



SEAS

DISCUSSION PAPER NO. 9
THE CHALLENGE OF RISING SUN

by
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The unprecedented rapid growth of the Japanese economy has not only led many economists to serious investigations but also a number of capable foreign journalists to serious consideration of the socio-economic changes of postwar Japan. Recent publications of The Risen Sun by Norman McRay, The Japanese Challenge by Hakan Hedberg, Japon Troisième Grand by Robert Guillain, and 100 Millionen Aussenseiter: die neue Weltmacht Japan by Hans W. Vahlefeld became best sellers in Japan and, taken together, give an amazingly vivid picture of contemporary Japan. No longer will the reader of these books find the lyricism of classic Japan so beautifully described by Lafcadio Hearn nor will be left with the impression that Chrysanthemum and The Sword by Ruth Benedict is still up-to-date. Japan has grown out of an old, exotic but poor land and become a modern, semi-westernized and rich country. Indeed she now ranks third in economic power in terms of Gross National Product and will soon catch up with the wealthiest country in Europe or Australia in the standard of living. Futurologists at home and abroad nowadays are talking about the days when Japanese GNP surpasses the USSR's in the early 80's and her per capita income overtakes the USA's in the late 80's. It goes without saying that all these optimistic prognostications assume many hypotheses to be realized, which is not at all easy. Nevertheless many economists in Japan predict the average annual rate of growth in the 70's to be about 10% or a little higher. The growth rate in 1969 was 13.1% in real terms, and that in 1970 will not be less than 12%. Why and how can she grow so rapidly, almost twice as fast as any country in Europe, America or the Communist Bloc? There are many

factors making for rapid growth. Most of them are appropriately discussed by the authors mentioned above, but some of the interesting factors have been missed. It would not be meaningful to make a complete list of these factors without going into a detailed discussion of the logical relations between the various factors, but it might be helpful to put into order some notes on the Japanese economy. These factors are neither miraculous nor mysterious. What impresses most investigators is the fact that these factors worked simultaneously in the case of Japan. The essence of the matter may be the ability or endurance of the nation that could bring together all the factors at the sacrifice of many social misfortunes. The shortage of space in this essay necessitates the restriction of the discussion of those factors almost to a simple listing, and briefly to sketch the current and future limiting elements for continuing Japanese economic growth.

(1) High Rate of Private Capital Accumulation:

The ratio of gross fixed capital formation to GNP is about 30-33%. This is to be compared with 15-18% in England, 22-26% in West Germany, 17-20% in U.S.A. Moreover, Japan has concentrated on private fixed capital formation in three categories of capital; private fixed capital, overhead capital and residential housing capital. The proportions among them in the U.S.A. or Germany are almost equal, but in Japan overhead or government capital formation remained around 50-61% and residential housing capital formation about 20% to private fixed capital formation between 1956 and 1969.

The absolute amount of private fixed capital formation in Japan exceeded that of Germany in 1960, and the amount of Japan is about twice as much as that of Germany in 1969. Since the ratio of incremental GNP to private fixed capital formation is approximately the same in Japan and Germany, and both countries have about the same amount of GNP, there is no wonder that the Japanese growth rate is double of the German rate.

The reason for being able to save so much overhead capital must be related to the newly developed heavy-chemical industries concentrated advantageously along Japan's long coast line which is twice as long as England's or more than 10 times as long as U.S.A. This coastal development of new industries and cheap, time-saving transportation using huge heighters certainly helped Japan save not only road construction but also many related service industries.

(2) High Propensity To Save:

The high rate of capital accumulation, if not accompanied by high propensity to save, would have caused inflation sooner and more violently. The average propensity to save of urban workers' households between 1965 and 69 is 18%, and the farmers household's is 16.5%. There is no indication so far that this high rate of saving will decline in spite of rising per capita income. This high propensity should be compared with the same propensity in other countries 7.4% in U.S.A., 12.2% in Germany, 7.2% in England.

The main reasons for this high rate of saving are: (a) the people's intrinsic propensity to attach high ethical value to thrift

which has been taught at Japanese schools even after the war, (b) the bonus payment which is "transitory income," (c) the persistence of consumption habits in spite of rising income, (d) rising food prices and rent (forced savings).

