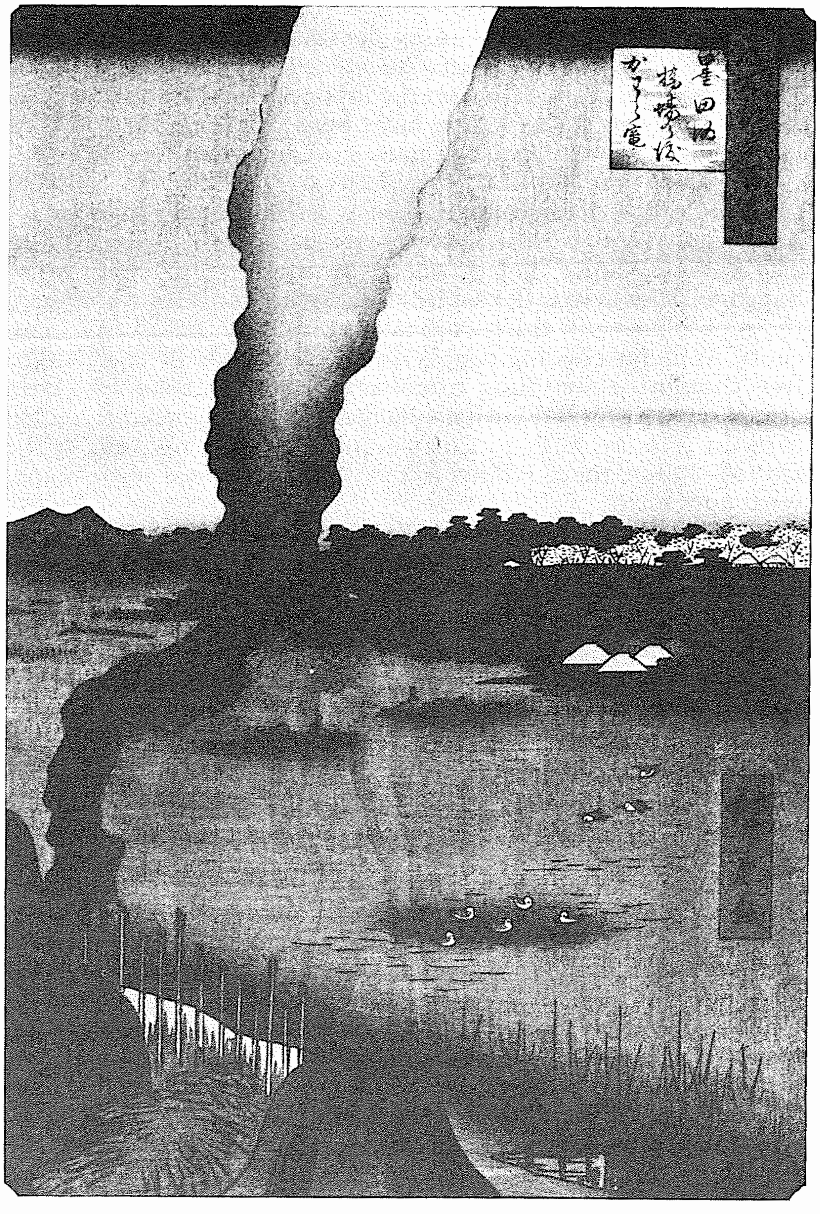

By permission of Sotheby Parke Bernet, New York City.

In this 1857 painting, a column of smoke rises from an earthenware kiln by the Sumida River near present-day Tokyo. Japanese pottery, highly prized abroad, was one of the country's first export products.

Japan

Since 1973, when most Western economies were first becalmed by rising oil prices, Japan's star has seemed to shine brighter than ever before. But many Americans forget that Japan's economy has outperformed most others during much of this century. If there is a secret to this success, it is the Japanese ability to adapt quickly to new conditions and the Tokyo government's encouragement of change. Here, historian Peter Duus tells how the Japanese pragmatically modernized their "underdeveloped" country after 1868; historian James B. Crowley describes Japan's growing prosperity, in war and in peace, after 1890; and economist Patricia Hagan Kuwayama explains why the postwar economic "miracle" is no miracle at all.

TAKING OFF

by Peter Duus

In 1857, Townsend Harris, the first American minister to Japan, had a hard time convincing the country's feudal leaders that doing business with the United States might be a good thing. He preached the mid-Victorian gospel that foreign trade would make their nation wealthier and stronger, but his ideas were not well received in Edo (now Tokyo), Japan's capital.

For more than 200 years, the Japanese had been strict mercantilists, hoarding gold and silver instead of using them for trade. Under the *shōguns* of the Tokugawa family (who, with some 250 *daimyo*, or regional feudal lords, effectively ruled Japan in the name of a powerless emperor), the country had been "closed." The shōguns restricted the right of people to enter or leave the country. They limited foreign trade to a small trickle of goods—scientific instruments and medicines coming in, silk and tea going out—carried by Dutch and Chinese ships putting in at the port city of Nagasaki. Shortly after the arrival of Commodore Matthew Perry's four "black ships" in 1853, one daimyo warned: "To exchange valuable articles like gold, silver, copper, and iron for useless foreign goods like woolens and satin is to incur great loss while acquiring not the smallest benefit. [It] would inflict the greatest possible harm on our country."

Yet, four decades later, after its victory in the 1894–95 Sino-Japanese war, Tokyo was preparing for what the Japanese business journal *Jitsugyo no Nihon* called a "great economic war" in East Asia. Government officials and private entrepreneurs were debating how best to promote Japanese exports in Korea and China. Robert A. Porter, a U.S. Congressman with an exceptionally clear crystal ball, predicted that "when Japan is fully equipped with the latest machinery, it will . . . be the most potent industrial force in the markets of the world."

The past century has been full of remarkable changes, but few are more astonishing than the early transformation of Japan. While most of Africa, South Asia, and Southeast Asia was succumbing to Western colonialism, and while China, the proud Middle Kingdom, was being threatened with partition, Japan experienced its first "economic miracle" and within a generation emerged as the overwhelmingly dominant military and economic power in East Asia.

How, and why, did this come about? The key to understanding Japan's initial success lies in the triumph of a peculiar brand of anti-imperialism.

The Opening of Japan

Most Japanese in the 1850s saw Commodore Perry as the herald of a "barbaric" and predatory West, not the fraternal envoy of a higher and more prosperous civilization. But some took a realistic view of the situation. As the scholar Sakuma Shōzan wrote after the Opium War of 1839–42, "Why did an upright and righteous great country like China lose to an insolent, unjust, and contemptible country like England? It is because the rulers of China prided themselves on their superiority, regarded the outside world with contempt, and paid no heed to the progress of machinery in foreign countries."

As most Japanese leaders saw it, outright resistance to the foreigners was dangerous. Instead, the shōgun gave way to Perry in 1854, signing a limited treaty (later expanded) granting

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Americans access to two ports. Treaties with the British, French, Russians, and Dutch soon followed.*

The "opening" of Japan, though it kept the Westerners at bay, called attention to the feudal government's weakness. Under the "unequal treaties" of the 1850s and '60s, the country's growing overseas trade soon came to be dominated by the privileged Westerners, and it disrupted the domestic economy. Some commodities, such as tea, were rushed to the treaty ports where they could be sold at great profit, leading to local shortages and high prices. Foreign goods, especially cheap manufactured textiles, began to compete with domestic cotton homespuns. By the mid-1860s, the Japanese were suffering from steep inflation and an adverse balance of trade.

No Utopian Visions

The presence of growing numbers of Western traders, merchants, and sailors in the treaty ports fueled a xenophobic movement to "expel the barbarians" from the country. In January 1861, a group of extremist *samurai* assassinated U.S. minister Harris's interpreter, Henry Huskens.† But more astute leaders, echoing Sakuma Shōzan, knew that it would be futile simply to try to get rid of the foreigners. They realized that Japan's weakness lay in its backward technology and its lack of a strong central government. As one noble in the emperor's court wrote, reasserting Japan's national prestige and overcoming the foreigners "requires that the country be united. For the country to be united, policy and administration must have a single source. . . . The Court must be made the center of the national government."

Samurai from the large Chōshū, Satsuma, and Tosa domains in western Japan were determined to bring this about. In 1868, they engineered a nearly bloodless coup d'état, followed by a brief civil war that ended with the surrender of the shōgun. The coup brought to power a new government under the Meiji ("era of enlightenment") Emperor Mutshuhito, three years before Bismarck completed the unification of Germany.

The "quiet" revolution of 1868 is known as the Meiji Resto-

*By 1866, the Japanese had agreed to open the ports of Shimoda, Hakodate, Nagasaki, Yokohama, Niigata, and Hyōgo (present day Kōbe) to trade; to grant the foreigners "extraterritoriality" (exempting them from Japanese law); to establish diplomatic relations; and to limit tariffs on imported Western goods to a mere five percent.

†The samurai, accounting for some two million (with their families) of Japan's 30 million people, were an aristocratic warrior class in the service of the daimyo or shōgun. Because Japan had been at peace since the civil wars of the 16th century, most earned their stipends as officials, clerks, or even messengers in the daimyo domains.

ration. The real leaders of the Meiji government—Mutshuhito was a figurehead—were primarily the western samurai.* They were outspokenly anti-imperialist—like many Third World rulers of the 20th century. But their minds were not cluttered with utopian ideologies, nor with intransigent anti-Westernism. They were committed to no economic doctrines, save a belief in what worked. The Emperor himself pledged that "intellect and learning would be sought from throughout the world, in order to establish the foundations of Empire."

A Bureaucrat's Paradise

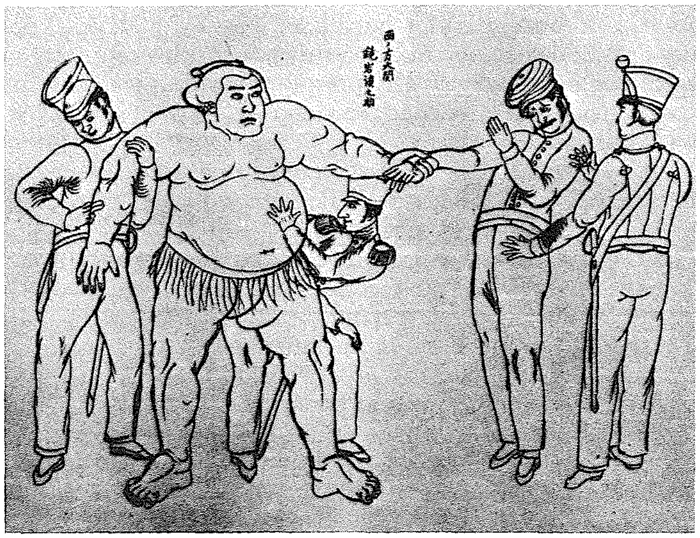
The new leaders' pragmatism, and their practice of acting only after reaching a consensus, did not make for charismatic leadership on the model of Mao or Nasser or Sukarno, but it did protect the ruling oligarchs from making terrible blunders, and it allowed them to incorporate useful Western ways into their government and economy.

