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THE STATE AND PRIVATE ENTERPRISE

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The importance of the state's role in Japan's economic development during the modern era is more difficult to assess than is commonly supposed. This is chiefly because generalisations about it are likely to differ according to the perspective in which the economy is viewed. In the early years of Meiji, when the *laissez-faire* prescription for economic management was applauded and generally followed in Western countries, the widespread economic functions exercised by the Japanese government, and especially its part in the introduction of new manufacturing industries, seemed abnormal to the foreign observer and coloured his judgement about the nature of the economy. Even in the nineteen-thirties, when economic liberalism was in retreat all over the world, Japan, intent upon building up a *junsenji keizai*, could properly be grouped with those countries in which state control had been most widely extended. Since the Second World War, however, comparisons of Japanese practices with those of other countries may lead, at first sight, to quite different conclusions. The Occupation Authority in the years immediately after the war sought to create a liberal market economy and to restrict the government's direct control over economic processes. Despite the modifications that have occurred since 1952, this policy has persisted. Its fruits have been gathered during a period in which the economic functions of the state were being much enlarged in countries formerly regarded as the homes of private enterprise. The result is that in present-day Japan the public sector is small when judged by the standards that prevail elsewhere, and the market economy, which in Western countries has been enfeebled, appears to have gained a new lease of life.

A measure of the state's relative economic importance in some of the leading industrial countries is provided by the following table which shows public expenditure in 1967 as a percentage of GNP at market prices.

Government Expenditure as Percentage of GNP in 1967*

Country	Current Expenditure**	Total Expenditure
U. K.	32.9	39.0
U. S. A.	28.3	31.4***
France	35.5	40.9
West Germany	33.7	40.0
Italy	31.9	36.0
Japan	14.8	20.6***

* Source : O. E. C. D. National Accounts 1967.

** Includes subsidies, debt interest and current transfers.

*** Excludes gross capital transfers.

If we supplement this statistical comparison by figures which show the disparity in the proportion of man-power employed in the public sector in different countries (e. g., 8 per cent in Japan and 22 per cent in the U. K.),¹⁾ then we might seem to be justified in concluding that what was once a state-ordered system has now become one of the few surviving examples of a private enterprise economy.

This interpretation, however, though plausible, ceases upon deeper enquiry to command unqualified assent. In the first place, the figures quoted above provide quite insufficient evidence to support any confident assertions about the relations between private industry and the state, for those relations are not all susceptible of measurement. Secondly, the relative size of the public sector and the ratios of public expenditure to total national expenditure in different countries are to be explained largely by disparities in expenditure on defence and on social welfare. It may, of course, be objected that the vast expenditure of Western governments on defence and social welfare has itself made a powerful impact on relations between government and industry and has been closely associated with the advance in the economic role of the state. But this objection does not rule out the possibility that in Japan state intervention in the economy since the Second World War has taken other forms than those familiar in the West and may have been prompted by other causes. Indeed, one may reach the provisional conclusion that, while the economic importance of the government in economic development and the nature of its relations with private industry have varied widely from time to time during the last century, a thread of continuity can be detected which, for an understanding of Japan's development, is probably more significant than the oscillations.

Before an attempt is made to support these propositions by further evidence and argument, it is important to establish that many analogies with Japan in respect to the role of the state in industrial development can be found. Japan was exceptional only in her timing, in the fact that during the period in which the lead in her economic development was being taken by government, elsewhere the state was assigned a subordinate role. Japan set a precedent which other countries followed, not as acts of deliberate imitation but rather because similar circumstances called for similar solutions. Since the era of state entrepreneurship in early Meiji times many other countries with ambitions to achieve a "take-off" have relied on the state to take the

1) These figures exclude employment in the armed forces.

initiative. As in Japan, the reason for this choice was often the absence of experienced private entrepreneurs and of inherited institutions congenial to technological and commercial development. One may quote as examples Imperial Russia in the eighteen-nineties, China in the *kuan-tu-shang-pan* period ("official supervision and merchant management") between 1878 and 1894, India since her independence, and several other countries during the last twenty years. Doctrine has no doubt exerted some influence on the choice of instruments of growth, but until recent years not a major influence outside the communist bloc.

