

History of Japanese Economic Thought

Lecture No. 10

Winter Semester, 2004

Haruhito Takeda

The figures, photos and moving images with #marks attached belong to their copyright holders. Reusing or reproducing them is prohibited unless permission is obtained directly from such copyright holders.

8. Government as Last Anchorage

8-1 Government that coldly treats “daily lives of citizens”

- Promoting the policy measures targeting at a trading nation, the government, on reflection, was apathetic to “daily lives of citizens” and cold on the people.
- In daring to use a strict expression, among government bureaucrats being “the authority,” there were extremely limited number of those who were capable of possessing a line of vision and a point of view to enhance lives of common people, thus, over a period of years, demands derived from views of ordinary citizens and consumers were not recognized as the direct objective of policy measures.

1953's *Economic White Paper* ... pointed to a domestic “presence of consumer purchasing power” that hinders an “expansion of normal trade.”

- “A good example of the case is raw silk. Currently one third of raw silk gets exported and the balance is consumed domestically. This kind of domestic demand must be after all rooted partially in apolastic prosperity reflecting an increase in personal income and a growth in corporate consumption. Not just limited to raw silk, if there exists domestic purchasing power with respect to every commodity, no doubt export does not grow. If comparatively high price is said to be a ‘price effect to hold back export’,” then, the presence of this purchasing power can be referred to as an ‘income effect to hold back export’.”

(Economic Council, *Economic White Paper for 1953*, p.34)

- → That is, a profession that export should be expanded even at the sacrifice of an advancement of immediate daily lives of citizens.

- **MITI's policy paper in the high-growth period:**

- “In comparison to other foreign nations, a priority in our country is being placed on building facilities over such aspects of personal lives as consumption and private housing.”

((MITI, ed., *History of Political Measures on International Trade and Industry*, Vol. 5, 1989, p. 30)

- **Remark of Mikio Sumiya, chairman of a round-table discussion/ symposium on the Narita Airport problem:**

- “Completing democratic procedural requirements (by statute), the government and prefecture had a showdown with their authorities with farmers who opposed to the plan (at the wake of a situation for them to be robbed of their land without being asked yeas or nays). In this occasion, the administration as “the authority” did not hesitate to implement its power. Those disobeyed “the authority’s” policy, decided through the required procedure, are questionable, unpardonable citizens. Against this, root-bound farmers, as those blocked out of a democratic decision-making process, came to put up a fierce resistance shielding themselves behind basic human rights and subsistence right as citizens. This was the aspect of the Narita conflict.”

(Mikio Sumiya, *Sky and Land of Narita*, Iwanami Shoten, 1996, pp.8-9: In parenthesis are notes added by this quoter.)

Haruhito Takeda

- Aside from the proceeding problem, can't a consciousness having the same roots be detected in "froideur to citizens" that was observed in economic measures across the board?
- Come to think of it, those youths aspired to becoming bureaucrats considered an accomplishment thereof as a means for success in their lives. In order to advance their career, they gained an understanding as to what to do to serve a certain organization's way of thinking.
- And that organization as a whole was such government that set a pursuit of "national interests," having strong implications of sovereignty as the Emperor's words, to "public interests" that people wanted.

Role of “The Authority”

- The formation of this kind of consciousness regarding “the authority” has been influenced in part by the history that Japanese have chosen accommodative behaviors for solving economic difficulties and devised ways not to bring forth losers in competition. For this reason, such composition of the reign by “the authority” was the result of the choice by Japanese themselves as the way of being of their desirable society.
- “Emperor’s bureaucrats” as a background.

- But “the authority”-consciousness could not be cast aside even after the war.

Formulation of the Antimonopoly Law and the government’s role

- ← Preferred position of “the government” as the main body to intervene market competition, put it in order and organize it
- Accommodating business behaviors like cartel is required in order to improve the competitiveness of weak industries and to assure their development into the future. To evade restrictions of the Antimonopoly Law, these needed to be actualized under the government’s instruction and guidance.
- ... Operation curtailment under an admonishment by the government, for example
- Lawmaking plans to preclude applications of the Antimonopoly Law in various fields such as steel, machinery and chemistry.

