

JAPAN

A PLANNED MARKET ECONOMY
WITH TRADITIONAL ELEMENTS



But to expect Americans, who are accustomed to thinking of their nation as number one, to acknowledge that in many areas its supremacy has been lost to an Asian nation and to learn from that nation is to ask a good deal. Americans are peculiarly receptive to any explanation of Japan's economic performance which avoids acknowledging Japan's superior competitiveness.

—Ezra F. Vogel, *Japan as Number One*, 1979

*The modern myth of Japan is assuredly the biggest hoax of the present age. . . .
The economy has obviously slowed down, income distribution has become skewed, and while landowners have become rich, ordinary families can no longer afford their own home. There are now poor people as well as many old people who are scared about what will become of them.*

—Jon Woronoff, *Japan as-anything but-Number One*, 1991

Japan As A New Traditional Economy

Rising from the ashes of defeat and poverty at the end of world war II, japan experienced the most rapid rate of sustained economic growth in the world to become its second largest economy.

Admirers vs Critics

- Where admirers see effective Japanese management bringing about harmonious labour management relations, critics see oppression of labour movements by triumphant management.
- Where admirers see highly educated and technically innovative workers, critics see robotized rote learners who only know how to imitate, not create.
- Where admirers see ever rising living standards, critics see workaholics living in rabbit hutches.

Admirers vs Critics

- Where admirers see an open nation with lower tariffs and quotas than its trading partners, critics see an arrogant nation cheating its trading partners through devious methods.
- Where admirers see a democratic nation, critics see a nation where dictatorial structures from its dark past persist and a potentially militaristic nationalism is rising.

Japanese Spirit And Western Ability

Japan was the first society of non-European origin to carry out industrialization and modern economic growth. It succeeded in adopting foreign technologies and practices without giving up its indigenous culture, symbolized by the late-nineteenth-century slogan

“Japanese spirit and western ability.”

Japanese society is not dominated by a fundamentalist religious movement, but it is permeated by the idea that companies, bureaucracies, and society as a whole are families or households within which strong trust relations hold that enhance widespread social Capital and thus productivity in the economy.

Thus the Japanese economy combines a Traditional household orientation with advanced modern technologies and approaches. But given the clear dominance of modern market capitalism, a more accurate description is

“Planned market capitalism with strong traditional elements.”

Historical And Cultural Background Of The Japanese Economy

The Absorption Of Chinese Culture

The original religion was **Shinto**. Chinese writing was adopted but modified. Buddhism and confucianism were introduced but were also modified without displacing native shintoism. Whereas in most societies an individual adopts one religion to the exclusion of others, most japanese view themselves as simultaneously following all three. Shintoism is followed For marriages, buddhism for funerals, and confucianism for civil and political behaviour.

Influence Of Religions On Economy

Shintoism and buddhism do not have much influence on Japanese economic thought but confucianism does.

After 1600, Confucian values became deeply entrenched in the educational system, emphasizing loyalty to one's immediate superiors and respect for state authority.

After 1868, influential businessmen emphasized Confucian values and the transfer of the **bushido code** of the samurai warriors to business Management practices, symbolized by the modern phrase "from samurai to sarariman" (Salaryman). Most important is **wa** (harmony), which, along with loyalty, cements the *Familistic groupism* that dominates the Japanese economy

The Tokugawa Shogunate And The Meiji Restoration

- After 1185 Japanese rule was in the hands of military commanders known as **shoguns**, appointed by the emperor.
- After 1603 ,under the Tokugawa Shogunate development of business, transportation infrastructure took place.
- Humiliated by military defeats from United States in 1853 , landless samurai overthrew the Tokugawa shogun in 1868.This was the **Meiji restoration**.
- Those who came to power both opened the country dramatically to foreign influences and technologies .The samurai were paid off with bonds in 1873, with which many of them started businesses. Farmers were given land. Students were sent abroad to study, especially to the United States and Germany .

