument of state intervention, replacing direct control over resource allocations and foreign currency exchange in the private sector and formally shifting to a mixed economy. By doubling national income and adopting other social welfare measures, the Japanese state began to upgrade its wage and welfare policies as the economy grew, abandoning a cheap labor policy. With the implementation of the NIDP, the average growth rate of GNP in the 1960s was kept at 11.6 percent and the increase in National Income at 11.5 percent. The annual growth rate in salaries jumped to about 11 percent, in contrast to 6 to 7 percent in the 1950s. That of exports was 16.8 percent and the share of heavy and chemical products in total exports jumped to 62 percent in 1965, in contrast with 38 percent in 1955 (the Economic Planning Agency 1990). The goal of doubling national income was realized within six years. By 1968, Japan had become the second economic superpower in terms of GNP, only next to the United States.

As the last section of this chapter shows, however, the way in which the Japanese state implemented the program of high growth was not the only alternative perceived at the time. Initially, several important economic bureaucracies were skeptical about the growth rate the state set up in the National Income Doubling Plan and resisted the plan. Meanwhile, MITI bureaucrats also intended to strengthen their control over private firms. Constrained by the changing structures of the state and the state-business relations,

however, these efforts failed.

DEFINING JAPAN'S NEW POSITION IN THE WORLD

The Japanese perception of international environment played a significant role in identifying the agenda of high growth for state policy-making. Believing that the ongoing liberalization of trade and foreign currency exchange in Western European countries in the late 1950s reflected the emergence of a new order in the world economy, a group of Japanese economists and politicians, who acted as the agents of change, argued that to catch up with this trend was an urgent task confronted by the Japanese economy. If Japan failed to achieve this goal, she would be left far behind in the international competition. In order to liberalize trade and to meet the challenge of foreign products in the domestic market in the near future, Japan must adjust her industrial structure greatly. Under the leadership of Ikeda Hayato, the Japanese state decided to begin the process of liberalizing trade in 1960 despite the anxiety, criticism, and opposition from many interest groups. Pressured by the International Monetary Fund and the OECD, Japan also withdrew its restrictions on foreign currency exchange in 1964.

This new perception of international order stood a serious trial in 1960 when the nation was divided on the extension of the Japan-U.S. security treaty. The Japanese were confronted with the questions of how to balance their understanding of the new order in the international economy and their understanding of the existing order of the cold-war in international politics, and whether Japan should pursue more independence in politics from the U.S.. After this turmoil, the Japanese shifted their attention away

from international politics, acknowledging the existing framework of international politics and the leadership of the U.S. in bilateral relations. Meanwhile, they came to simply emphasize the domestic economy, believing that the cold war system would not bother the emergence of the new order in the international economy. From then on, the Yoshida doctrine was reconfirmed as the principle for building up a consensus in the social construction of rationality, leaving all the issues concerning international politics to the United States. These changes provided a great transition in state economic policy. Liberalization demanded an effective domestic response and readjustment of the industrial structure while the political anger needed to be absorbed by an attractive economic program. In this section, I show first how perceptions of a new order in the international economy led to the discussion about the appropriate domestic response, and then how the failure of the anti-security-treaty movement shifted Japanese attention from politics to the economy.

The Emerging Order of the International Economy

In the late 1950s, a clear trend in favor of liberalizing the economy occurred in major industrialized countries as an outcome of the structural changes in the international economy. In the early postwar era, due to the unstable economic situation and the shortage of dollars, Western European countries placed many restrictions on imports and foreign currency exchange, which were allowed by article fourteen of the International Monetary Fund. As a result, the balance of international payments of the United States deteriorated. Under this circumstance the United States began to strongly demand from

them liberalized trade and foreign currency exchange. In the 1950s, many Western European countries achieved convertibility of currency exchange and began to withdraw their restrictions on imports of U.S. products, moving toward article eight status in the IMF, which prohibited any restriction on foreign currency to balance international payments. By the end of the 1950s, it seemed clear to many Japanese that a new order in the international economy was emerging.

The perception of this new trend became a great challenge to the existing policy paradigm of the Japanese state. Some economists who held this perception became the agent of change. Horie Shigeo, who had been a representative of the international school in domestic debates concerning economic policy and a leading authority on international finance, argued that Japan had to catch up with its trading partners and competitors. Since Japan was heavily dependent on trade, it could not afford to be left far behind. At the time full currency convertibility among the Western European countries had been realized and the creation of the European Common Market was underway. Several Western European nations, including Germany and England, had gained "article eight status" in the IMF, which required an end to restrictions on payments for current transactions and on the convertibility of currency held by nonresidents. Horie asserted that sooner or later Japan had to move to article eight status too. His opinion was shared by the leading politician Ikeda Hayato, the Minister of MITI at the time and soon the prime minister. Ikeda believed that Horie had identified the basic trend of the world, and Japan had to show its response (See Johnson 1982:250; Imai 1977:170-171).

According to Horie's perception, this new order was being institutionalized,

which was reflected in the IMF and GATT's efforts to stimulate economic growth in the world by realizing nondiscriminatory and multi-directional free trade among nations. In the future, international cooperation would become the basic principle in discussions on issues concerning the international economy. Horie believed that as Western European countries converted their currencies new international "material" and "financial" markets would emerge, which would result in a profound change in the world economy, implying long-term prosperity. Drawing upon the experience of history, Horie argued that the Great Depression between 1929 and 1933 resulted from the policy of pauperizing one's neighbors adopted by many countries in the 1920s. In the early postwar era, as industrialized nations put their priority on domestic full-employment and economic growth, they continued to practice control over foreign currency exchange. This broke the matching relationship between price and cost. While it helped these countries in economic reconstruction, it also constrained the international division of labor and the efficiency of the world economy as a whole. Therefore, it was very important for nations to help to realize a new equilibrium in the global economy. As Japan had become a member of the group of industrialized nations, Horie contended, Japan had to assume responsibility to sustain the order and the prosperity of the world economy as a whole. Otherwise, Japan would not benefit herself in the long-run (See Horie 1967).

Some Japanese economists believed that this new order in the international economy would increase the efficiency of the Japanese economy. Neoclassical economist Komiya Ryūtarō, a professor of economics at the University of Tokyo, wrote a series of articles for the *Nihon Keizai Shinbun* (the Japan Economic Journal), arguing that "a free

and competitive market mechanism ought to function smoothly by itself and produce the optimum allocation of resources". According to this logic, Japan's participation in the liberalization of trade and foreign currency exchange would increase the efficiency of Japanese firms and the benefits to the Japanese people (See Komiya 1986). Komiya represented a new generation of Japanese economists who studied neoclassical economics in the United States in the postwar era and were committed to the ideology expressed in microeconomics. Komiya suggested that in order to understand the importance of liberalization, Japanese bureaucrats and economists should incorporate such economic principles as welfare economics, the theory of the most appropriate tariffs, and the second best theory (Komiya 1959 [1971]:222).

The image of the international order in the future global economy prescribed by Horie and Komiya functioned to define the goal of liberalization for the Japanese economy and at the same time also raised some urgent issues concerning how Japan should readjust its domestic industrial structure. Although business leaders in the automobile industry and MITI bureaucrats showed strong resistance, most Japanese business leaders, though not eager, admitted that the liberalization of trade and foreign currency exchange was something they had to do in order to obtain more benefits from the international market. The Outline of the Plan for the Liberalization of Trade and Foreign Currency Exchange adopted by the Japanese government in 1960 perceived the benefits that liberalization could bring to the Japanese in the following way: "It will eliminate the inefficiency and irrationality created by the present management and control, increase free access to cheaply priced materials in overseas markets, lower

production costs, require firms to realize rationality at the international level, improve living standards, and promote the interests of the whole economy" (See Itō Mitsukaru 1977, vol. 2:172).

From "Political Season" to "Economic Season"

In contrast to the international economic order, Japanese perceptions of the international political order were sharply divided, reflected in the severe conflicts over the issue of the renewal of the Japan-U.S. Security Treaty in 1960. The Liberal Democratic Party took the cold war system for granted though it intended to redefine the relationship between Japan and the U.S. in the world system by promoting Japan's status from a dependent ally to a partner in relation to the U.S. in the extension of this treaty. In contrast, those who were involved in the Anti-Security-Treaty movement intended to pursue Japan's independence from this framework. This may initially seem unrelated to our discussion. The consequences brought about by the Anti-Security-Treaty movement, however, exerted a great impact on the political discourse concerning state economic policy. After the failure of the Anti-Security-Treaty movement, public attention to international politics declined rapidly. The general public in Japan recognized the unity of two seemingly separate dimensions in the international order, a political-military united front of industrialized countries under the leadership of the United States, and an economic cooperation system among industrialized nations which was also under the leadership of the United States. As a result, the grand strategy to exchange economic benefits for political independence prescribed by Yoshida Shigeru in the early 1950s

obtained broad support, becoming a new consensus in Japanese economic reasoning. From then on, Japan gave up any efforts to redefine its position in the international politics. Instead, it "turned inward and made economic growth and the pursuit of affluence its highest priorities" (Sasaki 1991:2). This transition in Japanese perceptions of the international order created a broad social foundation for supporting the high growth paradigm in state industrial policy. In fact, the LDP never regarded the renewal of the Japan-U.S. Security Treaty as purely a security matter. Rather it was perceived as a political strategy to ensure Japan's economic interests within the framework of the cold war. When Japan and the United States signed the original treaty in 1951, the document did not contain any provision regarding economic relations. During the Korean War, however, the special procurement from the U.S. became the major source of Japan's capital accumulation and international payments. The LDP and business leaders were convinced that further ties with the U.S. would be indispensable to pursuing economic prosperity. Meanwhile, they also intended to improve Japan's status in U.S.-Japan relations through the revision of the treaty. As the LDP proposal pointed out, the revision of this treaty was intended to "clarify the bilateral relationship of cooperation in various fields", and it "should be regarded only as a step toward more cooperation between the two countries in politics and the economy" (Jimin-tō April 11, 1959 [1966]:139). "With regard to the revision of the treaty, following similar examples such as NATO, Japan-U.S. relations will not be limited only to security, but also extended to the common foundation of democratic liberalism in politics, and to large-scale exchange and interdependence in the economy (Jimin-tō May 2, 1959 [1966]:140). Behind this

proposal was an image that this world was divided by the cold-war system into two competing blocs in which Japan stood on the side of the U.S., which was both a political-military superpower and an economic superpower, in exchange not only for military protection but also for other economic benefits. This policy was first asserted by Yoshida, and has remained the doctrine in Japanese conservative politics since the 1950s.

The left-leaning progressive forces opposed the extension of the treaty from two considerations and both of them reflected the continuity of debates in the early 1950s. The first was the dependency argument asserted by some members of the Socialist Party, which contended that the Japanese economy had been dependent upon the American economy for more than ten years in a situation in which the mechanism that worked for the interests of monopoly capital by victimizing the interest of the Japanese people was concealed by the beautiful name of economic cooperation (Shakai-tō undated, see Tsuji 1966:146). The second approach was held by a group of intellectuals, including Ōuchi Hyōe, Arisawa Hiromi, and Tsuru Shigeto, which was consistent with their previous argument in the peace movement in the early 1950s. It argued that this new treaty might further stimulate increases in Japanese defense expenditures. As a result, an important part of Japanese industry might be transferred into the munitions industry, which in turn would constrain spending on the real welfare of the Japanese people, such as education, culture, infrastructure, and social security. More importantly, it contended, as history had often shown, the establishment of a munitions industry in the private sector would implant a dangerous element into Japanese society, which would prefer international

tension and therefore hurt the economy (Heiwa Mondai Danwa-kai December 17, 1959 [1966]:144).

The competing perceptions of international order resulted in a great political disturbance. Although the Japan-U.S. Security Treaty was renewed, the Anti-Security Treaty movement also resulted in the Kishi Nobusuke cabinet stepping down. On January 16, 1960, when Prime Minister Kishi left for the U.S. to sign the treaty, seven hundred radical students intended to stop him at the airport and were driven away by 5,000 policemen. The treaty was signed on January 19, 1960. On May 20, 1960, the treaty was approved by the 233 Diet members of the LDP present, one less than one half of the total house membership of 467. All of the Diet members affiliated with opposition parties were forcibly ejected by the police from the voting, ordered by Prime Minister Kishi. From then on, an anti-Kishi movement emerged nationwide, strongly demanding the resignation of the Kishi cabinet. Japan fell into an unprecedented political storm. Eventually, the American president Eisenhower had to cancel his planned trip to Japan and Kishi had to step down.

The Anti-Security-Treaty movement had a direct impact on state policy-making. Although the Anti-Security-Treaty movement failed, the leadership and authority of the LDP fell into a great crisis. The question of how to rebuild a social coalition for conservative politics became the highest priority to politicians of the LDP. Ikeda believed that the major cause of the chaos came from the disappointment over poor living conditions, which could be ameliorated by the high growth policy. A good political strategy for the LDP was to change the barometer of domestic politics from the "political

season" to the "economic season", turning back to the Yoshida doctrine. As a new strategy to survive this crisis, the new prime minister Ikeda Hayato decided to use the National Income Doubling Plan to appeal to the general public and at the same time to adopt a low profile of "tolerance and patience" in politics. According to the interpretation of Ōhira Masayoshi's interpretation, an important assistant to Ikeda at the time who himself later became the prime minister as well, the major reason for this chaos lay in the fact that "the Japanese people, who finally recovered from the long period of war and the severe shortage of materials created by the defeat, began to have a kind of spiritual thirst and ballast. They were not satisfied with or even were repulsed by the conservative politics which constituted the political legacy of the Occupation Era, which came from either the feeling of reaction to this conservative legacy or simply of being tired of it (See Yoshimura 1985:31). Under such circumstances, the new policy of high growth adopted by the Ikeda cabinet became a good instrument to dilute the strong dissatisfaction of the general public.

A profound transition occurred in the economic reasoning after the Anti-Security-Treaty movement in which the Japanese shifted their attention away from politics to the economy. As Sasaki points out, in the 1950s a fairly large number of conservatives, including leading politicians Hatoyama Ichirō and Kishi Nobusuke, were adamant that "Japan should revise the Constitution written under the close supervision of the Occupation and promote a more independent policy for national security". After the Anti-Security-Treaty movement, as the leadership of the LDP shifted from politically oriented Kishi to economically oriented Ikeda, "Japan abandoned all efforts at self-

assertion in the political and military realms and devoted itself instead to improvement of its national economic strength. The view spread among Japanese that the security treaty, for all its faults, had the merit of keeping the country's military burden to a minimum, thereby facilitating economic growth. Once the Yoshida doctrine was institutionalized in the social construction of rationality, Sasaki argues, it went beyond being simply an alternative made at a certain point of time and became "part-and-parcel of Japan's identity" (Sasaki 1991:4).

As Japanese attention shifted from politics to the economy, even the Socialist Party began to assert support for "structural reform", demonstrating a revisionist tendency within the progressive forces. Different from the previous doctrine which emphasized the dependent nature of Japanese capitalism and asserted that Japan should be liberalized from the control of "American imperialism", the "structural reform" approach held by both the Socialist Party and the Communist Party in the 1960s regarded monopoly capital in Japan as the major enemy, focussing on the need for domestic "partial reform". "The partial reform of production relations by changing the economic policy of the state and the participation of labor ranges from restrictions on profits, prices and investments, to effective participation through democratization in various economic institutions for the purposes of controlling monopoly capital and managerial reforms in the workplace" (Shakai-tō January 1, 1961 [1966]:178). The emergence of the structural reform approach shows that the new image of international order, which was characterized by coexistence between a cold-war system in which Japan was part of the Western bloc headed by the U.S. and an international economic system in which Japan

was a member of the group of industrialized countries, worked to set goals for economic actors in the domestic construction of rationality. Its further implications will be discussed later.

IDEAS CONCERNING HIGH GROWTH AND LIBERALIZATION

Facing the emerging new order in the international economy, what kind of responsive strategy should Japan adopt? What was the intellectual foundation behind the high growth paradigm in the economic policy of the Japanese state? In this section, I show that the diffusion of foreign economic ideas, especially Keynesian economics, exerted a great impact on economic reasoning, providing new paradigms to the state economic policy. The innovative application of these ideas initiated a revolution in Japanese economic thinking in the late 1950s in which the theory of economic growth prevailed over the theory of business cycles, becoming the dominant framework in state policy-making. At the time, a central concern of government economists was how to perceive the unstable economic situation and how to prescribe relevant policy strategies for the state. The competing perceptions of the economy caused a series of debates, reflecting different understandings and visions about the reality and the future of the Japanese economy. As an outcome, Shimomura Ōsamu's thesis of high growth, which foresaw splendid prospects for the economic miracle, prevailed, and provided a theoretical framework for the National Income Doubling Plan.

At the time, the ideas which reflected the policy legacies were also quite influential in the political discourse, and the cognitive gap between these two sides

resulted in various debates. The majority of Japanese businessmen still believed in the business cycle. Assuming that after several years of high growth in the second half of the 1950s there would be a recession, they believed that the state would adopt a tight money policy, and they hesitated. Meanwhile, the legacy of managed economy still had a great impact on the selection of a contemporary strategy for dealing with the liberalization of trade. MITI bureaucrats proposed the Law of Temporary Treatment Concerning the Promotion of Special Industries, intending to reutilize the framework of managed economy to respond to the challenge of liberalization. This legacy, however, had lost its social foundation because the private sector strongly opposed state intervention after business circles had strengthened their own power in politics through developments in the 1950s, asserting the capacity for autonomic adjustment by business circles themselves, and defending their own interests by advocating the neoclassical doctrine. These ideological conflicts indicate that the existing theories influenced the ongoing construction of rationality not only because the institutionalized idea of rationality would constrain people's cognition in a new situation but also because economic actors always tried to defend their own interests by advocating corresponding economic doctrine.

In a broader context the framework of Japanese economic reasoning in the early 1960s was strongly influenced by the modern worldview--the spirit of the 1960s. The Japanese as people in many other countries embraced the idea of modernity, believing that everything, including the economy, could be controlled by the rationality of human beings. Economists enjoyed the dream of endless growth and progress, succumbing to

the fantasy that it is the amount of increase in the economy that would constitute the basis of human happiness. In the policy making process, government economists in Japan began to introduce various analytical tools developed by Western economics, which changed the perspective of economic analysis from historicism to quantitative analysis (Sawa 1984).

Keynesian Economics and Shimomura's Thesis of High Growth

The impact of cross-national learning on Japanese economic reasoning in the early 1960s was clearly reflected in government economist Shimomura Osamu's thesis of high growth, which was intellectually derived from Schumpeter, Keynes and Harrods-Domar's ideas with reference to the empirical data of the Japanese economy. He believed that two factors determined economic growth. One was supply capacity, including production capacity and import capacity, and the other was effective demand, indicated by industrial investment, government expenditure, exports and consumption. To initiate and to sustain economic growth, both supply capability and effective demand were important. He argued that the innovation process which was reflected in the heavy investment in equipment during the 1950s had effectively strengthened productivity and import capacity, and the Japanese economy possessed great potential for high growth. Under the present situation, he asserted, government should create the effective demand by increasing public expenditures in order to sustain economic growth (Shimomura 1958, 1959, 1962).

The Keynesian economics applied by Shimomura in his high growth thesis

contradicted the leading orthodoxy of economics at the time, and therefore elicited two famous debates in the late 1950s in which the paradigm of high growth became the new orthodoxy in the social construction of rationality. The first debate was between Shimomura Ōsamu and Gotō Yōnosuke on the issue of how to perceive Japan's worsened international payments in 1957. The second debate was initially between Shimamuro and Ōkita Saburō, and later involved Tsuru Shigeto, Nakayama Ichirō and several others on the issue of how to predict the growth rate for the government five-year-economic-plan. These debates resulted in a revolution in Japanese economic thinking in which Keynesian economics formally established its leading position in the framework guiding Japanese industrial policy.

These debates reflected not only the conflicts among different approaches about the nature of the economy, but also the conflicts among different approaches about economic science. The first conflict was between the natural approach and the engineering approach in the analysis of the nature of the economy. Gotō Yōnosuke, who received his higher education in electrical engineering, held an engineering approach toward the economy, believing that the economy was controllable and that state intervention would sustain the balance of international payments and break the bottleneck in economic growth. In contrast, Shimomura Ōsamu, who worked at the Ministry of Finance over his long bureaucratic career where Adam Smith's view of the economy was quite influential, held a "natural" approach toward the economy. He opposed state control, asserting that he was not interested in economic planning, and strongly objected to state control over people's economic activities as inconsistent with the theories

prescribed by any economist. Rather, he focussed on liberalizing the conditions under which people's creativity could be induced because he believed that "the very dynamic of economic growth lies in the free creativity of entrepreneurs" (Shimomura 1957 [1962]:295; Sawa 1984).

The difference in philosophical preference between economic growth and stability constituted the major issue in the second conflict. On this issue, Shimomura held a Schumpeterian approach, believing that economic growth was a process in which innovation would constantly create bottlenecks and then break them. Therefore, the recession after a boom was inevitable and could be left alone. In contrast, Gotō Yōnosuke asserted a Keynesian approach, arguing that the state should intervene when the economy experienced a recession and that economic growth could be achieved by minimizing the scope of economic fluctuations (Kanamori 1985).

The applications of these competing assumptions to the analysis of economic reality resulted in a third conflict between the "business circles" approach and the "economic growth" approach in Japanese economic reasoning. On the issue of how to perceive the strength of the Japanese economy in the late 1950s, which was a basis for state policy-making, Shimomura held an extremely optimistic view, believing that the Japanese economy had entered a golden era of high growth. In contrast, Gotō and Tsuru were skeptical about Shimomura's judgement, warning of the existence of business cycles (Goto 1957; Tsuru 1959). Shimomura made a clear distinction between "business cycles" and "economic growth", asserting that in comparison with the business cycle, which is determined by investments responding to fluctuations in the market situation,

economic growth is driven by investments by entrepreneurs in innovation. The theory of business cycles assumes that economic boom must be followed by recession. In contrast, the perspective of economic growth predicts that, despite short-term economic fluctuations, the economy would grow quite constantly over the long run.

Shimomura's thesis of high growth incorporated various foreign economic ideas according to the conditions of the Japanese economy. He had been studying Keynesian economics since 1936 and even obtained a Ph.D by submitting a thesis on Keynesian theory. His orientation toward the program of high growth, however, shows that he did not adopt Keynesian theory without reservations. As mentioned above, he built up his framework partly drawing on the basic assumptions underlying the Schumpeterian approach which were different from the Keynesian assumption about the nature of the economy. Meanwhile, he also incorporated the Harrold-Domar model of economic dynamics into his thesis of high growth, transcending Keynes' "effective demand" by emphasizing the concept "effective output", changing Keynesian theory from a short-term theory of economic fluctuation to a long-term theory of economic growth. Shimomura's position also made distinctions with both laissez faire doctrine and the Marxist planned economy. He stressed the importance of the role of state intervention in economic growth, but opposed any effort to constrain the dynamics and creativity of entrepreneurship in the private sector. He valued the function of market competition, but rejected the doctrine of laissez faire. The role he defined for the state and central bank was "to create the appropriate conditions for realizing economic growth according to the conditions under which the process of innovation begins" (Shimomura 1966, cited in

Kanamori 1985:151).

Building up arguments based on empirical data was a distinctive characteristic in Shimomura's methodology of economic analysis. According to Kanamori Masao, one of Shimomura's admirers, this realist methodology exerted a great impact on Japanese government economists. Drawing upon statistical data of the Japanese economy, Shimomura always raised timely issues. He was interested in theory, but he was looking for a theory that would help the analysis of reality. When the theoretical framework could not fit reality, he always altered the doctrine, developing new perspectives. Shimomura once recalled, "when I worked at the Ministry of Finance, and at the Price Bureau and the Economic Stabilization Board in the early postwar era, Keynesian theory was the most helpful framework to me in predicting economic trends and prescribing a strategy. At the same time, however, it was also a process in which I came to realize the incompleteness of Keynesian theory" (See Kanamori 1985:144). In comparison with academic economists, Shimomura was strong at making arguments according to empirical data, while in comparison with many other government economists, he was distinctive in analyzing empirical data with a solid theoretical framework (Kanamori 1985).

Shimomura's thesis of high growth also reflected the impact of modernism at the time. Behind the National Income Doubling Plan, there were some strong beliefs in continuous economic growth and progress, in the omnipotent functions of science and technology, and in growth itself as the origin of human happiness. It was a reflection of the values of that era in which rationalism and social engineering were very popular not only among intellectuals but also among the general public (Sawa 1984:4-5, 62). As

critiques point out, this paradigm of high growth focussed people's attention on increasing GNP and pursuing economic growth for its own sake, which in turn delayed responses to various social problems such as rapid increases in consumer prices, soaring land prices, and environmental pollution (Masamura 1974:31).

Welfare economics was another source of dynamics in sustaining Shimomura's high growth thesis. At the time, Nakayama Ichiro advocated the income doubling plan from a point of view of welfare economics. As both the vice president of the Headquarters of Productivity and the president of the Central Council of Labor--whose major task was to improve labor relations as an arbitrator--, Nakayama asserted in an article entitled "Advocate Doubling Monthly Salary" in January 1959 that the future of the Japanese economy lies in the construction of a welfare state and doubling monthly salaries would be a concrete step towards this goal. According to his analysis, the reason Japan's production and exports had to depend on a low living standard was because of low productivity. In order to promote productivity, business should not only ask for cooperation from labor but also increase salaries. Since to double monthly salaries was based on the conditions of promoting productivity, accumulating capital, introducing new technology and assuring the international market, it would be in the common interest of both business and labor and it should be a national policy for Japan's future (Nakayama 1959).

Shimomura's high growth thesis, which became the theoretical foundation of the NIDP, was confronted with a strong challenge from the "stable growth" approach as many problems associated with the high growth appeared in the early 1960s. When the

Japanese economy fell into recession in 1964, an extended issue for the program of high growth--whether the state should issue national debt as an instrument of adjustment to the fluctuating situation--became a central issue in the social construction of rationality. Shimomura asserted that the state should adopt a comprehensive financial package to sustain the economic growth by lowering interest rates, reducing corporate taxes, and, more importantly, issuing national debt (Shimomura 1965 [1971]:476-478). Despite the fact that the Japanese state decided to issue national debt, it also officially announced that the state would take a stable approach towards economic development after Satō Eisaku became the prime minister.

During this period government economics (*kanchō ekonomikusu*) rose as a distinctive school in Japanese economic thinking. It took an approach which was different from both Marxist economics and classical and neoclassical economics in Japanese academia. In contrast to the former, it paid less attention to state control but emphasized how the state could intervene in the functioning of the economy through policy instruments. In this sense, it played an important role in helping the Japanese to transcend the old type of rationality centered on state control, arriving at a rationality based on state-private sector cooperation. In comparison with the latter, it not only violated many principles of classical and neoclassical economics, but also directly built up its framework according to an understanding of the reality of the Japanese economy. The debate between Shimomura and Gotō showed a clear pattern of government economics, which could be distinguished from both Marxist economics, which at the time was still dominant in academia, and classical and neoclassical economics, which had

begun to increase its impact in the 1950s. Marxist economists felt unfamiliar with even the elementary application of econometrics, while neoclassical economists, who were addicted to theorizing by employing mathematical tools, were bothered by analyses which were full of empirical data. For this reason, only those who used to be involved in policy-making, such as Nakayama Ichirō and Tsuru Shigeto, were able to participate actively in the debate (Sawa 1984:26). As the "kanchō economics" was established, policy-making in the Japanese state began to have a realistic perspective.

Brain Trusts and Other Forms of Participation in Policy-Making

The diffusion of economic ideas in state policy-making was sustained by several structural changes, not only in the connection between the state and academia, but also in the research orientation of academia itself. First, by the end of the 1950s, an increasing number of academicians began to conduct empirical studies on timely issues confronted by the Japanese economy, becoming more and more involved in the process of policy-making, as the government economics became a challenge to Marxist economics and classical/neoclassical economics in Japanese academia. At the time, most economics departments in Japanese universities were dominated by the Marxist perspective. There were only about three hundred economists who held classical and neoclassical perspectives (Sawa 1984:32). As Sawa Takamitsu points out, most of them were busy learning "theories" which were heavily equipped with mathematics and had no time to conduct any empirical studies on the Japanese economy. By the mid-1950s, only a few academicians who were leading figures in Jissen-ha economics, such as

Nakayama Ichirō, Tsuru Shigeto and Ōkawa Kazushi, began to employ quantitative methods to analyze the empirical data of the Japanese economy. In the debate around high growth, the gap between the theories and methodology of neoclassical economics and the reality of the Japanese economy began to draw great attention from a group of economists who intended to escape from the tradition of neoclassical economics.

At the end of the 1950s, a new generation of neoclassical economists began to challenge the orthodox methodology of mathematical deduction, asserting the importance of empirical data in economic analysis. This new trend was well reflected in a sensational speech made by Komiya Ryūtarō at the annual meeting of the Japanese Association of Theoretical Economics in 1959. Drawing upon his fresh experience of studying in the U.S., he pointed out that "the fact that most Japanese economists are concentrating on pure theory and mathematical theory in fact reflects the backwardness of Japanese economics. Any empirical science will not be able to progress without a positivist foundation. Therefore, in order to develop economics in Japan, the majority of economists must be engaged in empirical research and deal with practical issues" (Komiya 1959 [1971]:219) According to Komiya, it was "a misallocation of resources" that the majority of economists were mainly concerned with theoretical issues. As Sawa Takamitsu points out, "given that Western economic theories which were equipped with complete individualism and quantitative methodology might be effective as analytical instruments to understand countries in Western Europe and North America, as an instrument to apprehend Japanese society in the second half of the 1950s, they still remained what Schumpeter called a 'toy gun'" (Sawa 1984:14).

The diffusion of Keynesian economics via Shimomura's high growth thesis in state policy-making was institutionally supported by his close tie with the leading politician Ikeda Hayato, who himself was also a Keynesian. In Ikeda's career as a politician, he was strongly influenced by two men. In politics and international relations he was influenced by Yoshida Shigeru, while in economic policy he was influenced by Ishibashi Tanzan (Kobayashi 1982:22). As a politician, Ikeda was "one of the best students at the 'Yoshida school'". In the early postwar period, many prewar party politicians were purged by the Occupation Authority for their connection with the military during the war. Prime Minister Yoshida Shigeru thus selected a group of ex-bureaucrats, who later constituted one of the major foundations for the conservative parties, to fill this vacuum. As the mainstream of conservative politics in Japan, these politicians committed themselves to Yoshida's grand strategy in postwar politics, namely, to ally with the U.S. in the cold war in exchange for its economic aid and military protection; meanwhile to concentrate all of the nation's financial resources in economic development, minimizing defense expenditures. In contrast with party politicians who spared no effort in ideological confrontations, the primary attention of these ex-bureaucrat politicians was given to economic affairs, as they had a strong background in economic administration. Consequently, it was easier for ideas concerning economic policy to be readily received by ex-bureaucrat politicians such as Ikeda.