The Meiji rulers also had a solid economic foundation to build on, despite the near-chaos of the previous decade. Ōsaka and Tokyo were thriving cities with populations close to a million each. They were linked to the provinces by a complex national marketing network. Large, city-based merchant houses —such as the Mitsui, Sumitomo, and Konoike family ventures—manufactured and traded in clothing, medicines, *sake*, foods, and many other goods. Money changing, deposit banking, bills of credit, commodity trading, and other commercial practices essential to a capitalist economy were well developed by 1868, and cottage industries in the countryside produced goods to supply the great cities.

But agriculture was the real launching pad for the Japanese economic "take off." The late Tokugawa agrarian economy was probably more prosperous than any other outside the West. Enterprising farmers had brought new land into cultivation and had learned how to reap two or three harvests each year instead of one. By 1868, crop yields had been on the rise for a century. And, because the nation's population remained relatively stable during the Tokugawa years, the increased output could be sold in the cities, boosting income per capita in the countryside, where about 80 percent of all Japanese lived.

Rutherford Alcock, a widely traveled British diplomat who became minister to Japan in 1860, was impressed: "The evi-

*The Meiji government, with the Emperor as titular head, consisted of a Chief Executive, 10 Senior Councilors (five court nobles and five daimyo or samurai), and 20 Junior Councilors (five nobles and 15 samurai).



By permission of the Historiographical Institute of the University of Tokyo, and Captain R. Pineau, U.S.N.R.

Commodore Perry called Sumo wrestling a "farce," but he and his men were amazed at the bulk of the wrestlers.

dence of plenty, or a sufficiency at least, everywhere meets the eye; cottages and farmhouses are rarely seen out of repair—in pleasant contrast to China where everything is going to decay."

Landlords and landlord-farmers reaped the greatest rewards. Often, they put their profits into money lending or rural industries such as oil pressing, sake brewing, or spinning and weaving. They also moved from subsistence crops such as rice to cash crops—tea, cotton, and silk. Their petty capitalist mentality prepared them to assume later roles as buyers of stock, promoters of local business, and depositors in modern banks.

To understand the comparative ease with which the Meiji leaders pursued their goal of national wealth and strength, however, one must look beyond basic economic factors. In the post-Restoration period, Tokyo's ability to chart a course for the economy and muster the resources to follow it was a crucial element in the country's success.

Political authority had been highly fragmented in Tokugawa Japan. The shōgun was the country's formal military and political leader, but he shared the power to tax, pass laws, and raise armies with the daimyo in their 250 separate domains. Such diffusion of power proved unwieldy at the national level; but *local* government was extremely efficient by pre-modern standards, a bureaucrat's paradise. Samurai clerks kept minutely detailed records on everything from the religious preferences of the peasantry to the pregnancy of horses. The mass of the population had learned to defer to "honorable officials." When Commodore Perry arrived, Japanese society had the brain of a dinosaur but the nervous system of a primate. Once the Restoration lopped off the head of the *ancien régime*, rapid bureaucratic mobilization was possible.

The samurai class itself also proved remarkably adaptable to change. As the Meiji government gradually destroyed the old system of feudal privilege during the early 1870s, many samurai easily shifted to new roles in business, education, science, and particularly the central government. These one-time aristocrats, unlike their counterparts in the West, were well accustomed to part-time employment by 1868, having turned to occupations such as farming, teaching, or trading to supplement their often meager fixed stipends.*

Fear and Fascination

The population as a whole, including commoners, was highly educated. In 1868, according to one estimate, more than one million people were attending some sort of school. At the outset of economic modernization, the basic literacy rate was probably about 50 percent among adult males and 12 percent among females. This placed Japan at roughly the level of Disraeli's England.

Tokyo made elementary school education compulsory in 1872, a decade before Britain did so, declaring that "henceforth, universally, without any distinction of class or sex, in no village shall there be a house without learning, and in no house an individual without learning." In 1877, Tokyo University opened its doors, the first of many public and private universities to be established in the Meiji period.

Despite their fear of foreign domination, the Japanese were fascinated by things Western. Fukuzawa Yukichi's *Conditions in the West*, describing everything from lunatic asylums to table manners, sold 150,000 copies in Japan in 1866. Fukuzawa, a leading pro-Western intellectual, later established his own university and newspaper. Like many Japanese educators of the

*Tokyo effectively eliminated the last vestiges of feudal privilege by 1876. In 1869, it had abolished the feudal domains and deposed the daimyo, offering them generous lump-sum payments; samurai stipends were halved. In 1871, the government declared all classes equal before the law. A universal draft (1873) ended the samurai monopoly on military service. Finally, in 1876, the samurai were deprived of their stipends (but paid off) and stripped of the right to wear swords, the traditional badge of their high social status.

day, he believed that absorbing *some* Western values was the key to modernization. "To defend our country against the foreigners," he wrote, "we must fill the whole country with the spirit of independence, so that noble and humble, high and low, clever and stupid alike will make the fate of their country their own responsibility." During the 1870s, Japanese schools played down such traditional Buddhist and Confucian virtues as docility, modesty, and deference. Using Victorian primers (British writer Samuel Smiles's *Self-Help*, for instance, another best seller in Japan), educators tried instead to encourage independence and enterprise.

"Walking on Two Legs"

Japanese traditions survived, too, and proved to be a far greater asset than many had predicted. The samurai ethos of public spirit and complete loyalty, for instance, was easily adapted to fit the realities of post-Restoration Japan. Though stripped of their former status, the samurai took their *esprit* with them into business and government. The communal spirit suffused every level of society. Morimura Ichizaemon, an overseas entrepreneur with a peasant background, declared that "the secret to success in business is the determination to work for the sake of society and mankind as well as the future of the nation, even if it means sacrificing oneself."

Even the islanders' most "backward" values meshed well with the modernization effort. A group of peasant farmers who joined a new mutual savings society swore to "preserve our station in life, show humility and proper respect for others, be industrious and frugal, and so live up to the deeds of our ancestors and bring their work to fruition." For centuries, wresting more food from Japan's limited crop lands had demanded foresight, discipline, and local cooperation.

At first, few of the Meiji oligarchs had a very clear or sophisticated appreciation of what was required to make Japan strong economically. Countering the West's overwhelming military power was their chief concern. This meant buying gunboats, training a Western-style army, and building munitions factories and shipyards.

In 1871, a government delegation led by the elder statesman Iwakura Tomomi visited the United States and Europe to try to renegotiate the "unequal treaties" of the 1850s and '60s. Iwakura was unsuccessful, but he and his fellow diplomats (including a former Finance Minister, Okubo Toshimichi, and two imperial councilors) saw firsthand the vast technological supe-

This 1625 painting shows a woman weaving silk fabric. Cottage industries played an important part in the development of the Japanese economy up to World War II.

Courtesy M.O.A. Art Museum, Tokyo.

riority and wealth of the West. They realized that their own economy need not be fixed in size (as their Confucian training had led them to believe) and came to see that modern commerce and manufacturing were as much the source of Western power as modern cannons. In England, Okubo wrote, "Everywhere we go, there is nothing growing in the ground, just coal and iron. . . . Factories have increased to an unheard-of extent, so that black smoke rises from every possible kind. . . . This is sufficient explanation of England's wealth and strength."

Partly as a result of this visit, the Meiji government decided to concentrate on building up a modern manufacturing sector in Japan. It began to shift capital from agriculture to light industry, import foreign technology, and introduce the management methods of the advanced capitalist countries.

During the 1950s, Mao Zedong stressed the need for China to "walk on two legs," instead of relying on just one sector of the economy for growth. The Meiji leaders had no slogan for what they were doing, but that was the kind of policy they pursued.

They were desperately anxious to limit their dependence on foreign capital. (The Japanese avoided borrowing money from the West until the turn of the century, when they were confident that they could limit foreign penetration of the economy.) To finance the country's development, Tokyo relied instead on the flourishing agricultural sector. During its first two decades, about 80 percent of the government's revenues came from a land tax instituted in 1873. Agricultural production during those years increased between one and three percent annually, far outpacing population growth. Part of the surplus was sold in the cities; the rest was sold overseas, mostly to Europe. Indeed, the agricultural sector was so prosperous that it continued to absorb most of the country's population increase right up until the 1900s. Japan never had to struggle to feed a growing number of hungry mouths, unlike many developing nations today.

Helping the Farmers

The growth of the rural economy rested neither on a major revolution in agricultural techniques nor on a massive redistribution of the land. Improvement came through the wider diffusion of the best traditional technology—better seed varieties, more effective fertilizers, new techniques for dealing with pests, and the reclamation of marginal land. The government helped to promote these changes by disseminating information and establishing agricultural schools, but the main initiative came from the farmers themselves.

The tax structure gave farmers an incentive to improve their land. In feudal Japan, landholders had had to give a certain proportion of their harvests to the authorities, but under the system set up in 1873, fixed-sum taxes were levied. If the yield of the land went up, the tax burden did not increase. Landlords had a direct incentive to produce more.* Their profits played an important part in the build-up of the private sector. In the Soviet Union, the government slaughtered the Kulaks after the 1917 revolution; Tokyo encouraged its well-to-do farmers.

The government in Tokyo invested in handsome, Western-style office buildings, outfitted an impressive new army and navy, and paid generous salaries to its bureaucrats. But it also did much to aid Japan's farmers and entrepreneurs. It improved roads, built harbors and irrigation systems, reclaimed land, and built new bridges—all of which helped producers increase output or get their goods to market. By 1893, Tokyo had laid 2,000 miles of railroad track, strung 4,000 miles of telegraph lines, established a postal system, and purchased several steamships to

*Taxing farmers to build up industry and military strength nevertheless produced some resentment in the provinces during the 1870s. There were at least 200 political disturbances between 1868 and 1878.

provide ferry service between major cities.

The Meiji leaders energetically set about importing foreign technology. During the 1870s and '80s, hundreds of foreign experts—dubbed "live machines" by one Meiji official—were brought to Japan, often at exorbitant salaries, to advise on everything from raising sheep to constructing railroads. Most came from Great Britain, then the premier world power, with lesser numbers from France, Germany, and the United States.

