

Lecture: Contemporary Economic History of Japan

No. 15

2-3 New Economic Order

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1 New Perspective about Economic Structure

- Shintaro Ryu, *Realignment of Japanese Economy*
- With the view to make a breakthrough in the Japanese economy on the verge of reproduction on a regressive scale, **to fundamentally transform the way profit-principled corporations should be**, and to eliminate whatever constituting a limiting factor of the development of production power.
- For this objective, corporate leaders are responsible for disclosing and controlling their accounting, and at the same time, for boosting up the production.
- By controlling corporate accountings and profits, to eliminate a capitalistic aspect of free economy, and **to have to convert corporations into ones aspired not for profits but outputs**.
- Should cartels be formed by corporations reorganized in that manner, and controlling over economy be handled by these cartels, results of controls would be genuinely achieved as there would be no need for these cartels to consider profits of member corporations. Controlling from “outside and above” should be switched over to the one from “inside and beneath.”

- Committee on Measures for Current Affairs in Cooperation Association: “Labor-Management Adjustment Measures” in Mar. 1938
- “An industry is an organic organization joined together by each job responsibility of employers and employees.”
- Criticism (from financial community) against this was, “The measures... point to employees and employers, but disregard capital.”



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2. “Reformist Bureaucrat” as Driving Actor

- Reformist bureaucrats were the bureaucrats working on economic affairs who came to take charge of drawing up the general mobilization plan in the process where Cabinet Research Bureau became Policy Planning department, which, incorporated with Resources Bureau, further developed into Planning Agency along with the Sino-Japanese war upholding full scale.
- A control for public interest by separating ownership and management of corporations was advocated, and the government control of electricity was proposed and materialized.
- 〈Outline of the establishment of the new structure of economy〉 submitted as a scheme of Planning Agency demonstrated the intention and direction held by the reformist bureaucrats.
- The new ideas were pulled together under the leadership of : High-ranking bureaucrats with their actual experiences in the economic control in Manchukuo like Commerce/Industry Ministry’s Vice-Minister Nobusuke Kishi and Planning Council’s president Naoki Hoshino; Mid-level bureaucrats in charge of practical business affairs in Planning Council, such as Okumura, Yoji Minobe (Commerce/Industry Ministry origin), Hideoto Mori (Finance Ministry origin), Hisatsune Sakomizu (Finance Ministry origin).

- 〈Outline of the establishment of the new economy order〉 drawn up and set forward by the reformist bureaucrats expressed the following essential features:
 - ①to transform corporations into public entities
 - ②to establish a regulative structure by bringing in a Nazi-oriented leader doctrine
 - ③to restrict profits.
- These requests were named 〈reform〉.

This 〈reform〉-orientation was forced to back off to a certain degree because of a strong backlash by the financial community, etc. And the Planning Council incident (1941) alleging some communism influence in the Council exerted a containing influence over such 〈reform〉-orientation.

3. New Economy Order

- From an aspiration for breaking an impasse on the Sino-Japanese war arose a movement for a new party or a national re-organization so as to form powerful reins of government.
- Yoriyasu Arima and Akira Kazami, aides close to Konoe, set their sight on forming a new party based on a national organization, and bringing in the military thereto, thereby exercising control over it, by sloganizing the following:
 - ①to accomplish the nation of a high-caliber defense
 - ②to overhaul the diplomatic intercourse
 - ③to construct a new order in politics.The army's adjutant general Akira Muto aimed to have a pro-army party established in the system of one country one party.
- As Konoe announced in June that he would offer himself to the new-order cause resigning from his position of Privy Council's chairman, opinions singing in praise of the new order emanated in society. On July 22, Konoe's second Cabinet was formed and Taisei-yokusan-kai was established.

- Under such circumstances “Outline of the establishment of the new order of economy” was drawn up.
- Its original proposal:
“Restructure corporations, by letting them break away from being subject to capital putting pursuit of profit first, for them to put themselves into the position of members of the national producing community, in accordance with the nation’s objectives, to focus on ensuring and reinforcing their output quality and quantity under an individual’s ingenuity, capability, responsibility.”
- In sum, ①to deny profit seeking ②to be subordinate to the national objectives as a production unit.
- The financial circles objected to this, and the modified version came to have an expression of an “organic unit”.
- Upheld in actual measures were: ①to advance workers’ position ②to deploy indirect financing by the financial control ③to form various control associations, i.e. controlling by compulsory cartels.

4. Reform of Business Enterprise System and Munitions Companies Act

- 1942 found limitations of the planned economy based on the quantitative commands ← Lack of incentives to enterprises.
- Planning Agency, at the execution of price regulations, tried to have producers bear the increase in their production costs.
- Against this, Ministry of Commerce/Industry pointed out the necessity for securing fair returns.
- → In February, 1943, incremental costs were absorbed by the subsidiary payment = Grant of the price incentive

- Munitions Companies Act was instituted “to managerially clarify the national importance of key industries even further and to establish the producers’ responsibilities” → To pick out the producer’s responsibility
- → system of Finance Munitions Companies
- “Regarding necessary funds for military companies, designated financial institutions had no other way but to be under the thumb of military companies.” (Report of survey by Bank of Japan)
- gave a freehand to management and gave a favorable response to pursuit of profit
- “Should strive to manage pricing policies promptly and appropriately in methods more renovated than before, in order to let persons responsible for the output be engaged exclusively in the production by sparing them an uncertainty in accounting attached to executing the production.” (From commentary of Munitions Companies Act)

Theory on the Origin of Contemporary Japanese Economy

- Regarding the above-mentioned overall reform of the economic institution centered on the business enterprise system, the new framework established hereby is called “1940 Structure”, and there is a contestation to regard it as the genesis of the postwar Japanese society. (Messrs. Yukio Noguchi, Masahiro Okuno, Tetsuji Okazaki)
- This contestation emphasizes a consecutiveness to the postwar era by raising the food control system and taxation system transformed to the bureaucracy system grown mammoth, and the labor organization by individual enterprise represented by the managerial-capitalism-oriented enterprise system and the industry patriotic associations, and banking transactions by the military-company-designated financial institution system (main-bank system).
- This discussion, however, contains some problems on how to evaluate significance of the postwar reforms such as the dissolution of Zaibatsu and formulation of the anti-monopoly law.

- For example, system of Financial Institution Authorized to Finance Munitions Companies, said to be the origin of the main-bank system:
 - ① was the one-company-one-bank relationship, which is morphologically different in a large way from the postwar main-bank structure where the lender assumes the role of co-financing;
 - ② in effect provided financing related to war supplies with no screening and just complying with the order, which is to deny the screening skill of main banks as the system's requirement.
- A certain type of rationality possessed by the war footing has the potential to have become the basis for the postwar economic development, but there is some doubt about one-sidedly emphasizing that.