Strained Relations between Government and Private Sector

- Problem associated with the formulation of Law for Temporary Measures to Promote Specified Industries
- Statement of Kisaburo Ikeda, chairman of Japan Petrochemical Industry Association:
 - “A variety of independent laws have been enacted with the pretext to make holes in the Antimonopoly Law. But every new law seems to result in a tighter bureaucratic control, which I don’t think desirable. As for the forthcoming law to promote specified industries, just the same, I believe rectifying the Antimonopoly Law itself should be the way to go.”
(Kozo Uchida, *50 Years of Federation of Economic Organizations and Japanese Economy*, Nihon Keizai Shimbun, 1996, p.76)
- To the post-war economic men, the economic system in a strong control-orientation established during the Pacific War played the role of teaching material by negative example.

- Nevertheless, in terms of expectation of “freedom from the government,” there was a difference between industrial circles and financial circles.
- Industrial circles ... Taizo Ishizaka, chairman of the Federation of Economic Organizations:
 - **“It’s ludicrous that an adult of thirty-year-old facial features is being taken into protective custody in a baby carriage.”** (same as foregoing, p.74) As he clearly stated on the eve of deregulation of trade, the industrial world expected “freedom from the government” in the high-growth period.
- Financial circles as to the issue on the formulation of the Law to Promote Specified Industries:
 - **Claming that it would strengthen influence of the officialdom, the community became an active leader of the opposition to the formulation.**
 - **But in effect, the community had a greater distaste for a possible increase in MITI’s authorities.**
 - **They did not care about being under the tight reins of the Finance Ministry, nor did they show any movement to seek independence from the same ministry.**
- And, as for industrial circles, they did not dare to bring it into question that the financial community took a passive stance toward “independence from the government.”

Government-Business Relationship after WW II

- First, the government clarified “the discipline of the market,” and positioned it as one of its key roles to become the “last anchorage” in reinforcing this discipline.
- Second, as industrial circles started feeling that, along with the formulation of the Antimonopoly Law, “the discipline of the market” was an excessive “restriction,” they came to request a “shelter” by such competent authorities as MITI in an effort to get away from such excessive restrictions. That is, “the authority” came to have a role of “hide-out” for the circles to run away from the application of market rules named the Antimonopoly Law.
- Third, it became a role expected of the government to protect and nurture the development of industries. In such situations, the government came to play the part of the referee for discussions as a watchdog of the agreement which might not be expected to be perfectly practiced if left to a voluntary coordination within the private sector, such as putting in order competitive relations that tended to tumble into an “overcompetition,” price arrangements and disposals of facilities during difficult economic times, and sequencing the proliferation of equipments during boom period.

Turnaround in Consciousness

- These roles
 - ① under a common consciousness of a “poor country Japan,”
 - ② came into effect and functioned in the management of the economy that aspired for the development in the export-dependent format.
- As Japan began to deem itself as a “big economic power,” and each company grew into having confidence in the international competitiveness, this relation between the government and industrial circles turned into a strained one seeking for “freedom from the government,” opposite of the dependent relation up to then.
- Thus, it was a natural consequence that a trend to relax regulations became definite after the 1980s, targeting at correcting an excessive dependence upon interventions of the governmental restriction.

Idea of Deregulation

- A direct catalyst for bringing a trend to ease regulations into shape was foreign pressure calling for expanding domestic demand,
- And simultaneously, another was domestic pressure insisting on the requirement to pull together the government finance that had run into a bankrupt situation.
- To the business world, the government that cost too much money was changing into a tricky stuff that demanded a high corporate tax rate, i.e., passed a bill of the fiscal collapse on to economic circles.
- In this period, the government stepped down from the position of the patron of economic circles, and instead changed into an entity that was fastidious almost too much meddlesomely, and yet begging them for money all the time. Tables were being turned.

- To restructure the government costing too much money, one way was to reform the tax system in pursuit of new fiscal resources, like consumption tax, without resting on corporations, and another to cut back on fiscal expenditures by relaxing regulations.
- But, of all things, citizens reacted sensitively to this tax increase. Japanese relatively uninterested as to how tax is spent displayed their clear intention against an increase in their tax. As the result, the foundation of the ruling party got flustered amid voices against a higher tax, and political stability became impaired. Inasmuch as political instability was not desirable to economic circles, a “small government” through deregulations came to be called for.

What is Economic Liberalism?