(3) Industrious And Well-Educated Labor:

Japanese workers are clearly very industrious; they do not mind working over-time in big and medium corporations and actually work longer than 48 hours in privately-owned stores. Only in the last few years has the average number of hours actually worked begun to decrease. The age composition remained very young. The age group between 15 and 64 in Japan, 1968 was 69.1%, whereas those in other countries are 60.8% in U.S.A., 62.9% in France, 65.1%, 64.0 in England. It is expected to take 45 years before the age composition even approaches to the U.S.A. level.

Japanese workers are very well-educated. All Japanese children are compulsorily educated up through nine years; 80% of them go to three more years of high school; 8% go on to junior colleges, and 15% go to university or beyond.

An ample supply of efficient and skilled labor was available due to the 5 million repatriates immediately after the war and also because of the rapid decline in the labor force in the primary sector from 48.3% in '55 to 22.2% in '68. A shortage of labor has often been noticed in recent years, but it is only sectional. The productivity differential between Japan and the US or Germany is still very great. In the manufacturing industries, the US is 3.6 times and Germany 1.5 times as productive as Japan. In the tertiary

industries US is 3.9 times and Germany is 1.9 times as efficient as Japan. This implies that a shortage of labor cannot be a limiting factor as yet.

(4) Rapid Increase in Agricultural Productivity:

The rapid growth of a national economy is usually driven by swift development of the manufacturing industries, but it must be accompanied by an increase in agricultural productivity. Otherwise the required supply of labor in the industrial sector cannot be offered, and the increased demand of food cannot be met. Prewar Japan was barely self-sufficient in food by importing rice from Taiwan and Korea, but postwar Japan has been almost self-sufficient until very recently in spite of a sharp decline in the number of farmers. The farming households' income kept rising more rapidly than per capita national income until 1967. Only in the last few years have the postwar agricultural policies of the Japanese government which concentrated too much on rice production begun to reveal their deficiencies. The inadequacy of the agricultural policy is also demonstrated by the fact that about half of the consumers' price rise is due to the rise of food stuffs. It is true that Japanese agricultural productivity is still very low compared with other advanced countries. US, Germany and England are producing 5.6, 1.6 and 6.4 times as efficiently as Japan in terms of labor productivity. But in terms of land productivity Japanese agriculture is much more efficient. The shortage of cultivable or flat land is the most serious limiting factor of Japanese agriculture.

In view of this land shortage and the outflow of the younger generation from the rural areas, the achievement of Japanese farmers must be seen as impressive. This is certainly a good reason for political stability throughout the postwar years.

(5) Borrowed and Improved Technology:

A flood of new technical knowledge was made available to the completely devastated Japanese industries. The new capital formation embodied the new technology imported from the U.S. and western Europe. The advantage of "late-comers" in modernization was never utilized in other countries so fully as in Japan. Japanese industries have tried very hard to borrow the best technology available in the world and even slightly improve upon it. As time passes by, the earnestness of the learning process is gradually taken over by increasing emphasis on independent creativity in technology. But certainly this is not enough yet but it is a beginning as is shown by the following statistics of patent royalties payments and receipts:

| (million \$) | 1960 | 1966 | 1967 | 1968 |
|------------------|------|------|------|------|
| payments | 94.9 | 192 | 239 | 314 |
| receipts | 2.3 | 19 | 27 | 34 |
| German payments | 127 | 195 | 222 | 250 |
| English payments | | 124 | 128 | 141 |

It is clear from these data that Japan is borrowing technology more eagerly than any country in Europe. This innovating entrepreneurship coupled with the high rate of capital

accumulation is the core of the unprecedented speed of Japanese growth.

(6) Appropriate Development of Industrial Composition:

Japanese economic growth from the level of \$200 to \$2,000 in twenty years required the quick adjustment of industrial composition to meet the higher degree of industrialization and the more rapidly increasing commodities in the world market. Roughly speaking, this means a shift in weight from light industry (food, textile, ceramics and others) to heavy chemical industry (metal, machinery and chemical). The percentage of value added in the first group declined from 50.6% in 1955 to 41.1% in 1967. The percentage of heavy chemical industry in value added is comparable with US or Germany but that in the number of employees is still inferior to both countries. This implies that the Japanese heavy chemical industries are considerably more efficient than light manufacturing industries. This change of industrial composition corresponds to the change in the commodity composition of Japanese exports from heavy chemical industry's products 37% in 1955 to 57.5% in 1969. The following table shows how Japanese industries succeeded in developing new industries according to the elasticity of world demand, compared with foreign countries.