It is easy to be misled by contemporary analogies in diagnosing the motives of the early Meiji governments. Since the Second World War economic planning has become fashionable, and the activities of government in promoting growth are often supposed to conform to a national plan. It would be unhistorical, however, to read into the mind of the Japanese government of a century ago the latest notions of economic planning. The Meiji government was clear about the general direction in which it wished to go, but its acts of intervention were usually designed to solve immediate problems. The exceptional nature of its economic activity, moreover, was demonstrated not so much by its acceptance of responsibility for introducing a new infrastructure, but rather by its initiative in founding and operating new manufacturing industries. It is this that attracted the attention of observers from outside. This initiative was not inspired by any consistent motive. In setting up the new banks and manufacturing firms the government was strongly influenced by the pressing necessity of finding employment for the *samurai*, now rendered functionless and a possible source of insurrection. Writers on this period have distinguished other motives for the proliferation of the government's economic functions; namely, the provision of goods to satisfy its own requirements, the prevention of unemployment among miners, the exclusion of foreign capital, the elimination of quarrels and the promotion of administrative unity, and finally, the need for import-saving industries to check the drain from the reserves.²⁾ There was also the general objective of furnishing models for private enterprise.

All this suggests that the initiative of the state was attributable to the pressure of necessity rather than to any doctrinal view of the government's functions. The fact that the government had no hesitation about selling its industrial properties to private firms after 1880, as a means of solving its budgetary problems, is a further justification of this diagnosis. Finally, it is important not to exaggerate the importance of the state's role at this time. The mere exposure of the country to foreign trade and to other outside influences opened up fresh opportunities, and the great structural changes that occurred in early years of Meiji can be ascribed in some measure to the reactions of enterprising individuals to new market conditions.

The withdrawal of the state from direct control over many undertakings after 1880 did not mean that it ceased to interest itself in economic development. Political and strategic problems and ambitions precluded any such indifference. To some extent there was simply a change in

2) Y. Horie, "Government Industries in the Early Years of the Meiji Era" in *Kyoto University Economic Review*, January 1939, pp. 67-87.

means. Henceforward, for many years, industrial development was ostensibly left to private enterprise. But the spearhead of that enterprise consisted of the *zaibatsu*, then rising to prominence. These concerns, buttressed by privileges conferred by successive governments and with close associations with political leaders, became effective instruments of economic policy. The fact that they themselves, as time went on, were able to influence official decisions did not detract from their importance as instruments but merely added subtlety to forces that governed policy.

The *zaibatsu* were not the only instruments. In the quarter of a century before the First World War the government supplemented its powers of economic direction both in Japan proper and in overseas territories by setting up the semi-official banks and also such operating agencies as the South Manchuria Railway Company and the Oriental Development Company. For many years concerns such as these provided the government with the means of promoting industries of national importance and guiding the country's external trade and investment. In this way, as well as through its relations with the *zaibatusu*, the state continued to exert a pervasive influence over all branches of the economy. In its use of subsidies and restrictive regulations to promote shipping, shipbuilding, and other basic industries, it was following precedents already set in Western countries. Similarly, it was by no means unique among the nations in its reliance on various government monopolies for a substantial part of its revenue. It showed originality, however, in its devices for promoting efficiency and growth in industries where the main productive processes were in the hands of numerous small producers not easily susceptible to direct control. Here it confined its intervention to certain key points. The regulations imposed on the raw silk industry were of this character and their success in encouraging uniformity in the quality of the product largely explains the triumph of Japan over China in the world silk market before the First World War.

All these are examples of government influence over the private sector rather than of government-managed undertakings. Yet, when it seemed necessary to resort to its earlier policy of ownership and management, the government did not hesitate, as was shown by the founding of the Yawata Steel Works in 1901 and the nationalisation of the main line railways in 1906. This direct type of control, however, was rather exceptional during the later years of the Meiji era, except in overseas territories. On the eve of the First World War the size of the public sector itself was quite small and its content differed little from that of Western countries. Government plants were then responsible for only about 12 per cent of factory employment. On the other hand, the indirect influence over private enterprise exerted through the media discussed above was far-reaching.