- Relaxation of regulations, in principle, was to aim at the realization of a thought to limit the role of the government to a watchdog of rules of competition. But which does not mean that laissez-faire economic system gets materialized.
- Kozo Uchida, secretary-general of the Federation of Economic Organizations:
- “Traditional industrial policy measures and various kinds of governmental restrictions thus far made significant contributions to nurturing, promoting and strengthening the international competitiveness of industries. However, in order to respond to new aspects of affairs, such as maturation and internationalization of our nation’s economy, rapid technological progresses, and diversified concepts of values of consumers, it is demanded at home and abroad to drastically review conventional policies and restrictions, and to promptly actualize the market which is free, transparent and fair. Viewed in this light, the role of the Antimonopoly Law, the basic rule of liberal economy, becomes more and more important.

- Henceforth the further a deregulation steps forward, the wider a range of the Antimonopoly Law's application becomes. Speaking of an abolition of regulations, some misunderstand it as a condition without any restriction where corporations do whatever they want to. A liberal economy is an economic system in which common rules of competition named the Antimonopoly Law is imposed on corporations that, under these rules, freely conduct commercial transactions conforming to the principle of self-responsibility, and which is not a laissez-faire system.
- On the other hand, some argue that the Antimonopoly Law is another kind of restriction mixing up with other governmental regulations. In fact, in a theory of economic law and public economics, ordinary governmental regulations and the Antimonopoly Law are roughly sorted out to be two different matters. But to grasp the Law as a 'market regulation' or an 'indirect regulation' is considered to be one reason for such misunderstanding to come about. This writer thinks that a regulation and a law (rule) for maintaining and promoting competition should carry clearly different expressions."

(Kozo Uchida, *50 Years of Federation of Economic Organizations and Japanese Economy*, Nihon Keizai Shimbun, 1996, p.201)

Haruhito Takeda

- In principle, a sharp line is drawn between rules of competition and governmental regulations.

- But there also exists a mix-up of ideological competitive rules, taking free ride on the deregulation stream, with deregulations.

- Remark of Yoshihiro Inayama, president of Yahata Steel, Co., at a round-table discussion in Sep. 1966:

“Since a merger is much like a marriage, I hope it would be accepted as a loose marriage, just like a couple in love proceed to the god’s sanctuary and join their hands in prayer, then they get approved.”

(Kozo Uchida, 50 Years of Federation of Economic Organizations and Japanese Economy, Nihon Keizai Shimbun, 1996, p.89)

Economic Circles' Naive Sentiment Against Antimonopoly Law

Reminiscences of Hiroshi Ashino, the first member of the Fair Trade Commission:

- “It was when I was having a chat with people of some business group’s secretariat.
 - I told them about a certain member of the House of Councilors whom I had met a little while ago, and who seemed to absolutely hate the Antimonopoly Law and loudly said nasty things about it. Then, one of those who were with me there replied,
 - ‘Yeah, that’s right. He is a liberalist.’
- “‘We think that the Antimonopoly Law is Great Charter of liberalism and that we are the very fighters for free economism, and I never imagined someone would be against it because he was a liberalist,’ I told them. Actually, however, there seem to be many in the world who say they cannot endure the Antimonopoly Law simply because they are liberal, just like this member of the House. Be that may free economism or modified capitalism, there are few occasions when we find our way of understanding among those who insist on economism founded on capitalism and individualism; On the contrary, the real state of affairs is that we sometimes receive words of encouragement like, ‘Keep your spirits up!’ from the Communists or those deemed as the left-wingers of the Socialist Party, which makes us feel odd. So, I must rack my brains, ‘What is liberalism in a worldly term?’ and ‘What does the so-called liberalist contend?’”

Source material: Hiroshi Ashino, *Monopoly and Restrictive Trade*, Nihon Keizai Shimbun, 1950, pp. 339-340

Quotation: Tomoyoshi Okada, *Economic Liberalism*, University of Tokyo Press, 1987, pp. 84-85

Contention of Economic Circles in High-Growth Period

● “As cartel in itself is not ‘virtue’ or ‘vice’, it is a general demand of economic circles that a viewpoint to consider it a crime should be corrected, and in case a certain industry forms cartel, a notice to the authority concerned should be adequate, and in the wake of its abuse by the industry leading to some behavior against public interests, the authority should place it under a ban,.”

(Kozo Uchida, *50 Years of Federation of Economic Organizations and Japanese Economy*, Nihon Keizai Shimbun, 1996, p.47)

● The demand stipulated in the recommendation by the Federation of Economic Organizations submitted prior to the revision of the Antimonopoly Law in 1953 :

● To clarify the definition of “public interests”, and “to make it clear that they mean not only the ones of consumers, but also these in the nature of national economy in light of the position of producers or suppliers.”