Growth Rates of Main Industrial Products Exports in Major
Countries and the World, 61.2-67.8

| | World Import | Japan | U.S. | Germany | France | England |
|---------------------|--------------|-------|------|---------|--------|---------|
| Total | 9.6 | 16.9 | 7.6 | 10.2 | 8.7 | 5.4 |
| Food | 5.8 | 5.1 | 5.3 | 16.8 | 6.8 | 4.8 |
| Textile | 3.2 | 5.5 | - | 13.4 | 2.9 | - |
| Apparel | 15.5 | 9.3 | 6.0 | 14.9 | 9.0 | 8.8 |
| Wood | 8.0 | 6.4 | 16.0 | 18.6 | - | 4.1 |
| Pulp, Paper | 7.1 | 9.2 | 9.3 | 12.7 | 10.7 | 4.4 |
| Printing | 13.2 | 17.0 | 10.6 | 14.0 | 9.5 | 7.9 |
| Leather | 5.2 | 34.8 | 5.7 | 8.7 | 6.8 | 6.0 |
| Rubber | 1.2 | 17.2 | 2.8 | 10.4 | 11.6 | 1.7 |
| Chemical | 10.9 | 20.5 | 6.9 | 10.9 | 10.6 | 5.8 |
| Ceramics | 15.7 | 9.8 | 10.1 | 8.7 | 9.0 | 28.2 |
| Primary Metal | 11.0 | 22.3 | 4.7 | 7.8 | 4.8 | 4.9 |
| Metal Products | 10.8 | 17.4 | 8.0 | 8.2 | 6.7 | 2.5 |
| General Machinery | 12.1 | 21.6 | 8.8 | 10.0 | 13.4 | 4.9 |
| Electric Machinery | 14.3 | 26.3 | 9.4 | 9.9 | 11.3 | 3.6 |
| Transp. Machinery | 15.0 | 22.4 | 11.8 | 10.4 | 8.6 | 4.5 |
| Precision Machinery | 14.8 | 22.2 | 14.8 | 10.0 | 13.6 | 13.9 |

Japanese industrialists must have been guided by excellent market research of world demand and they invested bullishly well in advance. They have been helped by the well-balanced and penetrating reports provided by the White Papers published by the Economic Planning Agency, the Ministry of International Trade and Industry and Japanese External Trade Organization.

(7) Capable Bureaucrats and Cooperation with Private Enterprise:

Occupation policies succeeded in extinguishing the Imperial Army and Navy, plunging more than 50,000 business and other leaders of

the older generation and changing the Japanese Constitution, but the bureaucracy remained almost untouched and the younger generation has been as usual at least capable enough to take over the responsibility of carrying the burden of national unification and reconstruction. War-time experiences of controlled economy must have helped them keep close relations with private business leaders. The rapid development of the private sector and the dominant idea of industrial democracy quickly reestablished the Japanese economy as one of the typical free private enterprise systems. But the influential role of governmental ministries and agencies remained often as the comprehensive research departments or national consulting organizations to Japanese industries as a whole and sometimes to important industries at crucial times. The leading officials of government offices are usually outstanding graduates from the best universities and are greatly concerned with national interests in the future. Successive publication of various medium-range national economic plans and annual white papers of many kinds all point to the current and future problems of the Japanese economy and make proposals of the ways to solve them in cooperation with private businesses. There are also many committees organized by different ministries to tackle the specific impending problems. They are often useful to draw out interesting ideas from business leaders and professional intellectuals. They are often criticized as being utilized as the instruments to cover up the responsibility of bureaucrats. But it must be admitted that they are in fact important channels to exchange views on

the current and future conditions of Japan and propose better solutions to the imminent or vaguely-expected problems. Such friendly association between government and private sectors is not limited to big business leaders or university professors but extends to journalists and even to trade union leaders, such as the left-wing Sohyo. Perhaps this is unique in Japan and unobservable abroad.