Boosting Spirits

The Japanese were careful to select experts from the countries most proficient at the technical skills they were trying to learn. (After the 1870–71 Franco-Prussian War, for example, the Japanese sent their French military advisers home and called in the victorious Prussians.) They hired many highly educated experts, but also ordinary technicians—brick layers, locomotive drivers, shipwrights, boilermakers, coppersmiths, and draftsmen. By 1875, there were 527 foreigners on the government payroll, and many more in the employ of private firms. But once the Japanese working alongside them had learned their skills, the foreigners were laid off.

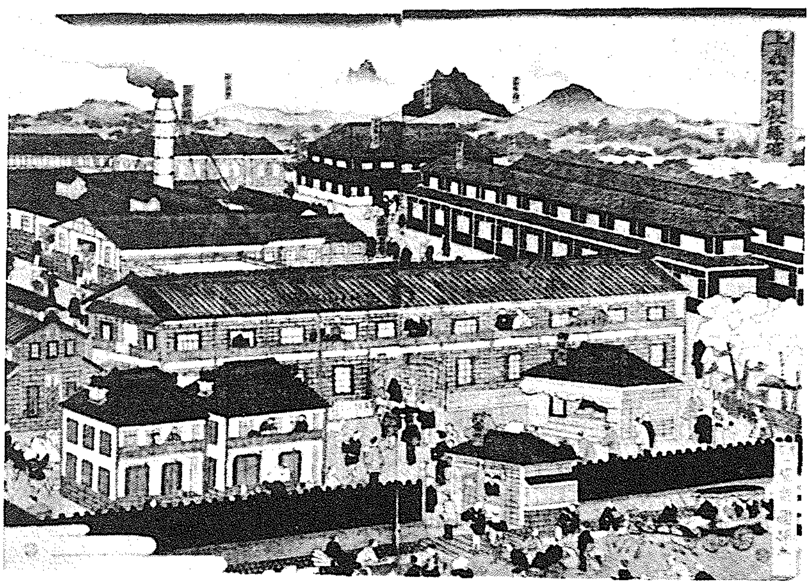
Thousands of Japanese students also went abroad during the Meiji years, many at their own expense. There was no problem of a "brain drain," because most of the students, coming from samurai families, were imbued with the great sense of public responsibility their class retained. Not incidentally, they also knew that they could command prestige and high pay back home, where the demand for people with "new knowledge" from the West was great.

The Japanese did not borrow blindly from the West: They often discovered that foreign methods and expertise were not suited to their needs. Advice from foreign agricultural experts urging Japanese farmers to start raising cows and potatoes fell on deaf ears in a country where people ate rice and drank no milk. The Japanese needed technology appropriate to their resources, labor, and capital assets. Often, they had to simplify foreign production processes.

To promote the production of cheaper, stronger, and more uniform silk yarn, the government once imported a "turn-key" silk-reeling mill from France. Local entrepreneurs, following the basic model of the government mill, built their own plants around the country, substituting wood for brass, iron wire for glass windows, and earthen floors for brick ones to save money. They also adapted the machinery so that it could handle Japanese silk, different in texture from the French variety. The government mill eventually went bankrupt, but the modified indigenous mills flourished.

Tokyo backed a number of other ventures, mostly as examples for private investors to follow. These included cement, sugar, glass, and chemical factories, shipyards, copper and coal mines, and even a brewery. (Still in operation, it produces *Sapporo* beer).

But the Meiji leaders did not want to keep the economy going by central planning or public investment. Indeed, strapped for cash in 1881, Finance Minister Matsukata Masayoshi sold off nearly all government-owned enterprises except the shipyards and some weapons factories. The government aimed instead to nurture a market economy based on private entrepreneurship and initiative. An official *Report on Manufactures* published in 1884 weighed the elements needed to spur industrialization: "It can be neither capital nor laws and regulation, because both are dead in themselves. . . . The spirit sets both in motion. . . . If we assign weights to these three factors with respect to their effec-



International Society for Educational Information, Inc., Tokyo.

Japan's first modern silk-spinning factory, shown above, was staffed by the daughters of samurai families under French supervision.

tiveness, the spirit should be assigned five parts, laws and regulations four, and capital no more than one part."

Skeptical about the adaptability of some of the traditional merchants (the Mitsui family motto was, "Do not put your hand to any type of activity that has not been done before"), the government tried to cultivate a new class of indigenous private investors, entrepreneurs, and business managers. During the 1870s, Tokyo introduced laws of contract and property, banking laws, and joint stock company regulations in the hopes of encouraging and protecting investment. By the mid-1880s, Japanese entrepreneurs had set up a number of highly successful private companies—the Nippon Railway Company, the Mitsubishi Steamship Company, the Mitsui Trading Company, and the Dai-Ichi Bank. Many companies established during this period are giant corporations today.

The Path to Ruin

Because all these firms benefited in some way from government subsidies and contracts, it is tempting to see in the Meiji era the beginnings of "Japan, Inc." But such practices were also common at the time in Italy, Germany, and other Western nations, where state intervention was thought necessary to catch up with Great Britain. (Tokyo's expenditures averaged about 12 to 14 percent of national income—roughly the same as London's.)

Nor was the Japanese government a major employer: There were only 37,000 people (0.19 percent of the working population) on the public payroll in 1880. And while the Meiji government took an active interest in the nation's businesses, it could not force them to do what they did not want to. At the turn of the century, the Minister of Commerce, hoping to increase cotton yarn exports, urged the heads of several major spinning companies to merge; they politely but firmly refused.

By 1900, barely three decades after the Meiji Restoration, Japan was well along on the road to modernization. The overwhelming majority of the people were still tied to the land, but their farms were productive. The nascent industrial sector was expanding rapidly, fueled by heavy private investment and favorable government policies. Textiles, mostly cotton cloth and silk, made up more than half the country's exports, with tea and other food products running far behind at about 25 percent. The economy was growing by five to six percent annually, compared to America's growth rate of about eight percent; Japan's GNP per capita stood at about one-tenth of the American level.

Meanwhile, a series of political reforms, culminating with the Meiji Constitution of February 1889, had brought modern, if not very representative, government to Japan. The constitution, a "gift" from the Emperor to his subjects, provided for a bicameral Diet, with the power to approve the national budget and pass some legislation of its own. Membership in the upper house of the Diet was restricted to a new class of peers named by the Emperor, and fewer than a half-million people (the leading taxpayers) were eligible to vote in elections to the lower house. Much of the real power remained in the hands of a Premier and his Cabinet, both established by an 1885 imperial edict. The Emperor made all appointments to these positions, acting on the advice of the oligarchs and the bureaucracy.

For all its successes, the Meiji "economic miracle" also had its costs. Many were of the kind that most developing economies experience—inequalities in income distribution, a growing cultural and economic gap between country and city, trade deficits, exploitation of child and female labor, and occasional corruption of politicians by businessmen.

But there was one peculiarly ironic long-term cost in the case of Japan. The Meiji leaders had begun their quest for "national wealth and strength" to be free of dependence or foreign domination. But as industrialization accelerated, the economy became more and more dependent on the outside world. By the turn of the century, government and business leaders were talking about the need for foreign capital to fuel continuing growth, for foreign raw materials to feed their factories, and for overseas markets to earn the money to pay for essential imports. The result was the rapid growth of the export trade, now handled by Japanese trading firms, which quadrupled between 1896 and 1914 alone.

If history proceeded in a logical fashion, this new trend should have made Japan more internationalist in outlook and solicitous of foreign countries that could supply the markets, raw materials, and capital it desired. But the times were not right. At the turn of the century, the Western imperial powers were stepping up their activities in Asia and around the globe. Japan's leaders, following the West's example, deliberately chose to turn their country into the kind of expansionist power they had felt threatened by during the 1850s. Their decision set Japan on a path that eventually led to ruin.

AN EMPIRE WON AND LOST

by James B. Crowley

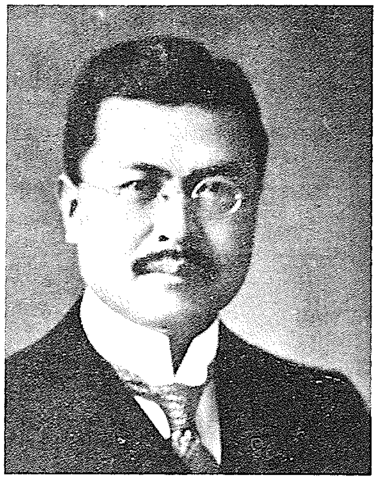
In 1905, some 50 years after Commodore Matthew Perry's squadron sailed unchallenged into Tokyo Bay, Japan astonished the world by trouncing Tsar Nicholas II's Russia in a modern East Asian war. Imperial Japan had made its entrance onto the world stage.

Nobody should have been surprised. After 1889, when the Meiji Constitution established a solid political foundation at home, Japan's leaders had immediately turned their attention overseas. Beginning with the brief 1894–95 Sino-Japanese War, Tokyo embarked on a program of military and economic expansion, first to secure its gains against the Western powers active in Asia, and later to attain autarky—self-sufficiency in the raw materials that Japan itself lacked. That program produced an economic growth rate surpassing any in the world and an empire encompassing almost three million square miles of land and sea. In the end, however, it also brought disaster.

For more than half a century, Imperial Japan was driven by a curious dynamic, derived from the paradoxes at the heart of its national existence. Imperial Japan called itself modern and aspired to join the community of civilized nations, but it was also a sacerdotal state, based on a cult of loyalty to an Emperor who was revered as the direct descendant of the sun goddess Amaterasu Ōmikami. Imperial Japan prized science and technology but outlawed scientific inquiry into the Emperor's mythical origins. While striving to free itself of the "unequal treaties," a legacy of Western imperialism, it charted a course of *Eastern* imperialism for itself. Even as they tirelessly modernized their economy, many Japanese sought to preserve their traditional, patriarchal culture.

Imperial Japan developed in three phases. From 1890 to 1923, national industries began to emerge, and Tokyo set off on a drive for empire, almost out of an instinct for survival. After 1924, in the flush of a new prosperity, Japan flirted with constitutional monarchy and peaceful diplomacy abroad. Eight years later, the democratic interlude ended as the Japanese military reasserted its power, methodically expunging Western-flavored liberalism and embarking on a renewed quest for empire.

From the beginning, it was not Japan's industrialists and



Courtesy Michitaro Shidehara, and JiJi Press and Pan-Asia Newspaper Alliance.