(Kozo Uchida, *50 Years of Federation of Economic Organizations and Japanese Economy*, Nihon Keizai Shimbun, 1996, p.48)

- In an American-style competition policy, it is a principle in the market economy to accept that various contracts are ratified among private citizens based on “freedom of business transactions” and “freedom of contract,” but contracts to block competitive situations like a cartel agreement are not admitted. In this sense, freedom of contract becomes impotent before the restriction on monopoly.
- Nevertheless, the assertion by the economic world is to take a stance that, because a nonofficial and voluntary agreement is a matter that belongs to “freedom of contract,” and in light of the principle of the market economy that is realized on the basis of guaranteeing “freedom of business transactions,” restricting this kind of freedom is against the principle of the market economy.

- This sort of viewpoint on cartel was widely accepted in Japan before the Second World War.
- In general, an agreement among those in the same industry was approved as a matter that belonged to “freedom of business transactions.”
- With that, the Important Industry Control Law enacted in the early-1930s made it possible for the government
 - ① to regulate outsiders, aiming at strengthening a cartel agreement, if necessary, and
 - ② when significant abuses like pricing incurred , to intervene activities of the cartel for removing such abuses.
- This bill was written up based on a new cartel-theory which appeared in Germany and was not particularly unique to Japan.

- The Antimonopoly Law enacted after World War II made a complete change of these viewpoints on monopoly regulations since the prewar days. That is, the reason for economic circles to have taken the Antimonopoly Law as a regulatory legislation was, as seen from the foregoing explanations, that this law deprived them of the freedom to conclude an agreement aiming at taking joint action like a cartel.

- In the mid-1970s when the revision of the Antimonopoly Law to include provisions on corporate breakup, etc. became a problem, Yasusaburo Sato, president of Kirin Brewery Co., voiced an opinion:

- “To begin with, in a free economic regime, it is the inevitable process that, by ‘promotion of competition,’ corporations that grow are the ones which have the ability and make exertions. An attempt to break up a corporation that has lifted its share as a result of free and fair competitions is equivalent to the denial of the corporate growth through legitimate efforts and the inhibition of the industrial development, which I cannot accept.”

(Kozo Uchida, *50 Years of Federation of Economic Organizations and Japanese Economy*, Nihon Keizai Shimbun, 1996, p.103)

- A point of view “to deny the corporate growth through legitimate efforts and to inhibit the industrial development” is also opposed to the American way of thinking about the restriction on monopoly.
- The basic idea of the restriction on monopoly is that a participant in competition who has grown strong enough to keep winning is no longer qualified for participating in competition as it is.
- Even if that is an achievement of legitimate business activities, and even if a top-ranked corporation puts off the motive for expanding its share in fear that it may be broken up, leading to impairing efficiency in economic development in the short term, it is considered that, if a breakup brings about a more competitive market allowing new participants, in the longer term, the performance of economy as a whole will be elevated.

- Economic circles assert to implement the restriction on monopoly on the basis of “public interests” that include interests of producers and suppliers, or, on the basis of “abuses of market power,” but, in terms of the actual operation of the law, it is hard to say that that turns out to be a highly transparent rule.
- With ambiguous criterion of judgment, there occurs room that the operational arbitrariness gets into.
- It is not so easy for the government as the last anchorage for observing “the discipline of the market” to function as the watchdog of a clear-cut rule putting such arbitrariness out of the way.
- But, if freedom of business activities cannot be governed so that business conducts of oligopolistic corporations do not obstruct freedom of other economic entities or significantly distort the state of distribution of income, then, there remains uncertainty that the state of affairs may come close to being turned back to the epoch, when “freedom of monopoly” was considered to be a matter of course, by those who are possessed by the anachronism to regard the Antimonopoly Law as a regulatory legislation against free business activities.

- While a way of thinking oriented to the restriction on monopoly has gradually become widespread in Japan in the postwar period of more than 50 year, the concept of economic liberalism cultivated there is not so firm yet.
- All the more, in the light of the epoch not so long ago when the government could not take viewpoints as consumers and citizens, and which contended that economic growth should be actualized even at the sacrifice of citizens' livelihoods, a superficial assertion about economic liberalism may come close to degenerating into a mere endorsement for freedom of business activities.