In the decade after the First World War, the era during which the old *zaibatsu* achieved the zenith of their power, direct intervention by the state in economic processes declined further. By 1930 employment in government factories had fallen to only 4 per cent of total factory employment and the government's share of gross national expenditure amounted to between 15 and 18 per cent.³⁾ This was not out of line with conditions in Western European countries.

The troubles of the nineteen-thirties brought a retreat from economic liberalism throughout the world, and in Japan there was a reaction towards direct forms of government control. The public sector was enlarged, notably by the nationalisation of the steel and the electric power industries, and official supervision was extended over a wide range of undertakings, business associations and categories of transactions. With the rise of the *shinko-zaibatsu* and the loss of influence by the older business groups, the centres of private economic power became more docile instruments of the state. In the late 1930s the establishment of the so-called "national policy companies" in certain basic industries confirmed the trend. In Manchuria this role was filled by the Manchuria Industrial Development Company capitalised jointly by the state and the *zaibatsu*. As the *junsenji keizai* gave place to a thorough-going war-time economy, very little independent initiative was left to private enterprise. In this respect Japan's experience was common to that of all the belligerent countries.

A review of the state's economic role in the half century before the Second World War would be incomplete without some reference to the results of Professor Rosovsky's enquiries into investment.⁴⁾ His findings confirm the view that there were wide fluctuations from year to year both in the ratio of gross investment to the national product and also in the share of government investment in the total. For the whole period (1889–1938), he concluded, public investment was slightly greater than private investment. This conclusion is not inconsistent with the contention that in the middle and later years of Meiji the government's direct interests in manufacturing, mining and trading enterprise declined. Most of the undertakings in which it was then engaged were capital-intensive, whereas the greater part of manufacturing industry, trade and agriculture, which was in private hands, made comparatively modest demands on capital resources in proportion to output and employment.

The end of the war witnessed a more rapid retreat from controls in Japan than that experienced by most other countries. The Occupation Authority intent upon democratising Japan's institutions and introducing a liberal market economy, made vigorous efforts to destroy organisations and institutions associated with the imperialist past. Hence the measures to break up concentrations of economic power both public and private. The dissolution of the *zaibatsu*, the denationalisation of steel and electric power, the winding-up of the national policy companies and the semi-official banks were all part of this policy. The new structure, though modified after 1952, has in large part survived. The public sector, as already shown, has remained small, not only in comparison with its size in the late 1930s but also in comparison with the public sector in contemporary Western economies. The *zaibatsu*, despite their rehabilitation, are less cohesive than formerly, and some of the most dynamic enterprises have arisen outside their ranks. Economic power thus appears to have become more widely diffused. Comparative statistical evidence of the

3) W. W. Lockwood, *The Economic Development of Japan*. p. 454.

4) H. Rosovsky, "Japanese Capital Formation: The Role of the Public Sector" in *Journal of Economic History*, September 1959. pp. 350–73.

state's modest part as an employer and of its relatively small share of the national expenditure has already been presented.

Yet it would be wrong to infer from these figures that the government has played only a minor part. In fact, its influence over the direction and pace of industrial development has been far-reaching and often decisive. Although the ratio of government expenditure to GNP is low by European standards, this is mainly because of its small expenditure on defence and on consumption in general. Its investments have been substantial. In the early and middle nineteen-sixties it was responsible for nearly 30 per cent of gross domestic capital formation, and this proportion has been rising.⁵⁾ Moreover, the state's contribution has not been limited to direct investments by the central and local governments and the various public corporations. It has exerted a powerful influence over the economy through its control over credit. Throughout the post-war period Japanese industrial concerns have shown an insatiable appetite for capital, while their own financial resources have been meagre. In the early post-war years almost the only source of new liquid capital was the official Reconstruction Finance Bank. Subsequently, private firms remained heavily dependent upon the banking system for funds to finance their expansion. Their dependence placed a powerful weapon of control in the hands of the monetary authorities, and this weapon they did not hesitate to use. Further, the government's own investment banks, such as the Japan Development Bank, played a leading part in the reconstruction and growth of industry. Through them, also, the government was able to guide the direction of development.