IMITATION GAME BEGINS

- Japan also imitated the European penchant for imperializing neighbors.⁹ In 1895 Taiwan was conquered after a war with China. This led to the 1905 Russo-Japanese war, culminating
- In the first victory of an Asian power over a European one in modern times,¹⁰ with Japan taking control of Korea in 1910 as a result.
- In 1937 Japan invaded China, later allying with Germany and Italy. Its 1941 bombing of Pearl Harbor brought the United States into World War II.
- On August 16, 1945, Japan surrendered after the United States dropped atomic bombs on Hiroshima and Nagasaki.

The American Occupation And Its Aftermath

- On September 2, 1945, general Douglas MacArthur arrived to become the supreme commander Of the allied powers and the virtual ruler of japan until the American occupation ended in 1952.
- After an initial period of radical purging's and reforms up to 1947, MacArthur encouraged continuity
Of rule by traditional elites,12 as japan was increasingly seen as a cold war ally.
- The united states imposed a constitution that formally demilitarized japan.
- Labour unions were legalized .

The American Occupation And Its Aftermath

- The *Zibatsus* were broken up and was redistributed. Again the Japanese integrated foreign influences into their society and culture, this time from the United states.
- From the mid-1950s to the 1970s the old *zaibatsus* re-formed as loosely organized *keiretsus*, each entered on a bank and a trading company.
- By the mid-1970s, per capita income equalled those in many advanced economies.
- In 1975, japan became one of the G-7 (now G-8), the leading economic countries

Microeconomic Foundations Of The Japanese Economy

The “Three Sacred Treasures” Of Labour-Management Relations

The foundation of the Japanese economy is its highly educated and well-motivated labour Force. Japan has few natural resources, and at the end of world war II, much of its capital Stock was destroyed.

Basic to Japanese labour are the **three sacred treasures**: lifetime employment, seniority based Wages, and enterprise unions.

Lifetime Employment

Lifetime employment is seen as the key to engendering loyalty and drawing forth innovative,

Productivity-improving suggestions. Critics suggest that it is limited to about 30 percent

Of the labour force, mostly educated men in large firms who must retire at age 55 with

Large severance payments, although they are often assisted in getting other jobs in smaller firms.

Lifetime Employment

One element of long-term employment is the development of firm-specific human capital
By rotating workers from job to job within the firm. Workers know all about the firm but
Lack skills that are transferrable to other firms.

Lifetime employment also reflects a deep confucian code, but the real beginning of these practices may have been during world war ii, when the government became concerned about worker morale issues for maintaining military production.

Seniority Wages

Seniority wages go with lifetime employment as part of the general loyalty-to-the-firm inducing Package and also are consistent with the confucian view of respect for elders. If one stays with the Firm, one moves up in salary.

In present times ,there is a trend toward more emphasis on merit rather than seniority in wage Setting, with strong expectations among both management and labour in japan that the system will Move in the direction of performance-based pay.

Enterprise Unions

The change in leadership of the steel unions after 1959 led to the synchronized system of annual spring negotiations. This avoids staggered wage contracts, minimizing inflationary Momentum that can arise as one union imitates another, thus improving inflation – unemployment Trade-offs and stabilizing employment.

After the first oil price shock in 1973, The unions asked for high wage increases that triggered increases in both unemployment and inflation.

After the second oil price shock in 1979 , They avoided such conduct, having absorbed the lessons of the first shock, thereby maintaining greater macroeconomic stability.

The Japanese Firm And The Keiretsu System

The most distinctive element of Japanese industrial organization is the existence of interlocked Associations of firms known as *keiretsu*, which are either **horizontal keiretsu** or **Vertical keiretsu**. The former are essentially revivals of the pre-war *zaibatsus*,²⁵ firms in different industries all linked to a common bank and trading company. The latter are a Set of suppliers and distributors linked to a major industrial producer by long-term contracts.

It is widely argued that the vertical *keiretsu* initially formed during world war 2 to ensure supply sources for military production. U.S. Trade negotiators charge that they are Anticompetitive and keep out U.S. Suppliers.