In economic affairs, Ikeda was strongly influenced by Ishibashi Tanzan, who explicitly claimed himself as a Keynesian. When Ishibashi served as the Minister of Finance in the early postwar era, adopting an easy money policy to support the priority

production program, Ikeda became his Vice-Minister. Later, when Ikeda himself became the Minister of Finance, implementing the "Dodge Line" in the third Yoshida cabinet, he changed Dodge's "deflation policy" to a "dis-inflation policy", issuing many loans to protect firms from bankruptcy. In 1955, when Ishibashi became the Prime Minister, Ikeda again became Minister of Finance. The two men co-authored the policy entitled "100 billion yen public expenditure and 100 billion yen tax reduction" in an effort to sustain growth, though Ishibashi was in office for only four months (Kobayashi 1989).

The reason Ikeda supported Shimomura's high growth thesis was not only intellectual, but also political. In the late 1950s, Shimomura's idea of high growth fit Ikeda's political interest well, which made Ikeda the agent of the high growth thesis in state policy-making. In 1958 as the head of the second largest faction among eight within the Liberal-Democratic Party (LDP), the leading political party, Ikeda sought to become Prime Minister, though he was in a relatively weak position in terms of seniority within the LDP. In order to win the competition, Ikeda established a private brain trust in which Shimomura was the chief economic advisor. Ikeda was deeply impressed by Shimomura's idea of high growth and decided to use it to challenge party politicians who lacked any persuasive perspective regarding economic policies. The fate of Shimomura's idea shows that "to become policy, ideas must link to politics--the mobilization of consent for policy" (Gourevitch 1989:87), and ideas need agents within the state to advocate them in order to influence policy. These ideas thus become influential only when they are connected with political leadership. Among various ideas, what idea will be favored by politicians depends on their own policy orientation, and its significance in politics.

The Idea of a "State-Private Cooperation" System

In the economic reasoning concerning how to respond to the challenge of the liberalization of trade and foreign currency exchange, the policy legacy of the managed economy was still influential. The victory of Shimomura's high growth thesis in forging the National Income Doubling Plan shows that a new paradigm had emerged in Japan's industrial policy, which was toward a more market oriented approach. The coexistence of both the internationally oriented market approach and the domestically concerned state centric approach not only reveals the competing perspectives in economic analysis, but also displays the changing dynamics behind the development of Japanese economic thinking.

MITI, which used to be one of the major agencies in charge of the operation of the managed economy in the state bureaucracies, was the major agent advocating the legacy of managed economy. After the Japanese government formally decided to begin the process of liberalization of trade and foreign currency exchange in 1960, MITI bureaucrats were concerned with the competitiveness of Japanese firms. They perceived that when the Japanese economy was transferred from light industry to heavy-chemical industries, the most urgent task for Japan would be to equip firms with the new imported technologies and to strengthen their competitiveness with foreign firms in both international and domestic markets. They asserted that in order to meet the challenge of the incoming liberalization, Japan had to reorganize its industrial structure through concentration, mergers and professionalization of production. The state should provide assistance through taxation and monetary policies, while representatives from the

government, banks and manufactures should come together, establishing a "state-private cooperation" system (Sahashi 1977). Underlying MITI's proposal was a nation-state approach with the assumption that when Japan was confronted with an international challenge, the nation needed to be organized together under the leadership of the state. This line of reasoning was not unfamiliar in the history of Japanese economic thinking. In fact, it was the theoretical foundation of the program of managed economy.

In fact, the new application of the legacy of managed economy was also sustained by foreign economic ideas. The proposal of establishing a "state-private sector cooperation" system was heavily influenced by the French practice. One of the major bureaucrats at MITI in charge of drafting this proposal was Ryōkaku Yoshihiko, the director of the Enterprise Bureau. He used to work for several years at the Japanese embassy in France during which time he intensively studied the relationship between the state bureaucracy and business circles in France. Influenced by these factors, MITI proposed a comprehensive policy package for Japan to deal with the new situation of liberalization of trade. In April 1961, MITI established the Survey Committee on Industrial Structure. In December of the same year, this committee established its Subcommittee on the Industrial System. Arisawa Hiromi became its chairman. In 1967, this subcommittee finished a report to the Japanese state, entitled "On the Formation of A New Industrial Order". This report supported MITI's early proposal for establishing a "state-private sector cooperation" system, framing a reorganization of industrial structure, which prescribed a new rationale for Japanese business organization. It held that in the capital-intensive industries such as iron and steel, petrochemicals, fertilizers,

and oil, the direction of business reorganization should be economies of scale through business linkups, investment adjustments, rotational or cooperative investments, and eventually establishment of an industrial system through mergers, which would operate on an international scale and could conduct effective competition. In the technology-intensive industries, more attention should be paid to the increase of R & D and the concentration of research capacity. In consumer products industries, what deserves attention was not only economies of scale, but also a division of labor in product series, standardization of products, and cooperation in marketing (Arisawa and Tsuchiya 1967:12-13).

Nevertheless, MITI's efforts eventually failed because after a decade of reintroducing the function of market competition and implementing the program of innovation in the private sector, profound changes had occurred, not only in the manner of economic reasoning, but also in the balance of power in politics. Under such circumstances, MITI's state centric approach caused a strong reaction among business circles, and the Keidanren (the Federation of Economic Organizations) countered with the idea of "automatic adjustment". It argued that except in some industries such as automobiles, petrochemicals and special steel, Japanese firms had built up enough competitiveness with foreign firms in the major strategic industries such as iron and steel, shipbuilding, heavy-machinery, and electrical machinery. The establishment of a "state-private cooperation" system led by MITI probably would result in too much state intervention (Misono 1987:160).

THE NATIONALIST MOVEMENT AND THE HIGH GROWTH POLICY

The transition of the economic policy of the Japanese state to the paradigm of high growth was sustained by strong ambitions of becoming a first class nation. From the late 1950s, as mentioned before, the negative self-images, which were constructed by both Marukei economists, who emphasized the dependent nature of the Japanese economy, and some kinkei economists, whose approaches were constrained by Western economic theories and practices, began to be replaced by the pursuit of national identity. Accordingly, the nation-state became a dominant unit of analysis in the economic reasoning. This trend became clearer in the early 1960s, because unlike the previous paradigms which had been practiced by other countries, the high growth policy was something totally new not only to the Japanese but also to other peoples. The process of formulating the paradigm of high growth in intellectual discourse turned out to be a spiritual revolution through which the Japanese came to believe that high growth was indeed possible and they would be able to accomplish something that had not even taken place in the Western countries. In this sense, the debate between the independence argument and the dependence argument within the circle of Marxists and the assertion that Japan is a middle class country by kinkei economists worked to support the idea of high growth.

The program of high growth, however, was also intellectually constrained by value judgements. As the implementation of the National Income Doubling Plan resulted in various social problems, the high growth policy was confronted with many moral and ethical criticisms. Consumer prices jumped quite rapidly at an average annual growth rate

of 6.5 percent between 1961 and 1963. Meanwhile, the living environment was deteriorating, and industrial pollution was becoming a big problem. Under such circumstances, business firms came under strong criticism from the general public. The stable growth approach, which lost the battle with the high growth thesis in the late 1950s, began to attract public support in the 1960s, which initiated a serious moral and ethical reexamination of the high growth policy. As a result, the Japanese state officially changed its policy orientation from high growth to stable growth in 1965. The debate between the high growth approach and stable growth in the early 1960s was a good example of how the economic rationale reflected in state policy was constrained by moral and ethical examinations from the general public in a society where the state had relatively strong autonomy in policy-making.

Becoming A First Class Nation

The ambition to become a first class nation was the major dynamic in the debate over whether Japan could achieve high growth. In the early 1950s, how to protect the national interest from the cold war situation concerned many Japanese. They were sympathetic to the dependency theory asserted by some Marxists, whose arguments were very similar to those of the dependency theory and the world system theory that appeared in the West two decades later. Because its focus, as introduced in Chapter Five, was on the dependent nature of the Japanese economy upon the cold-war system, some radical communists even argued that Japan had become a colony of the U.S.. This dependence argument produced a strong side-effect in the Japanese effort to search for a new national

identity; many Japanese intellectuals suffered from a negative self-image, assuming that Japan was an economically backward nation and it would be impossible for her to pursue something like high growth.

This negative self-image began to be challenged by both Marxist and kinkei economists in the late 1950s. Both challengers shared one belief in common, namely, after a decade of economic reconstruction, the Japanese economy was no longer weak and Japan was no longer an economically backward nation. This perception implied that Japan had begun to rid itself of the status of a dependent nation on the United States and would be able to achieve high growth in its economic development. The ways both challengers approached this issue, however, were significantly different. In the debate with the dependency approach in 1957, Kono Yoshihiko argued that although Japan had been completely dependent upon the U.S. during the postwar period, this dependence was temporary in nature, because the Japanese monopoly capitalist economy was reviving. Despite the fact that the revival of monopoly capital was initially dependent upon U.S. aid, it was now based on the foundation of compulsory savings, enlarging the domestic market, and the exploitation of the Japanese people. In the 1950s Japanese monopoly capital not only rebuilt its domestic foundation, but also once again obtained the power for economic expansion into imperialism through large-scale investment in equipment and the promotion of competitiveness. Sooner or later, it followed, the contradiction between Japan and the U.S. would erupt into the open (See Kojima 1978 [1976]:71-72). Though not explicitly, this argument supported the assumption contained in Shimomura's thesis of high growth but from a different angle.

The search for national identity was the major spiritual pillar to pursue an unprecedented policy paradigm of high growth. In Japanese academia, the idea that Japan was a late-developed country in industrialization in the world and that this industrialization was an outcome of international pressure in the mid-19th century had been orthodoxy during the postwar period. The achievements of the United States and Western European countries in the 1950s observed by Japanese scholars who obtained opportunities to visit in the 1950s further enforced this negative self-image. According to this approach, the outstanding performance of the Japanese economy in the 1950s was simply a result of economic reconstruction which had been finished by the mid-1950s, and, therefore, the high growth would not be able to be sustained. In 1957, Umezao Tadao, a junior historian at the Ōsaka City University, offered a new perspective, which caused wide repercussions among intellectuals. Umezao argued that Japanese history demonstrated an amazing parallel with European history which Japan did not share with its Asian neighbors. Therefore, Japan and Asia could not be mentioned in the same breadth. Japanese history could be understood by the framework abstracted from European history. In this sense, Japanese civilization should be regarded as an equal to its European counterparts. He further asserted that Japanese industrialization had in fact resulted from a process of independent development in which Japanese society itself accumulated modern elements, and even if Western powers had not knocked on the door of Japan in the 19th century, Japan would have taken steps toward industrialization naturally. According to Umezao, Japan did much better than Britain and France in balancing the conflict between cultural tradition and industrialization. In the 1950s only

Japan and West Germany could achieve economic growth without colonies among industrialized countries. In this sense Japan was on the historical frontier without the burden of its past, confronting the issues of the future (See Umezao, Takeyama, Suzugi, Hayashi 1957).

A self-image of a middle class country constructed by Japanese economists supported the high growth thesis in a different way. As Sakamoto Jirō criticized them, many Japanese intellectuals regarded industrialization as something equal to westernization. They stood on the positions of either the U.S. and Britain or the Soviet Union, employing other countries' values and ways of thinking to examine Japanese reality. These people always emphasized the discrepancy between Japan and other Western industrialized nations, attacking Japanese backwardness. Drawing upon intensive comments made by Westerners on Japan, Sakamoto asserted that although Japan was not an advanced nation (*senshin-koku*), it was not a backward nation either. Despite the fact that its consumption level was still very low, like many developing countries, its level of industrial production had certainly reached that of other industrialized nations (Sakamoto 1954:24, 41).

Criticisms of the high growth thesis showed a close relationship between the methodological choice in economic reasoning and the perception of the economy. Shimomura's confidence on the Japanese economy was derived from empirical data while the critics of the high growth thesis tended to use the economic performance of Western countries as a reference system. Even though Western developmental economics had already been introduced to Japan and employed as the framework in some discussions,

many Japanese economists still could not believe in the possibility of economic growth at an annual rate higher than 6.5 percent, let alone the criticisms based on the conventional understanding. At the time, one of the major reasons underlying this approach was that growth rates in the United States and Western European countries were not as high as that of Japan, which, in turn, made some Japanese wonder whether Japan would be able to realize high growth. Some critics of Shimomura's high growth thesis pointed out at the time, that the average annual growth rate between 1948 and 1958 in the U.S. was 3.0 percent, in Britain it was 2.4 percent, in France it was 5.8 percent and in Sweden it was 3.5 percent, which implied that the normal growth rate could not be very high (See Shimomura 1959:188; Ōkita 1959:45). This shows that the situation in the West cast a big shadow on the Japanese self-image at the time, which constituted a kind of intellectual constraint on the social construction of rationality in Japan. Shimomura's new vision was confronted with strong resistance from institutional inertia, ranging from the policy legacies of the state to the orthodox doctrines of economics. In the debates on high growth, Shimomura fought in isolation. His idea was criticized not only by bureaucrats who held that the high growth caused by the postwar recovery had ended and thus Japan's economy would enter a period of stable growth, but also by left-wing academicians who--influenced by Marxist and progressive approaches--asserted that without a systematic institutional reform, high growth would be unlikely to occur (Masamura 1985:168).

In contrast, Shimomura's idea of high growth was based on the empirical analysis of Japanese economic situation. He contended that the factors which determine economic

growth vary among nations. It is not appropriate to derive conclusions in the economic analysis of other countries according to the economic situation in the U.S. and Western European countries (Shimomura 1959:188-189). Komiya Ryūtarō also pointed out at the time that the understandings of the present economic situation by Japanese intellectuals in general and economists in particular were clearly well behind the time; they had been overwhelmed by pessimistic assessments of the Japanese economy and further inclined to underestimate the development of the international economy as a whole. This pessimistic vision was the major barrier to policy proposals which looked forward to the future. According to Komiya, it was the impact of Marxism that created a long time lag in the Japanese vision of the economy. He argued that one great merit resulting from the high growth policy was to confirm the reality of high economic growth in Japan (Komiya 1960:6-7).

High Growth versus Stable Growth

Shimomura's thesis of high growth represented a new economic philosophy, namely, high growth itself would solve all problems for human society. He emphasized the promotion of production forces, asserting that productivity would naturally result in an increase in economic welfare, and that living standards would be improved accordingly. In this logic, the unit of analysis was the economy as a whole. Shimomura was concerned with the economic welfare of 90 million Japanese people, rather than that of certain social groups. Shimomura believed that it was easier to construct a rationale for the Japanese economy by setting the goals to realize full employment, to raise the

national living standard and to increase the level of social welfare than by discussing how to distribute these gains among different social groups (See Shimomura et al 1960:60). This was a typical position held by economists who began their analysis by treating relevant social factors simply as assumptions.

The paradigm of high growth clearly reflected a modern worldview, which assumed that human beings were able to freely control the economic variables such as the growth rate, international payments and prices. In Japan, as in many other industrialized countries, the attention of economic reasoning was concentrated on the dynamics created by technological innovation and the consumption revolution, and people tended to believe that economic growth would eventually help solve all problems confronted by human societies. Many state officials and their economic advisors excessively trusted the effectiveness of macro economic policy, expecting that economic growth would realize the greatest happiness of the biggest majority of Japanese people (Sawa 1984).

To many others, however, the social consequences of the high growth policy were a major concern even before this policy was adopted by the Japanese state. In the debate with Shimomura, Ōkita Saburō expressed his concern on this issue quite early. Among government economists, Ōkita was also well known as having confidence in the potential of the Japanese economy, for arguing that "it was indeed necessary for the government to adopt active policy measures under the present economic situation". Nevertheless, he was more worried about the tradeoff between economic growth and stability, namely, that inflation would take place if the government tried to sustain growth when the growth

rate slowed down and that unemployment would increase if the government tried to control inflation. If state policies were too aggressive, going beyond the degree that the economy itself could afford, there would be a strong reaction after the boom, which would not only eliminate many small and middle sized firms, but also increase social stress. Based on these considerations, Ōkita suggested "stable economic growth without disturbance" (Ōkita 1959:46-47). Tsuru Shigeto also supported Ōkita's position, asserting that it was extremely important for the Japanese government to control the degree of economic fluctuation through its policy instruments in order to reduce the social conflicts created by unstable economic growth (Tsuru 1959:135-136).

The implementation of a high growth policy created some unexpected social consequences, which raised several important issues concerning equality. First of all, it supported the further development of a state-big business complex in Japan in the 1960s. Although Shimomura himself was critical of this kind of relationship between the state and the private sector, the process of carrying out his high growth paradigm in Japan's industrial policy had to depend inevitably upon the existing economic institutions in which close ties between the state and big business had been built for many decades, which, in turn, often resulted in favorable treatment of big business at the expense of other economic actors. Secondly, it led to the pattern of GNP oriented development. Despite the fact that Shimomura himself held a position which was different from the orientation to give first priority to industrial policy, the social psychology created by his idea of high growth sustained indirectly the existence, expansion, and reproduction of this policy mechanism (Masamura 1974:42).

The criticism of the high growth thesis was concentrated on the issue of equality. In the debate between high growth and stable growth, Marxists and socialists focussed on the issue of equality reflected in social welfare, questioning directly the nature of economic development within the framework of capitalist institutions. At the time, the structural reform approach represented by the so-called "Eta vision" was very popular among socialists. Eta Saburō was the general secretary of the Socialist Party at the time. In July 1962 he expressed his new idea concerning the direction of the socialist movement under the new circumstances in the high growth era. Eta asserted that the major achievements the human race had realized so far were the high average living standards in the United States, the completed social welfare system in the Soviet Union, the parliamentary democratic institutions in Britain, and the peace constitution in Japan. Therefore, the Socialist Party should make active comprehensive adjustments in its policies across these dimensions in order to realize socialism in Japan (See Kojima 1978 [1976]:84).

Some neoclassical economists were also concerned with the issue of equality in tax reductions. At the time, the Japanese state decided to reduce taxes by 100 billion yen, as suggested by business leaders, in an effort to stimulate and sustain the economic growth. This policy caused a strong reaction from economists who asserted that it was unfair in the redistribution of national income to those who worked very hard. Komiya Ryūtarō pointed out that only from one fourth to one third of Japanese could benefit from the tax reduction. Rather than reducing taxes, he argued, promotion of social security and the public sector were far more important. Here he further suggested that the issue

of income redistribution was largely associated with value judgements. Theoretically speaking it was impossible to create a "fair" formula for income redistribution based on a value-free and scientific position. For this reason, when economists discuss this issue, they must make value judgements according to the understanding of the majority of the Japanese people (Komiya 1960:10, also see Imai in Shimomura et al 1960:62).

The issue of equality was also reflected in the discussion on the impact of the high growth policy on the dual structure of the Japanese economy. Japan's late-developed agriculture and the small and middle sized firms tended to be victims of the high growth policy, which was in favor of big businesses. Especially, the anti-trust policy was far from appropriate, because it might further deepen the gap between big firms and small and middle sized firms (Komiya 1960:11). The expectations of the general public regarding the economy were also in favor of "the stability of living conditions and the economy" and "further improving the economic situation" (Yoshimura 1985:22-23).

Marxist economist Takahashi Masao pointed out two decades later that both the conservative and the progressive were not fully aware at the time that high growth would have a very poisonous legacy to the Japanese people, resulting not only in international economic frictions with other countries, but also in the "Japanese disease" which was characterized by environmental pollution and the coexistence of both over-populated urban areas and under-populated rural areas (Takahashi 1981:87). Confronting the serious social problems that appeared after the implementation of the high growth policy, the Japanese state decided to shift from the high growth policy to a stable policy after

Satō Eisaku became prime minister in 1965. On the one hand, the debate between the high growth approach and the stable growth approach indicates that rationality, especially collective rationality, could not be free from the constraints of the value system in the society, collective rationality involves multiple actors and the distribution of economic welfare among them is a major issue in constructing a widely acceptable policy agenda. On the other hand, the debate also shows that the indigenous values supporting group harmony and collective welfare were not internalized individually nor always predominant. Rather, they prevailed only as the outcome of integrating competing interests among different social groups when the nation was confronted with external pressures.

FIGHTING THE INSTITUTIONS

The institutional structures of the Japanese state and state-business relations in the 1960s largely determined the ways the high growth policy and the liberalization of trade were carried out. As discussed before in Chapter Five, the conservatism in Japanese politics revived in two dimensions. Firstly, the power in policy-making in the Japanese state was given back to the individual ministries, abandoning the framework of the economic general staff. The Economic Stabilization Board was replaced by the Economic Deliberation Agency (EDA), losing its power in policy-integration. In 1955, when Hatoyama Ichirō became the prime minister, he replaced the Economic Deliberation Agency with the Economic Planning Agency (EPA), believing that even a capitalist economy still needed government planning. The EPA regained some power in

policy integration, but not as much as the ESB used to have, because this agency was bounded by the existing authority and influence of individual ministries. Secondly, the state withdrew its tight control over resource allocations, letting the market resume the function of promoting production efficiency, though the state still controlled credit and the foreign currency exchange. In this kind of institutional framework, the economic growth in the 1950s not only strengthened the power of the private sector, but also the power of politicians in state policy-making.

In this section, I first show that these developments in Japanese politics had a profound impact on the program of high growth in the early 1960s. When Ikeda Hayato began to advocate Shimomura's idea of high growth through formulating the National Income Doubling Plan at the end of the 1950s, he had to try hard not only to convince business leaders, generating public support, but also to overcome the institutional barriers within the state bureaucracy, redirecting the orientation of Japan's economic policy. To a large extent, Ikeda succeeded in the struggle between him and the bureaucrats, overcoming the institutional constraints against the high growth policy. Meanwhile, however, the outcome of this program was still constrained by institutional structures to a considerable extent because Ikeda had to make compromises with bureaucrats and business leaders in order to obtain their political support.

Then, my analysis turns to the struggle around the Law of Temporary Treatment Concerning the Promotion of Special Industries between MITI and business circles. I demonstrate that a decade of economic growth in the 1950s had greatly strengthened the power of the private sector in politics, and the authority of state bureaucrats in policy-

making began to be challenged by the Liberal-Democratic Party and big businesses. When MITI intended to take the leadership in the industrial reorganization by establishing a state led cooperation system in response to the challenge of liberalization, the pattern of state-business relations experienced a serious test because it might go back to the framework of managed economy. The 1960s, however, was not the 1930s or the 1940s. MITI's efforts were confronted with strong resistance from business circles, which fought hard to protect their autonomy. Those allied in opposition to state control successfully blocked MITI's initiative of passing the Law of Temporary Treatment Concerning the Promotion of Special Industries at the Diet on several occasions. Eventually, MITI's effort ended in failure. This struggle had a profound impact on the state-business relations in the future. From then on, a pattern of cooperation between the state and business circles was finally institutionalized.

Political Action and Bureaucratic Constraints

Strong political leadership was required to respond to the rapidly changing situation in the Japanese economy which had reached a turning point in its development at the end of the 1950s. Most politicians and bureaucrats, however, were not ready to assume this mission. In the 1950s, Japan faced difficult international issues growing out of the cold-war situation that caused severe clashes of opinion over foreign and security policies, making the political situation very unstable (Sasaki 1991). After the fall of the Yoshida Shigeru cabinet in 1954 and the conservative merger in 1955, political power fell into the hands of politicians in the LDP whose priorities were to adopt either

conservative policies in education or an "independent diplomacy" with which to promote Japan's status in bilateral relations with the U.S. (Masamura 1985). The Japanese state demonstrated weakness in choosing a grand strategy of progressive policy measures though it was good at small and reactive adaptations (Masamura 1991). Since the operation of the state depended on the existence of a widely agreed upon set of overarching goals, when confusion or conflict over the overarching goals occurred during the crisis, it was quite adrift and incapable of coming to grips with basic problems (Johnson 1982).

Under such circumstances, the leading politician Ikeda Hayato decided to redirect the orientation of the Japanese state in its economic policy. On December 27, 1958, along with two other ministers, Ikeda quit his position as the Minister of State in the Kishi Nobusuke cabinet to oppose Kishi's action in sending a bill to the Diet to strengthen the power of the police. After Ikeda learned of Nakayama's idea of doubling monthly salaries in January 1959, he decided to use it as his political slogan for the coming election of the House of Councilors in June. Shimomura's thesis of high growth was too abstract for the general public. In order to build a social coalition, Ikeda had to transform it into a popular phrase and "doubling monthly salaries" was a good term for this purpose. On February 22 1959, Ikeda gave his first public speech regarding "doubling monthly salaries" at the regional conference of the LDP in his hometown Hiroshima city. One day later he repeated it in a meeting with business leaders of the Kansai region in Osaka city.

The policy proposal of "doubling monthly salaries" provided a third position

between business circles and labor unions. Business leaders had held that the major problem in the Japanese economy was that the pie was too small and the Japanese had to work hard to make the pie larger, while labor unions had asserted that before we make the pie larger we should decide how to divide the pie more equitably. Ikeda's proposal asserted that the pie could be enlarged by changing the way of cutting it. Against Ikeda's expectation, however, his new vision found no echo but provoked many criticisms from both business circles and labor. Business leaders contended that the destiny of the Japanese economy lay in manufacturing and trade. Effective demand could be created only by exports. In order to increase exports and improve international payments, Japan had to promote trade, reduce costs, accumulate capital and control salaries. Ikeda's proposal of creating domestic demand by increasing salaries put too much weight on the domestic market and miscalculated the significance of trade and exports to the Japanese economy. A strategy of "economic growth" neglecting trade and exports was not acceptable. The labor unions and the socialist parties did not oppose the idea of "doubling the monthly income" in principle as they asserted that Japan should create effective demand by strengthening domestic purchasing power. They regarded Ikeda's proposal as a progressive contrast to the Japanese government's current practice of promoting exports by depending on a cheap-labor policy. They held, however, that the idea of doubling monthly salaries was too good to believe and it was unlikely to happen. To enact a minimum salary law, to establish a social security system and a national pension system were more realistic policy measures (Tanaka 1959).

The institutional constraint on state policy making was first reflected in the fact

that Ikeda had to make compromises in order to build a political coalition for the high growth policy. On March 9 1959, Ikeda published an article in *Nihon Keizai Shinbun* in which he ingeniously shifted his position (Tanaka 1959). He wrote that he did not suggest that the monthly salary be doubled immediately. Rather, doubling would naturally result from the promotion of productivity and the increase in GNP and national income. Meanwhile, he re-asserted that further development of the national economy was now being constrained by the shortage of effective demand; the state should increase public expenditures to sustain growth (Ikeda 1959). Ikeda's new position was quite different from his speeches in February in terms of either policy orientation or theoretical assumptions (Tanaka 1959). Accommodating himself to the position of business, Ikeda began to gain support for his proposal, which became a popular agenda in the political discourse.

Ikeda's policy proposal not only changed the focus of Japanese politics at the time, but also brought him into a good position to further influence the direction of state policy-making. In May 1959 Prime Minister Kishi Nobusuke decided to adopt Ikeda's proposal as a proposal of the LDP in the June election to the House of Councilors, announcing that the Japanese government would begin to make long-term economic plans to double the scale of the national economy. In November 1959 Kishi asked the Economic Council, the major advisory agency to the Japanese state in economic policy, to devise a plan. The Economic Council established four departments and seventeen sub-committees, involving more than two thousand scholars, business leaders, representatives of labor unions and bureaucrats in related research. The Economic Planning Agency

served as the Council's office of general affairs directly in charge of drafting the NIDP.

After the election, Kishi reshuffled his cabinet and offered Ikeda the post of minister at the Ministry of International Trade and Industry (MITI). Ikeda decided to depend upon the power institutionally given to him to pursue his goal of pushing the transition in the paradigm in state industrial policy. Because the LDP-led cabinet is always a balance of power among different factions within the party, and the heads of large factions often become ministers, these ministers are very powerful within the domain of their ministries--even the Prime Minister has to yield to them due to political considerations. Acting as the Minister of MITI, Ikeda began to initiate the change with the liberalization of trade. The institutional resistance was very strong. "Young officials thought that the liberalization would mean the end of their jobs, senior officials in the vertical bureaus were worried about the structural weaknesses of their industries, and politicians feared for their election" (Johnson 1982:251). Exercising his power as the Minister of MITI, Ikeda succeeded in persuading MITI bureaucrats to shift Japan to the "article 8 status" of IMF (Ito 1981:91). Pushing the liberalization of trade forward, Ikeda laid a solid foundation for his future actions, mobilizing MITI bureaucrats to support his high growth policy, making them believe that high growth was the only way for Japan to counter the impact of the liberalization of trade (Tanaka 1959).

The strong support from the general public to the high growth policy enabled Ikeda to win the competition within the LDP for the election of Prime Minister, and he became Japan's Prime Minister in July 1960. Business leaders liked Ikeda's idea of using active finances to sustain economic growth. They spent a huge amount of money

to ensure Ikeda's victory in the election. After Ikeda became Prime Minister, the surveys showed that 51 percent of the general public supported his cabinet, which was the second highest support rate in postwar Japanese politics--second only to that gained by the Yoshida cabinet after the San Francisco Peace Treaty was concluded.

Within the state bureaucracy, however, the implementation of the high growth policy still faced many institutional constraints because many bureaucrats opposed Shimomura's proposal to set the annual growth rate of the Japanese economy at the 11 percent, which sharply contradicted the 7.2 percent predicted by the EPA. These constraints made Ikeda compromise again in order to obtain political support from state bureaucracies. According to Shimomura, Ikeda's private advisor in economic affairs, to set the growth rate at 7.2 percent would produce a negative impact on the economy because once a low growth rate was set up as the goal for state policy, higher growth could be restricted as the government would tend to adopt a tight money policy when the real growth rate outperformed the plan (See Shimomura 1981:84). Although Ikeda preferred Shimomura's prediction, he knew that EPA's view was more acceptable to the majority of the Japanese, both in the state bureaucracies and in the society at large. When his economic belief countered his political considerations, and the need of using high growth to rebuild the political coalition also differed with the need to stabilize popular feeling, Ikeda decided to compromise again. Instead of adopting 11 percent, he chose 9 percent, the middle between Shimomura's 11 percent and the EPA's 7.2 percent as the goal for the next three years, believing that 9 percent was high enough to advertise his high growth policy and, meanwhile, it would also help him to alter the structural

constraints within the state bureaucracies more easily.

