

## **State, Market, and Economy in Postwar Japan**

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### 1. Themes and Goals

This unit is designed, through student readings, lectures, and in-class discussion, to teach about Japan's postwar development and introduce the competing free-market (or neo-classical) and developmental state paradigms. (For complete definitions of these paradigms see 1. and 2. in the "Terms & Concepts" section of the Instructor's Introduction.) These competing paradigms are most typically employed to explain postwar economic development in Japan, and subsequently deployed as the lessons to be learned from Japan's experience. At stake is whether Japan's success is primarily attributable to the allocative efficiencies of free markets or to the state's strategic, systematic, and comprehensive intervention in those markets. The unit also moves beyond these paradigms by examining the Japanese developmental state in its historical context (with a focus on class formation), and the role of entrepreneurship in fashioning markets where none existed before. The readings combine a comprehensive survey of the institutions and processes of postwar Japan, with a fun and detailed look at the way the television industry reworked Japan and Japanese society as it embodied and enabled economic success.

Students should come away with an understanding of:

- the competing developmental state and free market paradigms, and how they are used to understand East Asian, developing, and developed economies;
- how a narrowly drawn debate focusing on the state/market dualism can work to limit our understandings; and
- how broader and deeper socio-historical processes must also be considered if we are to understand economic development, growth, and change.

The heart of this unit is the juxtaposition of two related but distinct understandings of postwar Japanese development, as expressed by the books of T.J. PEMPEL and Simon PARTNER. Both

works move beyond the free market and state-led development paradigms, albeit in different ways. Pempel shows how the developmental state is underpinned by a particular class configuration, and shows how the historical formation of this class structure is crucial to understanding the developmental state. Partner is more critical of the paradigm. While the developmental state is also implicit in many parts of his analysis, he focuses more on entrepreneurial agency, showing how it triumphed when state policies were irrelevant or even antagonistic. But his analysis avoids slipping back into a simplistic, free-market story. Rather, he ends up showing in wonderful and entertaining detail exactly how certain consumer markets – and key ones to Japan’s development success – were socially and historically constructed; indeed, how their construction necessitated the reworking of society itself.

This unit provides opportunities to integrate an international comparison and alternative theoretical perspectives into the study of the relationships between markets and states, and economic and social change and development. The analyses of the dynamics of states, markets, industries, and social and economic development should be accessible to students regardless of previous exposure to Japanese studies or political economy. The theoretical implications of these readings should encourage critical examination of processes in the United States and other developed and developing countries.

The materials in this unit should, first, provide students with a fairly comprehensive introduction to the postwar political economy of Japan (though there is ample material here for advanced students of that topic as well). Second, the unit introduces the free-market and state-led paradigms of development, and leads students beyond those paradigms.

Finally, this unit should help show students how to think critically about some of the following.

- Modern economies are typically portrayed as markets, regulated from a distance by a night-watchman state. This formulation flies in the face of much experience and recent (and classical) scholarship.
- The relationship between states and markets is more complex, with states shaping in myriad and historically-determined manners the actual contours and processes of given markets.
- States are more complex, consisting of multiple entities which may or may not work well together. Those entities and their relationship to the economy are underpinned and shaped by historically-determined relationships of power, coercion and consent (including those of class) between states and societies. The relationships of agency and structure between the state and entrepreneurs and firms are complex: each has agency which is structured by the agency of the other.
- The economy cannot be reduced to market transactions, which though important, comprise only a small portion of activity in large and complex systems of production, circulation, and distribution. Markets are not natural at all, but actively constructed and maintained. They are cultural, social, and gendered: note the reworking of Japanese households in Partner.

## 2. Audience and Uses

This unit is designed to be useful to a wide variety of undergraduate courses, including but not limited to:

- Contemporary Japan
- Contemporary East Asia
- Economic Geography
- Development Studies
- Economic History
- (Comparative) Politics or Political Economy
- Globalization
- Geography or Sociology of Capitalist Societies
- Markets or Entrepreneurship

It can also be tailored to suit graduate seminars.