(8) Group Loyalties of Japanese Employees:

Japanese workers are unionized about 34-35%, but labor unions are organized by making each company the basic unit. Industrial control is very weak. Japanese workers have very strong loyalty to their company and often take pride in being in the employe of one company over several generations. Some anthropologists say that this is a reflection of close family relations in traditional Japanese society. It is not exceptional for both employers and employees to regard themselves as members of the same community rather than antagonistic Capital and Labor. This fact should not be interpreted so as to show that there are no serious strikes or other labor disputes in Japan. In 1969, for instance, labor disputes involving strikes occurred 3,167 times, and 2.34 million workers participated. But serious strikes in private businesses are gradually decreasing, and the working hours lost are 5669 thousand days in 1965 and 3,483 thousand days in 1969. Relatively more serious labor disputes are occurring recently in governmental organizations like the National Railroad Corporations and other public corporations. This is partly due to the fact that these workers belong to

the radical trade union, Sohyo and partly due to the inadequate leadership which can not be so paternalistic as in comparable private corporations. Some people thought that the rising standard of living would change the Japanese people's attitude of group loyalties and make the labor unions more like the American or European type. What is in fact happening is on the contrary that workers in the private sector are more attached to their companies and are gradually leaving the trade union which is bound by the idea of class struggle, namely Sohyo. Sohyo itself is facing the serious danger of being split between radical left and moderate right groups. Indeed this change in the labor situation may have the far-reaching effect of creating a new political party.

There is no doubt that this group loyalty of employees certainly helped all companies make adjustments in their policies in the face of the changing conditions discussed above. It may be well known that this loyalty goes along with life-time employment in Japanese corporations. It must be pointed out, however, that labor mobility has always been very high in small enterprise. This has permitted the Japanese industrial composition of labor force to change. When a worker is employed for life, the payment of wages does not have to be adjusted to his current productivity, but the life-time wage payment may be adjusted to his life-time service to the company. The seniority system of wages is at least partly justified for this reason. The incentive to capable workers is given by better bonus and positions. There is a trend toward the American

way of efficiency method in Japan now. But most experts of business administration agree that the Japanese tradition of life-time employment will remain with partial adaptation to the American way.

(9) Positive Roles of Banks and Their Close Relations with Private Enterprise:

The heavy reliance of Japanese corporations on capital borrowed from banks rather than their own capital is often critically observed not only by foreigners but also by Japanese economists. The ratio of borrowed capital to the total amount of capital in manufacturing industries is 77% in Japan, '68, 43% in the US, '68, 45% in England, '67 and 60% in Germany, '67. This is mainly due to the extremely rapid growth of investment which cannot be financed directly by issuing new stocks to so many small stockholders whose savings are not increasing as fast as required investment. Commercial banks raise a large amount of funds from very many depositors of small amounts and give loans to more or less related corporations. Some economists argue that Japanese large corporations are tacitly rallying around the mainly financing banks. This is certainly an exaggeration. But there is a certain truth in it to the extent that Japanese banks seem to play much more positive role in guiding business activities of private enterprise. It is not unusual to send in some directors to borrowing companies whose businesses are getting in difficulties. They often play the same role to private enterprise as the Japanese Ministries or Agencies to the Industry as a whole. Japanese banks are rather strictly regulated by the Ministry of Finance and also very

favorably protected. The so-called "over-loan" is quite common. It means that commercial banks can make loans more than the collected amount of deposits permit by having the Bank of Japan rediscounting the bills. The positive role of commercial banks in economic development, as was discussed by J.Schumpeter in The Theory of Economic Development, can be recognized so vividly in Japan.

(10) Political Stability:

All the factors mentioned above could make for rapid economic growth only when political stability was maintained. Domestic stability has been sustained by the Liberal Democratic Party keeping the majority in the Congress and always being in power. International relations have been kept stable by keeping the friendly relations with the US unmoved and also trying not to stimulate surrounding nations including the USSR and Mainland China. The majority of Japanese people occasionally have gotten tired of this unchanged policies and sometimes agitated to rise against the present regime. But this policy is fundamentally consistent with the Japanese national interests which require the peaceful and friendly relations with all the countries of the Pacific Community and the Near East. As this point has become increasingly realized, the national consensus in international relations may be reached more easily than domestic political stability can be maintained by overcoming many urban problems and misfortunes such as air pollution, automobile accidents and inflation. There are a certain indications that the liberal Democratic Party, as well as

the Socialist Party, is losing the support in urban people because of its neglect of these problems and not being able to guide the reviving nationalistic pride.

One could add a number of other factors related to the Japanese economic growth such as the dual structure, import restrictions, or the low military expenditure. It is this writer's belief that the ten factors above are more fundamental to explain the economic growth up till now and to perceive the slow-down of growth in the future.