Among the economic bureaucracies, MITI was Ikeda's major supporter. MITI bureaucrats held that since Japan had to liberalize trade, Japanese firms would confront serious challenges from foreign products in the domestic market, therefore, they were eager to adopt policy measures to upgrade Japan's industrial structure in order to meet the challenge. Two major opponents of high growth policy within the state bureaucracies were the Ministry of Finance (MOF) and EPA.

The Ministry of Finance, especially its Planning Bureau, had a strong, institutionalized belief in anti-active finance. "The orientation of this bureau (Planning Bureau) was a personalized principle of finance, namely, to keep expenditures within the limits of income. They have a strong commitment to social justice, avoiding any waste of public finances gained from taxes." MOF constantly opposed the NIDP throughout the process of plan making (Ito Daiichi 1967). When Ikeda became Prime Minister, however, MOF shifted its position quickly because Ikeda had numerous resources for inducing the bureaucrats of MOF to change their minds. Ikeda himself worked at MOF for twenty-seven years and used to be its Vice Minister, the highest position attained by a professional bureaucrat in the Japanese government. After he became a politician, he served twice as the Minister of Finance. Through these experiences, Ikeda not only built up his personal network within the ministry gathering many supporters, but also developed influence over the career promotions within MOF, as well as the arrangement of future careers for bureaucrats after they left MOF. In Japan, every bureaucrat has to leave the bureaucracy sooner or later if he is no longer able to be promoted along with

his entering cohort. Every ministry takes care of those who leave, seeking positions for them in its peripheral organizations or the private sector. Many bureaucrats become the CEO in big business immediately after they leave government service. In terms of social status and economic well-being, life after leaving the bureaucracy is more important to Japanese bureaucrats. For this reason, Ikeda's influence constituted an "invisible pressure" on every opponent even when he no longer headed MOF. Bureaucrats of MOF were clever enough to shift their attitude towards the NIDP from a "purely economic policy judgement" to a "political judgement" with reference to Ikeda's policy orientation of high growth (Ito Daiichi 1967).

EPA was in charge of realizing the NIDP and was in favor of the stable growth approach. One of the representatives of this approach, Ōkita Saburō, who was involved in the debates with Shimomura previously, worked at this agency. As mentioned before, during the process of plan-making, EPA's view had gained broad support from different social actors. It was shared not only by leading economists, but also by business leaders, labor union leaders and others. The delicate position of EPA in the larger bureaucratic struggle, however, enabled Ikeda to alter EPA's position eventually. EPA was a new bureaucracy established after World War II and staffed by bureaucrats transferred from various agencies. In the Japanese bureaucracy, there is a "temporary transfer" system by which each ministry sends its own bureaucrats to work at other bureaucracies temporarily. What kind of posts those temporarily transferred receive depends on the relative strength of their ministry in bureaucratic struggles. For this reason, many major posts of EPA had been under the control of MITI and until 1960 EPA had never

produced its own vice minister. Therefore, EPA was given a nickname--the "branch office" of MITI. EPA's bureaucrats had been making efforts to establish their own domain within the bureaucratic world, depending on their "cultural capital" in terms of knowledge of the economy and their quantitative analysis in forming long-term government plans. Consequently, EPA could not resist Ikeda's 9 percent growth rate because the adoption of the NIDP afforded EPA a critical opportunity to strengthen its domain. If EPA had rigorously opposed the plan, it would have had to sacrifice its own interests (Ito Daiichi 1967). Ikeda's victory dealing with the resistance from the state bureaucracies shows that actors are indeed affected by institutions through which they act, but the impact of rules and procedures depends on who tries to use them and how (Gourevitch 1987:229). Under the strong leadership and appropriate strategies of politicians, institutional constraints on new policy proposals could be overcome. Meanwhile, the political compromises Ikeda made also reflected the impact of institutional constraints on state policy-making. Moreover, the fact that the proposed growth rate in the NIDP was based not on any scientific calculation but on political compromise indicates that rationality in real life was indeed socially constructed.

The Struggle Around the Law of Temporary Treatment Concerning the Promotion of Special Industries (tokutei sangyō shinkō rinji sōchi-hō)

The early 1960s witnessed some profound changes in the nature of Japanese rationality for economic development, which were clearly reflected in the dispute between MITI officials and business leaders on the issue of how to respond institutionally

to the process of liberalization of trade and how to establish a new industrial order. Drawing upon the legacy of managed economy, MITI officials intended to establish a "state-private sector cooperation" (kanmin kyōryoku) system. MITI had depended upon its control over foreign exchange and credits to nurture the strategic industries, and by doing so, to influence the behavior of the private sector. Facing the new situation of liberalized foreign currency exchange, MITI would lose this powerful policy instrument in its administration of the national economy. Therefore, it proposed a new instrument, to promote the competitiveness of Japanese industries by employing mergers, alliances, and cartels to concentrate the capital of Japanese industry. In order to carry out this program, MITI planned to establish a "cooperation system" which included representatives from MITI, the banks and the manufacturers.

MITI's proposal caused a strong reaction from business leaders, who advocated "automatic adjustment" by business circles themselves. They were afraid of the possibility of a revival of the institutions of managed economy, which would take away the freedom of the private sector, resulting in control by the state over many aspects of the economy. MITI's proposal was regarded as a plan to expand the power of state bureaucracies further into the economic sphere. Besides, business leaders had become more confident about the competitiveness of Japanese firms in the international market because they believed that heavy investment in equipment and technological transfers had already greatly strengthened the foundation of the Japanese industries. Although the liberalization might have some negative impact on automobiles, petrochemical industries, and the special steel industry, Japanese industry in general had reached the stage in

which Japanese firms could compete with foreign firms in the international market. Eventually, MITI's effort to enact the Law of Temporary Treatment Concerning the Promotion of Special Industries failed to pass a hearing at the Diet.

This event had deep significance for Japanese rationality in running the economy. First of all it shows that the cooperation system between the state and business circles was not, at least not only, a product of Japanese indigenous culture, which favors harmony, but was based on power relations. In any particular type of collective rationality, conflicts of interest and power struggle must be involved and help to define the relationships among economic actors. Secondly, it indicates that after a decade of economic development, the private sector had quickly strengthened its power in both politics and the economy. Ironically, MITI's practice of controlling credit and foreign exchange through banks greatly strengthened the position of commercial banks in national politics which became a powerful competitor to MITI in state policy-making in the 1960s. While banks in the 1950s functioned as instruments of MITI in credit control, they also became the center in the private sector, organizing various keiretsu around themselves. The growing power of Japanese banks forged a special interest group in the politics concerning industrial policy. In the social construction of rationality during the early 1960s, therefore, the nation-state approach and the business group approach competed with each other as the unit of analysis, and each of them prescribed its own instrumental means for meeting the challenge of the liberalization of trade. It is necessary to mention here that although MITI's dream of establishing a "state-private sector" system through the Law of Temporary Treatment Concerning the Promotion of

Special Industries did not come true at the time, such a system was indeed established in an informal way, which worked well in the 1960s and the 1970s. After the revision of the U.S.-Japan security treaty, Japan abandoned all efforts at self-assertion in the political and military realms and made economic growth and the pursuit of affluence its highest priorities. The state bureaucracies became leading actors in politics throughout the 1960s and the LDP successfully rebuilt its coalition, keeping its status as the leading party until very recently (Sasaki 1991). The industrial policy adopted by the state in the 1960s reveals an important facet of Japanese rationality, that is economic actors do respond to changes in the market situation, but they may do that in various ways. Unlike in the U.S. where individual firms assume the responsibility to act according to the market situation, in Japan the state often played an important role in organizing and coordinating the national response as a whole because it took an institutional approach to the market economy in which the organization of the market was the most important issue. In the following pages, I summarize how the Japanese rationality of high growth and the new industrial order were constructed according to interactions with various social factors.

Conclusion

This chapter shows that the focus of Japanese economic reasoning shifted to the macro level again with a new paradigm of high growth in state economic policy. In this new paradigm, the Keynesian theory became the leading framework, and the nation-state continued to be the unit of analysis. The means designed for the program of high growth

showed some distinctive characteristics, which transcended the pattern of state intervention in the 1930s and the 1940s. Unlike the managed economy in which the state controlled almost every aspect of economic activity, the attention in the program of high growth reflected in the National Income Doubling Plan was concentrated only on the public sector in which the state could directly employ its policy instruments. In contrast to the practice in the 1950s in which the state left most of the direct roles in running the economy in the hands of the private sector except controlling financial credits and foreign currency exchange, the Japanese state in the NIDP made a strong commitment toward improving the infrastructure, promoting human capital, and developing social welfare.

The Japanese experience in the 1960s further reveals the weakness of the market argument in the field of Japanese studies by showing how important the Japanese state was in organizing and influencing the activity of the private sector in the market. To be sure, the Japanese state respected the creativity and entrepreneurship of the private sector through the market mechanism. The NIDP explicitly asserted that "the role of the state was to create an environment in which the private sector could act freely, to provide the basic conditions by which freedom in the market would bring about economic rationality, and to eliminate various barriers on the way" (Keizai Kikaku-chō 1960:215). The market, however, did not work according to its own laws, but under the strong intervention of the state. The Japanese case in the 1960s showed a strong interdependence between the state and the market, namely, the state and the market were institutionally linked with each other, each of them assuming its role through working with the other, and the pattern of their relationship could change over time. In this sense

it is misleading to argue that one of these two sides was more important than the other. A more constructive way to further the discussion is to focus on the changing pattern of this relationship and examine what kind of impact this changing state-business relation has exerted on the Japanese economy. The Japanese rationality of running the economy was an integral whole and it cannot be apprehended adequately by cutting it into pieces and treating one piece as the whole.

The impact of the perception of the international order on the goal-setting in Japanese economic reasoning was enormous. When the Japanese realized that liberalization would be an indispensable ticket for obtaining a favorable position in the emerging new order of international economy, they knew that the critical issue they would confront in the near future would be how to compete with foreign products in their domestic market. It was driven by this pressure that the Japanese state decided to employ its policy instruments to improve the infrastructure, to develop human capital, and, more importantly, to sustain economic growth. Although the international environment exerted great pressures on the Japanese in the 1950s too, the pressure in the 1960s was quite different in nature: for the first time in history the Japanese had to begin to open their domestic markets to foreign products. This challenge greatly mobilized the Japanese, pushing them to strengthen their competitiveness by all means.

This chapter demonstrates how Keynesian economics initiated a great transition in Japanese economic reasoning, and particularly how important political power was in the diffusion of foreign economic ideas in the process of state policy-making. It shows that although the agents of change among economists were limited in number, their close

connection with the leading politician Ikeda Hayato enabled them to exert a great impact on policy making. The formation of the National Income Doubling Plan also shows that during the process of institutionalization of a new paradigm in industrial policy, political leadership was a critical factor in accelerating the pace and the effectiveness of the diffusion process.

The Japanese pursuit of national identity and confidence in the 1960s constituted one of the major dynamics in economic reasoning in breaking the existing economic orthodoxy which was primarily based on the experiences of Western countries, and adopting a new paradigm of high growth which had a distinctive Japanese character. Driven by the strong desire to become a "first class nation", the Japanese showed great enthusiasm in pursuing high growth. Meanwhile, the debates around the implementation of the NIDP also indicate that equality was still a big issue even after various interest groups had reached an agreement on the high growth policy.

This chapter reveals the strong impact of institutional structures of the Japanese state and state-business relations on policy making by examining the political struggles around Ikeda's efforts in formulating the high growth policy and MITI's efforts of establishing a "state-private cooperation system" in order to meet the challenge of liberalization of trade and foreign currency exchange. It shows that the power of bureaucrats in Japanese politics began to decline in the 1960s. Bureaucrats not only failed to resist politicians' initiatives in adopting the high growth policy and starting the process of liberalization of the economy, but also failed to claim more power in running the economy by enacting the Law of Temporary Treatment Concerning the Promotion

of Special Industries. In this sense, the cooperative relationship between the state and the private sector, patterned since the 1960s, reflected the changing structure of power relations between the state and the private sector.

CHAPTER SEVEN: CONCLUSION

I began my analysis by showing a distinctive pattern of Japanese rationality reflected in the economic reasoning behind state policy making. After examining the dynamic process in which three distinctive paradigms of the state economic policy successively replaced one another through four programs between the 1930s and the 1960s, I found that economic reasoning was bounded by various institutional environments and thus its propositions also reflect these environmental conditions. In the existing literature, this Japanese type of rationality has been either treated as the same as Western rationality by neoclassical economists, or neglected altogether by the cultural school which rather dispenses with it as a non-instrumental value system. My aim has been to challenge these two orthodoxies in Japanese studies simultaneously. Both perspectives, I believe, share one assumption in common, namely, modern economic institutions were dominated by some external forces which transcend human cognition and contextual conditions, in the form of either economic laws or cultural traditions. According to this assumption, human beings are vulnerable. They have to either obey these external economic laws or internalize these regulatory traditions. By showing how Japanese economic reasoning is shaped by the Japanese perception of international order, the diffusion of foreign economic ideas, changing popular values, and the institutional structures of the state and state-business relations, I have tried to demonstrate in this study that some basic assumptions that are conceptualized by neoclassical economics as "natural laws" are in fact human artifacts. They abstract human experiences in particular settings, which therefore are subject to cross-national variation. Since both economic

laws and cultural traditions are constructed by human beings, neither of them functions to transcend contextual conditions in reality. In this concluding chapter, I focus on the theoretical implications of the above findings.

The Unit of Analysis

Japanese economic reasoning provides some powerful evidence to support the recent discussion in economic sociology on the multiple logic of rationality in economic sociology. In neoclassical economics, methodological individualism is regarded as the indispensable unit of analysis to universal rationality. The collective orientation reflected in the unit of analysis in Japanese economic reasoning, however, indicates that methodological individualism is only one way to construct rationality or reflects one type of rationality. The Japanese experience suggests that economic actors are able to employ different strategies to pursue their interests, sometimes through competition, and sometimes through cooperation. Moreover, under certain circumstances, economic actors may believe that they can be better off by promoting the collective interest. This study indicates that the unit of analysis in economic reasoning adopted by either the observer or the observed is diversified and changeable in reality. The individualistic approach may prevail under certain circumstances, but it will not be held forever. This study further suggests that even in the collective rationality, there are various units of analysis in economic reasoning, ranging from the class to the nation-state. At what level economic actors construct rationality is not predetermined, neither exclusively at the individual level, as neoclassical economics asserts, nor exclusively at the collective level,

as the viewpoint of Nihon-jin-ron advocates. Rather, it is subject to how economic actors perceive the social environment and the contextual conditions under which they choose their corresponding strategy.

The shift in the unit of analysis in economic reasoning has some important implications for the economy itself. In the reference system of Japanese rationality, there is a hierarchy in which the level of the unit of analysis begins with the nation-state and goes down through the categories such as business groups, industrial fields, unions, and firms. These units of analysis are collective only in a comparative sense. In contrast to the individual adopted by neoclassical analysis, the firm is a collective unit of analysis to both individual workers and individual shareholders. At the industrial level, the individual firm becomes the unit of analysis in neoclassical economics. In contrast, a business group or the competitiveness of an industry of a nation in the international market becomes a collective unit of analysis. A quite often observed phenomenon in the Japanese case is that when a higher unit was perceived as confronting challenges or difficult situations, economic actors at the lower level tend to compromise with each other in order to make collective efforts to survive as a whole at the higher level. In this sense, what is considered to be important is not the fact that Japanese rationality is collectively oriented, but the fact that by shifting the unit of analysis from the individual (or the extended individual) to the collective, the nature of economic institutions and its implications for the economy changed greatly. When the Japanese tried to solve domestic conflicts of interest between management and labor by increasing the national share in the international market through cooperation, what Mancur Olson (1982) calls

the competing "distributional coalitions" at the lower level were transferred to what I call the cooperative production coalitions. Such a mechanism has enabled the Japanese to structure the distribution of economic welfare among different actors "in ways that augment the creation of values" (Laronick 1991:70). As a result, not only is enormously strengthened the capacity of the Japanese economy to adapt new technologies and to reallocate resources in responding to changing conditions, the rate of economic growth is also significantly increased. In this process, successful collective actions took place without the disturbance of the free-rider problem because groups had furnished powerful incentives for participation (Olson 1965). As the unit of analysis shifts from the individual and class to the nation-state, patriotism could supplement profit-seeking more substantially in the search for competitiveness for the Japanese economy as a whole in the global market (Dore 1987:182).

In this regard, it will be very interesting to watch what is going to happen to Japanese competitiveness in the international market after the Japanese begin to change some long-established institutional arrangements which have been believed to have effectively sustained the cooperative production coalitions in postwar Japan, such as the life-long employment system. These changes do not simply concern the employment system itself. They will have a profound significance on the nature of Japanese labor relations, the productivity of Japanese firms, and the Japanese competitiveness in the international market, and even the nature of Japanese capitalism.

The Preference of Ends

The preference of ends in Japanese economic reasoning, which is characterized by a strong production orientation, differs itself significantly from the neoclassical assumption of utility maximization, which is much more distribution oriented in nature. How to allocate resources and distribute economic welfare efficiently, and how to produce effectively represent two competing themes in two different forms of economic reasoning. These two different themes reflect not only the different preferences of ends, but also the different attitudes on the fundamental issue of whether economic science is concerned with the nature and causes of the material wealth of nations. In neoclassical analysis, "the technical arts of production are simply to be grouped among the given factors influencing the relative scarcity of different economic goods" (Robbins, cited in Lazonick 1991:67-68). As William Lazonick (1991:65) points out, neoclassical economics "has a theory of value allocation, but it lacks a theory of value creation". Influenced by Karl Marx and Joseph A. Schumpeter--both men were concerned with the issue of the creation of values through production technology--, Jissen-ha economics pays great attention to effort-saving technologies and innovations, seeking the secret for increasing the material welfare of the nation. In this sense, Jissen-ha economics is indeed "developmental" in nature. According to its logic, "it makes no sense for economists to concern themselves with the 'optimal' way to slice a 'scarce' economic pie if they have no understanding of what determines the changing size of the pie" (Laronick 1992:69).

The major propositions of Jissen-ha economics and their applications in the

Japanese economy are also meaningful to our discussion on comparative capitalism. They suggest that the distinction in the preference of ends between the production orientation and the distribution orientation in the economy may be more important and meaningful than the distinction in instrumental means between the state and the market in the economy. The point at issue here is not whether the state or the private sector is more important in economic development, but what they do to the economy. What we saw in the Japanese case was not only a "developmental state", but also a "production oriented" private sector. Both of them have emphasized the production of wealth instead of the distribution of wealth. The shift in patterns of state intervention served the purpose of promoting production and creating national wealth. No matter what the policy paradigm, --the managed economy, technological innovation or high growth--, the preference of ends always favored production instead of distribution. In this sense, Japanese economic reasoning is really what Lester C. Thurow calls "producer economics". The economic strategies of the Japanese state and the private sector together constitute an integral whole in Japanese rationality.

The Japanese strategy of obtaining a market share in the international economy through technological innovation implies a very different definition of "comparative advantage" in economic reasoning. In neoclassical economics, comparative advantage refers to things which are already given to a national economy in the international exchange at the time of analysis. According to this criterion, the Japanese economy in the early postwar period had almost no comparative advantage at all. At the time, its heavy-chemical industries were not as competitive as those of Western countries while

its cheap labor was being challenged by the initial industrialization of many developing countries. In the Japanese economic reasoning, however, comparative advantage was perceived as a strategic position in the international division of labor, which is supported by competitiveness in production technology and value-added products in the global market. It not only concerns the goal of gaining a share in the market, but also concerns the means to achieve it. This comparative advantage is not necessarily already given, but it is absolutely needed by the nation. For this reason, the Japanese made great efforts along many dimensions in the 1950s. The term comparative advantage in the Japanese context has to be understood from a long time span, because to build up such a comparative advantage requires constant efforts and can be very inefficient in terms of input-output analysis in the short-term.

The Instrumental Means

The Japanese state, the keiretsu, and the Japanese management system represent a set of instrumental means which are quite different from the market asserted by neoclassical economics. Elements of rationality are consistent with each other, and economic actors choose the instrumental means according to the unit of analysis and the preference of ends. In this sense, different instrumental means, as the ways of organizing economic life, reflect different goals of economic actors and different levels at which economic actors construct their rationality. The assertion of the market by neoclassical economics is consistent with its methodological individualism and its preference for utility maximization. In contrast, the collective unit of analysis and the

production oriented preference entail a set of instrumental means which is highly distinctive from markets, and is internally coordinated in nature.

The Japanese experience indicates that the organization of the economy is a critical instrument to deal with the market failures that occur more often in a developing economy. In neoclassical economics, the state may intervene only when the market fails. This principle, however, does not work in a developing economy in which the function of the market in organizing economic life constantly confronts two challenges. The first is the frequent economic distortions caused by the strategy of what Albert O. Hirschman calls "unbalanced development"--a common phenomenon in developing economies. The second is the bottleneck exerted by the limitations of capital, materials, technologies and labor due to economic backwardness. Moreover, when economic actors fail to deal with these market failures, the result is often in the social and political instabilities, which are reflected not only in severe competition among firms, but also in social conflicts between capital and labor. These conflicts may often weaken a nation's competitiveness as a whole in the international market, which in turn further exaggerates the domestic situation. Market failures in a developing economy therefore make the stability of the economy a crucial issue in economic reasoning. Economic actors have to respond to an important question--when market failures constantly threaten and the economy confronts strong instability, how should economic actors arrange their relations with each other, namely, what kind of supplier-consumer relations and what kind of management-labor relations should be established in order to survive the economic distortions created by market failures. The Japanese solutions to market failures have been very different

from those in the West. In a laissez faire economy which is accompanied by a democratic principle in its political institutions, the solutions to market failures often become a zero-sum-game, namely, the losses exactly equal the gains. In this zero-sum game, according to Lester Thurow (1980:11-12), "the gains and losses are not allocated to the same individuals or groups. On average, society may be better off, but this average hides a large number of people who are much better off and large numbers of people who are much worse off." In contrast, the Japanese assume that the market in a developing economy may never work well due to the nature of a developing economy and the strong instability created by frequent market failures. Therefore, the function of institutional establishments is not only to remedy market failures but also to prevent them from happening in the first place. In particular, the Japanese have tried to distribute both gains and losses more equally, though the distribution was never exactly equal (Dore 1987).

Especially, when the goal of economic development itself has a collective nature, the framework for deriving the rationale for economic development has to be organizational, because "the history of capitalist development suggests that the way in which the pie is sliced--the way in which resources are allocated and goods and services distributed--has a significant impact on how rapidly the pie grows" (Lazonick 1992:69-70). During the evolution of such institutional arrangements, the state can play a critical role in setting rules for property rights, government structures, and exchange, organizing and coordinating the interorganizational relations among economic actors, standing above the claims of interest groups (Fligstein 1993). To create a stable market involves finding

a conception of control that allows participants to survive and economic actors have to find what Fligstein calls "a noncompetitive way to compete" (Fligstein 1993). Individual firms and labor unions on many occasions may not be willing to do so. When necessary, the state may have to employ its coercive power to settle relationships in order to deal with market failures. To the Japanese state which had a strong "developmental" orientation, one of the most serious challenges confronted by the Japanese economy was the threat of "exit" of economic actors from the state's program of economic growth. It must take leadership to initiate and sustain the institutional establishments that give economic actors more chances to "voice" themselves in order to generate their "loyalties" to the collective goals (Hirschman 1970). In this regard, we can say that it is not simply a competing and exclusive relation between the state and the market, but how the state acts to deal with the market. In this sense, neither the state nor the market as the instrumental means of human rationality functions in economic life for its own sake, and therefore they might not be exclusive from each other.

The Japanese experience also indicates that "the movement to planned coordination has not occurred solely, or even primarily, at the level of the state, but at the level of the business organization. Far from economic prosperity requiring a 'perfection' of the market mechanism, the experience of the twentieth century has shown that the wealth of different nations has become increasingly dependent on the planned coordination that takes place within business organizations" (Lazonick 1992:13). Both vertical and horizontal coordination among individual firms in the form of "relational contracts" have played a very important role in overcoming the market failures by trading

off the short-term loss involved in sacrificing a price advantage against the insurance of receiving the same help from one's trading partners when the firm is in trouble (Dore 1987). The Japanese management system assumed a similar function by which job security is exchanged for less job mobility and the loyalty of employees to their firms. In both practices, the Japanese prefer the long-term stability and predictability which are associated with inefficiency in one way or another over the market efficiency which is associated with unpredictable economic distortions. In short, the Japanese experience reveals that for the market to work, extensive social relations must come into existence to give structure to an arena of trade.

Economic Reasoning is Cultural.

The Japanese case shows that economic reasoning is *cultural*. To say that instrumental rationality is cultural by no means confirms the cultural explanation in Japanese studies because the term culture used here is quite different by definition from the term culture used by the Nihon-jin-ron theorists. They represent two different definitions of culture. In the conventional definition, culture refers to values, beliefs, and symbols, which are analytically separated from instrumental rationality. Adopting this definition, the Nihon-jin-ron theorists explain Japanese economic institutions in terms of a natural inheritance of Japan's ancient values. As many critics have pointed out, this approach has failed to explain why economic actors, who share the same common aspirations, behave differently in business activity (Hamilton and Biggart 1988). The term culture here refers to the collectively shared meaning system, which is a "tool kit"

people may use to solve different kinds of problems, and to formulate the "strategy of action" which is defined as "a general way of organizing action" (Swidler 1986). Culture here refers to rational culture, which is basically instrumental in nature, distinguishing itself not only from the non-instrumental ones, such as morality and ethics, but also from other ways of expression such as norms and rituals. The cultural nature of economic reasoning is reflected in two dimensions. The first is the existence of cross-national variations of instrumental rationality reflected in different state policy paradigms, each part of the "industrial culture"--the institutionalized logic of economic organization within a country, or "the economic customs that structure industries and economies, and simultaneously to the means-ends designations that are socially constructed in the process of the enactment of those customs" (Dobbin 1993:5; Dyson 1983). The economic reasoning for state policy-making in Japan reflected one kind of rationality with strong Japanese characteristics, distinguishing itself not only from the universal rationality described by neoclassical economics, but also from that in Western countries (see Dobbin 1993). It indicates that human beings in different cultural contexts designate means and ends in different ways. In the Japanese case, for example, the unit of analysis, the preference of ends, and the instrumental means were designated according to Japan's own institutional environment, which does not have anything in common with the U.S.. It also shows that even in a particular country like Japan, the collectively shared understanding about what is rational may change over time. What was believed to be the best way to organize the economy in the 1930s and the 1940s, for example, was considerably different from what was believed in the 1950s and the 1960s. In this sense,

the assertion of acultural rationality by neoclassical economics is not valid.

The second is the role of these policy paradigms as the myth of modernity and institutionalized ceremony in the reproduction of a rationalized meaning system. These patterned differences in policy paradigms among nations have great impact on the future policy-making of the state, because economic reasoning for state policy making, as many other types of organizational processes, is driven by the need to obtain legitimacy (Meyer and Rowan 1977), which results not only in intellectual isomorphism directly (DiMaggio and Powell (1983), but also in some organizational establishments within the state that resist any change (Skocpol and Weir 1985).

This study also suggests that the relationship between two different definitions of culture needs to be reconsidered. To be sure, the old definition mentioned above is not suitable to explain the Japanese case. Despite the fact that paradigms of state economic policy were partially influenced by non-instrumental meaning systems reflected in popular values, such influences were neither direct nor the major factor in shaping economic policy in Japan. Besides, the meaning contained in indigenous values was often reinterpreted by economic actors for utilitarian purposes. Such reinterpretations often redefined the Japanese cultural tradition. Through such a process, even the non-instrumental meaning systems which were collectively shared by the Japanese, reflect contemporary social structures, especially the changing power relations among economic actors. In short, there was not an abstract and transcending culture there to influence strategic actions by the Japanese perpetually, and the analysis of Japanese industrial policy confirms that the Japanese achievement in economic development cannot be simply

explained as a natural heritage of culture in terms of individual internalization of Japan's ancient values. As a matter of fact, the core of the Japanese rationality lies in its great attention to how to build up what Mancur Olson calls an "encompassing organization" for the economy. It is cultural not in the sense that it is done for non-instrumental reasons, but because it reflected the collectively shared understanding about what is rational in arranging the relationship between the state and the private sector, between employers and employees, and between business organizations in order to make business organization more inclusive domestically and to make the Japanese economy more productive.

On the other hand, the fact that indigenous values were never asserted for their own sake to influence policy-making indigenous values always need an intervening process in which they are articulated for the utilitarian purpose of economic actors also suggests that the significance of asserting morality and ethics during the process of policy making does not inhere in its face value, but in its direct institutional implications in a particular setting. In most of the literature which adopts the new definition of culture, morality and ethics are deliberately excluded from the analysis. In fact, the moral and ethical assertions themselves also have rational meanings in a given institutional environment, and they express a particular type of meaning in modern economic life. Any meaning system in rationalized modern economic institutions must include moral and ethical elements, as long as these institutions are the vehicles for economic actors for achieving collective rationality, and any collective rationality must be perceived as moral and ethical by those who support it and participate in its application. The formation of

a collective rationality involves many interest conflicts and power struggles and no economic actors tend to behave against their own interests. Under such circumstances, asserting morality and ethics often functions to define the relations among economic actors and to find a compromise among the competing interests at the lower level in order to make every party involved better off. Especially, when economic actors perceive the situation through a collective unit of analysis, seeing the situation as a national crisis, it is easier for them to utilize indigenous values to build up consensus. The way Japanese indigenous values influence economic reasoning is not through individual internalization but through a process of political economy in which one or several collective actors assert them as a common foundation for future action, demanding compromises from every group. In this sense, the new definition of culture needs to incorporate the old one instead of excluding the latter from the discussion completely in order to enlarge its explanatory power in social science analysis.

Economic Reasoning is Historical.

The Japanese case suggests that economic reasoning is *historical*. This historical nature of economic reasoning is reflected in three dimensions in Jissen-ha economics. First is its historical methodology of theorizing. Jissen-ha economists derived their propositions in economic analysis from empirical data--economic history itself. In their analyses, history itself has been theorized and theories themselves were quite historical in nature. The policy paradigm of the managed economy, for example, was based on analysis of the historical trend toward a bloc economy in the 1930s. The paradigm of

technological innovation was based on observation of the fourth industrial revolution in the 1950s. For the same reason, Simomura's high growth thesis was a theory about the Japanese economy in a particular stage of development. By doing so, Jissen-ha resembles another tradition represented by the German historical school, Marxist historical materialism, and the Schumpeterian style of historical economic analysis. This historical orientation in economic analysis stands as a sharp contrast to the positivist tradition in economic analysis represented by neoclassical economics, in which "theory is not historicized, and history, particularly its 'time-conditionedness' and temporal contingencies, is not theorized" (Isaac and Griffin 1989:875). William Lazonick (1991:116) points out, "with the search for the nature and causes of the wealth of nations swept under the deductive, mathematical, and statistical rug, mainstream economists lost the ability to think historically. Indeed, the current generation of mainstream economists, schooled as they are in the "techniques" of economic analysis, may even have acquired a trained incapacity to understand the process of change."