## 3. Instructor's Introduction

Note: Underlined terms are explained in the “Terms and Concepts” section below.

Japan's formal surrender in World War II was followed by a seven year U.S. military occupation of the country under the leadership of General Douglas MacArthur. The Occupation intended to not only demilitarize Japan but also reform it politically, socially, and economically. The emperor's role was reduced to mostly ceremonial duties, and a new constitution re-structured postwar Japan's government, centered on the National Diet and a parliamentary system, with voting rights extended to all adults. Rural land reform was carried out, breaking up the landholding class, and the zaibatsu, the large conglomerates of Japan's industrial and war machine, were broken up. Early Occupation authorities tried to restructure Japan's economy around its “natural” comparative advantages, namely, agriculture and such light industries as textiles.

As Simon PARTNER notes in *Assembled in Japan*, these attempts to reduce Japan's industrial capacity were short-lived. American authorities started to foster Japanese heavy industry as postwar concerns over Communism grew and the necessity of technology to broader Occupation reforms became clear. A wealthy and industrialized Japan was seen as a bulwark against the spread of Communism and leftist influence. Although initially the U.S. encouraged the formation of labor unions (the right to collectively bargain was written into the new constitution promulgated by the U.S.) and political groups from the left, the “reverse course” in the late 1940s was marked by U.S. support of conservative political efforts to crack down on labor and Communist groups, as well as by the softening of anti-monopoly laws which allowed big business to re-group into horizontally and vertically-integrated keiretsu. As T.J. PEMPEL observes in *Regime Shift*, the reforms were crucial in changing the class configuration in Japanese society, creating blocs of big business, small business, and rural farmers, which

underpinned the electoral dominance of the conservative LDP (Liberal Democratic Party) for decades. Thus, the socioeconomic structures that coalesced during the postwar period were crucial, though not absolutely deterministic, in undergirding the political economy that emerged.

This sets the background for the remarkable rise of Japanese industry following the crippling effects of defeat in World War II. Neoclassical explanations, with their emphasis on the night-watchman state, attribute Japan's economic success to limited government interference in labor and capital markets, and in general, argue that the market, when left alone, finds the right prices and quantities of goods to produce. In contrast, the developmental state paradigm emphasizes the role of institutions like the MoF (Ministry of Finance) and MITI (Ministry of International Trade and Industry) whose export-oriented industrialization policies, with a focus on selecting and nurturing certain industries, and control over import/export licenses and capital markets, all reflected a state which shaped and controlled the direction of the economy. Both of these paradigms of development are insufficient, however, for understanding the postwar development of Japan.

The story of the Japanese electrical goods industry, as explored by Partner, demonstrates that states are not best understood as a single monolith with perfect information governing the market. Rather, his study of postwar Japan shows competing interests among businessmen and politicians leading to policies that were indifferent and sometimes even antagonistic to the development of these industries. The neoclassical paradigm implicitly assumes that certain social structures, such as the middle-class household with a demand for radios and TVs, exist naturally. This paradigm is also problematic in the case of Japan, whose postwar economic situation was hardly one that would "rationally" involve consumption of expensive "luxury" items like TVs or washing machines. In sum, markets and states do not exist in isolation from each other, nor does either operate outside of certain given historical and structural circumstances. For Pempel, class configurations resulting from struggle underlie the political economy of postwar Japan, shaping the structure and policies of the state. For Partner, agents (entrepreneurs) working creatively within the structure of postwar policies refashioned the social configuration (households, along with gendered relationships and roles) of postwar Japan, and thereby enabled the success of the electrical goods industry. Both accounts emphasize how Japan thus created its own comparative advantage in key industries and sectors.

### Terms and Concepts:

Neo-classical or Free Market Paradigm: The neo-classical or free market paradigm argues that development is most likely to occur when the state, with some minor exceptions, refrains from significant intervention in industry or the regulation of trade. Instead, the state should allow the market to regulate itself. According to this paradigm, minimization of state-induced market distortions leads to a more efficient market-based allocation of resources, and therefore greater development success, than in other developing countries. The advocates of this paradigm argue that Japan's postwar economic boom can be attributed to the government's absence of economic intervention and its passive facilitation of the natural allocative efficiencies of the free market, meaning that postwar growth can be seen as the product of the ability of Japanese corporations to harness the potential of international markets and domestic production advantages, such as cheap labor.