Takahashi Korekiyo (right), a pro-military Finance Minister, was assassinated in 1936 by radical officers who felt he was too moderate. Shidehara Kijuro (left) led the internationalist faction of Japan's prewar civilian leadership and became Premier in 1945.

financiers who demanded an expansionist foreign policy, but her military and political leaders. Despite its accomplishments, Japan in 1890 was still not an industrial nation—manufacturing accounted for less than 10 percent of GNP—and businessmen had little need for new overseas markets or raw materials.*

The imperialist impetus arose chiefly out of Tokyo's sense of insecurity about the country's future. The European powers had divided most of Africa and Asia into exclusive "spheres of influence," where they monopolized trade. Nearby, China was of particular concern. With Britain, France, and Russia slicing up what one American official called "the Chinese melon," it seemed that Japan would have to jump in or risk being forever deprived of Manchuria's iron and coal—which Tokyo knew would be needed one day, if not yet. As Yamagata Aritomo, one of the powerful Meiji oligarchs, put it: "The independence and

*Their chief requirement was raw cotton for the burgeoning textile firms. Steel, chemicals, machinery, and other necessities of modern industry were purchased overseas, not made at home. Japan's primary natural resources were low-grade coal (not suitable for steel making) and running water for hydroelectric power. Everything else had to be imported.

self-preservation of a country depend, first, upon the defense of its 'cordons of sovereignty,' and, secondly, upon the defense of its 'cordons of interests,'" outside the country's borders.

In July 1894, Japan went to war with China, ostensibly to guarantee Korea's independence from Peking. After routing an ill-equipped Chinese Army in only six months, Tokyo dictated stern peace conditions: Peking had to keep its hands off Korea, cede Taiwan to Japan, pay a $177 million war indemnity, and lease the Kwangtung Peninsula to Japan. Kwangtung, in southern Manchuria, was the real prize.

Factory Feudalism

This victory planted the seeds of the next war, because Russia had her own designs on Manchuria and, with French and German backing, demanded that Tokyo relinquish control of Kwangtung. Japan capitulated. Immediately, however, the Japanese Diet authorized a massive arms build-up, determined to "suffer privation to achieve revenge." Beginning in 1896, Japan beefed up her military with six new Army divisions, four battleships, 16 cruisers, and 23 destroyers.

In 1904, four years after Russia occupied southern Manchuria, Tokyo declared war.

After more than a year of fighting, the conflict was finally decided at sea, when the Japanese Navy overwhelmed a Russian fleet in the Straits of Tsushima, between Korea and Japan. This stunning victory, in which the Russians lost all but 10 of their 35 ships, catapulted Japan to the level of a major power.*

Whatever else they accomplished, Japan's conflicts with China and Russia confirmed one thing: The chief spur to the nation's economic growth would be war—the preparation for war, the waging of war, and the fruits of war.

Between 1896 and 1913, military expenditures accounted, on average, for 66 percent of Tokyo's budget. The government invested heavily in arms, as it had in the past, but it also began fostering basic heavy industries to supply the shipyards and

*Under the Treaty of Portsmouth (New Hampshire), the Japanese won back Kwangtung and acquired ownership of the South Manchurian Railway connecting Port Arthur and Mukden. Tokyo formally annexed Korea in 1910.

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weapons makers. Much of the capital came from the huge Chinese war indemnity, worth three times as much as the government's gold and silver holdings. Tokyo built the first large Japanese steel mill in 1901, Imperial Steel. (Japan remained a steel importer, however.) Textiles and raw silk remained the leading products sold overseas; exports of cotton cloth and clothing grew nearly sixfold between 1900 and 1913.

The key industrial institutions of the day were the *zaibatsu* (financial cliques). These sprawling conglomerates were usually run by a family bank or holding company. Each zaibatsu, typically, was active in a number of fields—heavy manufacturing, foreign trade, textiles, shipping. To head off an incipient Western-style labor union movement, the zaibatsu managers revived the "beautiful customs," as one put it, of Tokugawa Japan. Employees were offered lifetime employment in return for complete loyalty to the company. The managers declared that profits should be secondary to the "heavenly assigned work" of serving the Emperor.

Such deference to authority was reinforced at the elite imperial universities, where the business, labor, and governmental leaders of the future were inculcated with Tokyo's statist doctrine. Students were taught that the government ruled in the name of the Emperor, acting as his administrator and standing above party, class, and economic interests. Partly as a result, once Tokyo made a decision, most Japanese acquiesced.

A Wartime Bonanza

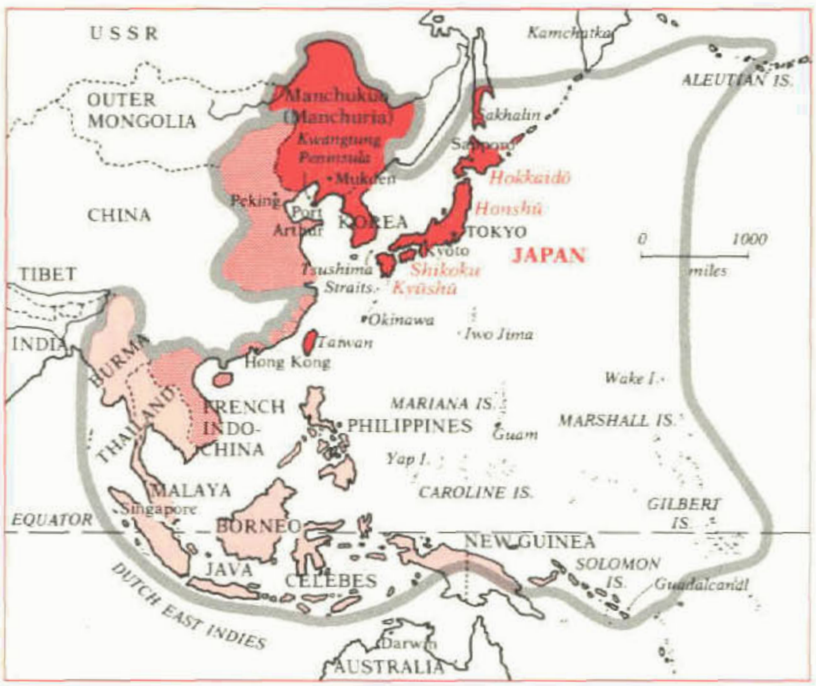
The zaibatsu worked closely with the government. Tokyo needed their considerable capital resources to achieve its modernization goals and rewarded cooperating firms with lucrative contracts and business opportunities. Among Japan's chief aims: development of Taiwan and Korea as food sources (mainly rice and sugar), and the exploitation of Manchuria's vast mineral resources through the South Manchurian Railway and its subsidiary corporations.

The outbreak of World War I in 1914 brought one of the biggest bonanzas in Japanese history. Tokyo wisely entered the conflict on the side of the Allies but limited the country's military role mainly to escorting Allied merchant ships. Afterward, Japan was rewarded with title to the German Pacific territories and the Marshall, Caroline, and Mariana island groups. But the real spoils of war lay in overseas trade.

From 1914 to 1919, Japan's GNP nearly tripled as the Japanese provided munitions and shipping services to the beleaguered Allies and picked up the slack in their old Chinese and Southeast Asian markets. The wartime boom brought $1.5 billion into the country, far exceeding all its trade deficits since the Meiji Restoration. Most of the windfall, $900 million, was garnered by the zaibatsu merchant fleets, which doubled in size during the war. Japan's steel mills and shipyards prospered.

The economic policies of Takahashi Korekiyo, who became Finance Minister in 1918, are typical of the entire 1890–1923

THE JAPANESE EMPIRE: 1895–1945



1895–1905 | 1937–40 | World War II

Farthest limit of Japanese expansion, 1942

Source: Richard Sims, *Modern Japan* (1973).

Under the slogan "Asia for the Asians," Japan extended its rule to some 419 million people; but its colonial policies were harsh and exploitative.

era. Takahashi spurned foreign capital, except in colonial ventures firmly under Tokyo's thumb, such as the South Manchurian Railway. He looked to China, Manchuria, Formosa, and Korea as the foundation of a self-sufficient "yen bloc," where Japan would have assured access to raw materials and markets for its finished products. Most important, he believed in deficit public spending, devoted mostly to Navy expansion, to spur industrialization.

After World War I, however, such policies were gradually abandoned. At the 1921–22 Washington Naval Conference, Tokyo agreed to reduce its Navy in return for American and British promises not to fortify additional bases in the western Pacific. At about the same time, Japan was moving toward a form of liberal parliamentary democracy.

Japan's form of government had remained essentially unchanged since 1890. The Meiji oligarchs, the military, and the bureaucracy, ruling in the name of the Emperor, had wielded most of the power. The Cabinet was "transcendental"—appointed by the Emperor without regard to parliamentary majorities in the Diet. In 1924, however, both major political parties, the conservative Seiyukai and the liberal Kenseikai, joined in loudly opposing an attempt to organize another transcendental Cabinet, and the Emperor invited the majority Kenseikai to form a Cabinet, inaugurating a brief period of party rule. The new Premier, Kato Takaaki, proclaimed the "flowering of democracy."

Trading Guns for Butter

Baron Shidehara Kijuro, the Foreign Minister, was the exemplar of the new era. Shidehara, a career diplomat tied by marriage to the Mitsubishi clan, announced a new China policy based on "international cooperation." He promised to set aside "territorial aggressive intentions" and to help China on its path to "peaceful unification" under Chiang Kai-shek.

Shidehara and the Kenseikai (renamed Minseito in 1927) pursued an economic strategy geared to international markets rather than the yen bloc. Shidehara encouraged further armament limitations, promoted foreign investment in Japan, and emphasized the reorganization and concentration of industry for the export trade. He wished he had never heard of the South Manchurian Railway, which he considered a foolish diversion of capital and a sore point in relations with China and the United States. At home, the Kenseikai pushed for democratic reforms, granting universal male sufferage in 1925, while Shidehara reduced military spending to an average of 33 percent of the national budget, the lowest proportion since 1894.

The new political and economic liberalism of the 1920s coincided with Japan's poorest growth rate of the 1890–1945 period. But the "slowdown" was due mostly to events beyond anyone's control—the end of the war boom, the devastation of Tokyo by a massive earthquake in 1923, a financial panic in 1927 (brought on by the banks' overextension of credit), and the Great Depression. Indeed, the Kenseikai strategy of tight money and military cutbacks produced some immediate and long-term payoffs. Despite the deceleration, Japan had the highest rate of industrial growth in the world during the 1920s, with production increasing from $31.3 billion in 1923 to $49.6 billion in 1932. Partly because the government had encouraged exporters to form cartels, overseas trade stayed on an even keel. During the first two years of the Great Depression, exports declined but then quickly bounced back.