The historical nature of economic reasoning is also reflected in the consequence of the major propositions of Jissen-ha economics around the issues concerning "economic development". The nature of late-development of Japanese capitalism permeated the process of economic reasoning deeply. This study demonstrates that a nation's leading agendas in economic reasoning well reflect the stage of its economic development. In the Japanese case, economists could not escape or avoid the Japanese reality of being a latecomer, and they had to confront the issue in economic reasoning how to overcome economic "backwardness". In this sense, the economic reasoning in a late-developed

country like Japan inevitably has some distinctive characteristics reflecting what Alexander Gerschenkron (1952 [1992]) called "ideologies of delayed industrialization". This was why the orthodox doctrines asserted by classical and neoclassical economics, which abstracted experiences of the first-comer nations in industrialization, attracted much less attention in Japan than the German experience. Because Germany had been in a situation which was very similar to that of Japan in the late 19th century and early this century, German social sciences, including economics, exerted a great impact on the leading agendas of Japanese social sciences. The historical nature of economic reasoning was reflected in all three dimensions of Japanese rationality--the unit of analysis, the preference of ends, and the instrumental means. The focus on the nation-state, the orientation toward production, technological innovation, market share, and high growth, and the dominance of the state, business groups and the Japanese management system in economic life all served one purpose--to overcome the economic backwardness and to become a first class nation. According to the principle of developmental economics, the state could either exert direct control over the private sector when the economy was isolated from the international market and it strongly demanded allocative effectiveness at the national level, such as in the 1930s and the 1940s, or, to a larger extent, utilize the dynamics of the market when the economy was driven by the strong pressure of international competition and it demanded production efficiency at the firm level, such as in the 1950s and the 1960s. Both practices served the same purpose--to sustain economic development. As Ronald Dore (1987:8) points out, "The 'developmental state' syndrome owes a lot of its strength to the fact that for the whole of the last century

Japan has had one compelling shared objective around which the nation could rally: 'catching up with the West'.

Finally, the historical nature of economic reasoning is reflected in the fluctuation of the leading paradigm in state economic policy according to the Japanese perceptions of the changing international environment. Since the Japanese economy has interacted with the world system, the definition of rationality has been bounded by the structure of the international economy. As this international environment changes, the Japanese adjust their strategy accordingly. In this sense, the rationality reflected in Japanese economic policy is not transcendent economic laws that work all the time. Rather, it is human strategy to deal with particular problems in a changing international environment. Some instrumental means, for example, might have been regarded as rational when they were chosen. As time passes, however, they may be perceived as irrational. It is this relative nature of rationality that constitutes the very foundation for changes in the future. The fact that Japanese always change their strategy to run the domestic economy in accord with changes in the international environment indicates that there is no abstract and transcendent economic laws that operate continuously in the economy; economic laws are human artifact in nature. The international order perceived by Japanese economists is historical in nature, and it changes rapidly over time. The multi-dimensional structure of the prewar order in the 1930s was replaced by a cold-war framework in which two blocs constituted two poles of the world system in the 1950s. Then this political dimension of the international order was perceived by Japanese economists as being separated from the economic dimension, and since the 1960s they came to believe that

the IMF and GATT represented an economic order in the world system, despite the political and military tensions between two blocs.

The fact that Japanese economists always constructed the rationality for Japanese industrial policy according to their perceptions of the international order proves that economic laws are not static and universal, but dynamic and particular. Moreover, those strategies which worked in Britain and the United States do not necessarily work in Japan and other countries. The structure of the international market in the world economy may exert considerable impact on economic reasoning for state policy-making in a particular country. Such an impact varies according to the position of that country in the world system. The economic principles of neoclassical economics, abstract from human experiences in Britain and the U.S., may not reflect the institutional reality of the economy in other countries. In other words, economists in other countries have to derive their own strategies in economic development according to the local conditions and the connections between their countries and the international market.

Economic Reasoning is Institutional.

The Japanese case also demonstrates that economic reasoning is *institutional*. As this study shows, rationality, especially a collective one, is primarily institutional. Institutional settings of economic reasoning include both organizational and cognitive dimensions. The institutional nature of economic reasoning in the organizational dimension is well reflected in its focus on instrumental means. In contrast to neoclassical economics, which emphasizes the aggregation of behavior of atomized individuals in the

market, the Japanese experience demonstrates a strong orientation toward institutions--how to integrate and organize the behavior of different economic actors. According to the Japanese logic, the market itself needs to be organized, and economic organizations are the major means to ensure a predictable order. In this sense, Jissen-ha economics is a science which prescribes the rationale for organizing collective action in economic activities through various institutional establishments. It is because of this institutional nature of Japanese economic reasoning that moral and ethical assertions played an unique role in socially defining the appropriate economic strategies.

The institutional nature of economic reasoning is further reflected in the intellectual constraints on state policy making. I have argued that institutionalized beliefs in the nature of the economy and the appropriate role of the state constitute the political discourse of a nation. "They provide a language in which policy can be described within the political arena and the terms in which policies are judged there" (Hall 1989:383). In the process of economic reasoning, as in the process of any intellectual development, "ideas become embedded in concrete communities of discourse rather than floating freely in the creative minds of their investors." (Wuthnow 1989:552) In particular, I argue that the three distinctive paradigms in Japanese economic policy were formulated in a special intellectual environment, which was characterized by the interactions of three analytically separated but intellectually related communities of intellectual discourse--the agendas of academic economics, popular values, and the policy orientations of political and bureaucratic elites. I have argued that these three communities of intellectual discourse concerning economic affairs played different roles in the process of developing state

policy paradigms. First, the academic agendas provided policy elites with various alternatives to deal with urgent policy issues. In particular, I have shown that Japanese "marukei" (Marxist economics) and "kinkei" (modern economics), which was influenced by Joseph A. Schumpeter and John M. Keynes, provided Japanese economists with the basic analytical frameworks which constituted the intellectual foundation of three distinctive paradigms in state economic policy. Second, popular values concerning economic policy served to help in the selection of acceptable solutions based on moral and ethical considerations supportive of the collective welfare. Although they needed an intervening process to influence the policy outcome, they themselves have stood as an independent dimension in state policy making. Third, the ideological and policy orientation of political elites constrained the selection of instrumental means.

This study begins with an observation that there existed a Japanese type of rationality behind the industrial policy adopted by the Japanese state. This rationality significantly contradicts not only the analytical framework of neoclassical economics in terms of the unit of analysis, the preference of ends and the instrumental means, but also several fundamental assumptions about economic science. Meanwhile, the distinctive pattern in state economic policy cannot be simply regarded as implementation of indigenous values. Rather, in economic rationality, especially a collective one, "most major decisions are made on the basis of a complicated process of confrontation, conflict, dialogue and political compromise" (Martinelli, Smelser 1990:31)

The impact of foreign economic ideas on the formation of Japanese industrial policy contradicts the claim from the cultural argument in Japanese studies which

focusses on the internalized values in the behavior pattern of economic actors. It shows that economic actors in Japan as in any other country, do construct rationality based on economic considerations. The difference in rationality contained in industrial policy between Japan and the Western countries such as Britain and the United States should be explained as a difference in institutionalized beliefs of rationality instead of differences in morality and ethics. As a conclusion, I contend that "it seems more fruitful to take economic rationality as a variable feature in human institutional life, and to devote research to understanding and explaining that variation.....it should be asked under what conditions more or less unfettered calculations based on costs and benefits are possible, and what other kinds of consideration.....influence and divert such calculations" (Martinelli, Smelser 1990:31). The Japanese rationality contained in economic reasoning for state policy, as we now understand it, possesses a more complicated nature than social scientists often assume, and many concepts of social sciences seem vulnerable to explain the reality.

The Dynamics For Change

The historical nature of economic reasoning is further reflected in the strong pressure for change. Since many institutional establishments in the Japanese economy were products of a particular era, especially the 1930s and the 1940s, they could no longer respond to the new situation which the Japanese economy confronted in recent years. Three paradigms in Japanese economic policy may have sustained the economic development in the past. At the same time, however, they have also left some strong

side-effects, which become the target of not only domestic criticism but also international frictions. Under the shadow of the collectively oriented unit of analysis in Japanese economic reasoning, the interests of individuals, either as consumers, or as employees, or small-middle sized firms have long been neglected. In the framework of what Okumura Takashi calls "Japanese corporation capitalism". Firms have dominated employees' lives, who work not only overtime on normal days, but also sacrifice many holidays and vacations. For the sake of national competitiveness in the international market, big businesses have been perceived as the major players in the global competition, and therefore they have been given much attention in state policy-making. In contrast, many small and middle-sized firms received less help and have been in an unfavorable position in the relationship with big businesses. Therefore, equality in the social distribution of economic welfare is a big issue in the Japanese system, and anti-trust practices in Japan have been very different from those in the United States. The strong production orientation has made Japan the worst nation among advanced industrialized economies in terms of social welfare, and the Japanese consumers have borne the burden of high consumer prices everyday. The strategy of pursuing a share in the international market at the cost of profits has caused strong international criticism. The high growth policy has also resulted in astronomical land prices and intense environmental pollution. In recent international economic frictions, the Japanese business organization--the Keiretsu--has been criticized for conducting economic transactions in an exclusive manner, which not only has made the entry of foreign products into Japanese markets difficult, but also has excluded foreign firms from transactions in their

overseas' operations.

As the twentieth century turned into its last ten years, there have appeared several indicators demonstrating a tendency toward change. Since the economic reasoning is historical in nature, the unit of analysis, the preference of ends, and the instrumental means that formed in the past are becoming more and more problematic when the Japanese economy confronts the new situation in the post cold-war era. Both professional observers and the general public in the West who have an interest in the Japanese economy are constantly debating whether the Japanese rationality is going to change, and if so, in what direction. How do Japanese themselves perceive the situation? What are they thinking about their future? Below, I present evidence from ongoing debates in Japan on these issues as a way of ending this study, applying my analytical framework again.

Globalization or Regionalization?

Japanese perceptions of the international order have been one of the major dynamics in the transition in Japanese economic reasoning. How do the Japanese perceive the post cold-war international order and Japan's position in this order? At this moment, there is not a single widely accepted perception; several competing perceptions coexist in the recent Japanese discussion. The Japanese are particularly debating two issues. One is what will be the future trend of the international economy, globalization or regionalization. The other is whether Japan should become a political leader of the international community or remain strictly an economic superpower.

Some Japanese are skeptical about a stable order of the international economy in the future and they believe that the relative decline of U.S. power raises serious questions about the governance of the international system. Many of them have taken the lead to study the tendency of regionalization of the international economy, arguing that Japan should locate itself in Asia. They perceive the ongoing regional economic integration in Europe and North America as a threat to Japanese access to these markets. They suggest that Japan must prepare for the future. One solution is to formulate a similar regional arrangement. This proposal is much more complicated. To be a regional leader involves two sensitive issues. One is opposition from the U.S., which does not like to see an emerging political challenger in international affairs. And the other is opposition from Japan's Asian neighbors due to the memory of World War II.

Generally speaking, more Japanese would prefer to see a stable order in the future international economy. As a report by the Research Institute of International Trade and Industry, a think tank of MITI, points out, "regional economic integration is not consistent with the existing multilateral free trade system centered around GATT unless the rigorous conditions set by GATT are fulfilled. Promoting certain types of regional economic interaction which do not satisfy GATT requirements contradicts Japan's current trade policy of which a fundamental principle is to maintain and strengthen the existing world trade system" (Goto, Irie, Soyama 1990:1).

To be a global leader is quite different from being a regional leader. What are the implications of these two competing images of international order to the future Japanese rationality? If the image of the global order prevails, Japan has to respond

more quickly and more deeply to international pressures for reforming Japan's domestic economic institutions. These reforms just as liberalization of trade in early 1960s will be perceived as a ticket benefit for the participation in the international economy. If the image of the regional order prevails, the pressures for domestic change will be lighter since Asian countries' economic institutions share many characteristics in common with the Japanese ones.

Whether Japan should become a political leader in the post cold-war era is another major issue under debate recently. Some Japanese argue that Japan does not need to be a leader at all, remaining in a status of a merchant-nation is a better alternative. According to this perception, Japan should assume the role of a merchant in the world--"a middleman taking advantage of commercial relations and avoiding involvement in international politics" (see Pyle 1992). To a large extent, this is a contemporary application of the Yoshida doctrine. As Kosaka Masataka argues, "a trading nation does not go to war. Neither does it make supreme efforts to bring peace. It simply takes advantage of international relations created by stronger nations" (cited in Pyle 1992). Following this logic, Japan would always act as number two in the bilateral relationships with the U.S..

In contrast, there is what Kenneth Pyle calls the "new nationalism". This nationalist perspective rejects important aspects of the postwar order. Japanese who hold this perspective "do not see a shared community of interest and values with the Western democracies that would necessarily compel Japan to cooperate in an alliance framework" (Pyle 1992). International demands for reforming Japan's domestic economic policy and

institutions are often interpreted by this nationalism as a challenge to Japan's identity.

Both perceptions have direct policy implications. If the Japanese believe that there will be a stable order in the post cold-war international economy and the domestic reform of economic institutions is a ticket to participate in that order, they will generate more dynamics for domestic change. If they perceive the future order in the international economy as unstable, they may concentrate more on Asia, building Japan a relatively stable regional market. But at this moment, the Japanese perception of international order is diversified. On the one hand, the so-called "economic internationalist approach" is popular, not only among economists, but also among bureaucrats, and business leaders. Most Japanese agree that the international economy is increasingly intertwined and Japan should become a member of the global village. Even MITI is taking an internationally oriented position, trying to push the process of further opening Japan's domestic market. On the other hand, the so-called "cultural nationalist approach" also attracts a lot of attention. Ishihara Shintarō's *Japan That Can Say No* is a manifesto of this approach. This approach is sometimes associated with a regionalist perception of international order, asserting a framework of regional economic cooperation among Asian countries in which Japan would take the leadership in the competition with economic blocs in other parts of the world, which assumes that the emergence of several regional blocs is underway. The other approach assumes a unified international market. The debates over what kind of country Japan is going to be in the twenty-first century well reflects these competing images. Meanwhile the rapid appreciation of the Japanese yen puts strong pressure on Japanese firms, leading both to the relocation of manufacturing

to regional partners and to efforts to accelerate internationalization.

Adam Smith or NeoKeynesian?

According to Komiya Ryūtarō, Japanese economists who have dealt with economic policy since World War II can be roughly divided into three generations. This study has primarily dealt with the first generation with a few exceptions such as Komiya Ryūtarō himself. Since the 1960s, the academic agendas in Japan have witnessed several big transitions. First of all, the impact of neoclassical economics increased rapidly, as the second generation of economists, represented by Komiya Ryūtarō, Tachi Ryūichirō, Baba Masao, and Kanamori Hisao, emerged in the intellectual arena. The paradigm of high growth had already been influenced by elements of neoclassical economics via Keynesian theory. As Sawa Takamitsu points out, "if we regard 'kinkei' (modern economics) as a combination of both neoclassical economics and the Keynesian school, the part which suited the social context of the high growth era better was the latter, namely, Keynesian economics. In other words, when Japanese society began to accept 'modern economics', it first picked up Keynesian economics as a framework of economic administration in the capitalist system, and then started the process of absorbing neoclassical economics later" (Sawa 1989 [1982]:126).

The diffusion of neoclassical economics had a dual impact on the state economic policy. On the one hand, it shifted the pattern of state intervention from the paradigm of managed economy to the paradigm of Keynesian economics, providing a new analytical framework for state policy making. The late 1960s was a period in which

"everyone became Keynesian". The impact of neoclassical economics was further institutionalized as government economists began to adopt mathematical methodology in economic analysis to make long-term plans and predictions, manipulating huge data sets through super-computers. The research methodology of neoclassical economics was diffused in both the state and academia. This process was sustained by the increasing numbers of Japanese economists going to the U.S., studying mainstream economics, and more and more translations of textbooks of neoclassical economics into the Japanese language.

On the other hand, the diffusion of neoclassical economics also exerted a powerful challenge to state intervention itself. The academic and policy orientation of the second generation showed a sharp contrast with the first generation in several dimensions. They all had experiences studying microeconomics, especially the general equilibrium theory, welfare economics, and the theory of the firm in either the U.S. or Britain. They all believed that "a free and competitive market mechanism ought to function smoothly by itself and produce the optimum allocation of resources.....industrial policy, which boils down to government interference with the market mechanism, was required only when the market was not functioning properly for some reason--in case of 'market failure,' in other words" (Komiya 1986:23). For this reason, they tended to criticize the industrial policy of the Japanese state in the postwar era. Influenced by their neoclassical orientation and their criticism of state intervention, the second generation "tried to maintain a certain distance from the government" (Komiya:1986:23). In other words, these economists were not involved directly in the

process of policy-making. They rather served as the critics of state policy.

From the 1970s, neoclassical economics began to be challenged by radical economics, which was imported from the U.S.. In contrast to the movement in the U.S., the movement in support of radical economics had a much bigger impact on Japanese academia. The criticism of neoclassical economics from the radicals not only shared many things in common with the radical movement in the U.S., but also had its own characters. The major criticism on neoclassical economics emphasized three dimensions. First, radical economists argued that the assumption of utilitarian maximization was not realistic. Second, they argued that the optimum of the market under perfect competition asserted by neoclassical economics was to simply justify the "inhuman nature of the market and the logic of the strong". Third, mathematical deduction based on methodological individualism was simply an application of atomization in physics, which was not an appropriate methodology to study economic phenomena. Drawing upon Thomas S. Kuhn's theory of scientific paradigms, these economists argued that neoclassical economics was simply one paradigm in economics, which would be transcended sooner or later (Sawa 1989 [1982]:154-155). The Japanese radical economics movement occurred in a special context where people were reexamining high growth policy and searching for new human values. To a large extent, the radical economics movement overlapped with the anti-science and anti-economic growth movement in Japan. Because the institutionalization of economics as an academic discipline in Japan did not provide a mechanism, as it did in the U.S., to exclude radical economists from the center of academia, radical economists in Japan had enough time

to look for alternative methodologies to equip themselves, ranging from French structuralism to Parsonian sociology. Besides, as the methodological individualism was alien to the Japanese society in the first place, the criticism on neoclassical economics from the radical movement caused much greater repercussion in Japan than in the U.S..

In the 1980s, however, Japan, as many advanced economies, experienced a conservative resurgence in economic thinking and state policy-making. The Nakasone administration joined the policy-wagon of privatization, responding to Reaganomics in the U.S. and the Thatcherism in Britain. Among a series of reforms, were the privatization of the Japan Railway (kokutetsu or JR) and the National Telephone and Telegraph (NTT), the liberalization of finances and communications, and the tax reform. The policy paradigm in the 1980s had been focussing on stimulating the dynamics of the private sector, decreasing state intervention in the economy, and pushing the process of internationalization, showing a big departure from the policy legacy of the Japanese state in the postwar era. In this sense, the conservative reforms conducted by the Nakasone administration in the 1980s were historical, because they stood as a great challenge to the institutional establishments of Japanese capitalism. Nevertheless, the Japanese soon found out that the institutional environment that would sustain the operation of a laissez faire market did not exist in Japan. First, unlike in the U.S. economy, which has a strong tradition of punishment of firm for unfair trade practices, the Japanese economy was not supported by a strong institution which would fight against corruption, off-tax, cartels and insider-transactions. This is closely related to the next issue, namely, the

unequal outcome created by the equal opportunity during the privatization. Before the mid-1980s, Japan was considered a country where the level of economic equality was the highest among advanced industrialized countries. As the price of land soared rapidly, however, a rapid process of social stratification was occurring, and people began to talk about social class again.

Recently, there is a new tendency toward the revival of neoKeynesianism in the Japanese political discourse. Sawa Takamitsu argues that various economic problems confronted by the international economy, such as global environment protection, the huge debts suffered by many developing countries, and the imbalance of international trade, cannot be solved by the invisible hand, and their solutions demand the rationality of human beings. He predicts that the academic agendas and the policy paradigm of the Japanese state are going to shift from conservative to liberal, from efficiency to justice, and from Adam Smith to neoKeynesian (Sawa 1990). It is not clear at this moment whether neoKeynesian economics is going to become the dominant framework in Japanese academia and state policy-making. One thing is for sure, the present economic recession in advanced industrial countries not only requires greater state intervention, but it also has become the driving force for the Japanese to reexamine classical and neoclassical economics and their policy implications. If this tendency continues, it will be unlikely that Japan will change her domestic economic institutions drawing from the menu of neoclassical economics.

Postmodernism or Modernization Again?

Almost three decades have passed since the mid-1960s, the ending point of this study. In these three decades, Japan has become an economic superpower, and its presence in the international economy is an everyday topic in the mass media, academia, political circles, business circles and general public discourse all over the world. What happened to the logic and rationales behind the glorious miracle of Japanese economic growth? How do Japanese perceive these legacies of the past in the 1990s? There are two competing perspectives in the recent discussion about the future direction of the Japanese economy. One is the so-called "postmodernism", which is a scholarly expression of *Nihon-jin-ron*. The other is the opposition or criticism of this postmodernism, which asserts the necessity of further modernization of Japanese economic institutions. These two perspectives demonstrate two competing value judgements in Japanese economic institutions.

Postmodernism began to appear in the form of *Nihon-jin-ron* in the early 1980s as a product of Japanese success in economic development. Up to the end of the 1970s, Japanese economic reasoning had been dominated by a modern worldview. As a result, Japanese economic institutions were perceived to be premodern or feudal in nature. Some practices, such as the settlement of labor relations in the 1950s, indeed broke the orthodox in the textbook of neoclassical economics. As a whole, however, the Japanese still believed that many of their economic institutions needed to be greatly modernized. This explains not only why they held different opinions in the late 1950s on the issue of whether Japan was a middle-class country, but also why few Japanese at the time

believed Shimomura's idea that the Japanese economy had entered an era of high growth.

The publication of Ezra Vogel's *Japan as Number One* in 1979 marked the beginning of an era in which the Japanese self-image changed greatly. As Japan became an economic superpower in the 1980s, the Japanese self-confidence was strengthened enormously. Under such circumstances, postmodernism emerged as a powerful perspective in the discussion concerning Japanese economic institutions. According to this perspective, the paradigm of high growth represented modernism, which was based on European rationalism. Since Japan had entered an era of post-high growth, the Western style of modernism should be transcended by a Japanese postmodernism, because the Japanese management system, which has deep roots in the ancient Japanese culture, is superior to the American and European management systems (see Sawa 1990:103-105). The 1990 White Paper of the Economy is a good example to show how this postmodernist perspective perceives Japanese economic institutions. Incidentally, the government economist who was in charge of writing this white paper was Ōkita Yōichi, the son of Ōkita Saburō, who was in charge of making the National Income Doubling Plan in the early 1960s. Different from his father, Ōkita Yōichi received a systematic training in Western economics, holding a Ph.D in economics from Harvard. He represents a new generation of Japanese government economists. Surprisingly, this U.S.-trained Japanese economist perceived the Japanese type of rationality constructed by his father's generation very positively. This White Paper of the Economy was published right before the outbreak of the Gulf War, and thus it was more optimistic than the White Paper two years later. According to this document, innovation is the very core of

Japanese rationality. It argues that technological innovation, along with capital and labor, has been one of the driving forces in Japan's economic growth. The mechanism of the Japanese economy behind the innovation is reflected in the Japanese management system within individual firms and interorganizational arrangement. According to this document, all major modern Japanese economic institutions, including life-long employment, seniority-based salaries, firm-based unions, the internal labor market, and long-term transactions among firms, have made great contributions to sustaining and promoting innovation. It further argues that "these institutions have been discussed with reference to Japan's social and historical background in terms of 'Japanese management' or the 'Japanese way of doing business'. These organizations and behavior patterns, however, are adopted not only by Japanese firms, but also by many superior firms in the world. In this sense, they are objective and rational in nature" (Keizai Kikaku-Chō 1990:179).

According to some western critics, there is nothing in these patterns postmodern, instead they are premodern. As Karel van Wolferen (1990), a sharp critic of Japanese intellectuals, points out, postmodernism is a product of the Japanese social structure in which Japanese intellectuals have to attach themselves to the power of the Japanese state, and cannot stand on their own. Drawing upon the conventional definition of intellectuals in the West, van Wolferen asserts that intellectuals should be critical of the existing reality and think independently. To confirm whatever exists, is not the business of intellectuals. Japanese intellectuals, according to Ivan Hall (1990), need more "zivilcourage" (the encouragement of civilians). To some Japanese scholars, in contrast,

this is not a political issue but an intellectual issue which reflects the changing value system in contemporary Japan. Murakami Yasusuke (1990) argues that it is not an issue whether Japanese intellectuals fit the universal standard based on Western experience. It is an issue whether the western worldview, which is based on the universality of modern institutions, needs to be more open to cultural relativism. According to Murakami (1990), van Wolferen's criticism was based on the assumption that the market economy and the parliamentary politics which originated in Western Europe possess transcendent values of their own, going far beyond their earlier geographic boundary. He confused judgements of fact and judgements of values. Since this postmodernism is a reaction to universalism, it inevitably has a strong anti-western orientation.

It is true that the challenge to Japanese postmodernism often came from the West, especially the U.S.. The intellectual rival of postmodernism, however, also exists in Japan. As Sawa Takamitsu (1991) points out, a series of scandals that appeared in Japanese politics in the late 1980s made the praise of Japanese economic institutions from postmodernism sound ironic, demonstrating many "premodern" elements in Japanese political and economic institutions. Driven by the pressure of hard work, deaths caused by overwork (*karōshi*) of employees in Japanese firms has become a big social problem, attracting great attention from the mass media. Moreover, when the Japanese economy confronted the current recession, many big companies laid off workers. The myth of the superiority of the Japanese management system began to collapse. Business leaders once again, after many years, talked about the rationalization of their firms (Nagano 1993:12). Meanwhile, labor unions began to assert that the firm-based unions needed to be changed

to industry-based unions, wages and promotion in the firm should be based on ability instead of seniority. Yamakishi Shō (1993:13), the President of the Japanese Association of Labor Unions (nirokumi) even predicted that in the twenty-first century, Japanese labor relations are going to become "dry", following the American and European style. Under the appreciation of the yen, the pressure on Japanese labor relations, and the Japanese management system would continue to increase. As a new agenda in the public discussion, many Japanese once again emphasize the "premodern nature" of the Japanese management system (see Uchihashi 1993). The production orientation in Japanese economic reasoning is no longer taken for granted. More and more Japanese are fighting for the consumer interest. Ōmae Keiichi (1992) even asserts that Japan needs a "seikatsu-tō" (a political party that cares about people's daily life. According to him, the problem Japan confronts today is not the conflict between capital and labor, but between producers and consumers, because both capitalists and workers became producers together. Neither the state nor the LDP have cared about consumers. The Ministry of Agriculture and Forestry, he argues, is in fact the Ministry of Farmers and Fishers. It seems clear that what has been broken during the current recession in Japan is not only the bubble economy, but also the myth of Nihon-jin-ron.

Deregulation or More State Intervention

When Japan entered a new era, how would the Japanese state respond to demands for change? What would be the general framework for state-business relations? Almost three decades after the high growth era, the institutional structures of the Japanese state

and state-business relations have changed greatly. The developmental state has lost its legitimacy. As a MITI high-ranking official points out, "the role of MITI in nurturing industries has finished. From now on, we need to rethink about the role of the state and the stance of MITI" (see Ichita 1992:5). In the past three decades, the power of the LDP and politicians increased enormously in policy making, and the influence of state bureaucracies continued to decline. As the business of Japanese firms has expanded so quickly, especially overseas, they have become powerful actors in politics. Meanwhile, despite the fact the state is still an indispensable existence in Japan's economic life, and its institutionalized power can still be seen everywhere, there has emerged a trend towards further deregulation. After Hosokawa Morihiro became the first non-LDP Prime Minister in Japan in many years, "the Japanese state bureaucracies are proposing to liberalize or abolish 59 rules that restrict business activity, hamper market entry, discourage consumption, or keep prices artificially high". The proposed deregulations affect sectors ranging from distribution and communications to retailing, finance and construction (see Business Week 1993:48). The private sector is pushing this trend wholeheartedly. According to a report by Business Week (1993:48), only one day after the government announced a proposal for deregulation, five major economic organizations issued a 29-page response that demands more aggressive reforms and a new governmental agency to push it them. It seems clear that economic intervention in the economy will further decline. Without deregulation, Japanese firms still have to keep their headquarters in Tokyo, which in turn causes a big social problem through the overconcentration of population. Under such circumstances, there have appeared many

proposals to diversify Tokyo's function as the nation's capital by moving the state bureaucracies and the Diet out of Tokyo, to further reduce state regulation, and to shift more power from the central to local governments.

At the same time, there is also a trend which leads to more state intervention in a different way. Deregulation by no means guarantees that the function of the market will solve many problems confronting the Japanese economy today. As Japan is expanding its economic power in the world, frictions with other countries have become big issues the Japanese have to take them seriously. In the report prepared by the Advisory Group on Economic Structural Adjustment for International Harmony in 1986, which was headed by Maekawa Haruo, to Prime Minister Nakasone Yasuhiro (this report is best known as the Maekawa report), the unprecedentedly huge trade surplus i.e. 3.6 percent of GNP, was regarded as a threat to the "harmonious development of the world economy". This report asserted that "the time has thus come for Japan to make a historical transformation in its traditional policies on economic management and the nation's life-style. There can be no further development for Japan without this transformation." (the Advisory Group on Economic Structural Adjustment for International Harmony 1986:1). In particular, the Maekawa report stressed the necessity to transform economic growth led by exports to growth led by domestic demand. In order to achieve this goal, the report suggested that Japan enhance the quality of the nation's living standard, change the preferential tax treatment for savings, stimulate private consumption, and promote social infrastructure. Meanwhile, the state should improve market access, encourage import of manufactured goods and further liberalize

and internationalize the nation's financial and capital markets. The Maekawa report, therefore, identified a new direction for state policy making, shifting away from "producer economics" to a more consumer oriented state policy. It indicates that the invisible hand may not be able to deal with these challenges; the state has to intervene in one way or another.