Professor Komiya has summed up the policy by stating that throughout much of the post-war period public loans and investments were "heavily geared towards the promotion of private investment, especially plant and equipment investment by large corporations." At the same time the generous depreciation allowances provided by the tax system stimulated private investment in equipment, and the official credit policy was directed towards "fostering particular industries and enterprises by encouraging investments therein; this was accomplished by channelling to them, under the priority system, large volumes of investible funds, much of which was financed by the Bank of Japan's credits."⁶⁾

The effects on private industry of the government's experiments in indicative economic planning are debatable. The earlier economic plans, which greatly underestimated the rate of growth, seem to have had little influence on the behaviour of entrepreneurs. Even the influence of the Income-Doubling Plan and the subsequent short-period plans is difficult to judge. Since in practice the rate of growth has been consistently higher than that predicted, the chief effect of the Income-Doubling Plan, according to one investigator, was to give additional encouragement to industrialists who were already inclined towards optimism. Far from producing steadier growth, which was one of its aims, the Plan at first exerted a de-stabilising influence by generating a boom, followed by a sharp (though brief) recession. Some Japanese industrialists

5) Cf. R. Komiya (Ed.), *Postwar Economic Growth in Japan*, pp. 17-25.

6) *Ibid.* pp. 20-3.

have declared that they were not guided by the plans in formulating their own policies; but these declarations should not be accepted without qualification. Even if many industrialists have based their plans primarily on their own estimates of market forces, these forces themselves have presumably been affected by government policy framed with the plans in mind.

The government, as we have seen, has not lacked the means of influencing the decisions of private industrialists. Besides the power exercised through the banking system, the government until recently has been armed with ample authority for controlling foreign trade and exchange, while officials and ministers have been able to apply many forms of persuasion or coercion. To quote from an American commentator: "The Ministries engage in an extraordinary amount of consultation, advice, persuasion and threat. The industrial bureau of the Ministry of International Trade and Industry proliferate sectoral targets and plans Business makes few major decisions without consulting the appropriate governmental authority; the same is true in reverse. The Ministries list three hundred consulting committees for this purpose."⁷⁾ It may be that the government's power over private industry has diminished to some extent in recent years, but substantially it has not altered since these words were written.

These economic relationships are complex and an outsider's interpretation of them can only be tentative. Nevertheless, it seems to the present writer that, as suggested at the beginning of this paper, an identifiable thread of continuity has been present in the government's economic policy throughout the modern era. The means employed for guiding the economy have varied from time to time, but one is left with the impression of a determination on the part of the authorities to bring the activities of private entrepreneurs into conformity with the public purpose, although that purpose itself has altered from time to time. During the last quarter of a century, despite many contrasts with the previous period, both in the state's objectives and the means which it has employed, there can be little doubt that its influence on development has been profound. The small size of the public sector itself is likely to mislead the foreign observer in this respect. At the same time, it is also evident that Japan is a country where private entrepreneurship still shows exceptional vitality. The careers of certain individual industrialists of remarkable business capacity, for example, those of Mr. K. Matsushita and Mr. S. Honda, recall the great American and British industrial pioneers of the last century. It may be that one of the government's chief contributions towards economic progress during the last twenty-five years has been that of providing a congenial environment for such forceful innovators. Its overriding policy of ensuring that the energies of the nation were concentrated on a single purpose, economic recovery and expansion, has been amply rewarded. In the past Japan, like other countries, was moved by a variety of aspirations, not all of them consistent with one another. After the Second World War all these, with one exception, were relinquished, and the consequence of this whole-hearted pursuit of a single ambition has astonished the world, and even the Japanese themselves.

7) W. W. Lockwood (Ed.), *The State and Economic Enterprise in Japan*. p. 503.