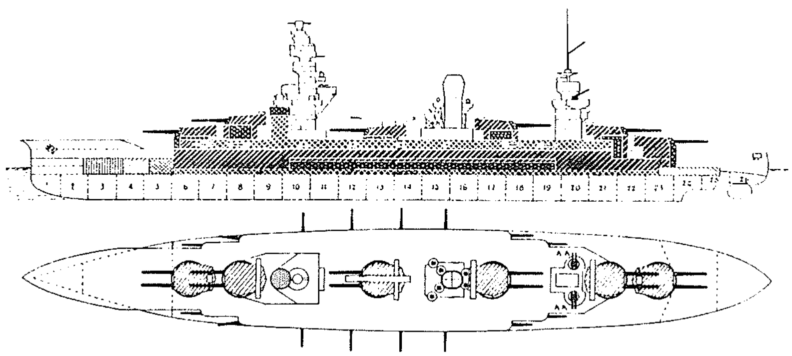
By 1928, the Japanese had developed the most efficient textile plants in the world. They began to parlay their gains into advances in other industries. Toyoda Kiichiro, founder of Toyota, built his first automobile plant with the profits he made by leasing his patent for textile machinery to the British. By 1930, a new electric appliance industry, producing lamps, light bulbs, and other consumer items (the first "cheap Japanese goods"), was thriving. By opening up new markets in Africa and Latin America, where few people could afford the more expensive American and European products, the industry grew briskly.

Prosperity and Its Discontents

The 1920s were years of relative affluence, and Western ways and ideas enjoyed a resurgence in Japan, at least in the cities. By 1930, *basu-boru* (baseball), once reviled by Meiji intellectuals, had become the national pastime. Emperor Hirohito (crowned in 1926) symbolically legitimized the sport by attending a game between Waseda and Keio universities.

Hollywood movies were the rage, and Douglas Fairbanks and Mary Pickford became matinee idols. Lavish new department stores along the Ginza, Tokyo's Fifth Avenue, made window shopping a popular outing. New Japanese merchandise (produced by domestic cottage industries) mirrored the latest Western fashions in everything from furniture to clothing. At night, jazz bands and dance halls drew throngs to the entertainment districts of Ōsaka and Tokyo.

Most social critics despaired over the new "decadence," condemning it as "the Americanization of Japan." Moreover,



Reproduced by permission of Jane's Publishing Co., Ltd. From Jane's Fighting Ships 1941.

Launched in 1914, the Huso *(above), with its distinctive "pagoda" bridge, was one of nine Japanese battleships in service in 1941.*

well before the Wall Street crash in 1929, leading intellectuals were calling "monopoly capitalism" the gravest threat to the Japanese way of life and denouncing the zaibatsu and the political parties as "self serving" and "evil." They looked to the throne to save Japan by carrying out a second Restoration that would bring the nation back to its authentic cultural heritage.

These ideas were well received in the countryside and in the military, particularly the Army. Rural Japan had not shared in the prosperity of the 1920s. The mass production (after 1918) of rayon, a cheap synthetic substitute for silk, bit into the profits of silk producers and of the largely rural silk reeling and weaving industries. The rural decline was compounded by a surge of rice imports from Korea and Taiwan, which depressed farm profits at home. The Army, meanwhile, saw its once-high prestige waning under Shidehara's internationalist foreign policy.

Civilian groups such as the radical Society for the Preservation of the National Essence, which called for the redistribution of land and personal fortunes and the nationalization of industry, attracted a great deal of attention but had little real influence. The Army, however, was another story.

The Army was unhappy over the "domestic unease" brought on by liberalism and over Tokyo's restraints on military spending. By 1931, the "Control Faction," comprising most of the General Staff, had decided that survival of the empire required control over all of Manchuria and the imposition of stern imperial rule at home. China, which was beginning to unify and turn against Japan, would have to be subdued, too. The General Staff's strategy called for accelerated exploitation of Manchurian resources and rapid industrialization of the colony under Army control. Once Japan had become a giant industrial power, the generals argued, it would have the power to drive the United States, its main adversary, from the Pacific. It was, in effect, a doctrine of waging war in order to wage more wars.

Worshiping War

In September 1931, a group of Army officers in Mukden blew up a section of the South Manchurian Railway, calling it the work of Chinese saboteurs. Within a few weeks of the "Manchurian Incident," Japan's Kwangtung Army, acting on its own authority, had seized all of southern Manchuria. The Manchurian Incident also prompted a wave of extremist terrorism at home, culminating in the assassination of Premier Inukai Tsuyoshi by the Blood Pledge Corps, a radical Navy-civilian group, in May 1932.

In the wake of these incidents, party government, like the irresolute government of the Tokugawa *shōgun* before it, was discredited. Party rule was abandoned in favor of nonparty "national unity" Cabinets. These generally followed the military's will, especially in the matter of military spending and the need to create a self-sufficient empire. Takahashi Korekiyo returned to his post as Finance Minister and reinstituted his stimulative policy of deficit financing for arms.

This time, however, even more of the money went to heavy industry—the producers of tanks, planes, trucks, and other weapons of modern warfare. By 1935, Takahashi had increased total government spending by 44 percent—nearly doubling arms outlays but increasing civilian expenditures by only 20 percent.

Takahashi soon had the economy running at full steam and contemplated a lid on military spending. That idea died with him in 1936, when he was assassinated by extremist Army officers. The more moderate General Staff quelled the mutiny but later that year demanded the return of an old practice: naming only active officers to the War Minister's post. With one of their own now required for the formation of a government, the military exercised effective veto power over any Cabinet. During the next four years, military spending quadrupled.

At the same time, Tokyo systematically re-emphasized traditional values, particularly loyalty to the Emperor. In 1937, the Education Ministry published a textbook called *Basic Principles* *of the National Polity.* It attacked individualism as the cause of "ideological and social confusion and crisis" and proclaimed that "our national economy is a great enterprise based on His Majesty's august Will to have the Empire go on developing for ever and ever, and is a thing on which the subjects' felicity depends." A War Ministry pamphlet was blunter: War, it declared, is the "father of creation and mother of culture."

Meanwhile, at the Army's insistence, Japan was investing heavily in Manchukuo, a puppet state it had created in Manchuria in 1932. The Army wanted to exploit the region's iron and coal and to build up an industrial base in steel, chemicals, and machinery to support the growing war machine. By 1945, Japan had sunk more capital into the colony than the British invested in India in more than 200 years.

In 1937, the long-simmering conflict between Japan and Chiang Kai-shek's Nationalist government in China erupted into open warfare. The immediate cause was the "Marco Polo Bridge Incident"—a skirmish between Chinese soldiers and a small Japanese force stationed near Peking. As Japan plunged into what would become a wider Asian war, the military's grip on the nation became unshakable.

In the End, Kamikazes

In 1938, Tokyo announced its plan for a "New Order" in East Asia, calling for the economic unification of Japan, Manchukuo, and China—"the victim of the imperialistic ambitions and rivalries of the Occidental powers"—under Tokyo's direction and protection. It was the old idea of a yen bloc in new clothes. In 1940, with the British and French fully engaged in the struggle against Hitler's Germany, Japan extended the New Order to all of Southeast Asia, announcing its intention to forge a "Greater East Asia Co-Prosperity Sphere." Implicitly, the sphere encompassed French Indochina, the Dutch East Indies, and Britain's colonies, Hong Kong and Malaya. As the government explained, "This change was dictated by the necessity to shake ourselves free from our economic dependence on the United States and the British Empire by securing economic self-sufficiency in order to counter their economic strangulation of Japan."

It was clear, however, that Washington would not stand idly by while Japan took over most of the Pacific. After General Tojo Hideki was named Premier in October 1941, war became inevitable. Tojo, known as the "Razor" because of his severity as the Kwangtung Army's Chief of Staff, ordered the attack on

Pearl Harbor on December 7, 1941 (followed by lightning strikes at British, Dutch, and other U.S. outposts). This was done not with the hope of defeating America in a protracted war but in the belief that Washington, with its Pacific fleet crippled, would have no choice but to sue for peace if squeezed between Nazi Germany and Japan. Of course, it did not turn out that way.

At home, the war effort accelerated the growth of the zaibatsu, dutifully doing their bit to aid in the mobilization. By 1944, four zaibatsu—Mitsui, Mitsubishi, Sumitomo, and Yasuda—owned or controlled 25 percent of Japan's business firms, 50 percent of the country's mortgages and loans, and 32 percent of all heavy industry. But compared to that of its chief foe, Japan's wartime output was woefully inadequate. In 1943, even before U.S. bombing raids began, Japanese military aircraft production totaled 10,000, versus 85,000 in the United States. Moreover, Japanese war technology, with the notable exception of shipbuilding, lagged well behind the accomplishments of its enemies—in radar, in communications, in long-range bombers, not to mention in atomic energy—or of the Germans, who fielded rockets and jet aircraft.

By war's end, the Japanese military had been reduced to relying on *kamikaze* raids as a counter to American might. Of the major urban centers, only Kyōto, the old imperial capital, survived intact. Three million Japanese had perished in the conflict. The search for autarky, begun only 50 years earlier with the Sino-Japanese war, ended with Japan occupied by a foreign power, the worst fear of the old Meiji oligarchs. Japan, which had yearned for self-sufficiency, wound up unable even to feed its people.

In defeat, Emperor Hirohito turned to the living symbol of Japan's liberal interlude, the aging Shidehara Kijuro, to help guide the country's reconstruction. In late 1945, Shidehara peered beyond the rubble and, with American backing, began charting a course for Japan more in accord with his internationalist aspirations. The years of military expansionism were over, but a new, peaceful kind of empire-building was about to begin.

SUCCESS STORY

by Patricia Hagan Kuwayama

If there is one common theme running through the story of postwar Japan's economy, it is rapid, unceasing change. Japan is dependent on the outside world for most of its raw materials (including 99 percent of its oil). It is far more vulnerable than America or most West European countries to the vicissitudes of the international marketplace. To compensate, the Japanese have made many wrenching adjustments—mostly ignored and seldom imitated in the West. Over the past 36 years, only through great adaptability and continued domestic competition has Japan been able to survive and succeed in the marketplace.

The most painful adjustment Japan had to make was to its plight after World War II. The war left Japan with about one-quarter of its capital investment destroyed, including nearly all of its shipping, one-quarter of its housing, and many factories. In 1946, industrial output stood at less than one-fifth of its 1934–36 average, and farm output was down 40 percent.

Agriculture recovered relatively quickly. Farm production reached prewar levels by 1950; but Japan's population grew by 11 percent during the same period, mainly because millions of Japanese soldiers and civilians were repatriated from overseas. So individuals still had little food to eat.

Industry was slow to recover. Crippling shortages of raw materials and bottlenecks in the production process kept Japan's factories from functioning normally until some time between 1952 and 1955, when prewar production levels were finally restored. Mass unemployment (10 million people in 1946) and a wholesale price index that rose 6,000 percent between 1945 and 1950 complete the portrait of a nation in distress.