In the 1990s, a long neglected dimension in state-business relations became an issue. Anti-trust practice has not been an urgent policy agenda in Japan and even the Maekawa report failed to address this issue. Throughout the postwar economic development, the anti-trust policy in Japan has been very weak. The major concern of the Japanese state has not been fairness in competition, but national competitiveness in the international market. Therefore, the state revised the anti-trust law several times, encouraging mergers among firms. Since the late 1980s, however, changes in the international political economy have created a new policy environment in which the state has to take anti-trust issues seriously, as foreign firms confronted many difficulties in the Japanese market and Japanese firms were criticized for their trading practices in overseas establishments. The keiretsu became a new issue in the international political economy. In the Structural Impediments Initiative, the U.S. government demanded that Japan must strengthen its anti-trust practice. Five items among twenty on the list of American demands were related to the anti-trust issue.

Such an international environment exerted a great impact on Japan's domestic politics. The Fair Trade Commission (Kōsei torihiki iinkai, or the FTC) is becoming increasingly aggressive in working as a watch dog overseeing the business practices of

Japanese firms. On December 17, 1991, the FTC warned seven big Japanese banks that they should not decide the service fee for insuring company debts after exchanging information. In the same year, the FTC also did two things. First was to conduct a hearing surveying how Japanese banks determine their prime rate. Second, the FTC gave "the guidance of elimination", which had legal authority, to four biggest Japanese security companies for their compensation to major institutional customers at the cost of individual customers. Since the FTC has been under the control of the Ministry of Finance in Japanese bureaucratic politics, this kind of intervention became a big shock to Japanese firms. It indicates the Japanese state began to assume a new function which might be no longer in favor of business firms. As an accountant who works for a big trading company points out, "to firms the FTC is threatening. When other state bureaucracies punished firms who were under their administration, they always ensured the survival of the firm. In contrast, the FTC, which is a semi-legal agency, is little concerned about whether the firms go bankruptcy or not after its anti-trust action because it has nothing to do with these firms" (see Ikuta 1992:117). At this moment, the institutional structure of the Japanese state still shows several big barriers to the function of the FTC. First, it is small in size, with only 478 employees. Second, it does not have political support from the Diet members who have strong business connections. Third, even other state bureaucracies will not support its anti-trust practice when it involves firms under their administration. Nevertheless, the existence and function of the FTC brings high expectations. The external pressures continue to be strong, and the Japanese state has to deal with the issue of anti-trust. The consciousness of consumers

over anti-trust in Japan had also increased dramatically. And finally, some Japanese bureaucrats have begun to rethink the importance of anti-trust to the fate of the Japanese economy and Japan's future (see Ikuta 1992).

Many puzzles still remain. Do these changes mean that eventually the Japanese economic institutions will converge in the direction of the West? Is the Japanese state going to become a regulatory state? Are the Japanese one day going to construct their rationality in the same way as their Western counterparts? We may not be able to get answers until the next century. But one thing is sure at this moment, the outcome of change will largely depend upon interactions among the four variables I discussed in this study. For any modern institutional establishment, once it is formed, it has strong inertia. To change its direction is not that easy. As long as these institutional constraints exist, the Japanese have to find a way to balance the strong pressures for change and the vested interests which are associated with existing institutions. The Japanese are searching for solutions, but these solutions may not be what neoclassical economics predict. Japanese rationality in running their economy in the next century will still have its own characteristics.

ENDNOTES

1. For detailed introductions of the government economists in Japan, see Komiya Ryutaro & Yamamoto Kozo, "Japan: the officer in charge of economic affairs", in *Economists in Government: An International Comparative Study*, edited by A. W. Coats. Durham: Duke University Press. 1981 and Okita Saburo, "The role of the economist in government: Japan", in Okita Saburo, *Approaching the 21st Century: Japan's Role*. Tokyo: The Japan Times. 1990.
2. For details, see Kanamori Hisao, *Taiken sengo keizai* (Tokyo: Tōyō Keizai Shinpō-sha, 1985), p. 127; "Marukei" versus "kinkei" is a unique distinction in Japanese academia. Unlike the Westerners who tend to put a concrete label on every single school of theory, the Japanese use "kinkei" to distinguish Marxist economics from all non-Marxist economics developed since "the marginal revolution" except the historical school and the institutional school. See Hayasaka Tadashi, Masamura Kimihiro, Takeyama Morio, Hamaguchi Haruhiko, Shibata Toshio, and Hoshino Akiyoshi, *Sengo nihon no keizai-gaku* (Tokyo: Nihon Keizai Shinbun-sha, 1974), pp. 14-15.
3. The dual structure of the economy in Japan had three implications in the 1950s when this term was used for the first time. First, it meant that more than forty percent of Japanese who had a job were self-employed, in contrast to Britain, where ninety percent of employees were working for others. Second, it meant that there was a big gap in wages based on the size of firms. Third, it meant that in the total number of firms there were two concentrations represented by both big firms and family-owned small shops. The middle sized firms were small in number. For details, see "nijū kōzō" in *Sengo-shi dai-jiken*, edited by Sasaki Takeshi, et. al. Tokyo: Sansei-dō. 1991. p. 692.
4. An episode told by Nakayama Ichiro can illustrate how the Japanese economists were eager to utilize western economic theories in economic development. Early this century, after Horikiri Zenjiro spent one year and a half at Cambridge University studying with Alfred Marshall, a prominent figure of the neoclassical school, he went to say farewell to his teacher. Horikiri was the only Japanese student Marshall ever had. The last question Horikiri asked his teacher was "if Japan applied exactly what you taught me at seminars, could Japan become a first ranking country?" Marshall's reply was "No. That is impossible." Horikiri became very angry with his teacher, "if so, what I have learned with pains will be of no use at all. Good Bye". With these words, he ran out of Marshall's office. Marshall ran after him to the hall and said, "wait a minute, wait a minute. It is impossible for Japan to become a first-ranking country but it is possible to become a middle-ranking country." See *Nakayama Ichirō Zenshu bekkon*. 1973:26-27.
5. His calculation is based on two sources. One is the index of the collection of books imported to Japan in the Tokugawa period with concentration on Rangaku at the Diet Library. The other is the index of the collection of Aoibunko at Shizuoka Prefectural Library, which is another center for the collection of western books imported into Japan

during the bakumatsu period. For details, see Sugihara, 1990:10-11.

6. Mikami's work was a detailed introduction of the diffusion of Keynesian theory in Japan. It was included in *Keinzu Keizaigaku*, edited by Ito Mitsuharu. 1967. According to Mikami, there was even a debate on how to translate Keynes's name into Japanese pronunciation among scholars. Keynes had been pronounced as "keens" before two translators of *A Tract on Monetary Reform* asserted that it should be "keinz" in 1924. One of the advocates of "keens" then wrote his British friend in London and learned that even there many people pronounced the name as "keens". Then, the translators decided to ask Keynes himself. They received a note from Keynes as follows, "as regards the pronunciation of my name, I think that your spelling 'Keinz' probably represents to your eyes something near enough to the truth. Certainly 'Keens' is quite wrong. I should have been inclined to give 'Canes' as the phonetic spelling, the pronunciation of my name being practically the same as 'Canes'." This episode on the one hand indicated the Japanese style of scholarship and on the other hand showed their enthusiasm in introducing Keynesian theory to their country.

7. See "Ishibashi Tanzan Nenpu", in *Ishibashi Tanzan Zenshu*, vol.15. 1972.

8. For a discussion about the relationship between public opinion and diplomacy, see Ogata Sadako, "Gaiko to seron", in Nihon Kokusai Seiji Gakkai, ed., *Nihon gaikoshi kenkyū*. 1969.

9. For a detailed study on the orientation held by the military towards economic control, see Kato Toshihiko, "Gunbu no keizai tōsei shisō", in *Senji nihon keizai*, edited by Tokyo Daigaku Shakai Kagaku Kenkyusho. Tokyo Daigaku Shuppankai. 1979.

10. It was a summary of the views of a right-wing group at a trial cited by Byron K. Marshall in *Capitalism and Nationalism in Prewar Japan*. 1967:104.

11. For a detailed analysis of Royama Masamichi, Ryu Shintaro and Miki Kiyoshi's theoretical orientations in the "reform movement", see Fletcher, *The Search for a New Order*, 1982.

12. Ide held that this was a behavioral pattern of Japanese bureaucracies. He expressed this opinion in an interview conducted on March 21, 1991.

13. For details, see "Nihon keizai saihensei shian" attached in Sakai, 1979.

14. See notes taken by a staff member of the SRA at Ryu's talk, in Showa Dojinkai's *Showa Kenkyukai*.

15. For details, see Yano Toshio's interview with Inaba Hidezo in Keizai Kigakuchō, *Sengo keizai fukkō to keizai ante honbu*. 1988:58-59, and Inaba Hidezo and etc., "Sengo

nihon keizai no genten o kokorumiru". *ESP*, February, 1986:83-85.

16. For details, see Sengo X Kenkyū-kai, "Kaitei nihon keizai saiken no kihon X", in Nakamura Takafusa and Omori Tokuko, ed.s, *Nihon keizai saiken no kihon X*, 1990.

17. See Yana's interview with Tokunaga in the Economic Planning Agency, *Sengo keizai fukkō to keizai ante honbu*. 1988:117.

18. At the Wada ESP, Yamamoto Takayuki was the Deputy Vice Minister and Tokunaga Hisatsugu was director of the Planning Division.

19. See Yano's interview with Inaba, in *Keizai Kigaku-chō, Antei honbu*. *Ibid.*, pp. 58-59.

20. There is an argument about the membership of the Coal Committee. In an interview by Yano Toshio in 1988, Tsuru insisted that he was on the committee and Goto Yonosuke was not. Yoshino shared this memory with Tsuru in his book of 1975. On the contrary, Arisawa and Okita's recollections in 1966 did not include Tsuru's name on the committee but Goto's. In 1990, Okita recalled that the members of the Coal Committee sometimes also listened to Tsuru. This implies that Tsuru perhaps was not a regular member (see Nakamura, 1990, vol.2:234).

21. It is in a document titled "Seifu Hakusho no Hitsuyosei" (the necessity of the governmental white paper), dated on June 1, 1947 and typed on stationery of the Ministry of Foreign Affairs. The author is supposed to be Okita Saburo or Tsuru Shigeto.

22. The Japanese term "chukan" means "middle" or "in the middle of". With special implications to the debate noted, it also can be translated as "mediate". Arisawa Hiromi once gave it a definition. He said that so-called 'mediate' means a period of time before the currency is finally managed. During this period, our task is essentially to achieve stability." See Ouchi, Arisawa and etc., *Nihon Keizai wa Do Naruka*. Tokyo:Kodansha. 1949:220.

REFERENCES IN ENGLISH

- Abegglen, James C. 1958. *The Japanese Factory*. Glencoe: The Free Press.
- The Advisory Group on Economic Structural Adjustment for International Harmony. 1986. "The Report of the Advisory Group on Economic Structural Adjustment for International Harmony". In U.S. Government Printing Office, *Hearings Before the Joint Economic Committee Congress of the United States, Ninety-Ninth Congress, Second Session. December 11 and 12, 1986*.
- Alexander, Jeffrey C., and Gernhard Giesen. 1987. "From Reduction to Linkage: The Long View of the Micro-Macro Link." In J.C. Alexander, B. Giesen, R. Munch and N.J. Smelser, eds., *The Micro-Macro Link*. Berkeley: University of California Press.
- Anesaki, Masaharu. 1921. "The War's Effect Upon the Japanese Mind." In K. K. Kawakami, ed., *What Japan Thinks*. London: Macmillan, pp. 143-159.
- Aoki, Masahiko. 1989. "The Japanese Firm in Transition." In Kozo Yamamura and Yasukichi Yasuba, eds., *The Political Economy of Japan*. Vol. 1: *The Domestic Transformation*. Stanford: Stanford University Press, pp.263-88.
- Ayusawa, Iwao F.. 1940. "The New World Order: A Japanese View." *Contemporary Japan*. July, Vol. IX, No. 7, pp. 791-810.
- Barkai, Avraham. 1988. *Nazi Economics: Ideology, Theory, and Policy*. Oxford: Berg.
- Barnhart, Michael A. 1987. *Japan Prepares for Total War*. Ithaca: Cornell University Press.
- Bellah, Robert N., Richard Madsen, William M. Sullivan, Ann Swidler, and Steven M. Tipton. 1985. *Habits of the Heart*. Berkeley: University of California Press.
- Bendix, Reinhard. 1960. *Max Weber: An Intellectual Portrait*. Garden City, New York: Doubleday & Company, Inc.
- Berger, Gordon Mark. 1977. *Parties Out of Power in Japan, 1931-1941*. Princeton: Princeton University Press.
- Biggart, Nicole Woolsey. 1991. "Explaining Asian Economic Organization." *Theory and Society*, 20: 199-232.
- Blau, Peter M. 1986 [1964] *Exchange and Power in Social Life*. New Brunswick: Transaction Books.

- Blaug, Mark. 1992. *The Methodology of Economics*. Cambridge, Massachusetts: Cambridge University Press.
- Blinder, Alan S.. 1990. "There Are Capitalists, Then There Are the Japanese." *Business Week*. October 8:21.
- Block, Fred. 1990. *Postindustrial Possibilities*. Berkeley: University of California Press.
- Blomstrom, Magnus, and Bjorn Hettne. 1984. *Development Theory in Transition*. London: Zed Books.
- Breuilly, John. 1982. *Nationalism and the State*. New York: St. Martin's Press.
- Brown, Delmer M. 1955. *Nationalism in Japan*. Berkeley: University of California Press.
- Burns, James M. 1978. *Leadership*. New York: Harper & Row, Publishers.
- Burstein, Paul. 1991. "Policy Domains: Organization, Culture, and Policy Outcomes." *Annual Review of Sociology*, 17: 327-50.
- Calder, Kent E. 1988. *Crisis and Compensation*. Princeton: Princeton University Press.
- Caldwell, Bruce J. 1982. *Beyond Positivism: Economic Methodology in the Twentieth Century*. London: George Allen & Unwin.
- Campbell, John L., and Leon N. Lindberg. 1991. "The Evolution of Governance Regimes." In John L. Campbell, J. Rogers Hollingsworth and Leon N. Lindberg, eds., *Governance of the American Economy*. Cambridge: Cambridge University Press, pp.319-355.
- Cardoso, Fernando Henrique, and Enzo Faletto. 1979. *Dependency and Development in Latin America*. Berkeley: University of California Press.
- Cohen, Ira J. 1989. *Structuration Theory*. London: Macmillan.
- Cohen, Jerome B. 1949. *Japan's Economy in War and Reconstruction*. Minneapolis: University of Minnesota Press.
- Coleman, James. 1988. "Social Capital in the Creation of Human Capital". *American Journal of Sociology*, 94(September):95-120.
- Coleman, James. 1990. *Foundation of Social Theory*. Cambridge: Harvard University Press.

- Collins, Randall. 1988. "The Micro Contribution to Macro Sociology." *Sociology Theory*, 6:242-53.
- Cook, Karen S., Richard M. Emerson, Mary R. Gillmore and Toshio Yamagishi. 1983. "The Distribution of Power in Exchange Network: Theory and Experimental Results." *American Journal of Sociology*, ?
- Crowley, James B. 1966. *Japan's Quest for Autonomy*. Princeton: Princeton University Press.
- Davis, Horace B. 1967. *Nationalism and Socialism*. New York: Monthly Review Press.
- Degenaar, J.J. 1982. *The Roots of Nationalism*. Cape Town: Academica Pretoria.
- DiMaggio, Paul. 1988. "Interest and Agency in Institutional Theory." In Lynne G. Zucker, ed., *Institutional Patterns and Organizations*. Cambridge: Ballinger Publishing Company, pp. 3-21.
- DiMaggio, Paul. 1990. "Cultural Aspects of Economic Action and Organization." In Roger Friedland and A. F. Robertson, eds., *Beyond the Marketplace: Rethinking Economy and Society*. New York: Aldine De Gruyter, pp. 113-136.
- DiMaggio, Paul and Walter R. Powell. 1983. "The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organizational Fields". *American Sociological Review*, 83(April):147-160.
- Dimock, Marshal E. 1968. *The Japanese Technocracy: Management and Government in Japan*. New York: John Weatherhill.
- Dobbin, Frank. 1993. "The Social Construction of the Great Depression". *Theory and Society*, 22: 1-56.
- Dobbin, Frank. *States and Industrial Cultures*. Cambridge: Cambridge University Press. Forthcoming.
- Dore, Ronald. 1973. *British Factory: Japanese Factory: The Origins of National Diversity in Industrial Relations*. Berkeley: University of California Press.
- Dore, Ronald. 1983. "Goodwill and the Spirit of Market Capitalism". *British Journal of Sociology*, 34:459-82.
- Dore, Ronald. 1986. *Flexible Rigidities*. Stanford: Stanford University Press.
- Dore, Ronald. 1987. *Taking Japan Seriously*. London: The Athlone Press.

- Dower, John W. 1988. *Empire and Aftermath*. Cambridge: Council on East Asian Studies, Harvard University.
- Duesenberry, James. 1960. "Comment on 'An Economic Analysis of Fertility.'" In the University-National Bureau Committee for Economic Research, ed., *Demographic and Economic Change in Developed Countries*. Princeton: Princeton University Press.
- Eccleston, Bernard. 1989. *State and Society in Post-War Japan*. Cambridge: Polity Press.
- Economic Planning Agency. 1990. *The Japanese Economy, 1945-55*.
- Economic Planning Agency. 1990 *The Japanese Economy, 1955-65*.
- Elster, Jon. 1984 [1979]. *Ulysses and the Sirens*. Cambridge: Cambridge University Press.
- Elster, Jon. 1990a. "Marxism, Functionalism, and Game Theory", in Sharon Zukin and Paul DiMaggio, eds., *Structures of Capital: The Social Organization of the Economy*. Cambridge: Cambridge University Press, pp.87-118.
- Elster, Jon. 1990b. "Jon Elster." In Richard Swedberg, ed., *Economics and Sociology*. Princeton: Princeton University Press.
- Emerson, Richard M. 1962. "Power-Dependence Relations." *American Sociological Review*, 27:31-40.
- Emerson, Richard M. 1972. "Exchange Theory, Part I: A Psychological Basis for Social Exchange." and "Exchange Theory, Part II: Exchange Relations and Networks." In J. Berger, M. Zelditch, Jr., and B. Anderson, eds., *Sociological Theories in Progress*, Boston: Houghton-Mifflin, Vol. 2, pp.38-87.
- Entwistle, Basil. 1985. *Japan's Decisive Decade*. London: Grosvenor Books.
- Erhard, Ludwig. 1963. *The Economics of Success*. Princeton: D. Van Nostrand Company.
- Etzioni, Amitai. 1988. *The Moral Dimension: Toward a New Economics*. New York: The Free Press.
- Fairholm, Gilbert W. 1991 *Values Leadership: Toward a New Philosophy of Leadership*. New York: Praeger.
- Falt, Olavi K. 1985. *Fascism, Militarism or Japanism?* Rovaniemi: Pohjois-Suomen Historiallinen Yhdistys, Societas Historica Finlandiae Septentrionalis.

- Fletcher III, William Miles. 1975. *Ideologies of Political and Economic Reform and Fascism in Prewar Japan: Ryū Shintarō, Rōyama Masamichi, and the Shōwa Research Association*. Dissertation. Yale University.
- Fletcher III, William Miles. 1982. *The Search for a New Order: Intellectuals and Fascism in Prewar Japan*. Chapel Hill: University of North Carolina Press.
- Francks, Penelope. 1992. *Japanese Economic Development: Theory and Practice*. London: Routledge.
- Friedland, Roger, and A. F. Robertson, eds. 1990. *Beyond the Marketplace*. New York: Aldine de Gruyter.
- Friedman, Debra and Michael Hechter. 1988. "The Contribution of Rational Choice Theory to Macrosociological Research." *Sociological Theory*, 6:201-18.
- Fujisawa, Chikao. 1932. "Japan Versus Marxism." *Contemporary Japan*. December, Vol. 1, No. 3, pp. 441-452.
- Fujisawa Rikitaro. 1921. "The Monroe Doctrine and the League of Nations." In K. K. Kawakami, ed., *What Japan Thinks*. New York: Macmillan, pp. 21-48
- Gareau, Frederick H.. 1985. *Current Sociology: The Multinational Version of Social Science*. London: SAGE Publications, 33(3).
- Garon, Sheldon. 1987. *The State and Labor in Modern Japan*. Berkeley: University of California Press.
- Gereffi, Gary. 1990a. "Paths of Industrialization: An Overview." In Gary Gereffi and Donald L. Wyman, eds., *Manufacturing Miracles: Paths of Industrialization in Latin America and East Asia*. Princeton: Princeton University Press, pp. 3-31.
- Gereffi, Gary. 1990b. "International Economics and Domestic Policies." In Alberto Martinelli and Neil J. Smelser, eds., *Economy and Society: Overviews in Economic Sociology*. London: Sage Publications.
- Gerschenkron, Alexander. 1962. *Economic Backwardness in Historical Perspective*. Cambridge: Harvard University Press.
- Giddens, Anthony. 1984. *The Construction of Society: Outline of the Theory of Structuration*. Berkeley: University of California Press.
- Gisli Palsson. 1991. *Coastal Economies, Cultural Accounts*. Manchester: Manchester University Press.

- Gordon, Andrew. 1985. *The Evolution of Labor Relations in Japan: Heavy Industry, 1853-1955*. Cambridge: Council on East Asian Studies, Harvard University.
- Gordon, Andrew. 1991. *Labor and Imperial Democracy in Prewar Japan*. Berkeley: University of California Press.
- Gourevitch, Peter A. 1987. *Politics in Hard Times*. Ithaca: Cornell University Press.
- Gourevitch, Peter A. 1989. "Keynesian Politics: The Political Sources of Economic Policy Choices." In P. A. Hall, ed., *The Political Power of Economic Ideas*. Princeton: Princeton University Press, pp. 87-106.
- Granovetter, Mark. 1985. "Economic Action and Social Structure: The Problem of Embeddedness". *American Journal of Sociology*, 91:481-510.
- Granovetter, Mark. 1990. "Mark Granovetter." In Richard Swedberg, ed., *Economics and Sociology*. Princeton: Princeton University Press, pp.96-115.
- Granovetter, Mark and Roland Soong. 1986. "Threshold Models of Interpersonal Effects in Consumer Demand". *Journal of Economic Behavior and Organization*, 7:83-99.
- Gudeman, Stephen. 1986. *Economics as Culture: Models and Metaphors of Livelihood*. London: Routledge & Kegan Paul.
- Hadley, Eleanor M.. 1989. "The Diffusion of Keynesian Ideas in Japan." In Peter A. Hall, ed., *The Political Power of Economic Ideas: Keynesianism Across Nations*. Princeton: Princeton University Press, pp.?
- Hall, Peter A.. 1989. *The Political Power of Economic Ideas: Keynesianism Across Nations*. Princeton: Princeton University Press.
- Hamilton, Gary G., and Nicole Woolsey Biggart. 1988. "Market, Culture, and Authority: A Comparative Analysis of Management and Organization in the Far East." *American Journal of Sociology*, 94(September):52-94.
- Harding, Thomas G., David Kaplan, Marshall D. Sahlins, and Elman R. Service, eds. 1970. *Evolution and Culture*. Ann Arbor: University of Michigan Press.
- Hausman, Daniel M., ed. 1984. *The Philosophy of Economics: An Anthology*. Cambridge: Cambridge University Press.
- Hein, Laura E. 1990. *Fueling Growth*. Cambridge: Council on East Asian Studies, Harvard University.

- Hindess, Barry. 1988. *Choice, Rationality, and Social Theory*. London: Unwin Hyman.
- Hirschman, Albert O. 1958. *The Strategy of Economic Development*. New Haven: Yale University Press.
- Hirschman, Albert O. 1971. *A Bias For Hope*. New Haven: Yale University Press.
- Hirschman, Albert O. 1980. *Morality and the Social Sciences: A Durable Tention*. Memphis, Tennessee: the P.K. Seidman Foundation.
- Hirschman, Albert O. 1986. *Rival Views of Market Society*. New York: Viking Penguin Inc.
- Hirschman, Albert O. 1989. "How the Keynesian Revolution Was Exported From the United States, and Other Comments." In Peter A. Hall, ed., *The Political Power of Economic Ideas: Keynesianism Across Nations*. Princeton: Princeton University Press.
- Hirschman, Albert O. 1990. "Albert O. Hirschman." In Richard Swedbert, ed., *Economics and Sociology*. Princeton: Princeton University Press, pp.152-166.
- Hoston, Germaine A. 1983. "Tenkō & Marxism in Prewar Japan." *Polity*, 16(1):96-118.
- Huppes, T. 1976. *Economics and Sociology: Towards an Integration*. Leiden: Martinus Nijhoff Social Sciences Division.
- Ishii Ryōsuke. 1980. *A History of Political Institutions in Japan*. Tokyo: University of Tokyo Press.
- Johnson, Chalmers. 1977. "MITI and Japanese International Economic Policy", In Robert Scalapino, ed., *The Foreign Policy of Modern Japan*. Berkeley: University of California Press.
- Johnson, Chalmers. 1982. *MITI and the Japanese Miracle*. Stanford: Stanford University Press.
- Johnson, Chalmers. 1987. "Political Institutions and Economic Performance: The Government-Business Relationship in Japan, South Korea, and Taiwan." In Prederic C. Deyo, ed., *The Political Economy of the New Asian Industrialism*. Ithaca: Cornell University Press.
- Johnson, Chalmers. 1988. "Study of Japanese Political Economy: A Crisis in Theory." In The Japan Foundation, ed., *Japanese Studies in the United States: History and Present Condition*, Tokyo: The Japan Foundation, pp. 95-113.

- Kaplan, Eugene J. 1972. *Japan: The Government-Business Relationship*. Washington D.C.: U.S. Department of Commerce.
- Kemper, Theodore D. and Randall Collins. 1990. "Dimensions of Microinteraction." *American Journal of Sociology*, 96:32-68.
- Kiser, Edgar and Michael Hechter. 1991. "The Role of General Theory in Comparative-historical Sociology." *American Journal of Sociology*, 97(July):?
- Kohn, Hans. 1985. *Nationalism: Its Meaning and History*. Malabar, Florida: Robert E. Krieger Publishing Company.
- Komiya Ryūtarō. 1986. "Industrial Policy's Generation Gap". *Economic Eye*, 7(March):22-24.
- Komiya Ryutaro and Kozo Yamamoto. 1981. "Japan: the Officer in Charge of Economic Affairs." In A. W. Coats, ed., *Economists in Government, an International Comparative Study*. Durham: Duke University Press.
- Kotler, Philip, Liam Fahey and S. Jatusripratak. 1985. *The New Competition: What Theory Z Didn't Tell You About-Marketing*. Englewood Cliffs: Prentice-Hall.
- Krasner, Stephen D. 1984. "Approaches to the State: Alternative Conceptions and Historical Dynamics." *Comparative Politics*, January:223-246.
- Krauss, Ellis S., Thomas P. Rohlen and Patricia G. Steinhoff, eds. 1984. *Conflict in Japan*. Honolulu: University of Hawaii Press.
- Kuhn, Thomas S. 1970. *The Structure of Scientific Revolution*. Chicago: University of Chicago Press.
- Lane, Robert E. 1991. *The Market Experience*. Cambridge: Cambridge University Press.
- Lazonick, William. 1991. *Business Organization and the Myth of the Market Place*. Cambridge: Cambridge University Press.
- Leavis, F. R. 1963. *Two Cultures? The Significance of C.P. Snow*. New York: Pantheon Books.
- Lincoln, James R., Hanada Mitruyo and Kerry McBride. 1986. "Organizational Structures in Japanese and U.S. Manufacturing." *Administrative Science Quarterly*, 31:338-364.
- Lincoln, James R. and McBride, Kerry. 1987. "Japanese Industrial Organization in

Comparative Perspective." *Annual Review of Sociology*, 289-312.

Lindberg, Leon N., John L. Campbell and J. Rogers Hillingsworth. 1991. "Economic Governance and the Analysis of Structural Change in the American Economy." In John L. Campbell, J. Rogers Hillingsworth and Leon N. Lindberg, eds., *Governance of the American Economy*. Cambridge: Cambridge University Press, pp.3-34.

List, Friedrich. 1985 [1841]. *The National System of Political Economy*. London: Longmans, Green and Co.

Matossian, Mary. 1971. "Ideology of Delayed Industrialization." In Jason L. Finkle and Richard W. Gable, eds., *Political Development and Social Change*. New York: John Wiley & Sons.

McCloskey, Donald N. 1985. *The Rhetoric of Economics*. Madison, Wisconsin: University of Wisconsin Press.

McClosky, Donald N. 1990. *If You're So Smart*. Chicago: University of Chicago Press.

McMillan, Charles J. *The Japanese Industrial System*. Berlin: Walter de Gruyter & Co. 1988.

Meyer, John W. and Brian Rowan. 1977. "Institutionalized Organizations: Formal Structure as Myth and Ceremony." *American Journal of Sociology*, 83:340-363.

Meyer, John W. and W. Richard Scott. 1983. *Organizational Environments: Ritual and Rationality*. Beverly Hills: SAGE Publications.

Molm, Linda D. 1990. "Structure, Action, and Outcomes: The Dynamics of Power in Social Exchange." *American Sociological Review*, 55:427-47.

Morris-Suzuki, Tessa. 1989. *A History of Japanese Economic Thought*. London: Routledge.

Morris-Suzuki, Tessa and Seiyama Takuro. 1989. *Japanese Capitalism Since 1945*. Armonk: M.E. Sharpe, Inc.

Nakane, Chie. 1970. *Japanese Society*. Berkeley: University of California Press.

North, Douglass C.. 1981. *Structure and Change in Economic History*. New York: W.W. Norton & Company.

Oberschall, Anthony and Eric M. Leifer. 1986. "Efficiency and Social Institutions: Uses and Misuses of Economic Reasoning in Sociology." *Annual Review of Sociology*, pp.233-

253.

Okada, Tadahiko. 1940. "On Japan's Position." *Contemporary Japan*. August, Vol. IX, No. 8, pp. 968-971.

Okimoto, Daniel I. 1989. *Between MITI and the Market: Japanese Industrial Policy for High Technology*. Stanford: Stanford University Press.

Ōkita, Saburō. 1982. *Japan's Challenging Years: Reflections on my Lifetime*. Canberra: Australian National University.

Okuma, Shigenobu. 1921. "Illusions of the White Race." In K. K. Kawakami, ed., *What Japan Thinks*. London: Macmillan, pp. 160-170.