In all *keiretsus* there is much cross-holding of stocks. In the horizontal form there is Much stock ownership by the bank and a large proportion of loans from the bank. In some Horizontal *keiretsus* the ceos of firms meet on a weekly basis to coordinate strategies and Behaviors. These relations extend to their workers, who tend to buy from companies in Their company's *keiretsu*

EXAMPLE

TOSHIBA

Leading Innovation >>>

The Toshiba Corporation, which makes computers, consumer electronics products, semiconductors, and heavy machinery, is at the centre of a vertical *keiretsu* that includes 11,000 franchised distributors, about 200 direct suppliers, and about 600 suppliers of the direct suppliers.

At the same time, Toshiba is a member in good standing of the Mitsui, a horizontal *keiretsu*.

Capitalism Without Capitalists

There is evidence that group membership may have a negative impact on profitability relative to independents run by founder-entrepreneurs such as Akio Morita of Sony.

These firms make higher interest payments to their coordinating banks, which seem to be the big gainers in terms of profits, although the firms may be gaining security of financing.

Broadly, there was a trend toward banks and companies owning each other's stock beyond *keiretsu* relationships, with the share of Japanese stocks so held rising from 32.7 percent in 1955 to 67.1 percent in 1989 and steadily declining since then.

In contrast, for the United States in 1988, the figure was 35.4 percent.

This has led some to joke that Japan is capitalism without capitalists.

Managerial Decision Making

Japanese firms reflect a **J-mode** type of organization. The J-mode is characterized by “horizontal coordination among operating units based on the sharing of ex post-on-site information (learned results).”

This contrasts with the H-mode, characterized by “hierarchical separation between planning and implemental operation and the emphasis on the economies of specialization.”

The J-mode depends on both long-term relationships between workers and firms and long-term relationships between banks and firms, which tend to hold for *keiretsu* members with lifetime employment systems.

Small pay differentials between workers and top managers in Japanese firms and the fact that top managers have usually risen from within the firm increase the loyalty and links between the two, Thus Japanese firms resemble labour-managed firms.

Horizontal coordination is carried out through elaborate processes of consensual decision making (**Nemawashi**). This involves discussion of a decision with virtually everyone involved.

Westerners sometimes complain that Japanese decision makers have too many meetings and are slow to come to decisions.

But once a decision is reached, everyone is “on board” and knows what is involved. Thus, the decision is more likely to be carried out effectively than a typical h-mode, purely top-down decision.

Not only is there coordination across equal levels, but there is also encouragement of Input from the bottom up.

This leads to **Ringi-Sho**, or the writing of memos by underlings that are channelled upward to Superiors. This is connected with the widespread use of quality circles and the dependence upon Workers for suggestions for improving the firm's performance

Japanese Financing And Management System

Long-term bank financing has allowed Japanese firms to resist pressures that come from Stock markets for short-run profits through threats of takeover raids. Firms have been insulated By the high level of cross-holdings of stocks between firms and between banks and Firms.

An example of the long-term view of Japanese managers versus the short-term view of

U.S. Ones is the development of the VCR, invented in the united states and initially produced there.

Unlike the manufacture of some other products, where the united states lost out due to intensive Japanese competition (e.g., TVs),

U.S. Producers such as Westinghouse , voluntarily gave up VCR's because of the initial slow growth of the market and the resulting

Low rate of return on investment. This occurred prior to Japanese entry into the market.

During ,the 1980s this was the most rapidly growing consumer market in the united states,

But no U.S. Firms participated



Bureaucrats Giving Benefits

A controversial aspect of the Japanese economy is the role of government, famous for the Cooperative government-business relations labelled industrial policy. After retirement high-level bureaucrats “descend from heaven” (**amakudari**) to high-level Employment in top firms. It is observed that 15 miti vice ministers (top internal officials) from 1949 to 1978 and their *Amakudari* positions. These include the president and chairman of Toshiba, the president of new Japan steel, the chairman of Nippon kokan steel, the president of the japan petrochemical Corporation, the managing director of mitsui trading company, the executive director of Toyota, And the president of sumitomo metals corporation, among other equally impressive positions.