Developmental State Paradigm and State-led Development: The term “developmental state” refers to the *state* and its *abilities*, while “state-led development” refers to the state’s *actions* and *decisions*. The developmental state paradigm is one in which a strong, autonomous state or leadership intervenes in the economy to promote economic development. Similar to Soviet-style centrally-planned economies, the developmental state identifies national economic goals and intervenes and directs the economy to achieve those goals. The similarity ends there, however, as companies are largely privately owned, and market competition between companies plays a key role. Developmental state actions include but also go far beyond mere “interventions in the market” such as the regulation of prices, control of imports, or exertion of influence over financial indicators. According to this paradigm, the Japanese state crucially exerted various kinds and degrees of pressure and influence to get private companies to act in accordance with the accomplishment of national goals, for example by directing and “encouraging” companies to go into selected sectors, actively channeling capital investment into selected sectors at the cost of others (very different from the mere adjustment of interest rates), and orchestrating the creation of strategic sectors and even technologies that did not previously exist.

Zaibatsu: The *zaibatsu* were the powerful financial and industrial conglomerates, each organized around a holding company controlled by a powerful family. These large conglomerates monopolized the prewar and wartime Japanese economy and concentrated power in the hands of a very small elite prior to being dissolved in the postwar American occupation.

Reverse Course: The so-called “reverse course” refers to the 1947 change in American policy that shifted the focus of the Occupation from the promotion of democracy, the implementation of social reforms, the supporting of labor unions, and the purging of business and political leaders involved in the war effort to increasingly conservative policies for the strengthening of Japan as a political and economic ally in the fight against Communism in Asia. “Reverse course” policies included the reintegration of those war-era leaders into politics and business and crackdowns on organized labor and the political left.

Keiretsu: The postwar remnants of the *zaibatsu*, the *keiretsu* remain powerful groups of affiliated companies linked together by central banks or trading companies, although their inter-company ties, domination of the market, and concentration of power are somewhat diminished.

#### 4. Instructor Readings

- \*\*\* Most important
- \*\* Recommended
- \* Optional

The following two readings (especially the first article) provide historical context and a quick, concise, and schematic presentation of the elements of the developmental state theory, its background, and its relationship to other relevant theories. They thus provide a good starting point for developing lectures that lay out the historical and theoretical background for the readings.

\*\*\* HENDERSON, Jeffrey and Richard P. APPELBAUM. "Situating the State in the East Asian Development Process." In *States and Development in the Asian Pacific Rim*, edited by Richard P. APPELBAUM and Jeffrey HENDERSON. Newbury Park: Sage Publications, 1992. Pages 1-23.

A good introduction to the historical circumstances behind postwar development in Japan and East Asia, followed by short and concise explanations of several relevant paradigms, including the roles of foreign capital, free markets, neo-Confucian culture, repressive labor systems, and lastly, state policy and influence. Introduces the historical context and content of each of these paradigms. The last four pages provide an excellent introduction to the developmental state paradigm, explaining and expanding on Chalmers JOHNSON's classic formulation of the developmental state, and using a nice box chart to illustrate the differences between market ideological, plan ideological, market rational, and plan rational economies. It also includes a long list of the various forms of market intervention practiced by the Japanese state and its East Asian neighbors.

\* SO, Alvin and Stephen CHIU. "Current perspectives on East Asian development." In *East Asia and the World Economy*. Thousand Oaks: Sage Publications, 1995. Pages 3-30.

So and Chiu provide concise definitions of the following competing explanations of postwar East Asian development: state, market, cultural, dependency theory, and world systems theory. A four to five page section on each paradigm describes its theoretical context, applications, and relevance to East Asia, as well as a critique of the paradigm.