Olson, Mancur. 1971. *The Logic of Collective Action*. Cambridge: Harvard University Press.

Olson, Mancur. 1982. *The Rise and Decline of Nations: Economic Growth, Stagflation, and Social Rigidities*. New Haven: Yale University Press.

Ouchi, William. 1981. *Theory Z*. Reading, Mass: Addison-Wesley.

Ouchi, William. 1984. *The M-form Society*. Reading, Mass: Addison-Wesley.

Ozaki, Robert S.. 1988. "The Humanistic Enterprise System In Japan". *Asian Survey*, 28(8).

Peacock, Alan, and Hans Willgerodt, eds. *German Neo-Liberals and the Social Market Economy*. London: Macmillan.

Peacock, Alan, and Hans Willgerodt, eds., *Germany's Social Market Economy: Origins and Evolution*. London: Macmillan.

Pempel, T. J. 1982. *Policy and Politics in Japan: Creative Conservatism*. Philadelphia: Temple University Press.

Pittau, Joseph. 1983. "Constitution." In *Kodansha Encyclopedia of Japan*. Vol.2. Tokyo: Kodansha.

Popper, Karl R.. 1959. *The Logic of Scientific Discovery*. London: Hutchinson of London.

Pratrick, Hugh. 1977. "The Future of the Japanese Economy: Output and Labor Productivity". *The Journal of Japanese Studies*. Summer:239.

- Przeworski, Adam and Henry Teune. 1970. *The Logic of Comparative Social Inquiry*. New York: Wiley.
- Przeworski, Adam. 1984. "Marxism and Rational Choice." *Politics and Society*, 14:379-409.
- Pyle, Kenneth B. 1974. "Advantages of Followership: German Economics and Japanese Bureaucrats, 1890-1925." *The Journal of Japanese Studies*. 1(1).
- Quadagno, Jill and Knapp, Stan J. 1992. "Have Historical Sociologists Forsaken Theory?" *Sociological Method & Research*. 20(4).
- Reddy, William M.. 1984. *The Rise of Market Culture*. Cambridge: Cambridge University Press.
- Reisman, D. A. 1976. *Adam Smith's Sociological Economics*. London: Croom Helm.
- Reisman, Davis A.. 1976. *Adam Smith's Sociological Economics*. London: Croom Helm.
- Robbins, Lionel. 1935. *An Essay on the Nature and Significance of Economic Science*. London: Macmillan.
- Rogers, Everett M. 1983. *Diffusion of Innovations*. New York: The Free Press.
- Rohlen, Thomas P. 1974. *For Harmony and Strength*. Berkeley: University of California Press.
- Rosovsky, Henry, ed. 1966. *Industrialization in Two Systems: Essays in Honor of Alexander Gerschenkron*. New York: John Wiley & Sons.
- Sahlins, Marshall and Service, Elman R.. 1970. *Evolution and Culture*. Ann Arbor: The University of Michigan Press.
- Sahlins, Marshall. 1976. *Culture and Practical Reason*. Chicago: The University of Chicago Press.
- Samuels, Richard J. 1987. *The Business of the Japanese State*. Ithaca: Cornell University Press.
- Sasaki Takeshi. 1991. "Postwar Japanese Politics at a Turning Point." *The Japan Foundation Newsletter*. 18(5-6):1-7.
- Sasaki Takeshi et al, eds. 1991. *Encyclopedia of Postwar Japan, 1945-1990*.

Tokyo:Sanseido.

Scalapino, Robert A. 1964. "Ideology and Modernization: The Japanese Case." In David E. Apter, ed., *Ideology and Discontent*. New York: The Free Press, pp.?

Schneider, H.K. 1974. *Economic Man*. New York: The Free Press.

Sen, Amartya. 1987. *On Ethics and Economics*. Oxford: Basic Blackwell Inc.

Sen, Amartya. 1990. "Amartya Sen." In Richard Swedberg, ed., *Economics and Sociology*. Princeton: Princeton University Press, pp.249-267.

Sewell, William H. Jr. 1991. "A Theory of Structure: Duality, Agency, and Transformation." Unpublished.

Shimada Haruo. 1983. "Japanese Industrial Relations-A New General Model? A Survey of the English-Language Literature." In Shirai T., ed., *Contemporary Industrial Relations in Japan*. Madison: University of Wisconsin Press, pp.?

Small, Albion W.. 1972 [1907]. *Adam Smith and Modern Sociology*. Clifton: Augustus M. Kelley Publishers.

Smith, Anthony D.. 1971. *Theories of Nationalism*. London: Duckworth.

Stinchcombe, Arthur L. 1983. *Economic Sociology*. New York: Academic Press.

Stinchcombe, Arthur L. 1986. *Stratification and Organization*. Cambridge: Cambridge University Press.

Stinchcombe, Arthur L. 1990a. *Information and Organizations*. Berkeley: University of California Press.

Stinchcombe, Arthur L. 1990b. "Arthur L. Stinchcombe." In Richard Swedberg, ed., *Economics and Sociology*. Princeton: Princeton University Press, pp.?

Strang, David and John Meyer. 1992. "Institutional Conditions for Diffusion." unpublished paper.

Sugimori, Kōjirō. 1940. "The European War and its Effects." *Contemporary Japan*. July, Vol. IX, No.7, pp. 964-974.

Swedberg, Richard. 1987. "Economic Sociology: Past and Present." *Current Sociology*. 35:(1):1-221.

- Swedberg, Richard. 1990. *Economics and Sociology*. Princeton: Princeton University Press.
- Swedberg, Richard. 1991a. "Major Traditions of Economic Sociology." *Annual Review of Sociology*. pp. 251-276.
- Swedberg, Richard. 1991b. *Joseph A. Schumpeter: The Economics and Sociology of Capitalism*. Princeton: Princeton University Press.
- Swedberg, Richard, Ulf Himmelstrand and Goran Brulin. 1990. "The Paradigm of Economic Sociology." In Sharon Zukin and Paul DiMaggio, eds., *Structures of Capital: The Social Organization of the Economy*. Cambridge: Cambridge University Press, pp. 57-86.
- Tachi, Sabutarō. 1934. "The Open Door in China and Manchuria." *Contemporary Japan*. March, Vol. 2, No. 4, pp. 571-587.
- Tanaka, Tokichi. 1933. "Japan and America: Questions to be Solved." *Contemporary Japan*, December, Vol. 2, No. 3, pp. 375-381.
- Thomas, George M. and John Meyer. 1984. "The Expansion of the State". *Annual Review of Sociology*. pp. 461-482.
- Tai Hung-chao, ed. 1989. *Confucianism and Economic Development*. Washington, D.C.: The Washington Institute Press.
- Thurow, Lester. 1983. *Dangerous Currents: The State of Economics*. New York: Random House.
- Thurow, Lester. 1991. "Competing Games: Profit Maximization Versus Strategic Conquest." In Richard M. Coughlin, ed., *Morality, Rationality, and Efficiency*. Armonk: M.E. Sharpe, Inc., pp. 119-132.
- Thurow, Lester. 1992. *Head to Head: The Coming Economic Battle Among Japan, Europe, and America*. New York: William Morrow and Company, Inc..
- Thurow, Lester C. 1983. *Dangerous Currents*. New York: Random House.
- Tilly, Charles. 1975. "Western State-Making and Theories of Political Transformation." In Charles Tilly, ed., *The Formation of National States in Western Europe*. Princeton: Princeton University, pp. 601-639.
- Tsurumi Shunsuke. 1982 *An Intellectual History of Wartime Japan, 1931-1945*. London: KPI.

- Tucker, Robert C. 1981. *Politics as Leadership*. Columbia: University of Missouri Press.
- Veblen, Thorstein. 1934 [1899]. *The Theory of the Leisure Class*. New York: The Viking Press.
- Veblen, Thorstein. 1939 [1915]. *Imperial Germany and the Industrial Revolution*. New York: The Viking Press.
- Veblen, Thorstein. 1942 [1919]. *The Place of Science in Modern Civilisation*. New York: The Viking Press.
- Vogel, Ezra, ed. 1975. *Modern Japanese Organization and Decision-Making*. Berkeley: University of California Press.
- Vogel, Ezra F. 1979. *Japan as Number One: Lessons for America*. Cambridge: Harvard University Press.
- Wade, Robert. 1989. "What Can Economics Learn From East Asian Success." In Peter A. Gourevitch, ed., *The Pacific Region: Challenges to Policy and Theory*. *The Annals of the American Academy of Political and Social Science*. Vol. 505. September.
- Wade, Robert. 1990. "Industrial Policy in East Asia: Does It Lead or Follow the Market?" In Gary Gereffi and Donald L. Wyman, eds., *Manufacturing Miracles: Paths of Industrialization in Latin America and East Asia*. Princeton: Princeton University Press, pp. 231-266.
- Wade, Robert. 1991. *Governing the Market*. Princeton: Princeton University Press.
- Wallerstein, Immanuel. 1974. *The Modern World-System*. New York: Academic Press.
- Weber, Max. 1947. *The Theory of Social and Economic Organization*. New York: Oxford University Press.
- Weber, Max. 1950 [1921]. *General Economic History*. Glencoe: The Free Press.
- Weber, Max. 1950 [1930]. *The Protestant Ethic and the Spirit of Capitalism*. 1968. *Economy and Society*. New York: Bedminster Press, Vol. 1.
- Weick, Karl. 1979. *The Social Psychology of Organizing*. Reading, Mass: Addison-Wesley.
- Weir, Margaret. 1989. "Ideas and Politics: The Acceptance of Keynesianism in Britain and the United States." In Peter A. Hall, ed., *The Political Power of Economic Ideas: Keynesianism Across Nations*. Princeton: Princeton University Press.



- Weir, Margaret and Skocpol, Theda. 1985. "State Structures and the Possibilities for 'Keynesian' Responses to the Great Depression in Sweden, Britain, and the United States." In Peter B. Evans, Dietrich Rueschemeyer and Theda Skocpol, eds., *Bringing the State Back In*. Cambridge: Cambridge University Press, pp. 103-167.
- Williamson, Oliver E. 1975. *Markets and Hierarchies: Analysis and Antitrust Implication*. New York: The Free Press.
- Williamson, Oliver E. 1987. "The Economies of Organization: The Transaction Cost Approach." *American Journal of Sociology*, 87(3):?
- Windhoff-Heritier, Adrienne. 1991. "Institutions, Interests and Political Choice", in Roland M. Czada and Adrienne Windhoff-Heritier, eds., *Political Choice: Institutions, Rules, and the Limits of Rationality*. Frankfurt: Campus Verlag.
- Wippler, Reinhard and Lindenberg, Siegwart. 1987. "Collective Phenomena and Rational Choice." In J. C. Alexander, B. Giesen, R. Munch and N. J. Smelser, *The Micro-Macro Link*. Berkeley: University of California Press, pp.135-52.
- Wolferen, Karel van. 1989. *The Enigma of Japanese Power*. London: Macmillan.
- Wuthnow, Robert. 1989. *Communities of Discourse*. Cambridge: Harvard University Press.
- Yanaga Chitoshi. 1968. *Big Business in Japanese Politics*. New Haven: Yale University Press.
- Yanagishi Toshio, Mary R. Gillmore and Karen S. Cook. 1988. "Network Connections and the Distribution of Power in Exchange Networks." *American Journal of Sociology*.
- Yinger, J. Milton. 1982. *Countercultures*. New York: The Free Press.
- Zelizer, Viviana A. 1989. "The Social Meaning of Money: 'Special Monies'." *American Journal of Sociology*. 95(2):342-377.
- Zelizer, Viviana A. 1988. "Beyond the Polemics on the Market: Establishing a Theoretical and Empirical Agenda." *Sociological Forum*, 3(4):614-634.
- Zelizer, Viviana A. 1985. *Pricing the Priceless Child: The Changing Social Value of Children*. New York: Basic Books.
- Zink, Harold. 1974. *The United States in Germany: 1944-1945*. Westport: Greenwood Press.
- Zukin, Sharon and DiMaggio, Paul. 1990. "Introduction." In Sharon Zukin and Paul

DiMaggio, eds., *Structures of Capital: Social Organization of the Economy*. Cambridge: Cambridge University Press.

REFERENCES IN JAPANESE

- Abe Yoshishige. 1950. "Nihon no saigunbi ni tsuite" (On the Japanese rearmament). *Asahi Hyōron*. Nov., pp. 2-9.
- Akimaru Jirō. 1989. "Akimaru kikan no tenmatsu" (The whole story of Akimaru agency). In *Arisawa Hiromi no Shōwa shi* Hensan Iin-kai, ed., *Kaisō*. Tōkyō: Tōkyō Daigaku Shuppan-kai, pp. 61-68.
- Andō Yoshio (ed.). 1966. *Shōwa keizaishi e no shōgen*. Tōkyō: Mainichi Shinbun-sha.
- Andō Yoshio. 1987. *Taiheiyō sensō no keizaishiteki kenkyū* (Studies on the Economic History of the Pacific War). Tōkyō: Tōkyō Daigaku Shuppan-kai.
- Arisawa Hiromi. 1934. *Sangyō dōin keikaku* (Planning industrial mobilization). Tokyo: Kaizō-sha.
- Arisawa Hiromi. 1937a. *Keizai tōseika no nihon* (Japan under the Managed Economy). Tōkyō: Kaizō-sha.
- Arisawa Hiromi. 1937b. *Sensō to keizai* (War and Economy). Tokyo: Nihon Hyōron-sha.
- Arisawa Hiromi. 1937c. *Nihon kōgyō tōsei-ron* (The Industrial Control in Japan). Tokyo: Arikai Kaku.
- Arisawa Hiromi. 1948a. "Fukahitekina mono (An Inevitable Thing)." *Infureishon to shakaika*. Tokyo: Nihon Hyōron-sha, pp. 3-30.
- Arisawa Hiromi. 1948b. "Nihon infureishon no mondai (The Problem of Inflation in Japan)." *Infureishon to shakaika*. Tokyo: Nihon Hyōron-sha, pp. 33-51.
- Arisawa Hiromi. 1948a. "Nihon keizai no hakkyoku o sukū mono" (The thing that can save Japan from economic collapse). In Arisawa Hiromi, ed., *Infureishon to shakaika*. Tokyo: Nihon Hyōron-sha, pp. 53-69.
- Arisawa Hiromi. 1948c. "Kiki toppa no shōten (The Focal Point of Tiding Over the Crisis)." In Arisawa Hiromi, *Infureishon to shakaika*. Tokyo: Nihon Hyōron-sha, pp. 70-79.
- Arisawa Hiromi. 1948d. "Hitosuji no michi (A Road)." In Arisawa Hiromi, *Infureishon to shakaika*. Tokyo: Nihon Hyōron-sha, pp. 80-99.
- Arisawa Hiromi. 1948e. "Shakaika no riron no tame ni (For a theory of socialization).

- In Arisawa Hiromi, ed., *Infureishon to shakaika*. Tokyo: Nihon Hyōron-sha, pp. 125-150.
- Arisawa Hiromi. 1949a. "Genka no keizai jōsei ni tsuite" (On the present economic situation). *Asahi hyōron*. Oct., pp. 27-34.
- Arisawa Hiromi. 1949b. "Kyūgensoku no jisshi wa bukka chingin ni dō hibiku ka" (How do the nine principles influence the salary and the price). *Jitsugyō no nihon*. Mar. 15, pp. 2-5.
- Arisawa Hiromi. 1949c. "Senji Sengo no Kōgyō oyobi Kōgyō Seisaku (Industries and industrial policies during and after the war). In *Tokyo daigaku keizai gakubu sōritsu sanjū nen kinen ronbun shū*. Tokyo: Yūhi-kaku.
- Arisawa Hiromi. 1949d. *Keizai seisaku no nōto* (Notes on economic policy). Tōkyō: Gakufū Shoin.
- Arisawa Hiromi. 1951a. "Nihon keizai no saikentō" (A reexamination of Japanese economy). *Chūō kōron*. Aug., pp. 4-12.
- Arisawa Hiromi. 1951b. "Nihon shihonshugi to saigunbi" (The Japanese capitalism and the rearmament). March, pp. 26-36.
- Arisawa Hiromi. 1952a. "Saigunbi no keizaigaku" (Economics of rearmament). *Sekai*. Vol. 78, June, pp.18-30.
- Arisawa Hiromi. 1952b. "Sekaiteki gunkaku no naka ni aru nihon keizai no mujun (The Contradiction of Japan's Economy in the Worldwide Military Expansion)." *Shakaishugi*. June, the first issue.
- Arisawa Hiromi. 1953a. "Heiwa no keizaiteki kiso" (The economic foundation of peace). *Fuebian kenkyū*. Vol. 4, May, pp. 1-6.
- Arisawa Hiromi. 1953b. "Heiki seisan to nihon keizai" (The production of weapon and the Japanese economy). *Chūō Kōron*. Jan., pp. 14-22.
- Arisawa Hiromi. 1953c. "Tenki ni chokumen suru nihon keizai" (The Japanese economy in transition). *Fuebian kenkyō*. June. pp. 1-36.
- Arisawa Hiromi. 1953d. "Nihon keizai to saigunbi ni mondai" (The Japanese economy and the issue of rearmament). *Fuebian kenkyō*. Nov., 1-11.
- Arisawa Hiromi. 1956a. "Shihonshugi no kunō (The Trouble of Capitalism)." *Fuebian kenkyū*. 7(1): 1-13.

- Arisawa Hiromi. 1956b. "Nihon shihonshugi to koyō" (The Japanese Capitalism and Employment). *Sekai*. Jan., pp. 23-34.
- Arisawa Hiromi. 1957. "Keizai kakudai wa koyō mondai o kaiketsu shiuru ka" (It is possible to solve the problem of employment by economic expansion). *Sekai*. 135, Mar., pp. 34-44.
- Arisawa Hiromi. 1960. *Gendai nihon sangyō kōza* (Lectures on Modern Japanese Industry). Tōkyō: Iwanami Shoten, Vol. 8.
- Arisawa Hiromi. 1967. "Shakai-shugi no rinen to keizai seisaku ni okeru riarizumu (The Ideal of Socialism and the Realism in Economic Policies)." In Koizumi Akira, Miyazaki Yoshikazu, eds., *Nihon keizai o miru gan*. Tōkyō: Tōyō Keizai Shinpō-sha, pp. 267-300.
- Arisawa Hiromi. 1969. *Seisansei to nihon keizai*. Tōkyō: Nihon Seisansei Honbu.
- Arisawa Hiromi. 1970 [1950]. "Nihon shihonshugi no unmei" (The fate of Japanese capitalism). In Kanamori Hisao, ed., *Bōeki to kokusai shūshi*. Tōkyō: Nihon Keizai Shinbun-sha, pp. 20-22.
- Arisawa Hiromi (ed.). 1976. *Shōwa keizaishi* (The History of the Shōwa Economy). Tōkyō: Nihon Keizai Shinbun-sha.
- Arisawa Hiromi. 1978. "Seisaku to genjitsu no tanima" (In the valley between policy and reality). In Kondō Kanichi, Osanai Hiroshi, eds., *Sengo sangyō-shi e no shōgen*. Tokyo: Mainichi Shinbun-sha. vol. 3, pp. 12-29.
- Arisawa Hiromi. 1988. "Intabiū (Interview)." In Keizai kikaku-chō, ed., *Sengo keizai fukkō to keizai antei honbu*. Tōkyō: Keizai Kikaku-chō, pp. 79-99.
- Arisawa Hiromi. 1989 (1957). *Gakumon to shisō to ningen to--wasure nu hitobito* (Scholarship, theories and personalities--unforgettable people). Tōkyō: Tōkyō Daigaku Shuppan-kai.
- Arisawa Hiromi. 1989a. *Arisawa Hiromi sengo o kataru: Shōwashi e no shōgen* (Arisawa Hiromi's talk on postwar era: the testimony of Shōwa history). Tōkyō: Tōkyō Daigaku Shuppan-kai.
- Arisawa Hiromi. 1989b. *Rekishi no naka ni ikiru* (Living in history). Tōkyō: Tōkyō Daigaku Shuppan-kai.
- Arisawa Hiromi. 1989c. "Ryakunenpo" (A brief resume). In Arisawa Hiromi no Shōwa-shi Hensan Iinkai, ed., *Rekishi no naka ni ikiru*. Tokyo: Tokyo Daigaku Shuppan-kai. pp. 295-316.

- Arisawa Hiromi. 1989d. *Arisawa Hiromi kataru sengo keizai shi* (The history of Shōwa economy told by Arisawa Hiromi). Tōkyō: Tōkyō Daigaku Shuppan-kai.
- Arisawa Hiromi, Aihara Shigeru, Ōkawa Kazushi. 1959. "Atarashii Furoncha: kijutsu kakushin (New Frontier: Technological Innovation)." *Ekonomisuto*. Feb. 7, pp. 54-59.
- Arisawa Hiromi, Inaba Hidezō. 1966. *Shiryō sengo nijunenshi* (Literature on twenty years' postwar history). Tokyo: Nihon Hyōron-sha, Vol. 2.
- Arisawa Hiromi, Minobe Ryōkichi, Nagasuka Zuji, Itō Mitsuharu, Miyazaki Isamu. 1960. "Kōseichō wa kokumin seikatsu o yūdaka ni suru ka" (Does the high growth enrich the Japanese life). *Sekai*. Nov., pp. 19-35.
- Arisawa Hiromi, Ōkita Saburō. 1966. "keizai saiken to keisha seisan" (Economic recovery and priority production). In Andō Yoshio, ed., *Shōwa keizai shi e no shōgen*. Tokyo: Mainichi Shinbun-sha, Vol. 3, pp. 274-293.
- Arisawa Hiromi, Ōuchi Hyōe, Wakimura Yoshitarō, Takahashi Masao, Minobe Ryōkichi. 1946. *Nihon infureishon no kenkyū* (The elimination of inflation in Japan). Tokyo: Kōdo-sha.
- Arisawa Hiromi, Ōuchi Hyōe, Naitō Katsu, Minobe Ryōkichi. 1965. "Kōsai hakkō-ron o hihan suru (Criticism on Pro-Public Debt Approach)." *Sekai*, 241, Dec., pp. 53-73.
- Arisawa Hiromi, Tamanoi Yoshirō. 1973. *Kindai nihon o kangaeru* (Thinking about modern Japan). Tōkyō: Tōyō Keizai Shinpō-sha.
- Arisawa Hiromi, Tōbata Seiichi, Nakayama Ichirō, Wakimura Yoshitarō and Ōkita Saburō. 1960. "Keizai shutai kara mita nihon shihonshugi (The Japanese Capitalism Seen in Economic Subjectivity)." In Arisawa Hiromi, Tabata Seiichi and Nakayama Ichiro, eds., *Keizai shutaisei kōza*. Tokyo: Chūō Kōron-sha, Vol. 7, History 2, pp. 248-84.
- Arisawa Hiromi, Tsuchiya Hiyoshi (eds.). 1967. *Shihon jiyūka* (The Liberalization of Capital). Tōkyō: Shakai Shisō-sha.
- Arisawa Hiromi, Watanabe Takeshi, Tsuchiya Kiyoshi, Hotta Shōzō, Wakimura Yoshitarō. 1949. "Keizai saiken no shomondai" (The problems in the economic reconstruction). *Chūō kōron*. Mar., pp. 4-15.
- Arisawa Hiromi no Shōwa shi* Hensan Iin-kai (ed.). 1989. *Kaisō* (Recollection). Tōkyō: Tōkyō Daigaku Shuppan-kai.
- Asahi Shinbun-sha. 1967. *Nihon no hōei to keizai* (The defence and the economy in

Japan).

Baba Keinosuke. 1967. "Yutaka no chokkan-ryoku" (The great power of intuition). In Koizumi Akira, Miyazaki Yoshikazu, eds., *Nihon keizai o miru gan*. Tōkyō: Tōyō Keizai Shinpō-sha, pp. ?

Baba Shūichi. 1969. "1930 nendai ni okeru nihon chishikijin no dōkō" (The orientation of Japanese intellectuals in 1930s). *Shakai kagaku kenkyū*. ?

Chō Yukio. 1974a. *Ishibashi: hito to shisō* (Ishibashi: the person and his theory). Tōkyō: Tōyō Keizai Shinpō-sha.

Chō Yukio. 1974b. *Shōwa Kyōkō* (The Showa Depression). Tōkyō: Iwanami Shoten.

Chō Yukio, Sumiya Kazuhiko (eds.). 1971. *Kindai nihon keizai shisōshi* (The Modern History of Japanese Economic Thought). Tōkyō: Yūkaikaku.

Ebata Kiyoshi (ed.). 1969. *Kaisō Ryū Shintarō* (In memory of Ryū Shintarō). Tōkyō: Asahi Shinbunsha.

Ekonomisuto. 1950. "Nihon teichingin to kokusai hikaku (Japan's Low Wage and International Comparison)." June 21, pp.31-32.

Ekonomisuto. 1955. "Seisansei undō no teikō to kyōryoku (The Resistance and Cooperation in Productivity Movements)." July 9, pp. 50-52.

Ekonomisuto. 1961. "Kindai keizai gakkai no nūberu bagu" (The Nobel bag among modern economists). Jan. 3, pp.108-112.

Ekonomisuto. 1965. "Fukyō taisaku, yatō wa dō kaneru (Countermeasures to Depression, What do the Nongovernment Parties Think)." Aug. 31, pp. 40-44.

Fukuda Takeo. 1965. "Keizai fukyō to kōsai hakkō (Economic Depression and the Issue of Public Debts)." *Gendai no gan*. 6(9): 45-52.

Flanagan, Scott C.. 1983. "Prime Minister and Cabinet." In *Kodansha Encyclopedia of Japan*. vol. 6. Tokyo: Kodansha.

Gaimushō. 1947. *Seifu hakusho no hitsuyōsei* (The necessity of the government white paper).

Gotō Ryūnosuke. 1966. "Konoe shintaisei (Konoe's new order)." In Andō Yoshio, ed., *Shōwa keizaishi e no shōgen*. Tōkyō: Mainichi Shinbun-sha, Vol. 2.

- Gotō Yonosuke. 1956. "Kijutsu kakushin to wa nani zo ya (What is Technological Innovation)." *Ekonomisuto*. Betsusatsu (separate volume), Autumn, pp. 9-24.
- Gotō Yonosuke, Shishido Toshio. 1958. "Kijutsu kakushin to nihon keizai." *Ekonomisuto*. Feb. 1, pp. 52-55.
- Hall, Ivan. 1990. "Nihon no chishikijin yo, motto yūki o" (Japanese Intellectuals, be More Brave)." *Chūō kōron*. April, pp. 288-303.
- Hara Akira. 1972. "Keisai shintaisei" (New Economic Order). In Nihon Seijigaku-kai, ed., "*Konoe new taisei" no kenkyū*. Tōkyō: Iwanami Shoten, pp. 71-133.
- Hara Akira. 1990. "Kaitai" (Introduction). In Nakamura Takafusa and Hara Akira, ed., *Keizai fukkō keikaku*.
- Hara Yūzō. 1940. *Nihon tōsei keizai-ron* (On Japanese Managed Economy). Tōkyō: Chikura Shobō.
- Hata Ikuhiko. 1981. *Senzenki nihon kanryōsei no seido, sōshiki, jinji*. (The institution of bureaucracy in prewar Japan, organization and personnel). Tōkyō: Tōkyō Daigaku Suppan-kai.
- Hata Ikuhiko. 1983. *Kanryō no kenkyū*. Tōkyō: Kodan-sha.
- Hayasaka Tadashi, Masamura Kimihiro, Takeyama Morio, Hamaguchi Haruhiko, Shibata Toshio, Hoshino Akiyoshi. 1974. *Sengo nihon no keizaigaku* (Economics in postwar Japan). Tokyo: Nihon Keizai Shinbun-sha.
- Heiwa Mondai Tanwa-kai. 1959 [1966]. "Heiwa mondai tanwa-kai seimei" (The public statement of the forum of peace). In Tsuji Kiyooki, ed., *Shiryō sengo nijūnen-shi*. Tokyo: Nihon Hyōron-sha. pp. 142-144.
- Hiwatari Nobuhiro. 1991. *Sengo nihon no shijō to seiji* (Postwar Japanese Market and Politics). Tōkyō: Tōkyō Daigaku Shuppan-kai.
- Horie Masaki. 1952. "Jūzoku-teki gunju sangyō no honkaku-ka" (The institutionalization of the dependent munitions industries). *Keizai hyōron*. Dec., 61-71.
- Horie Masaki. 1955. "Sensansei kōjō undō hihan" (Criticism on the movement of promoting productivity). *Chūō kōron*. Oct., pp. 144-55.
- Horie Shigeo. 1967. "Sekaiteki kinritaka to shihonshugi-ka e no taiōsaku (Worldwide High Interests and Countermeasures to the Capitalist Liberalization)." In Koizumi Akira, Miyazaki Yoshikazu, eds., *Nihon keizai o miru gan*. Tōkyō: Tōyō Keizai Shinpō-sha, pp.

84-122.

Hoshino Yoshirō. 1957. "Shinsangyō kakumei no tenbō (The Outlook of New Industrial Revolution)." *Sekai*, 135, Mar., pp. 63-77.

Ide Yoshinori. 1982. *Nihon kanryōsei to gyōsei bunka* (The Japanese Bureaucratic System and the Culture of Government Administration). Tōkyō: Tōkyō Daigaku Shuppan-kai.

Igarashi Takeshi. 1979. "Tainichi senryō seisaku no tenkan to reisei (The Transition of the Occupation Policies Towards Japan and the Cold War)." In Nakamura Takafusa, ed., *Senryōki nihon no keizai to seiji*. Tōkyō: Tōkyō Daigaku Shuppan-kai, pp. 25-57.

Iijima Tadashi, Arai Noriko, Kawabata Hisashi. 1983. *Keizai bunseki no rekishi to riron* (History and theory of economic analysis). Tōkyō: Bunka Shobō Hatsubun-sha.

Ikeda Hayato. 1949. "Ikeda zaisei no hōkō" (The direction of Ikeda finance). *Jitsugyō no nihon*. Mar. 15., pp. 18-19.

Ikeda Hayato. 1959. "Ikeda Hayato shi no gekkyū nibairon (Ikeda Hayato's view on the doubling of income)." *Ekonomisuto*. Mar. 21, p. 6.

Ikumi Tashiichi. 1953. "Sensō keizai-ka ni okeru kyōkō" (The recession in the war economy). In *Keizai Hyōron*. Aug., pp. 2-12.