Why Japan Failed To Become Number One

Macroeconomic Planning And Policy

- Japan basically has a market capitalist economy with elements of a traditional economy and significant amounts of indicative planning and guidance.
- The structure of the fiscal policy has attracted attention because of the relatively low levels of government spending and taxation in Japan.
- Also, it is argued that Japan's relatively low level of social transfer payments encourages savings and hard work. Another reason for Japan's low government spending is low defence spending, stemming from the U.S.-Mandated demilitarization

Quality Of Life

Japan has one of the more equal income distributions in the world. This equality is not due to government redistribution but reflects the egalitarian Wage structure arising from the labour-management system.



DARK SIDE TO THIS

Karoshi : Japanese word for Overwork Death

The dark side of the Japanese economic paradise is captured in the widely repeated phrase about “workaholics in rabbit hutches.”

The Japanese work much longer hours with Fewer vacations than almost anybody anywhere.

In large metropolitan areas, especially Tokyo, the Japanese spend long periods of time commuting under highly congested Conditions.

They have cramped living quarters often lacking the sanitary facilities of most developed nations, and they pay very high prices for them.



Discrimination At Work Place

Besides the low wages received by women, Discrimination also exists against foreigners (*gai-jin*), the largest such group being Koreans.

Most of these people are descendants of workers who were imported when Japan ruled Korea, But they are not allowed to become citizens and are restricted in their professional activities.

There is also discrimination against the indigenous Ainu who live in the north and a group known as the Burakumin who are descended from people who held undesirable jobs in the feudal period.

The End Of The “Economic Miracle”

Whereas in the late 1980s it appeared to be only a matter of A few decades before japan surpassed the united states in aggregate GDP, this outcome Now seems very unlikely in the foreseeable future

These include:

- Rising dependency ratios that reduce savings.
- Opening of financial markets caused by deregulation leading to outflows of capital.
- Hollowing out of the industrial base as large corporations invest in other countries.
- Technological stagnation owing to Japan's having caught up with the world leaders.
- The unwillingness of consumers to spend tax cuts because of fear of job loss.
- Credit crunch caused by the accumulation of bad loans in the banking sector; a general disruption of the financial sector in the aftermath of the collapse of the stock market and land speculative bubbles.
- Deeper cultural arguments involving a breakdown of Confucian values or the decline of the work ethic among the younger generation.

Japan And The World Economy

Among the most visible signs of Japanese economic success has been its ability to penetrate many export markets and to develop large trade surpluses. US leaders argues that Japan always gets the best of the united states in trade negotiation.

Japan feels driven to export finished goods because of its extreme dependence on imported raw materials.

90 percent of Japan's trade surplus is in four sectors: automobiles, computers, VCR's, and semiconductors . USA complains that Japanese have targeted these high-technology sectors through industrial policy that uses dumping and other unfair techniques to hollow out critical U.S. Industries one after another.

Informal restrictions on Imports

- Administrative guidance” by ministries including MITI
- Overly “fastidious” interpretations of customs procedures
- Ridiculous safety standards
- Bureaucratically arbitrary testing
- Certification procedures
- Biased public procurement policies
- MITI’s rationalization and depression cartels
- Subsidizing of high-technology R&D
- Unfair patent rules
- Inefficient retail distribution channels

Conclusion

Japan faces serious questions about its trade relations with the rest of the world, especially the United States.

Ultimately the role Japan plays will depend on its willingness and ability to deal successfully with the rest of the world, an effort complicated by its struggles to reform its economy and return to the path of rapid growth.

It should be remembered from what happened after the Meiji Restoration in 1868 that Japan is capable of immense change within a short period of time when its people decide to act.

Whatever the outcome, the decisions and directions that Japan takes will be of profound importance for the entire world.

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(THANK YOU)