## 5. Student Readings

The unit is designed as a two-week unit, assuming three hours of class time per week. The student readings can be configured in a number of different ways, depending on the level of the class. It is important to know that Pempel's *Regime Shift* is dense and a little difficult (on the other hand, it is very well-written, well-structured, and authoritative). It is thus suited for upper division undergraduate courses and graduate seminars. In contrast, Partner's *Assembled in Japan* should be fine for all levels. For lower division undergraduate classes, it may be best to have the students read all or some parts of *Assembled in Japan*, and for the professor to use *Regime Shift* as a basis for lectures. In this case, the article by Henderson and Appelbaum could be assigned to undergraduates in the first session of the unit to introduce the concept of the developmental state and its relationship to other paradigms; the required readings for the second week would then consist of a few chapters from Partner (a summary of the chapters is below). A graduate seminar or advanced upper division course, on the other hand, could take the form of a two-week unit that covers all or part of *Regime Shift* in the first week and all or part of *Assembled in Japan* in the second. Somewhat less advanced courses could read fewer chapters of each. The star system accompanying the description of each reading helps to illustrate these options.

- \*\*\* Most important
- \*\* Recommended
- \* Optional

\* Undergraduate, \*\*\* Graduate

PEMPEL, T.J. *Regime Shift: Comparative Dynamics of the Japanese Political Economy*. Ithaca: Cornell University Press, 1998.

Use Chapters 2 and 3 (pp. 42-110) for undergraduates.

The key readings for this unit consist of two chapters: Chapter 2 (“Japan in the 1960s: Conservative Politics and Economic Growth,” pp. 42-80); and Chapter 3 (“From Chaos to Cohesion: Formation of the Conservative Regime,” pp. 81-110). Chapter 2 presents a synchronic slice, circa 1965, of the Japanese postwar system that had formed by the early 1960s, and which retained its essential features until sometime in the 1990s. It thus shows the various components of the Japanese developmental state, and just as importantly, how they worked together to foster three decades of growth and increasing prosperity. Chapter 3 then examines the history of each of these components, showing both how they came into being and how they came to work together as they did. It shows (in non-teleological fashion: other outcomes were possible) the transition from the prewar alliance of the military, the nobility, big business, and rural landlords to the eventual postwar democracy, with a developmental state ruled by the Liberal Democratic Party whose authority was underpinned by an electoral base consisting of big business, small business, and rural farmers.

\*\*\* Undergraduate, \*\*\* Graduate

PARTNER, Simon. *Assembled in Japan: Electrical Goods and the Making of the Japanese Consumer*. Berkeley: University of California Press, 1999.

Available to subscribers (many universities) as a NetLibrary e-book at [http://www.netlibrary.com/ebook\\_info.asp?product\\_id=42270](http://www.netlibrary.com/ebook_info.asp?product_id=42270)

This book presents a more narrative version of Japan’s postwar development, looking at how entrepreneurs and corporations actually put together their growth and success, which in turn constituted national development. Partner also shows how markets are socially constructed, a process which takes place outside of (though in relation to) the state and its policies. While all of the chapters are important, Chapters 2 through 5 are the most relevant for this unit. Chapter 1 examines the prewar foundations and antecedents to postwar technological success, consumerism, and government leadership in industry. Chapter 2 describes the early postwar search for the keys to understanding the prosperity of the United States, and the development of particular visions of success, while Chapter 3 focuses on how some of these coalesced around, and led to the creation of, the new television industry. The success of this industry depended not just on the development of technological and production know-how, the subjects of Chapters 1-3, but on the development of a market as well. Chapter 4 shows how the industry imported a range of marketing techniques toward this end, which eventually included efforts to produce an American-style middle class oriented toward purchasing expensive electrical goods (Chapter 5). Finally, Chapter 6 focuses on the role of cheap female labor in the success of Japan’s portable transistor radio export industry.

\*\*\* Undergraduate, \*\* Graduate

HENDERSON, Jeffrey and Richard P. APPELBAUM. "Situating the State in the East Asian Development Process." In *States and Development in the Asian Pacific Rim*, edited by Richard P. APPELBAUM and Jeffrey HENDERSON. Newbury Park: Sage Publications, 1992. Pages 1-23.