Imai Zen'ei. 1977. "Jiyūka no suishin (Promoting Liberalization)." In Itō Mitsuharu, ed., *Sengo sangyōshi e no shōgen*. Vol. 1: *Sangyō seisaku*. Tōkyō: Mainichi Shinbun-sha, pp. 159-179.

Imai Seiichi, Itō Takashi. 1974. *Gendaishi shiryō: kokka sōdōin, 2* (Literature on modern history: the national general mobilization, 2). Tokyo: Misuzu Shobō, Vol. 44.

Inaba Hidezō. 1949. "Kyūgensoku wa ika ni susumerareru ka" (How to carry out the nine principles). *Ekonomisuto*. Feb. 11, pp. 146-51.

Inaba Hidezō. 1956. "Seisansei kōjō undō hihan" (Criticism on the movement of promoting productivity). *Fuebian kenkyū*. Vol. 7, Dec., pp. 6-24.

Inaba Hidezō. 1965. *Gekidō sanjuhunen no nihon keizai* (The exciting thirty years of Japanese economy). Tōkyō: Jitsugyō no nihon-sha.

Inaba Hidezō. 1975. "Keizai antei honbu no risō to keizai kikaku-chō no 'genjitsu'" (The ideal of economic stabilization board and the reality of economic planning agency). *ESP*. Sept. and Oct..

Inaba Hidezo. 1988. "Intabiū (Interview)." In Keizai kikaku-chō, ed., *Sengo keizai fukkō to keizai ante honbu*. Tōkyō: Keizai Kikaku-chō, pp. 45-75.

Inaba Hidezō. 1989. "Hyūmanisuchikku na shisō" (Humanistic thought). In *Arisawa Hiromi no Shōwa shi* Hensan Iin-kai, ed., *Kaisō*. Tōkyō: Tōkyō Daigaku Shuppan-kai.

Inaba Hidezō, Aihara Shigeru, Ōuchi Tsutomu, Komiya Ryūtarō, Uchida Tatao, Ōchiyama Kiyoshi, Miyashita Buhei. 1960. "Shinpojiaumu" (Symposium). *Ekonomisuto*. Nov. 15, pp. 16-32.

Inaba Hidezō, Hirata Keiichirō, Mutoh Seiichirō, Yano Tomoo. 1985. "Sengo nihon keizai no genten o kaerimiru: (1) keizai ante honbu sōsetsu zengo" (A reexamination of the origin of the postwar Japanese economy: before and after the establishment of the economic stabilization board). *ESP*. Aug..

Inaba Hidezō, Kojima Masaoki, Saeki Kiichi and Yano Tomoo. 1986. "Sengo nihon keizai no genten o kaerimiru: (4) keizai fukkō keikaku no shūhen" (A reexamination of the origin of the postwar Japanese economy: (4) the circumference around the plan of economic recovery). *ESP*. Feb..

Ishibashi Tanzan. 1970 (1946). "Shōwa nijū-ichi nendo shūgi-in zaisei enjitsu (The speech on finance of 1946 at the House of Representatives)." In *Ishibashi Tanzan zenshū* (The complete collection of Ishibashi Tanzan). Tōkyō: Tōyō Keizai Shinpō-sha, Vol. 13, pp. 176-98.

Ishibashi Tanzan. 1972 (1951). *Tanzan kaisō* (Recollections of Tanzan). Tōkyō: Mainichi Shinbun-sha.

Ishino Shinichi. 1981. "Zaisei kin'yū seisaku no yakuwari" (The function of financial and monetary policies). *Ekonomisuto*. June 2. pp. 92-99.

Itō Mitsuharu. 1970. *Hōshū to kakushin no nihonteki kōzō*. Tokyo: Tsukuma Shobō.

Itō Takashi. 1974. "Shintaisei towa nanika (What is the New Order Movement)." *Rekishi to jinbutsu*. Apr., pp. 38-39.

Itō Zenichi. 1972. "Kōki (Postscript)." In Nakayama Ichirō, *Nakayama Ichirō zenshū*. Tōkyō: Kodan-sha, Vol. 11, pp. 512-21.

Itō Daiichi. 1967. "Keizai kanryō no kōdō yōshiki (The behavioral pattern of economic bureaucrats)." In Nihon Seiji Gakkai, ed., *Gendai nihon no seido to kanryō*. Tōkyō: Iwanami Shoten, pp. 78-104.

Itō Mitsuharu. 1967. "Wagamichi o iku 'kokō no hito': Tsuru Shigeto kyōjū" (The



erudite person who goes his own way: Professor Tsuru Shigeto). In Koizumi Akira, Miyazaki Yoshikazu, eds., *Nihon keizai o miru gan*. Tōkyō: Tōyō Keizai Shinpō-sha.

Itō Mitsuharu, Chō Yūkio. 1971. "Seigo keizai no shiso" (The economic theories in the postwar era). In Itō Mitsuharu, Chō Yūkio, eds., *Keizai no shisō*. Tokyo: Tsukuma Shobō. pp. 3-36.

Itō Takashi. 1974a. "Kyōkoku icchi' naikakuki no seikai saihensei mondai" (The reorganization of political circles during the period of the cabinet supported by the whole nation). *Shakai kagaku kenkyū*. Vol.25, No. 4.

Itō Takashi. 1974b. *Shōwa jūnenshi danshō* (The episode of ten years' history of Showa).

Itō Takashi. 1976. *Jūgonen senso* (Fifty years of war). Tōkyō: Shōgaku-kan.

Jimin-tō. 1959 [1966]a. "Jimin-tō kaitei yōkō" (The outline of revision of the liberal democratic party). In Tsuji Kiyooki, ed., *Shiryō sengo nijūnen-shi*. Tokyo: Nihon Hyōron-sha. pp. 139-140.

Jimin-tō. 1959 [1966]b. "Jimin-tō shōinikai ketsuron" (The conclusion of the subcommittee of the liberal democratic party). In Tsuji Kiyooki, ed., *Shiryō sengo nijūnen-shi*. Tokyo: Nihon Hyōron-sha. pp. 140-141.

Kamada Isao, Takamura Juichi (eds.). 1988. *Shōgen sengo keizaishi* (The Testimony of the Postwar Economic History). Tōkyō: Nihon Keizai Shinbun-sha.

Kaminishi Akio. 1985. *Burein seiji* (Brain politics). Tōkyō: Kōdan-sha.

Kanamori Hisao. 1985. *Taiken sengo keizai* (Experiencing the Postwar Economy). Tōkyō: Tōyō Keizai Shinpō-sha.

Kanbayashi Teijirō. 1958. "Kijutsu kakushin no hyōka (The Evaluation of Technological Innovation)." *Ekonomisuto*. Jan. 25, pp. 50-54.

Katsumata Seiichi. 1981. "Fujūbun datta shakaitō no taiō" (The incomplete response of the socialist party). *Ekonomisuto*. June 9. pp. 82-89.

Kawahara Hiroshi, Asanuma Kazunori. 1979. *Nihon no fuashizumu* (Japan's Fascism). Tōkyō: Yūhi-kaku.

Kawai Saburō. 1989. "Tōkei kaizen no Arisawa sensei" (Professor Arisawa who has improved statistics). In *Arisawa Hiromi no Shōwa shi Hensan Iin-kai*, ed., *Kaisō*. Tōkyō: Tōkyō Daigaku Shuppan-kai, pp. ?

Kazami Akira. 1951. *Konoe naikaku* (The Konoe cabinet). Tōkyō: Nihon Shuppan Kyōdō Kabushiki Kaisha.

Keidanren Jimukyoku. 1953. "Shintokuju no igi to keizai kyōryoku no kōsō ni tsuite" (On the significance of new special procurements and the proposal of economic cooperation). *Keizai Rengō*.

Keizai Antei Honbu (ed.). 1965. "Sōsetsu (General remarks)." *Keizai hyōron*. Oct., pp. 178-205.

Keizai Antei Honbu. 1965 (1947). "Keizai jitsusō hōkokusho" (The report of actual economic situation). *Keizai hyōron*. Oct., pp. 178-204.

Keizai Kikaku-chō (ed.). 1956. *Keizai hakusho: nihon keizai no seichō to kindai* (The Economic White Paper: Japan's Economic Growth and Modernization). Tōkyō: Shiseidō.

Keizai Kikaku-chō. 1960. "Kokumin shotoku baisō keikaku" (The national income doubling plan). In Ōkita Saburō, ed., *Shotoku baisō keikaku no kaisetsu*. Tokyo: Nihon Keizai Shinbun-sha.

Keizai Kikaku-chō. 1964. *Sengo keizai-shi: keizai antei honbu-shi* (The history of postwar economy: the history of the Economic Stabilization Board).

Keizai Kikaku-chō. 1966. *Keizai kikaku-chō nijūnen shōshi* (A brief twenty-year history of the economic planning agency).

Keizai Kikaku-chō. 1976. *Gendai nihon keizai no tenkai: keizai kikakuchō sanjūnenshi* (The Development of Modern Japanese Economy: A Thirty Year History of the Economic Planning Agency). Tōkyō: Ōkurashō Insatsu-kyoku.

Keizai Kikaku-chō. 1988. *Sengo keizai fukkō to keizai antei honbu* (The postwar economic recovery and the Economic Stabilization Board).

Keizai kikaku-chō (ed.). 1988. *Sengo keizai fukkō to keizai antei honbu* (The Postwar Economic Recovery and the Economic Stabilization Board). Tōkyō: Keizai Kikaku-chō.

Kimura Kihachirō. 1947. "Keizai saiken no zentai (The Precondition of Economic Recovery)." *Asahi hyōron*. Nov., pp. 12-20.

Kimura Kihachirō. 1948. "Infureishon no shūsoku ni tsuite (On the Elimination of Inflation)." *Zenshin*. Jan., pp. 20-25.

Kindai Nihon Kenkyū-kai (ed.). 1982. *Taiheiyō sensō* (The Pacific War). Tōkyō: Yamakawa Shuppan-sha.

- Kishimoto Seijirō. 1947. "'Keizai jitsusō hōkokusho' hihan (A critique on 'the report on economic reality')." *Jiron*. Aug., pp. 9-15.
- Kita Iki. 1959. *Kita Iki chōsakushū*. Vol. 1: *Kokutai-ron oyobi junsei shakaishugi* (National Political System and Pure Socialism). Tōkyō: Misuzu Shobō.
- Kiuchi Nobutane. 1948. "Arisawa, Kimura ronsō saihihan (Further Criticism on the Controversy Between Arisawa and Kimura)." *Ekonomisuto*. May 21, pp. 164-66.
- Kobayashi Kichiya. 1989. *Hana mo arashi mo* (Flower and thunderstorm). Tōkyō: Kōdan-sha.
- Koizumi Akira, Miyazaki Yoshikazu. 1967a. "'Nihon keizai o miru gan' no kōzō" (The structure of 'the eye on Japanese economy'). In Koizumi Akira, Miyazaki Yoshikazu, eds., *Nihon keizai o miru gan*. Tōkyō: Tōyō Keizai Shinpō-sha, pp. ?.
- Koizumi Akira, Miyazaki Yoshikazu (eds.). 1967b. *Nihon keizai o miru gan* (The Eye on Japanese Economy). Tōkyō: Tōyō Keizai Shinpō-sha.
- Komiya Ryūtarō. 1959. "Nihon no okeru keizaigaku kenkyū ni tsuite" (On economic studies in Japan). In Itō Mitsuharu, Chō Yūkio, eds., *Keizai no shisō*. Tokyo: Tsukuma Shobō. pp. 217-228.
- Komiya Ryūtarō. 1960. "Yōsureba munaiyō" (In short, it is meaningless). *Ekonomisuto*. Nov. 15, pp. 6-12.
- Kosai Yotaka. 1989. "Kodo seicho e no shuppatsu" (The starting point of high growth). In Nakamura Takafusa, ed., *"Keikakuka" to "Minshuka"*. Tōkyō: Iwanami Shoten, pp. 283-321.
- Kurokawa Toshio, Satake Gosaku. 1970. *Nihon seisansei honbu: so no jittai to yakuwari* (The Headquarter of Productivity: its Entity and Function). Tōkyō: Aomi Shoten.
- Kusayanagi Ōkura. 1975. *Kanryō ōkokuron* (On the bureaucrats who harm the country). Tōkyō: Bungeishunjū.
- MacArthur, Douglas. 1982 (1947). "General MacArthur's Letter on the Food Situation and Economic Stabilization." In Ōkura-shō Zaiseishi-shitsu, ed., *Shōwa zaiseishi: shūsen kara kōwa made*. Tōkyō: Tōyō Keizai Shinpō-sha, pp. 518-519.
- Maruyama Masao. 1951. "Sengo nihon no nashonarizumu no ippanteki kōsatsu" (General examination on the postwar nationalism). In Nihon Taiheiyō Mondai Chōsa-kai, ed., *Ajia no minzokushugi*. Tōkyō: Iwanami Shoten, pp. 168-87.

- Maruyama Masao. 1972. *Gendai seiji no shisō to kōdō*. Tōkyō: Mirai-sha.
- Maruyama Masao. 1982. "Kindai nihon no chishikijin (Intellectuals in Modern Japan)." *Goe no ichij kara: "gendai seiji no shisō to kōdō" suihō*. Tōkyō: Mirai-sha, pp. 73-133.
- Masamura Kimihiro. 1974. *Gendai nihon no keizai seisaku* (The economic policy in modern Japan). Tokyo: Tsukuma Shobō.
- Masamura Kimihiro. 1985. *Sengoshi* (Postwar history). Tōkyō: Tsukuma Shobō.
- Masamura Kimihiro. 1991. "Sengo nihon on seiji-gyōsei shisutamu" (The political-administrative system in postwar Japan). *Tōyō Keizai*. June 8. pp. 182-191.
- Masuda Hiroshi. 1988a. *Ishibashi Tanzan: Senryō Seisaku e no Teikō* (Ishibashi Tanzan: the resistance to the occupation policy). Tōkyō: Sōshi-sha.
- Masuda Hiroshi. 1988b. "Infure mondai (The problem of inflation)." In Masuda Hiroshi, *Ishibashi Tanzan: senryō seisaku e no teikō*. Tōkyō: Sōshi-sha.
- Masumi Junnosuke. 1988. *Nihon seijishi*. Tōkyō: Tōkyō Daigaku Shuppan-kai, Vol. 1, 2, 3.
- Matsuda Michio. 1965. "Sensō to interigencha (War and Intelligentsia)." In Matsuda Michio, *Nihon chishikijin no shisō*. Tōkyō: Tsukuma Shobō, pp. 144-159.
- Matsui Haruo. 1934. *Keizai sanbō honbu-ron* (On the Economic General Staff). Tōkyō: Nihon Hyōron-sha.
- Matsui Haruo. 1938. *Nihon shigen seisaku* (The Japanese Policies of Resources). Tōkyō: Chikura Shobō.
- Mikami Ryūzō. 1967. "Nihon ni okeru Keinzu keizaigaku no tōnyū" (The diffusion of Keynesian economics in Japan). In Itō Mitsuharu, ed., *Keinzu keizaigaku*. Tokyo: Tōyō Keizai Shinpō-sha. pp. 195-220.
- Misonō Hitoshi. 1987. *Nihon no dokusen kinshi seisaku to sangyō soshiki* (Japanese Anti-trust Policies and Industrial Organization). Tōkyō: Kawade Shobō Shinsha.
- Miyazaki Isamu. 1962. *Keizai keikaku* (Economic planning).
- Miyazaki Yoshikazu. 1985. *Nihon keizai no kōzō to kōdō* (The structure and behavior of the Japanese economy). Tōkyō: Chikuma Shobō, Vol. 1.

- Miyazawa Kiichi. 1981. "Anbo kara keizai e" (From the security treaty to the economy). *Ekonomisuto*. May 12. pp. 130-137.
- Morikawa Hidemasa (ed.). 1977. *Sengo sangyōshi e no shōgen*. Vol. 2: *Kyodaika no jidai* (The Era of Organizational Maximization). Tōkyō: Mainichi Shinbun-sha.
- Murakami Yasusuke. "Ikōji ni okeru chishikijin no yakuwari (The Role of Intellectuals in the Period of Transition)." *Chūō Kōron*. pp. 188-207.
- Murobuji Tetsurō. 1983. *Kōkyū kanryō* (High ranking bureaucrats). Tōkyō: Sekai Shoin. 1983.
- Muroga Sadanobu. 1978. *Shōwa juku* (The Showa school). Tōkyō: Nihon Keizai Shinbun-sha.
- Nagano Takeshi. 1993. "Kaisha ga abunaku nareba jinin seiri wa totsuzen da (Layoff is Inevitable When Companies are in Trouble)." *Ekonomisuto*. April 24. p. 12.
- Nagata Sadashi. 1957. "Kijutsu kakushin to nihon keizai no shinro (The Course for Technological Innovation and Japan's Economy)." *Chūō kōron*. Nov., pp. 48-57.
- Nakamura Seiji. 1959. "Sengo nihon no kijutsuteki hatten to sono seikaku (Japan's Postwar Technological Development and its Characteristics)." *Ekonomisuto*. Mar. 28, pp. 44-50.
- Nakamura Takafusa. 1967. "Tetteishita Jisshō Seishin: Arisawa Sensei" (The complete orientation of positivism: Professor Arisawa). In Koizumi Akira, Miyazaki Yoshikazu, eds., *Nihon keizai o miru gan*. Tōkyō: Tōyō Keizai Shinpō-sha.
- Nakamura Takafusa. 1974a. *Nihon no keizai tōsei* (The Japanese Managed Economy). Tōkyō: Nihon Keizai Shinbun-sha.
- Nakamura Takafusa. 1974b. "Ryū Shintarō to Tōsei Keizai (Ryū Shintarō and the Managed Economy)." *Rekishi to Jinbutsu*. Apr., pp. 66-74.
- Nakamura Takafusa. 1979a. "SCAP to nihon" (SCAP and Japan). In Nakamura Takafusa, ed., *Senryōki nihon no keizai to seiji*. Tokyo: Tokyo Daigaku Suppankai, pp. 3-23.
- Nakamura Takafusa. 1979b. *Senryōki nihon no keizai to seiji* (The Japanese economy and politics during the occupation). Tōkyō: Tōkyō Daigaku Suppan-kai.
- Nakamura Takafusa. 1982. "Nichibei 'keizai kyōryoku' kankei no keisei (The Formation of the Japan-U.S. Economic Cooperation)". In Kindai Nihon Kenkyū-kai, ed., *Taiheiyō*

sensō. Tōkyō: Yamakawa Shuppan-sha, pp. 279-302.

Nakamura Takafusa. 1988. "Keizai keikaku no seikaku to igi" (The characteristics and significance of economic planning). In Nihon Keizai Seisaku Gakkai ed., *Keizai seisakugaku no tanjō*. Tokyo: Keisō Shobō, pp. ?

Nakamura Takafusa. 1989. "Arisawa Sensei no gakufū" (The scholarship of Professor Arisawa). In *Arisawa Hiromi no Shōwa shi* Hensan Iin-kai, ed., *Kaisō*. Tōkyō: Tōkyō Daigaku Shuppan-kai, pp. 156-163.

Nakamura Takafusa, Hara Akira. 1972. "Keizaishintaisei" (The economic new order). In Nihon Seiji Gakkai, ed., *"Konoeshintaisei" no kenkyū*. Tōkyō: Iwanami Shoten, pp. 71-133.

Nakamura Takafusa, Hara Akira (ed.). 1990. *Keizai fukkō keikaku* (The plan of economic recovery). Tōkyō: Tōkyō Daigaku Shuppan-kai.

Nakamura Takafusa, Miyazaki Masayasu (eds.). 1990. *Keisha Seisan Hōshiki to Sekitan Shō-iin -kai* (The priority production program and the coal committee). Tōkyō: Tōkyō Daigaku Shuppan-kai.

Nakamura Takafusa, Ōmori Tokuko. 1990. *Nihon keizai saiken no kihon mondai* (The basic problems concerning the Japanese economic reconstruction). Tōkyō: Tōkyō Daigaku Shuppan-kai.

Nakamura Tetsu. 1948. "Tōsui to seiji to no kōsō (The Conflict Between the Supreme Command and Politics)." *Chōryū*. Jan., pp. 5-16.

Nakayama Ichirō. 1948a. "Tōsei to jiyū to no aida" (Between control and freedom). *Asahi Hyōron*. Dec., pp. 15-21.

Nakayama Ichirō. 1948b. "Sekai keizai e no sankā" (Participation in the world economy). In Nakayama Ichirō, *Nihon saiken no kadai*. Tokyo: Kamakura Shobō.

Nakayama Ichirō. 1948c. "Gaishi tōnyū to keizai no seiken" (Foreign investment and economic reconstruction). In Nakayama Ichirō, *Nihon saiken no kadai*. Tokyo: Kamakura Shobō.

Nakayama Ichirō. 1949. "Nihon keizai no kao (The Look of Japanese Economy)." *Hyōron*. Dec.

Nakayama Ichirō. 1956. "Sensansei kōjō undō hihan o hanhihan suru" (A reply to the criticism on the movement of promoting productivity). *Chūō kōron*. Jan., pp. 46-52.

- Nakayama Ichirō. 1959. "Chingin nibai o teishō" (Doubling the salary). *Yomiuri Shinbun*. Jan. 3.
- Nakayama Ichirō. 1967. "Nihon no kōgyō-ka to dentō shakai (The Industrialization of Japan and the Traditional Society)." In Koizumi Akira, Miyazaki Yoshikazu, eds., *Nihon keizai o miru gan*. Tōkyō: Tōyō Keizai Shinpō-sha, pp. 6-40.
- Nakayama Ichirō. 1969. "Wagamichi: keizaigaku" (Our own way: economics). *Wagamichi*. Tōkyō: Asahi Shinbun-sha, pp. ? editor ? or author ?
- Nakayama Ichirō. 1970. "Sekai shijō to nihon keizai (International Market and Japanese Economy)." In Kanamori Hisao, ed., *Bōeki to kokusai shūshi*. Tōkyō: Nihon Keizai Shinbun-sha.
- Nakayama Ichirō. 1972a. "Keizai antei to jiritsu (Economic Stability and Independence). In Nakayama Ichirō, *Nakayama Ichirō zenshū*. Tōkyō: Kodan-sha, Vol. 11, pp. 423-74.
- Nakayama Ichirō. 1972b. "Sensansei no riron to jissai (The Theory of Productivity and Reality)." *Seisansei kōjō shirizu*. Tōkyō: Seisansei Honbu, pp. 331-44
- Nakayama Ichirō. 1972c. "Bōeki to nihon keizai (Japanese Economy and Trade)." In Nakayama Ichirō, *Nakayama Ichirō zenshū*. Tōkyō: Kodan-sha, Vol. 12, pp. 53-111.
- Nakayama Ichiro. 1972 [1953]. "Sekai keizai no naka no Nihon keizai" (The Japanese economy in the world economy). In Nakayama Ichirō, *Nakayama Ichirō zenshū*. Tōkyō: Kodan-sha, Vol. 12, pp. 78-80.
- Nakayama Ichiō. 1973. "Watashi no nenpo" (My resume). In *Nakayama Ichirō zenshū*. Tokyo: Kodan-sha, bekken. pp. 3-19.
- Nakayama Ichirō. 1978. "Nihon ni okeru kindai keizaigaku no suppatsu-ten" (The starting point of modern economics in Japan). In Minoguchi Takeo, Hayasaka Tadashi, eds., *Kindai keizaigaku to nihon*. Tokyo: Nihon Keizai Shinbun-sha. pp. 23-57.
- Nakayama Ichirō, Tōbata Seiichi, Yasui Takama, Yamada Yūzō. 1973. "Kindai keizaigaku no tenkai to haikai" (The development and background of modern economics). In Nakayama Ichirō zenshū. Tokyo: Kodan-sha, bekken. pp. 24-49.
- Nakayama Ichirō. 1973. *Nakayama Ichirō zenshu* (The complete works of Nakayama Ichirō). Tōkyō: Kōdan-sha, Vol. 18, 19, 21.
- Namiki Nobuyoshi. 1993. "Keizai gakusha no tsumi to batsu" (Economists' guilt and punishment). *Shogun*. Vol. 25, Jan., pp. 66-78.
- Nihon Keizai Seisaku Gakkai (ed.). 1988. *Keizai seisakugaku no tanjō* (The birth of the

- study of economic policy). Tōkyō: Keisō Shobō.
- Nihon Seisan Honbu (ed.). 1960. *Kijutsu kakushin to nihon keizai* (Technological Innovation and Japan's Economy). Tōkyō: Nihon Seisan Honbu.
- Nihon Seisansei Honbu. 1985. *Sensansei undō 30 nen shi* (A thirty year history of the movement of productivity). Tōkyō: Nihon Seisansei Honbu.
- Nihon Keizai Kikō Kenkyū-jo. 1948. "Waga kuni marukushizumu no tokushitsu (The Characteristics of the Marxism in our Country)." *Kaizō*. July.
- Nihon Seisansei Honbu (ed.). 1990. *Seisansei undō to wa nani ka* (What is Productivity Movement). Tōkyō: Nihon Seisansei Honbu.
- Nishimura Tetsujirō. 1989. "Arisawa sensei to nihachikai" (Professor Arisawa and 28th meeting). In *Arisawa Hiromi no Shōwa shi* Hensan Iin-kai, ed., *Kaisō*. Tōkyō: Tōkyō Daigaku Shuppan-kai, pp. 168-172.
- Ōkita Saburō. 1949. "Kawase reito settei igo" (After fixing the exchange rate). *Asahi hyōron*. Apr., pp. 64-69.
- Ōkita Saburo. 1959a. "Keizai seichōryoku to seichō jitsuken no seisakuron" (The growth power of the economy and policy to realize growth). In Kin'yū Zaisei Jijō Kenkyū-kai, ed., *Shimomura riron to sono hihan*. pp. 75-94.
- Ōkita Saburō. 1959b. "Nihon keizai no seichōryoku to 'shin-chōki keizai keikaku" (The growth power of the Japanese economy and the 'new long-term economic plan'). In Kin'yū Zaisei Jijō Kenkyū-kai, ed., *Shimomura riron to sono hihan*. pp. 31-47.
- Ōkita Saburō. 1961. *Keizai keikaku* (Economic planning). Tōkyō: Shiseidō.
- Ōkita Saburō. 1976. *Watashi no rirekisho* (My resume). Tōkyō: Nihon Keizai Shinbun-sha.
- Ōkita Saburō. 1981a. *Tōbun seisō* (The challenging years of Japan). Tōkyō: Nihon Keizai Shinbun-sha.
- Ōkita Saburo. 1981b. "Itsutsu no seisaku mokuhyō ni chūten" (Emphasizing five policy targets). *Ekonomisuto*. April 28. pp. 84-91.
- Ōkita Saburō. 1983. *Ekonomisto no yakuwari* (The role of economists). Tōkyō: Nihon Keizai Shinbun-sha.
- Ōkita Saburō. 1984. *Nihon kanryō jijō* (The circumstances of Japanese bureaucrats).

Tōkyō: TBS Buridanika.

Ōkita Saburō. 1988. "Intabiū (Interview)." In Keizai kikaku-chō, ed., *Sengo keizai fukkō to keizai ante honbu*. Tōkyō: Keizai Kikaku-chō, pp. 1-41.

Ōkita Saburō. 1989. "Keisha seisan kōsō" (The idea of the priority production). In *Arisawa Hiromi no Shōwa shi Hensan Iin-kai*, ed., *Kaisō*. Tōkyō: Tōkyō Daigaku Shuppan-kai, pp. 83-86.

Ōkita Saburō, Tokunaga Hisatsugu, Mutō Seiichirō, Yano Tomoo. 1985. "Sengo nihon keizai no genten o kaerimiru: (2) kunimo akaji, kigyōmo akaji, kakeimo akaji" (A reexamination of the origin of the postwar Japanese economy: all the government, firms and household are having a deficit). *ESP*. Oct., pp. ?

Ōkōchi Kazuo. 1941. *Senji shakai seisaku-ron* (On Wartime Social Policies). Tōkyō: Jichō-sha.

Ōkōchi Kazuo. 1957. "Gijutsu kakushin to rōdō kaikyū" (Technological Innovation and the Working Class). *Sekai*. 136, March, pp. 86-92.

Ōkōchi Kazuo. 1969a. *Sumisu to risuto* (Smith and List). Tōkyō: Aohayashi Shoin-sha.

Ōkōchi Kazuo. 1969b. *Ōkōchi Kazuo chōsakushū* (Ōkōchi Kazuo's Works). Tōkyō: Aohayashi Shoin Shinsha.

Ōkōchi Kazuo. 1970. *Shakai seisaku yonjūnen* (Forty Years' Social Policies). Tōkyō: Tōkyō Daigaku Shuppan-kai.

Okumura Hiroshi, Ronald Dore. 1993. "Nihon no 'hōjin shihonshugi' wa hokorobi hajimeta? (Has the Japanese Corporation Capitalism Begun to Collapse?). *Ekonomisuto*. May 25. pp. 28-33.

Ōkura Yukio. 1952. "Chōsen sensō-ka ni okeru kyōkō no shinka" (The deepening recession during the Korean war). *Keizai Hyōron*. Dec., 51-59.

Ōnishi Gongichi. 1975. *Keizai kikaku-chō*. Tōkyō: Kyōiku-sha.

Ōta Kaoru. 1953. "Gōrika tōsō o ikani kakatau ka" (How to fight the battle of rationalization). *Shakaishugi*. Vol. 27, Sept., pp. 2-5.

Ōtake Keisuke. 1981. *Maboroshi no Hana* (A phantom of flower). Tokyo: Rakuyū Shobō. vol. 1.

Ōtake Hideo. 1984. "Nihon ni okeru 'funsankan fukugō' keisei no zassetsu" (The failure



of establishing a military-business circles-bureaucracy system in Japan). In Ōtake Hideo, ed., *Nihon seiji no sōten*. Tokyo: Sanichi Shobō.

Ōtake Hideo. 1988. *Saigunbi to nashonarizumu* (The rearmament and nationalism). Tokyo: Chōō Kōron-sha.

Ōtake Keisuke. 1981. *Maboroshi no Hana* (The phantom of flowers). Tōkyō: Rakuyū Shobō, Vol. 1.

Ōuchi Hyōe. 1949. "Dojji rain wa antei o motarasu ka" (Does the Dodge Line bring about stability). *Hyōron*. June, pp. 2-13.

Ōuchi Hyōe. 1959. *Keizaigaku gojūnen* (The fifty years of economics). Tōkyō: Tōkyō Daigaku Shuppan-kai.

Ōuchi Hyōe. 1967. "Infureishon no imashime. (A Lesson from Inflation)." In Koizumi Akira, Miyazaki Yoshikazu, eds., *Nihon keizai o miru gan*. Tōkyō: Tōyō Keizai Shinpō-sha, pp. 124-161.