At first, it did not appear that Japan's economy would get much help under the U.S. Occupation. The Occupation authorities, under General Douglas MacArthur, victorious commander of the Allied forces in the Pacific, had a mandate to permit a limited reconstruction of those Japanese industries that would, according to the 1945 Potsdam Declaration, "sustain her economy and permit the exaction of just reparation in kind, but not those which would enable her to re-arm for war." Under the first reparations plan, at least three-quarters of Japan's surviving shipbuilding facilities and steel mills, all of its aluminum and magnesium plants, and half of its machine-tool factories were to be dismantled and shipped to Japan's former colonies in Asia—Taiwan, Korea, the Philippines. But the Americans began to fear that Japan would become forever dependent on Washington's aid, which reached $2 billion by 1950. MacArthur's headquarters cut these plans by 90 percent. (Japan was still required to pay reparations of more than $1 billion over 20 years.)

MacArthur as Emperor

Soon after the Occupation began, the Americans set out to cleanse Japan of what they regarded as its militaristic ways. The first step was the "demystification" of the Emperor; he renounced his claim to divine descent in 1946 but remained titular head of the government. (Baron Shidehara Kijuro was named Premier in 1945, but MacArthur was the de facto head of government until 1950.) Also in 1946, the Japanese were forced to accept a new American-inspired constitution—grafted onto the 1868 Meiji Constitution as an "amendment." This instrument established parliamentary democracy on the British model and created an independent judiciary. It also limited military activity, thereby alleviating future strains on the national budget. (Japanese military spending has remained below one percent of GNP ever since.)

The Occupation also brought major social reforms. By the end of 1946, almost five million workers had joined unions, which American officials considered essential to democracy, despite the fact that many were organized by communists. Later, however, the Americans tacitly backed Tokyo's crackdowns on the unions, which had proved to be extremely militant. Also in 1946, the Diet passed a major land reform law. Japanese landlords were required to sell off about one-third of the country's farm land, most of what they owned, to their tenants. Japanese farms remained tiny—averaging about two and a half acres—but the new landowners had greater incentives to produce.

The *zaibatsu* were another target of American democratic reformers. MacArthur told the Japanese people that the zaibatsu system had "permitted the major part of the commerce and industry and natural resources of your country to be owned

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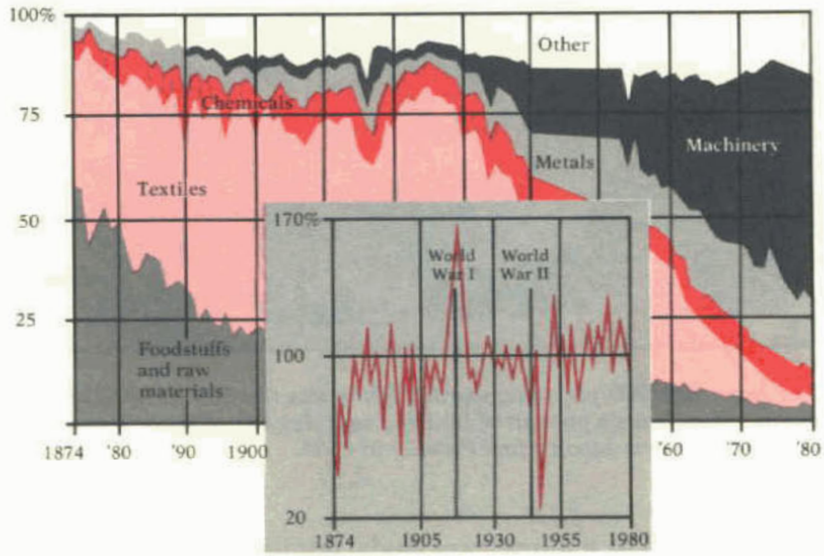
The Japanese 1000 yen note, worth slightly less than $4 at late-1981 exchange rates, bears a portrait of Itō Hirobumi. Itō, one of the original Meiji oligarchs, became Japan's first Premier in 1885.

and controlled by a minority of feudal families and exploited for their exclusive benefit." Some 1,200 zaibatsu companies were slated for dissolution; strong antitrust laws and a Fair Trade Commission to enforce them, both based on American models, were established. Finally, the Occupation authorities purged more than 200,000 leaders from positions in government, business, and other fields. But again, in practice, the program was scaled back sharply as the Americans' emphasis shifted from punishing Japan to helping it. Only 19 firms were actually dissolved. The antitrust laws remained in effect, however, and later helped to ensure the competitiveness of the domestic economy.*

The last major Occupation reform was the 1948 "Dodge Plan" for fiscal and monetary reform (named after the Detroit banker, Joseph Dodge). To curb inflation, the plan prohibited deficit spending (Japan's budget never ran in the red again until the mid-1960s); and it restored the yen as a convertible currency at a fixed rate to aid in the renewal of overseas trade. As a result of Tokyo's budget slashing, 30 percent of all government workers were laid off in 1949, and the knife cut even deeper in many large private firms, when Tokyo cut back on recovery loans to industry. As Tokyo had feared, the layoffs sparked violent labor demonstrations. No one could have known that within a year,

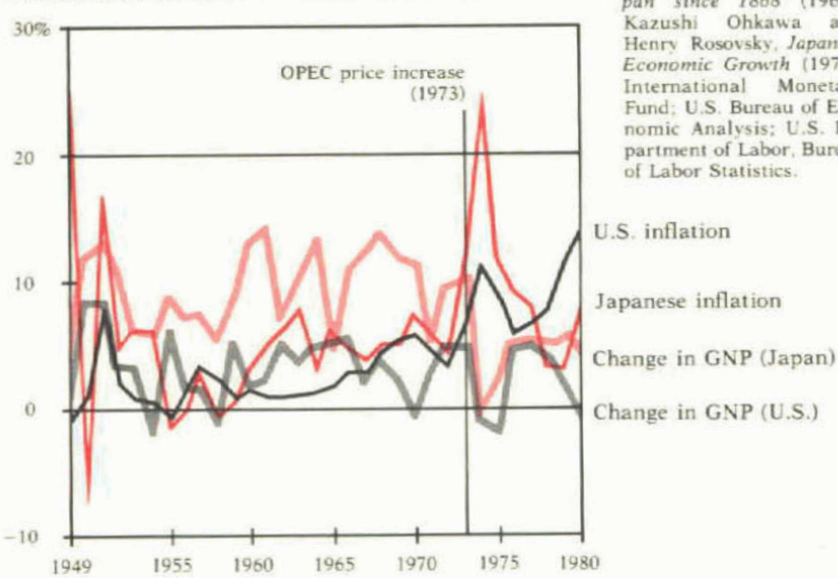
*Some of the zaibatsu family names, such as Mitsui and Mitsubishi, have reappeared as *keiretsu* (financial groups) in the postwar period. But the modern keiretsu have far less political and economic power than the old zaibatsu.

JAPAN'S CHANGING EXPORTS, 1874–1980



EXPORTS AS PERCENTAGE OF IMPORTS

INFLATION AND GNP: JAPAN AND THE U.S.



Source: Kazushi Ohkawa, *Estimates of Long Term Economic Statistics of Japan since 1868* (1967); Kazushi Ohkawa and Henry Rosovsky, *Japanese Economic Growth* (1973); International Monetary Fund; U.S. Bureau of Economic Analysis; U.S. Department of Labor, Bureau of Labor Statistics.

the economy would receive an enormous boost from the Korean War; otherwise, the Dodge Plan might easily have been a disaster.

Two American economists have described the Occupation as "one of the most ambitious attempts at social engineering the world has seen." Yet, judged in terms of its broad objectives—shifting sovereignty from the Emperor to the Japanese people and establishing institutions that would sustain that shift—the Occupation was a successful experiment. In redistributing power, thereby setting the stage for the growth of a robust, modern economy, the Occupation authorities went well beyond what could have been expected of the Japanese acting alone.

The Boom Years

During the late 1940s, however, Japan's future did not look bright. One American geographer wrote in 1949 that Japan, with its meager endowment in land and natural resources—no oil, iron ore, or copper to speak of—could never regain the relative prosperity of the 1930s except by depending indefinitely on foreign aid. To become self-supporting would, in his view, require "political, social, and economic distress and a standard of living gradually approaching the bare subsistence level." Economists tended to be less fatalistic, but all observers were in for some big surprises.

The first was the Korean War boom after June 1950, which provided a timely windfall for Japan, just as the outbreak of World War I had, 36 years before. As a supplier of trucks and equipment, a repair station for the United Nations forces, and a recreation ("R&R") area for Allied troops, Japan reaped some $800 million in foreign exchange in the first year of the conflict. Within three years, its wartime earnings exceeded all U.S. aid received since 1945. By 1952, when the Japanese-American Peace Treaty was signed, ending the Occupation, Japan had recovered from the worst effects of the Pacific War. The critical bottlenecks in industry had been eliminated, and manufacturing output had nearly quadrupled since 1946, surpassing the levels of the mid-1930s.

Yet, after the 1953 Korean Armistice, there was no reason to

Japan's exports, though considerable, amounted to only 15 percent of GNP in 1980, about half the proportion in West Germany. Yet some Japanese industries rely heavily on foreign markets to fuel expansion. Japan's vigorous growth rate has kept its workers' pay safely ahead of the relatively high inflation rate.

AUTOS: A JAPANESE RECIPE

In 1951, Tokyo decided to promote the growth of Japan's auto industry. At the time, Toyota, Nissan (maker of Datsuns), and Prince (later merged) were the nation's only established automakers. Within a decade, they were joined by six new competitors. Strong domestic rivalry, and government encouragement, were essential ingredients of success.

At first, all but two of the companies relied upon imported technology and components. By 1960, total annual production had risen to a meager 100,000 cars (about one-tenth of them for export), but most of the companies had acquired the know-how to go it alone. Tokyo's Ministry of International Trade and Industry (MITI) had erected tariff and quota barriers to shield the fledgling industry from overseas competition. During the early 1960s, MITI tried to force the seven smaller companies to merge. Three went along, but Isuzu, Mitsubishi, Fuji, and Toyo Kogyo refused. MITI made some token loans to support what were now six producers (joined by a seventh, Honda, in 1963). Then it stepped aside.

As tariffs waned, the Japanese automakers competed vigorously at home and abroad. Beginning in 1961, when most of their exports were going to Southeast Asia and Latin America, they beat Detroit's Big Three on price. They began catching up in volume, increasing production 20-fold during the 1960s and replacing West Germany as the world's No. 2 auto producer in 1970. Then, they began catching up in quality. In 1980, Japanese automakers captured 23 percent of the American market, and, with worldwide sales of 10 million cars, replaced Detroit as the world's No. 1 producer.