Depending on your lesson configuration, you may or may not wish to assign this chapter to students: it may be more useful for preparing a background lecture. See the comments above, under Instructor Readings and Student Readings.

A good introduction to the historical circumstances behind postwar development in Japan and East Asia, followed by short and concise explanations of several relevant paradigms, including the roles of foreign capital, free markets, neo-Confucian culture, repressive labor systems, and lastly, state policy and influence. Introduces the historical context and content of each of these paradigms. The last four pages provide an excellent introduction to the developmental state paradigm, explaining and expanding on Chalmers Johnson's classic formulation of the developmental state, and using a nice box chart to illustrate the differences between market ideological, plan ideological, market rational, and plan rational economies. It also includes a long list of the various forms of market intervention practiced by the states of Japan and the other East Asian countries.

## 6. Student Activity

### *Discussion questions*

- What is a developmental state? What are its elements? How did those elements work together in Japan?
- What is a market? How is the market underpinned (made possible, enabled to function) by particular state institutions? What is the state's relationship to the market? What underpins the authority of the state? How did those historical circumstances come into being?
- In Partner, what is the role of the state? What evidence did he use to determine the role of the state? How is his understanding of the role of the state different from that of Pempel?
- Was there a "natural" market for radios, televisions, and other appliances? In other words, did demand for televisions and other appliances create those industries, or did those industries create the demand? What did entrepreneurs do to make those markets?
- Did changes in society make changes in industry and the economy, or did changes in industry and the economy make changes in society? What was the prime force causing these changes?
- What is traditionally meant by "comparative advantage," and how must that concept be rethought in terms of Japan's postwar development? If, as Japan proves, economies are

capable of *creating* comparative advantage, rather than taking it as natural or given, what does that mean for the nature of markets, the degree to which they are constructed as opposed to 'natural'? How does that then challenge neoclassical concepts of markets and competition? How does that relate to the current governing ideologies of institutions like the World Bank and the IMF and their approach to structured aid for developing countries?

## 7. Further Reading

- WADE, Robert. "Japan, the World Bank, and the art of paradigm maintenance: The East Asian Miracle in political perspective." *New Left Review* (217), June 1996. Pages 3-36.

A brilliant and entertaining article, suitable for undergraduates, depicting the struggle between the World Bank and entities within the Japanese state to define the Japanese model. Brings the contrasting state and market paradigms into sharp relief: great supplementary reading to this unit.

- JOHNSON, Chalmers. *MITI and the Japanese Miracle*. Stanford, CA: Stanford University Press, 1982.

The classic statement of the developmental state in Japan.

- WOO-CUMINGS, Meredith. *The Developmental State*. Ithaca: Cornell University Press, 1999.

A collection of book chapters, including one by Johnson, re-examining the developmental state paradigm in the late 1990s.

## 8. Comparative Opportunities

- EVANS, Peter. *Embedded Autonomy: States and Industrial Transformation*. Princeton: Princeton University Press, 1995.

An important attempt to move beyond the state-market dichotomy by comparing the role of particular kinds of relationships between states and markets in South Korea, India, and Brazil.

- SAXENIAN, Annalee. *Regional Advantage: Culture and Competition in Silicon Valley and Route 128*. Cambridge: Harvard University Press, 1994.

The most authoritative explanation of growth and technological innovation in Silicon Valley. Its influential approach to technological innovation, networks, and entrepreneurship make it an excellent companion to (and critique of) *Assembled in Japan*.

- HIRSCHMAN, Albert O. "The rise and decline of development economics." In *Essays in Trespassing: Economics to Politics and Beyond*. Cambridge: Cambridge University Press, 1981.

Succinctly traces the assertion of free-market neo-liberalist thinking in development theory, providing historical and theoretical context for the states vs. markets debate.

- HIRSCHMAN, Albert O. "The political economy of import-substituting industrialization," *Quarterly Journal of Economics* (82), 1968. Pages 17-24.