Ōuchi Hyōe. 1975 [1952]. "Kore kara no keizai kore kara no kyōiku" (The economy and education from new on). In Ōuchi Hyōe chōsaku-shū. Tokyo: Iwanami Shoten. Vol. 7, 380-394.

Ōuchi Hyōe. 1975 (1953). "Nichibei kankei no shōrai" (The future of Japan-U.S. relation). *Ōuchi Hyōe chōsakushū*. Tōkyō: Iwanami Shoten, Vol. 7, pp. 415-433.

Ōuchi Hyōe. 1975 (1965). "Nihon no zaisei (Japanese Finance)." In Ōuchi Hyōe, *Ōuchi Hyōe chōsakushū*. Tōkyō: Iwanami Shoten, Vol. 7, pp. 169-220.

Ōuchi Hyōe, Kawasaki Misaburō, Arisawa Hiromi, Kimura Kihachirō, Ōkita Saburō, Tsuru Shigetō. 1947. "Keizai hakusho no igi (The significance of the economic white paper)." *Sekai*. Sept., pp. 1-18.

Ōuchi Hyōe, Arisawa Hiromi, Wakimura Yoshitarō, Takahashi Masao, Minobe Ryōkichi. 1949. *Nihon keizai wa dō naru ka* (Where is the Japanese economy heading for). Tokyo: Kōdo-sha.

Ōuchi Hyōe, Arisawa Hiromi, Wada Hiroo, Takahashi Masao. 1954. "MSA to nihon" (MSA and Japan). *Shakaishugi*. March. pp. 9-19.

Rekishigaku Kenkyukai. *Nihon Dojidai-shi: Senryo Seisaku no Tenkan to Kowa*. (The Contemporary History of Japan: the Transition of Occupation Policy and the Conclusion of Peace Treaty) 1990:137.

- Rengo Jōhō-sha Henshū-kyoku (ed.). 1938. *Sensō keizai no zenshin* (The Progress of War Economy). Tōkyō: Rengo Jōhō-sha.
- Royall, K. C.. 1982. "Royall's Speech on American Policy Towards Japan" in Ōkura-shō Zaiseishi-shitsu, ed., *Shōwa zaisei-shi: shūsen kara kōwa made*. Tōkyō: Tōyō Keizai Shinpō-sha, Vol. 20.
- Rōyama Masamichi. 1934 (1965) "Kakoku ni okeru keizai kaigi no hikaku seido kenkyū" (The comparative study of the institutions of economic council in various countries). *Gyōseigaku kenkyō ronbunshū*. Tōkyō: Keisō Shobō, pp. ?
- Rōyama Masamichi. 1936 (1965) "Dajōkan seido to naikaku seido (The Dajōkan System and the Cabinet System)." In Rōyama Masamichi, *Gyōseigaku kenkyū ronbunshū*. Tokyo: Kinso Shobo, pp. 111-133.
- Ryū Shintarō. 1939. *Nihon keizai no sai-hensei* (The Reorganization of the Japanese economy). Tokyo: Chūō Kōron-sha.
- Sahashi Shigeru. 1977. "Tokushin-hō no ryūsan. (The Abortion of the Law of the Temporary Treatment Concerning the Promotion of Special Industries." In Itō Mitsuharu, ed., *Sengo sangyōshi e no shōgen - sangyō seisaku*. Tōkyō: Mainichi Shinbun-sha, pp. 123-158.
- Sahashi Shigeru. 1988. "Jiūka taisaku ni fushin (Working Hard on Countermeasures to the Liberalization)." In Kamada Isao, Takamura Juichi, eds., *Shōgen sengo keizaishi*. Tōkyō: Nihon Keizai Shinbun-sha, pp. 95-101.
- Saitō Seiichirō. 1980. *Keizai Kanryō no Fukken* (The rehabilitation of economic bureaucrats). Tokyo: PHP Kenkyu-sho.
- Saitō Seiichirō. 1981. *Keizaigaku wa gendai o sueru ka* (Can economics save modernity?). Tokyo: Bungei Shunjū.
- Sakai Saburō. 1979. *Shōwa Kenkyū-kai*. Tokyo: TBS. Buritanika.
- Sakamoto Jirō. 1967. "Shōhansuru mono o tōitsusuru sainō: Nakayama Hakashi" (The ability to integrate the opposite). In Koizumi Akira, Miyazaki Yoshikazu, eds., *Nihon keizai o miru gan*. Tōkyō: Tōyō Keizai Shinpō-sha, pp. 27-37.
- Sakurada Takeshi. 1981. "Megumareta shojōken" (Various advantages). *Ekonomisuto*. May 19. pp. 82-89.
- Sakurai Tsuneji. 1947. "Shinkyōjū gurūpu no seikaku" (The nature of new professor group). *Asahi Hyōron*. Dec., pp.38-43.

- Sawa Takamitsu. 1984. *Kōdo seichō: rinen to seisaku no dōjidaishi* (The high growth: histories of both theory and policy). Tokyo: Nihon Hōsō Shuppan-kai.
- Sekiya Reiji. 1989. "Kaisetsu" (Introduction). In Arisawa Hiromi, *Arisawa sengo o kataru: Shōwashi e no shōgen*. Tōkyō: Tōkyō Daigaku Shuppan-kai, pp. 268-277.
- Senga Tetsuya. 1978. "Yomigaeru gunju sangyō" (The reviving munitions industries). In Kondō Kanichi, Osanai Hiroshi, eds., *Sengo sangyō-shi e no shōgen*. Tokyo: Mainichi Shinbun-sha. vol. 3, pp. 205-241.
- Shakai Keizai-shi Gakkai (ed.). 1982. *1930 nendai no nihon keizai* (The Japanese Economy in the 1930s). Tōkyō: Tōkyō Daigaku Shuppan-sha.
- Shakai-tō. 1959 [1966]. "Hata kokumu chōkan e no kōkai shitsumon-shō" (The public inquiry to the state secretary Parter). In Tsuji Kiyoaki, ed., *Shiryō sengo nijūnen-shi*. Tokyo: Nihon Hyōron-sha. pp. 141-142.
- Shakaishugi*. 1953. "Teichingin sangyō no jittai" (The reality of the low wage industries). Vol. 27, Sept., pp. 58-61.
- Shikagai Seiichi. 1979. "Fukkin to keisha seisan (The Reconstruction Finance Bank and the Priority Production)." In Shimura Kaichi, ed., *Sengo sangyōshi e no shōgen*. Vol. 5: *Kigyō shūdan no keisei*. Tōkyō: Mainichi Shinbun-sha, pp. 150-169.
- Shimada Haruo. 1993. "'Senshinkoku koyō' ni shifuto o isoge" (Pushing the Transition Towards the Advanced Countries' Style of Employment). *Ekonomisuto*. April 24. pp. 22-24.
- Shimomura Osamu. 1958. *Keizai seichō jitsuken no tame ni* (For realizing economic growth). Tokyo: Kōchi-kai.
- Shimomura Osamu. 1959. "Nihon keizai no kichō to sono seichōryoku" (The basic condition of the Japanese economy and its growth power). In Kin'yū Zaisei Jijō Kenkyū-kai, ed., *Shimomura riron to sono hihan*. pp. 3-30.
- Shimomura Osamu. 1959. "Nihon keizai no seichōryoku to seichō riron" (The growth power of the Japanese economy and the growth theory). In Kin'yū Zaisei Jijō Kenkyū-kai, ed., *Shimomura riron to sono hihan*. pp. 187-272.
- Shimomura Osamu. 1962. *Nihon keizai seichō-ron* (On the Japanese economic growth). Tokyo: Kin'yū Jijō Kenkyū-kai.
- Shimomura Ōsamu. 1967. "Naze seichō ni jishin o motsuka (Why Do I Have Confidence in Economic Growth)." In Koizumi Akira, Miyazaki Yoshikazu, eds., *Nihon keizai o*

- miru gan*. Tōkyō: Tōyō Keizai Shinpō-sha, pp. 164-202.
- Shimomura Osamu. 1971. "Antei seichō ronsha wa yaburetari (The Failure of those who Asserted Stable Growth)." In Shimomura Osamu, *Keizai taikoku nihon no sentaku*. Tōkyō: Tōyō Keizai Shinpō-sha, pp. 440-507.
- Shimomura Osamu. 1981a. "Seichō riron e no aporōchi" (The approach of growth theory). *Ekonomisuto*. April 7. pp. 80-87.
- Shimomura Osamu. 1981b. "Rekishiteki bokko-ki no imi" (The implication of the historical rise). *Ekonomisuto*. April 14. pp. 80-87.
- Shimomura Osamu. 1981c. "Seichō seisaku no seika" (The outcome of the growth policy). *Ekonomisuto*. April 21. pp. 82-91.
- Shimomura Osamu, Yamamoto Masao, Imai Ichio, Aoba Fumio. 1960. "Kōseichō seisaku no ronri" (The logic of high growth policy). *Ekonomisuto*. Oct. 10, pp. 58-64.
- Shimura Kaichi (ed.). 1979. *Sengo sangyōshi e no shōgen*. Vol. 5: *Kigyō shūdan no keisei* (The Formation of Business Groups). Tōkyō: Mainichi Shinbun-sha.
- Shioda Shio. 1991. "Shimomura Osamu to kōdō keizai seichō seisaku (Shimomura Osamu and economic high growth policies)." *Purejidento*. Aug., pp. 158-167.
- Shishido Toshio. 1971. "Kanchō ekonomisuto nanatsu no kairitsu" (Seven commandments of government economists). *Ekonomisuto*. Apr. 25.
- Shōwa Dōjin-kai. 1968. *Shōwa kenkyū-kai*. Tōkyō: Keizai Ōrai-sha. 1968.
- Shisō no Kagaku Kenkyū-kai (ed.). 1959. *Tenkō* (The Conversion). Tōkyō: Heibon-sha, Vol. 1.
- Shisō no Kagaku Kenkyū-kai (ed.). 1960. *Tenkō* (The Conversion). Tōkyō: Heibon-sha, Vol. 2.
- Shōwa Dōjin-kai (ed.). 1968. "Nihon keizai no saihensei to Ryū Shintarō (The Reorganization of Japanese Economy and Ryū Shintarō)." Tōkyō: Keizai Ōrai-sha, pp. 225-50.
- Shōwa Kenkyū-kai Jimu-kyoku. 1974. "Seiji kikō kaishin taikō" (The outline of the reform of political institutions). In Imai Seiichi, Itō Takashi, eds., *Gendaishi shiryō, kokka sōdōin 2*. Tokyo: Misuzu Shobō, Vol. 44, pp. ?
- Sugihara Shirō. 1984. *Nihon no Ekonomisuto* (Japan's economists). Tokyo: Nihon

Hyōron-sha.

Sugihara Shirō. 1990. *Nihon no keizai shisōka tachi* (Japan's economic theorists). Tokyo: Nihon Keizai Hyōron-sha.

Sugihara Shirō, Sakasai Takahito, Fujiwara Akio, Fujii Takashi. 1990. *Nihon no keizai shisō yonbyakunen* (Four hundred years of Japanese economic thought). Tokyo: Nihon Keizai Hyōron-sha.

Sugihara Shirō, Chō Yūkio. 1979. *Nihon keizai shisō-shi dokuhon* (Readings of the history of economic theories in Japan). Tokyo: Tōyō Keizai Shinbun-sha.

Sugita Hiroaki. 1989. *Shōwa no ekonomisuto* (Showa Economists). Tokyo: Chūō Keizai-sha.

Sumitani Mikio. 1986. "Sōron: keizaigaku kakubunya no hatten" (The development of economics in various fields). In Tokyo Daigaku Keizai Gakubu, ed., *Tokyo daigaku keizai gakubu gojūnen-shi*. Tokyo: Tokyo Daigaku Shuppan-kai. pp. 111-142.

Suzuki Hideo. 1988. "IMF hachijōkoku ikō no koro (When Moving Towards IMF Article 8 Country)." In Kamada Isao, Takamura Juichi, eds., *Shōgen sengo keizaishi*. Tōkyō: Nihon Keizai Shinbun-sha, pp. 101-110.

Suzuki Kōichirō. "Shihonron no bōyaku shōshi" (A brief history of translation of *The Capital*). In Suzuki Kōichirō, *Shihonron to nihon*. Tokyo: Kōbun-dū. pp. 8-39.

Suzuki Takeo. 1948a. "Arisawa, Kimura ronsō saihihan (Further Criticism on the Controversy Between Arisawa and Kimura)." *Ekonomisuto*. Mar. 1, pp. 226-29.

Suzuki Takeo. 1948b. "Chūkan antei-ron hihan (A Critique on Midway Stabilization)." *Asahi hyōron*. Aug., pp. 32-45.

Suzuki Takeo. 1949. "Keizai kyūgensoku to tanichi kawase reito" (Nine economic principles and single exchange rate). *Hyōron*. Apr., pp. 32-36.

Suzuki Takeo, Kimura Kihachirō, Tsuru Shigeto. 1950. "Nihon keizai no hyōjō (The Situation of Japan's Economy)." *Hyōron*. Jan.

Takahashi Kamekichi. "Naze teikinri seisaku o shucchōsuru ka" (Why advocating the policy of low interests). In Koizumi Akira, Miyazaki Yoshikazu, eds., *Nihon keizai o miru gan*. Tōkyō: Tōyō Keizai Shinpō-sha.

Takahashi Makoto, Katō Saburō. 1974. "Kaizai fukō to Ishibashi zaisei (Economic recovery and Ishibashi finance)." In Suzuki Takeo Kanrei Kinen Bunshū Iin-kai, ed.,

Keizai seichō to zaisei kin'yū. Tokyo: Shisei-tō, pp. 31-45.

Takahashi Masao. 1981. "Keizai seichō wa mayaku datta" (Economic growth as drug). *Ekonomisuto*. June 16. pp. 80-87.

Takahashi Masao. 1989. "Daigaku no Uchi to Soto", In *Arisawa Hiromi no Shōwa shi Hensan Iin-kai*, ed., *Kaisō*. Tōkyō: Tōkyō Daigaku Shuppan-kai, pp.36-43.

Takahata Michitoshi. 1960. "Seisan ryoku riron" (The theory of production force). In *Shisō no Kagaku Kenkyū-kai*, ed., *Tenkō*. Tōkyō: Heibon-sha, Vol. 2, pp. 201-47.

Takajima Kikuo. 1953. "Mujun no shōchōteki hyōgen - gōrika" (The intensive reflection of contradiction - rationalization). *Keizai hyōron*. Aug., 50-57.

Takawa Yawao. 1970. *Sengo nihon kakumei undōshi* (The Postwar History of the Japanese Revolutionary Movements). Tōkyō: Gendai shichō-sha, Vol. 1.

Takeuchi Konomi. 1980. "Interiron (On intellectuals)." In Takeuchi Konomi, *Takeuchi Konomi zenshū*. Tōkyō: Tsukuma Shobō, pp. 86-105.

Takita Minoru, Nagano Shigeru, Nakajima Tetsuzō, Nakayama Ichirō. 1972. "Sengo nihon no rōshi kankei" (Labor relations in postwar Japan). In Nakayama Ichirō, *Nakayama Ichirō zenshū*. Tōkyō: Kodan-sha, pp. 82-106.

Tamanoi Yoshirō. 1971. *Nihon no keizaigaku* (Japan's economics). Tokyo: Chūō Kōron-sha.

Tamanoi Yoshirō. 1975. *Tenkansuru keizaigaku* (Economics at a turning point). Tokyo: Tokyo Daigaku Shuppan-kai.

Tanaka Yonosuke. 1959. "Chingin nibairon o megutte (Around the issue of doubling salaries)." *Ekonomisuto*. Mar. 21, pp. 6-11.

Tōbata Seiichi. 1967. "Keizai no shinpo to sono niraite (The Progress of Economy and its Agents)." In Koizumi Akira, Miyazaki Yoshikazu, eds., *Nihon keizai o miru gan*. Tōkyō: Tōyō Keizai Shinpō-sha, pp. 204-232.

Tōbata Seiichi. 1979. *Watashi no rirekisho* (My resume). ?

Tōbata Seiichi. 1984. *Tōbata Seiichi wagashi wagatomo wagagakumon* (Tōbata Seiichi: my teachers, my friends and my academic career). Tokyo: Kashiwa Shobō.

Tokunaga Hisatsugu. 1988. "Intabiu (Interview)." In Keizai kikaku-chō, ed., *Sengo keizai fukkō to keizai antei honbu*. Tōkyō: Keizai Kikaku-chō, pp. 125-145.

- Tokyo Shōkō Kaigisho. 1941. *Gyōsei kikō kaikaku mondai ni kansuru shiryō* (The literature concerning the issue of the administrative system).
- Tōyō Keizai. 1991. "Ronsō-shi de tsuzuru sengo nihon keizai no rekishi" (The history of the postwar Japanese economy seen from debates). June 8. pp. 40-55.
- Tsuji Kiyooki. 1966. *Shiryō sengo nijūnen-shi* (Literature on twenty years' postwar history). Tokyo: Nihon Hyōron-sha.
- Tsuji Kiyooki. 1969 (1981) *Nihon kanryōsei no kenkyū* (Studies on the Japanese Bureaucratic System). Tōkyō: Tōkyō Daigaku Shuppan-kai.
- Tsuru Shigeto. 1947a. "Sonogo no shiunpeita" (Schumepeter since then). *Sekai*. May, pp. 19-28.
- Tsuru Shigeto. 1947b. "Kisōsha toshite" (As the drafter). *Sekai*. Sept., pp. 16-18.
- Tsuru Shigeto. 1983. *Taisei henkaku no seiji keizai-gaku* (The political economy of institutional reform). Tokyo: Shinhyōron.
- Tsuru Shigeto. 1950. *Amerika Ryūgakuki* (Studying in America). Tokyo: Iwanami Shoten.
- Tsuru Shigeto. 1951. "Ichi-keizai gakuto no hansei" (The self-examination of a student of economics). *Sekai*. Jan., pp. 9-18.
- Tsuru Shigeto. 1959. "Nihon keizai no seichōryoku to keiki jūkan" (The growth power and business cycle of the Japanese economy). In Kin'yū Zaisei Jijō Kenkyū-kai, ed., *Shimomura riron to sono hihan*. pp. 97-136.
- Tsuru Shigeto. 1965. "Nihon keizai no sengo nijūnen (The Japanese economy in the twenty years after the war)." *Keizai hyōron. Nihon keizai - sengo nijūnen*. Oct., supplementary issue.
- Tsuru Shigeto. 1967. "Ningen no fukushi to seiji keizai-gaku no ninmu (Human Welfare and the Task of Political Economy)." In Koizumi Akira, Miyazaki Yoshikazu, eds., *Nihon keizai o miru gan*. Tōkyō: Tōyō Keizai Shinpō-sha, pp. 234-265.
- Tsuru Shigeto. 1970 [1950]. "Kokusai keizai to nihon (Japan and International Economy)." In Kanamori Hisao, ed., *Bōeki to kokusai shūshi*. Tōkyō: Nihon Keizai Shinbun-sha.
- Tsuru Shigeto. 1975. "Nihon keizai no bunkiten" (The turning point of the Japanese economy). In *Tsuru Shigeto Chosaku-shu*. Vol.5.

- Tsuru Shigeto. 1975 [1954]. "Nihon no keizai jiritsu to kokusai kankyō" (The economic independence of Japan and international environment). In *Tsuru Shigeto Chōsaku-shū*. Tokyo: Kodan-sha. Vol. 5, 42-62.
- Tsuru Shigeto. 1975 [1955]. "Nihon keizai to saigunbi" (The Japanese economy and the rearmament). In *Tsuru Shigeto Chōsaku-shū*. Tokyo: Kodan-sha. Vol. 5, pp. 31-41.
- Tsuru Shigeto. 1976. "Keizaigaku no hitori aruki wa abunai (The Danger of Going Alone in Economics)." In Tsuru Shigeto, *Tsuru Shigeto chōsakushū*. Tōkyō: Kodan-sha, Vol. 8, pp. 59-104.
- Tsuru Shigeto. 1976 [1953]. "MSA to nihon" (MSA and Japan). In *Tsuru Shigeto Chōsaku-shū*. Tokyo: Kodan-sha. Vol. 6, pp. 103-121.
- Tsuru Shigeto. 1976 [1954]. "Sekai jōsei to nihon no shinrō" (The world situation and the course of Japan). In *Tsuru Shigeto Chōsaku-shū*. Tokyo: Kodan-sha. Vol. 8, pp. 273-300.
- Tsuru Shigeto. 1978. "Senkyūhyaku sanjūnendai igo no keizaigaku no hatten" (The development of economics after the 1930s). In Minoguchi Takeo, Hayasaka Tadashi, eds., *Kindai keizaigaku to nihon*. Tokyo: Nihon Keizai Shinbun-sha. pp. 119-147.
- Tsuru Shigeto. 1983a. "Keizaigaku no sankyosei" (Three superstars in economics). *Asahi shinbun*. Feb. 6.
- Tsuru Shigeto. 1983b. "Atarashii paradaimu no sōzōsha" (The creators of new paradigms). *Ekonomisuto*. April 5.
- Tsuru Shigeto. 1988a. "Intabiu (Interview)." In Keizai kikaku-chō, ed., *Sengo keizai fukkō to keizai antei honbu*. Tōkyō: Keizai Kikaku-chō, pp. 103-122.
- Tsuru Shigeto. 1988b. "Tsuru Shigeto nisshi (Tsuru Shigeto's diary)." In Keizai kikaku-chō, ed., *Sengo keizai fukkō to keizai antei honbu*. Tōkyō: Keizai Kikaku-chō, pp. 209-410.
- Tsurumi Shunsuke. 1960. "Yokusan undō no sekkeisha" (The designer of the movement of imperial assistance). In Shisō no Kagaku Kenkyū-kai, ed., *Tenkō*. Tōkyō: Heibon-sha, Vol. 2, pp. 53-120.
- Tsurumi Shunsuke. 1976. *Tenkō kenkyū* (Studies on Conversion). Tōkyō: Tsukuma Shobō.

- Tsurumi Shunsuke. 1982. *Senjiki nihon no seishinshi* (An intellectual history of wartime Japan: 1931-1945). Tōkyō: Iwanami Shoten.
- Tsurumi Shunsuke, Hidaka Rokurō, Hariu Ichirō, Kan Takaki. 1985. *Sengo towa nani ka* (What is the Postwar Era). Tōkyō: Seikyō-sha.
- Tsūsan Daijin Kanbō Chōsaka. 1954. *Sengo keizai jūnenshi* (A ten year history of the postwar economy).
- Tsujimura Kōtarō. 1984. *Nihon no keizai gakusha tachi* (The Japanese economists). Tokyo: Nihon Hyōron-sha.
- Tsūsanshō (ed.). 1957. *Sangyō gōrika hakusho* (The White Paper of Industrial Rationalization). Tōkyō: Nikkan Kōgyō Shinbun-sha.
- Tsūsanshō Tsūshō Sangyō Seisaku-shi Hensan Iinkai (ed.). 1989. *Tsūshō sangyō seisakushi*. Vol. 5: *Jiritsu kiban kakuritsuki (1)* (The History of the Policies of Trade and Industry. Vol. 5: The Establishment of the Foundation of Economic Independence). Tōkyō: Tsūshō Sangyō Chōsa-kai.
- Tsūsanshō Tsūshō Sangyō Seisaku-shi Hensan Iinkai (ed.). 1990. *Tsūshō sangyō seisakushi*. Vol. 6: *Jiritsu kiban kakuritsuki (2)* (The History of the Policies of Trade and Industry. Vol. 5: The Establishment of the Foundation of Economic Independence). Tōkyō: Tsūshō Sangyō Chōsa-kai.
- U.S. government. 1982. "United States Initial Post-Defeat Policy Relating to Japan: SWNCC 150/3." In Ōkura-shō Zaiseishi-shitsu, ed., *Shōwa zaisei-shi: shūsen kara kōwa made*. Tokyo: Tōyō Keizai Shinpōsha, Vol. 20.
- Uchida Jōkichi. 1949. *Nihon shihonshugi ronsō* (The Debate on Japanese Capitalism). Tōkyō: Shinkō Shuppan-sha.
- Uchida Yoshihiko. 1948. "Senji keizaigaku no mujun teki tenkai to keizai riron" (The Dilemma in the Development of Economics During the War and Economic Theories). *Chōryū*. Jan., pp. 37-42.
- Uchihashi Katsuto. 1993. "Nihon kei koyō chōsei no yūgami o tadase" (Fix the Problems in the Japanese Style of Employment Adjustment). *Ekonomisuto*. April 24. pp. 18-20.
- Uchino Tatsurō. 1975. "Sengo keizai seisaku sanjōnen shōshi" (A brief thirty year history of postwar economic policy). *ESP*. July. pp. 10-16.
- Uchino Tatsurō. 1978. *Sengo nihon keizaishi* (Postwar Japanese economic history).

Tokyo: Kōdan-sha.

Uemae Junichirō. 1985a. "Ikeda Burein Hajimeugokasu" (Initiated by 'Ikeda's brain trust'. *Gendai*. July, pp. 310-34.

Uemae Junichirō. 1985b. "'Jinmu Keiki' no shikakarijin hashiru" (The action of the initiator of Jinmu boom. *Gendai*. Aug., pp. 334-57.

Uemae Junichirō. 1985c. "Shotoku baisō o jitsugen seyo" (Let's double the national income. *Gendai*. Sept., pp. 312-36.

Uemae Junichirō. 1985d. "Nihon ga moeta hi" (The day that excited Japan). *Gendai*. Oct., pp. 330-53.

Umemoto Katsu, Satō Noboru, Maruyama Masao. 1966. *Gendai nihon no kakushin shisō* (Progressive Ideas in Modern Japan). Tōkyō: Kawade Shobō.

Umezao Tadao, Takeyama Michio, Hayashi Ketarō, Suzuki Shigetaka. 1957. "Rekisho no okeru nihon no senshinsei" (The advanced nature of Japan in history). *Chūō Kōron*. Nov., pp. 266-277.

Usami Seijirō. 1952. "Jūzoku taiseika ni okeru sangyō kōzō to dokusen (Industrial Structure and Monopoly in a System of Dependence)." *Keizai hyōron*. Aug.

Ushikubo Hiroshi. 1988. "Sengo ni okeru rōdō kumiai no 'minshuka, kindaika'" (The democratization and modernization of labor unions in the postwar period). In Maeda Ai, Najita Tetsuo, Kamishima Jirō, eds., *Sengo nihon seishinshi*. Tōkyō: Iwanami Shoten, pp. 468-83.

Wakimura Yoshitarō. 1989. "Waimaru kyōwakoku jidai no Arisawa sensei" (Professor Arisawa in the era of the Weimar republic). In *Arisawa Hiromi no Shōwa shi* Hensan In-kai, ed., *Kaisō*. Tokyo: Tokyo Daigaku Shuppan-kai, pp. ?

Watanabe Takeshi. 1983. *Watanabe Takeshi nikki* (The diary of Watanabe Takeshi). Tokyo: Tōyō Keizai Shinpō-sha.

Wolferen, van Karel. 1990. "Naze nihon no chishikijin wa hitasura genryōku ni sui ju suru ka" (Why do Japanese Intellectuals follow the political power so earnestly?). *Chūō Kōron*. Jan. pp. 68-98.

Yamakishi Akira. 1993. "21 seiki wa ōberyō no rōshi kankei ni tenkan" (The Transition Towards the European-American Style of the Labor Relation in the Twenty-first Century). *Ekonomisuto*. April 24, p. 13.

- Yamamoto Yoshihito. 1989. *Senkanki nihon shihonshugi to keizai seisaku* (The Wartime Japanese Capitalism and Economic Policies). Tōkyō: Haku Shobō Kabushiki Kaisha.
- Yamazaki Tanshō. 1948. *Naikakuron* (On the Cabinet System). Tōkyō: Gakuyō Shobō.
- Yano Tomoo, Shinohara Miyohei, Yoda Susumu. 1975. "Nihon keizai sanjūnen no kaiko to hyōka" (The retrospection and evaluation of thirty year Japanese economy). *ESP*. July. pp. 17-38.
- Yasui Takuma. 1979. *Keizaigaku to sono shūhen* (Economics and its circumference). Tokyo: Kitaku-sha.
- Yasui Takuma. 1980. *Kindai keizaigaku to watashi* (Modern economics and I). Tokyo: Kitaku-sha.
- Yatsugi Kazuo. 1971. *Shōwa dōran shishi* (The heroes in Showa crisis). Tokyo: Keizai Ōrai-sha.
- Yatsugi Kazuo. 1981 *Showa seikai hiwa* (The secret story of political circles in the Showa period). Tokyo: Hara Shobō.
- Yokoda Kisaburō. "Kyūjūnen kuraku no michi" (Ninety years of bitterness and happiness). In *Arisawa Hiromi no Shōwa shi* Hensan Iin-kai, ed..*Kaisō*. Tokyo: Tokyo Daigaku Shuppan-kai, pp. ?
- Yomiuri Shinbun-sha. 1972. *Shōwa no tennō*. Tokyo: Yomiuri Shinbun-sha, Vol. 16, 17, 18.
- Yomiuri Shinbun-sha (ed.). 1972. *Shōwashi no tennō* (The History of the Showa Emperor). Tōkyō: Yomiuri Shinbun-sha, Vol.19.
- Yomiuri Shinbun-sha (ed.). 1972. *Shōwashi no tennō* (The History of the Showa Emperor). Tōkyō: Yomiuri Shinbun-sha, Vol.18.
- Yoshida Shigeru. 1957. "Watashi wa naze saigunbi ni hantai ka" (Why did I oppose rearmament). *Kaisō jūnen*. Tōkyō: Shinchō-sha, Vol. 2, pp. 160-164.
- Yoshida Shigeru. 1957. *Kaisō jūnen* (Ten years' recollection). Tōkyō: Shinchō-sha, Vol. 3.
- Yoshimura Katsumi. 1985. *Ikeda seiken: 1575 nichi* (The 1575 days of the Ikeda Administration). Tokyo: Gyōsei Mondai Kenkyū-sho.
- Yoshino Toshihiko. 1965. *Watashi no sengo keizaishi* (My postwar economic history).

Tokyo: Jiseidō.

Yoshino Shinji. 1930. *Wagakuni kōgyō no gōrika* (The Industrial Rationalization of our Country). Tōkyō: Nihon Hyōron-sha.

Yoshino Toshihiko. 1975. *Sengo kin'yū-shi no omoide* (The recollection of the postwar monetary history). Tokyo: Nihon Keizai Shinbun-sha.