The Japanese companies enjoy several advantages. Productivity is high: In 1977, the average Japanese autoworker turned out 33 cars annually, while his better-paid American counterpart produced 26. Japanese managers earn between a quarter and a third of what American counterparts make. Japan's automakers have a $1,500 "sticker- price advantage" over Detroit, of which an estimated $420 is due to lower labor costs. Good management accounts for part of the remaining difference. Ironically, the Japanese acquired many of their factory techniques, such as the much-publicized "quality circles," where managers and workers meet to solve assembly line problems, from American advisers.

expect expansion to continue at the same pace. Japan had a GNP per capita of only $188 in 1952, lower than Brazil's or Malaysia's at the time. Tokyo published a five-year plan in 1956 that allowed for GNP growth of five percent annually, about half the rate of the previous decade. The next year, the estimate was moved up to a daringly optimistic 6.5 percent. Even this projection proved to be too modest. On average, real GNP grew by more than nine percent up to 1960, led by the manufacturing and mining (mostly coal) industries.

By 1970, Japan's economy was producing four times the real output it had in 1955. Measured by GNP, it had become the third largest economy in the world, behind only the United States and the Soviet Union. Because population grew by only 16 percent (to 105 million in 1970), salaries rose, and the demand for consumer goods began to build up. By the mid-1960s, there was a booming market in Japan for "luxury" goods—radios, cars, cameras—and by 1970, the Japanese were living about as well as the British. *Japan Reporting*, a government publication, summed up the mood: "Passing through the prewar and postwar periods of austerity, we longed for the splendid and rich life of Western consumers; to catch up with their life was the consensus."

One of the chief symbols of the country's new prosperity, the 130-mile-an-hour Tokyo-Ōsaka "bullet train," made its maiden voyage in 1964. Every home now had to have its "three electric treasures"—a television, a washing machine, and a refrigerator. By 1966, there was a television set in 96 percent of all Japanese homes. The next year, a nationwide poll showed that most Japanese (88 percent), like most Americans, considered themselves middle class. Japan had arrived.

Sony Makes History

"Miracle" growth brought with it major changes in the economy. Most fundamental was the continuing shift of labor from the primary industries (agriculture, fishing, and forestry) into the expanding manufacturing and service sectors. This happened much more quickly in Japan than in the West. There were even more startling changes in the make-up of Japan's output. Food products and textiles, which together comprised 37 percent of all manufacturing production in 1955, accounted for only 19 percent in 1970. Machines grew from 14 percent to 32 percent of all Japanese manufactured goods.

How can Japan's success be explained? There is no single factor that one can point to. Keen competition at home, the sacrifices of Japanese workers and industry, and Tokyo's helping hand all contributed.

Selected domestic industries were shielded from overseas competition by strict tariff and quota laws, but imports of raw materials and foreign technology were duty free. Japanese firms imported technology on a massive scale in the 1950s and '60s, particularly machinery for heavy industries such as shipbuilding (Japan was launching more ships than any other country in the world by 1960) and for the light electric industries—precision instruments, cameras, radios, stereos. Sony paid $25,000 in 1953 for a license to manufacture transistors; the rest, as they say, is history. As in the Meiji era, Tokyo was careful to limit foreign investment, preferring to acquire technology by outright purchase or through licensing agreements. Most of these deals included provisions for training and technical guidance by foreign experts, latter-day "live machines."

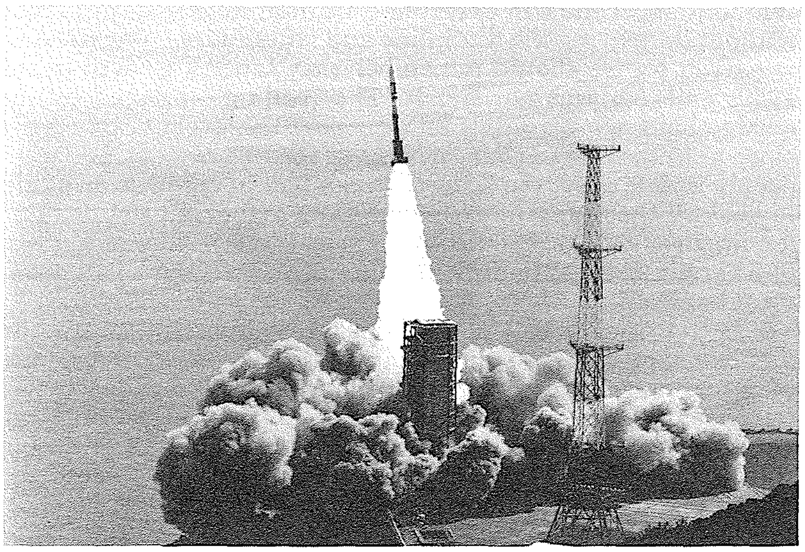
Beyond "Japan, Inc."

The new technology had a particularly strong impact because Japan was beginning with so little; there were few psychological barriers to innovation. And Japanese workers—as well educated as their European counterparts but willing to work longer hours for less pay—proved to be a far greater asset in making the new technology work than many economists had imagined. Labor cooperated with management; after the initial turmoil of the late 1940s, disruptions of production by strikes were few. (Japanese strikes, when they occur, are largely symbolic events, often lasting only one day.) And the Japanese factory worker's hourly wage averaged only 10 percent of that earned by his U.S. counterpart in 1960. (Today the hourly wage in Japan stands at about 60 percent of the U.S. level.)

Ordinary Japanese also readily deferred consumption in the interest of achieving national economic growth. Japanese workers have always been more willing than others to save. In 1958, they banked about 15 percent of their disposable income while workers in the United States, West Germany, and France were saving six to eight percent of their pay. (Today, the Japanese rate is up to about 21 percent; the U.S. rate is less than five percent.) Japanese firms also plowed a far larger share of their profits back into the business than Western companies did. All told, the Japanese reinvested close to 32 percent of their GNP between 1956 and 1960, most of it in new factories and equipment. This was—and is—a unique accomplishment for a peacetime democracy.* One result: The average Japanese factory is only 10 years old. In America, the average factory is 40 years old.

The government's contribution to Japan's economic success is difficult to quantify. Tokyo's official "plans" had few teeth

*As American "supply side" economists delight in pointing out, Japan has no capital gains tax, except on land sales; and tax rates on personal income are far less steeply progressive than those in America. Such policies are said to encourage work and saving. —ED.



Courtesy of the Institute of Space & Aeronautical Science.

The satellite Tansei III *is launched, February 1977. Japan put its first satellite into orbit in 1970. Today, the $477 million budget for Tokyo's space program is about one-tenth the size of NASA's.*

and seldom provided good forecasts, but the industries that Tokyo targeted for growth usually attracted needed private investment. The big banks supplied generous credit, partly because of official pressure and partly because Tokyo's blessing usually meant the investment would be safe and profitable.

Moreover, under the unbroken 26-year reign of the conservative Liberal Democratic Party that began in 1955, the government created an environment that was highly favorable to private business, offering financial incentives to investors and to successful exporters. First, Tokyo singled out basic industries and shielded them from import competition—steel, chemicals, shipbuilding—then the auto industry and some of the appliance industries. Today, Tokyo is promoting the growth of "knowledge businesses" such as computers and semiconductors. In favoring particular industries, the authorities seldom fell into the trap, common in the West, of trying simply to preserve jobs, a course that tends to freeze the industrial structure and thwart needed change.* Whether by luck or wisdom, the Japanese government succeeded in exerting a limited degree of guidance without destroying the discipline and stimulus of competition.

Even so, we should remember that Japan's growth in the 1950s and '60s was not steady. The "ceiling" imposed by the need to hold raw materials imports near the level of exports did close in from time to time. Whenever the balance of trade went deeply into the red, the Bank of Japan had to cut back on credit to cool off the domestic economy, thus reducing local demand for imports. The recessions that ensued were really only slowdowns. But they were difficult times, even so, and many firms went bankrupt.

By the mid-1960s, the flood of cars, trucks, cameras, radios, and heavy machinery shipped overseas had got Japan out from under its balance of payments "ceiling." Japanese industry was so efficiently turning raw material imports into finished products that the value of exports would exceed imports in all but very bad years. At first, Tokyo, basking in its new success, did not realize that it had a big problem on its hands.

Paying the Piper

Japan began racking up such huge trade surpluses with other countries—a total of $7.76 billion in 1971 alone—that it was undermining the international monetary system. (Under the system created at the 1946 Bretton Woods Conference, each nation agreed to revalue its currency if it ran consistent, large trade surpluses.) And businessmen in America and Europe clamored for new protectionist measures—the Common Market limited Japanese color television imports in the 1960s—and protested against the wall of tariffs, quotas, and other trade barriers Tokyo had quietly erected to protect its own industries.

Reluctantly, Tokyo relaxed many of its trade barriers and diverted government funding from export stimulation programs to domestic investments in housing, hospitals, and other neglected areas. But it was too little, too late. The United States alone had a $3.2 billion trade deficit with Japan in 1971. In August of that year, President Nixon announced to a surprised world that he was closing the gold window, ending the dollar's convertibility to gold. This would force countries with stronger economies, such as Japan and West Germany, to let their currencies appreciate against the dollar, which had been fixed at an

*Agriculture is a conspicuous exception. Because Tokyo protects the domestic farm sector with price supports and tariffs on food imports, the Japanese consumer pays three times as much for a pound of rice as does his American counterpart.

artificially high level. This increased the prices that American consumers would have to pay for Japanese and other foreign goods. Hence, Japan's exports to the United States, its leading trading partner, would decline.

Storm Clouds and Little Dragons

The Bank of Japan pumped new money into the Japanese economy to stimulate domestic consumption to make up for the loss of export sales. The result: 20 percent inflation. And when OPEC suddenly announced a 400 percent increase in the price of oil in October 1973, inflation shot up to 25 percent. Then the authorities clamped down on the money supply, so the shock hit hard but was over quickly. Japan's economy recovered rapidly and produced another embarrassing trade surplus by 1977. When the second OPEC "crunch" (a doubling of prices) hit in 1979, Tokyo's tight money policy proved its worth. Growth continued at about a four to six percent rate, and inflation stayed in single digits.

Compared to the rest of the world, Japan's economy performed well during the 1970s. Beneath the surface, however, there have been many painful adjustments. Higher oil prices, currency exchange rates that made Japanese goods more expensive overseas, and increasing competition from the "little dragons" of Asia—Hong Kong, South Korea, Taiwan—cut annual growth nearly in half.

Bankruptcies rose to record levels during the 1970s; twice as many firms went bankrupt in Japan in 1978 as in the United States, which has a far larger economy to begin with. Corporate profits fell more steeply in Japan after the first OPEC price shock than in either America or West Germany, and Japan's factories were operating further below capacity. The rate of productivity increase dropped off, as it did elsewhere, but Japan fell from No. 1 in this category to No. 3, behind West Germany and France.