A thorough and influential analysis of the failure of import-substitution industrialization in Latin America in the 1950s and 1960s, this article would make an excellent companion to Pempel. It puts into a larger, developmental context the policies of the Japanese state (Pempel's Ch. 2) and why they apparently succeeded, and just as importantly, highlights the importance of the class underpinnings of Japan's developmental state (an important component of Pempel's Ch. 3).

The following three books, in some ways associated with the Johnson tradition, all examine the role of the state in the postwar industrialization and development of Taiwan and South Korea:

- WADE, Robert. *Governing the Market: Economic theory and the role of government in East Asian industrialization*. Princeton, NJ: Princeton University Press, 1990.
- GOLD, Thomas. *State and Society in the Taiwan Miracle*. Armonk, NY: M.E. Sharpe, 1986.
- AMSDEN, Alice. *Asia's Next Giant: South Korea and late industrialization*. New York: Oxford University Press, 1989.

## 9. Some Theoretical Reference Points

- BLOCK, Fred L. *Postindustrial Possibilities: A Critique of Economic Discourse*. Berkeley: University of California Press, 1990. Especially Chapter 2 (Economic Sociology) and Chapter 3 (Markets).
- GRANOVETTER, Mark. "Economic Action, Social Structure, and Embeddedness," *American Journal of Sociology* (91), 1985. Pages 481-510.

These two draw on Karl POLANYI's (*The Great Transformation*) ideas about the social embeddedness of markets, an idea which is implicit in, and important to, both Pempel and Partner.

- MOORE, Barrington. *Social Origins of Dictatorship and Democracy: Lord and Peasant in the Making of the Modern World*. Boston: Beacon Press, 1993.

Argues that the formation of class, and particular configurations of relationships between classes, fundamentally shapes the direction of political and economic development. Important to the structure of Pempel's argument.

TOKYO (Reuters) - Japan's economy slipped into recession for the first time in 4-1/2 years in the last quarter, putting the nation on course for its deepest postwar slump as the coronavirus crisis ravages businesses and consumers. Monday's first-quarter GDP data underlined the broadening impact of the outbreak, with exports plunging the most since the devastating March 2011 earthquake as global lockdowns and supply chain disruptions hit shipments of Japanese goods. Analysts warn of an even bleaker picture for the current quarter as consumption crumbled after the government in April r Japan's industrialized, free-market economy is the world's third-largest by purchasing power parity (PPP) after the United States and the People's Republic of China, and second-largest by market exchange rates. Its economy is highly efficient and competitive in areas linked to international trade, although productivity is lower in areas such as agriculture, distribution, and services. Distinguishing characteristics of the Japanese economy include the cooperation of manufacturers, suppliers, distributors, and banks in closely-knit groups called keiretsu; the powerful enterprise unions and shunto; cozy relations with government bureaucrats, and the guarantee of lifetime employment (shushin koyo) in big corporations and highly unionized blue-collar factories. The economy of Japan is a highly developed free-market economy. It is the third-largest in the world by nominal GDP and the fourth-largest by purchasing power parity (PPP). and is the world's second largest developed economy. Japan is a member of the G7 and G20. According to the International Monetary Fund, the country's per capita GDP (PPP) was at \$41,637 (2020). Due to a volatile currency exchange rate, Japan's GDP as measured in dollars fluctuates sharply. Accounting for these fluctuations through The market economy consists mainly of four sectors: households, corporations, government, and foreign sectors. 3 Federal Reserve Board (FED), the central bank of the United States, has the dual mandate of maximum employment and stable prices. 3. In high-growth period in postwar Japan, the Economic Planning Agency played a strong role in economic policy coordination and economic plans, as highlighted below: (1) Five-Year Plan for Economic Self-Support (FY1956-60); (2) New Long-Range Economic Plan (FY1958-62); (3) National Income Doubling Plan (FY1961-70); (4) Medium-Term Economic Plan (FY1964-68); (5) Economic and Social Development Plan (FY1967-71); and (6) New Economic and Social Development Plan. (FY1970-75).