These are among the signs that a major restructuring of the Japanese economy is underway. Manufacturing employment shrank by more than 10 percent during the last decade, with the drop in some important sectors, such as textiles and shipbuilding, reaching several times that proportion.* Government policies to finance the scrapping of obsolete equipment and to

*The total number of people employed in Japan grew only nine percent during the 1970s, largely because older workers and women left the labor force. Unemployment in late 1981 averaged two percent. One can only wonder how successfully Japan could have coped if more people had looked for jobs, as in the United States, where total employment expanded by almost 25 percent during the same decade.

retrain workers seem to have warded off the worst effects of these changes.

The question is: Will the Japanese, who have been able to make the most out of their proven ability to manage modern mass production, be able to exploit other advantages as the emphasis shifts to the services of a "postindustrial" society—banking, engineering, data processing?

Another challenge for Japan, as for its Western partners, is the aging of the work force. In Japan, this threatens the system of "permanent employment" that has served the country so well during the postwar years. Under "permanent employment," a worker is paid less than he is worth at first, and more in his last years. This provides incentives to loyalty by the employee and to investment in his training by management.

If retirement is postponed much beyond the present customary age of 55 to compensate for the shortage of younger workers, managers may have difficulty obtaining full productivity over the full span of the employee's career, eating into profits. Under the seniority pay system, Japanese companies will be paying their employees more as the average age of the work force rises, but will not enjoy a commensurate boost in output. If employers are forced to switch to a "merit pay" system, then the current pattern of labor-management accommodation will be undermined. Either way, adjustment will be difficult without the booming growth rates of the past. And if Japanese women, now 39 percent of the work force, start entering the labor market in larger numbers, as American women have done, the need for faster economic growth will be even greater.

The 1980s are proving to be a difficult decade for most industrial nations. If the Japanese people have any advantage, it is their freedom from any illusion that the future can be simply a continuation of the past—a lesson learned during the recovery from the psychological and material devastation of defeat in war. The Japanese do not assume, as do so many Americans and West Europeans, that a static industrial structure will automatically continue to provide an annual rise in living standards. The present confidence of the Japanese rests on their proven ability to adapt quickly and not to rely either on miracles or on old economic formulas to avoid painful but necessary change.

BACKGROUND BOOKS

JAPAN

In 1871, William E. Griffis, an American educator employed by the Meiji government, watched intently as a seated Japanese blacksmith worked the bellows with his feet. "Perhaps this is an important difference between a European and an Asiatic," he reflected in **The Mikado's Empire** (Harper, 1876; Scholarly Resources, 1973). "One sits down to work, the other stands up to it." From this inauspicious debut, the Western study of Japan's economy has progressed.

Asia's New Giant (Brookings, 1976, cloth & paper), edited by economists Hugh Patrick and Henry Rosovsky, is perhaps the best general guidebook. Its 23 Japanese and American contributors chronicle, sector by sector, the resurgence of the Japanese economy between the 1945–52 Allied occupation and the 1973–74 Arab oil embargo. They cover everything: macroeconomic policy; the light tax burden on individual income and savings; the paucity of flush toilets (only 17 percent of Japanese homes had them in 1968).

Two other comprehensive accounts fill the gaps before and after. **Japanese Economic Growth** (Stanford, 1973) by Kazushi Ohkawa and Henry Rosovsky describes prewar developments; Takafusa Nakamura's **The Postwar Japanese Economy** (Univ. of Tokyo, 1981) details the dislocations caused by the "oil shock."

In his **Japan Journal 1855–1861** (Rutgers, 1964), Henry Heusken, the Dutch interpreter for American consul Townsend Harris, recorded the endless diplomacy and "erratic" discussions—whether "the place" can mean both "a place" and "many places"—that preceded the opening of six Japanese ports to American commerce. Harris doggedly pressed his case. Trade, he insisted, would make Japan "the England of Asia."

Yet the first step was an "agricultural revolution" that unfolded in its own peculiar way. In **The Agrarian Origins of Modern Japan** (Stanford, 1959, cloth & paper; Atheneum, 1966, paper), historian Thomas C. Smith contends that innovations in planting, seed selection, and the use of fertilizers, all of which required private initiative, helped move rural Japan from cooperative to individual farming. The trend toward smaller farms made U.S.-style mechanization impractical, but it enhanced the role of the family in agriculture and kept people on the land before World War II, minimizing social upheaval of the kind that accompanied industrialization in the West.

Sociologist Ronald Dore describes modern farming developments in his portrayal of a Japanese village, **Shinohata** (Pantheon, 1978, cloth; 1980, paper). Machines have taken hold, freeing many farmers for employment in nearby industries and producing a new affluence. Villagers who no longer "live" off the land, however, continue to grow their own rice, a symbol of self-sufficiency. Silkworm breeding has been abandoned as unprofitable.

The special relationship that has always existed between government and business in Japan strikes some Americans as odd, others as enviable. Edwin O. Reischauer, U.S. Ambassador to Japan from 1961 to 1966, observes that **The Japanese** (Harvard, 1977, cloth & paper) "have never believed . . . that the less government the better for business." Such cooperation often leads to the exaggerated American claim that "government and business in Japan form a single entity—'Japan, Inc.'"

Economist G. C. Allen analyzes the government's role in development over the years in **A Short Economic History of Japan** (Allen & Unwin, 1946; 3rd rev. ed., 1972). During the Meiji era and through the 1920s, he writes, "government was not of great importance as an owner of industrial and trading undertakings or as a direct employer of labor." Tokyo influenced the private sector by other, indirect means—its association with the zaibatsu; its channeling of agricultural savings toward investment in large-scale industry.

According to most scholars, Meiji officials cemented the government-business "partnership" by careful nurture of a small, *samurai*-dominated entrepreneurial class. Economist Johannes Hirschmeier, in **The State and Economic Enterprise in Japan** (Princeton, 1965), edited by William W. Lockwood, offers Shibusawa Eiichi (1840–1931) as an example of the Meiji entrepreneur.

The son of a rich farmer, a samurai in the service of the last *shōgun*, Shibusawa prospered in government before entering private business. A backer of the First National Bank (Dai-Ichi Ginkō), he also was instrumental in founding the Osaka Cotton Spinning Company. Shibusawa urged businessmen to exemplify *bushidō* (The Way of the Samurai) and strive for honesty, virtue, "and a synthesis between the Analects of Confucius and the abacus."

Some scholars question the importance of this "samurai spirit." In **A Study of Samurai Income and Entrepreneurship** (Harvard, 1974), economic historian Kozo Yamamura claims that idealists such as Shibusawa were the exception. Impoverished by the breakup of the old feudal order, he believes, the samurai simply shared the desire of *heimin* (commoner) entrepreneurs to make money. "Poverty makes one inane," goes an old Japanese proverb.

Just as Meiji industrialists and merchants tried to retain at least a veneer of bushidō, so have ordinary Japanese from time to time betrayed nostalgic, often violent, yearnings for a simpler, traditional past. One not so ordinary Japanese was the "hybrid" Lafcadio Hearn.

A British journalist and educator, Hearn became a Japanese subject in 1895. He was enamored of the "old values" of community, hierarchy, and duty, and feared they would not withstand capitalist influences. In **Japan: An Attempt at Interpretation** (Macmillan, 1904; Tuttle, 1955, paper), he warned: "The future Japan must rely upon the least amiable qualities of her character for success in the universal struggle."

One of Hearn's contemporaries, educator Fukuzawa Yukichi (1835–1901), was rather taken with what the West could offer. Yet for Japan to assume a place among modern nations, he contended in **The Autobiography of Yukichi Fukuzawa** (Tokyo: Hokuseido Press, 1934; Columbia, rev. ed., 1966, cloth; 1980, paper), it had to embrace not only the "things" of Western civilization—the trains, the telegraphs, the warships—but also the Western spirit of independence, scientific inquiry, and entrepreneurial initiative. Japan at the time had no word for "competition," so Fukuzawa coined *kyōsō* (literally "race-fight"), the term still used today.

Though the Japanese were quick learners in the market, they shunned Western models of industrial relations. In **British Factory—Japanese Factory** (Univ. of Calif., 1973, cloth & paper), Ronald Dore explains how. At the price of worker's individuality, characteristic of the British labor system, the Japanese manage their firms on principles of mutual consideration, cooperation, and orderliness. Loyalty is marked. Japanese workers typically insist that sick leave be docked from their generous annual holiday allotment.

Still, Japanese intellectuals remain troubled by modernization. Today, the most glowing accounts of the country's economic policy come primarily from foreign pens. Two examples: "Futurist" Herman Kahn's **The Emerging Japanese Superstate** (Prentice-Hall, 1970, cloth; 1971, paper) and sociologist Ezra Vogel's **Japan as Number One** (Harvard, 1979, cloth; Harper, 1980, paper).

The Japanese remain sensitive to foreign criticism, however. When, in the late 1960s, Foreign Minister Zulfikar Ali Bhutto of Pakistan characterized them as "economic animals," the Japanese promptly indulged in a display of public introspection, write Johannes Hirschmeier and Tsunehiko Yui in **The Development of Japanese Business 1600–1973** (Harvard, 1975).

One response was **The Japanese and the Jews** (Weatherhill, 1972) by Isaiah Ben-Dasan, a pseudonym for popular author Yamamoto Shichihei. Like Judaism, writes Ben-Dasan, there exists a "Japanism," a sense of tribe that outsiders can never fathom: "For thousands of years the Jews have lived in contact with the gentile population of the world, and we know how much . . . understanding that proximity has brought."

An eccentric but apt metaphor of the Japanese character (and economy) is provided in Robert Whiting's **The Chrysanthemum and the Bat** (Dodd, 1977). Baseball met an ambivalent reception in 19th-century Japan. One critic called it a "pickpocket's sport. . . . The players are tensely on the lookout to swindle their opponents, to lay an ambush, to steal a base."

The Japanese have modified the game to suit local taste. Japanese managers play a conservative brand of ball, going with the tried and true. A successful pitcher will be used day after day until his arm gives out. A samurai code for baseball stresses the "team player" who trains hard and shuns materialism.

In 1971, the Yomiuri Giants, Japan's superteam, did not win a single game against the Baltimore Orioles in an 11-game series. After a period of national breast-beating, the players returned to the practice fields. Batters lifted weights; pitchers practiced pick-off moves—all the strategies the foreigners had stressed. "The Japanese," notes Whiting, "were back to the task of making Japan a baseball power." Three years later, the Yomiuri Giants outplayed a rapidly declining New York Mets team, six games to three.

EDITOR'S NOTE: *Edward Lincoln, executive vice president of the Japan Economic Institute, and Peter Duus suggested many of the titles in this essay.*