

Japan's Interventionist State: Bringing Agriculture Back In

AURELIA GEORGE MULGAN

Abstract

One of the perennial controversies in the study of Japanese political economy has centred on the role of the government in the economy and in Japan's economic growth. The best-known model of Japanese political economy is the 'capitalist developmental state', which offers both a descriptive model of Japanese political economy and an explanation for Japan's postwar economic miracle in terms of bureaucracy-led intervention. As a descriptive model, the 'capitalist developmental state' both over-generalises and under-generalises key features of Japan's political economy. It over-generalises because it builds a model of Japanese political economy based on government-business relations in a number of large-scale, export-oriented manufacturing industries ignoring inefficient or 'laggard' sectors or admitting them only as system supports. The model under-generalises Japanese political economy because types and modes of bureaucratic intervention are consistent across different sectors of the economy, and in fact are more prevalent in weaker sectors, such as agriculture.

It is widely acknowledged in economic commentary on Japan that the system which reputedly launched Japan to spectacular economic growth from the late 1950s to the early 1970s no longer works and needs to be reformed.¹ Although debate in the past has centred on how the model should be defined,² and how important its contribution was

¹ See, for example, Marie Anchordoguy, 'Japan's Developmental State in the 1990s and Beyond: Has Industrial Policy Outlived Its Usefulness?', in David Arase (ed.), *The Challenge of Change: East Asia in the New Millennium* (Berkeley: Institute of East Asian Studies, 2003), pp. 131–133, and 'Whatever Happened to the Japanese Miracle?', *JIPRI Working Paper*, 80 (September 2001), pp. 1, 5; Richard Katz, 'Japan's Self-Defeating Trade Policy: Mainframe Economics in a PC World', *The Washington Quarterly*, 20 (Spring 1997), p. 154; Yasusuke Murakami, 'Toward a Socioinstitutional Explanation of Japan's Economic Performance', in Kozo Yamamura (ed.), *Policy and Trade Issues of the Japanese Economy* (Seattle: University of Washington Press, 1982), p. 44. See also the Economic Planning Agency's 1996 White Paper on the economy entitled 'Japanese Economic System in Transition'.

² In the political economy literature, the Japanese economy model is variously labelled as 'strategic capitalism' (Kent Calder, *Strategic Capitalism: Private Business and Public Purpose in Japanese Industrial Finance* (Princeton, NJ: Princeton University Press, 1993), and Thomas H. Huber, *Strategic Economy*

to Japan's successful economic development,³ there is general agreement on the nature of its central proposition: that the government played a key role in the rapid economic development of Japan in the postwar years by focussing on growth-oriented industrial policies.

The seminal work in the field is Chalmers Johnson's *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925–75*.⁴ This book offers both a descriptive model of Japanese political economy as a 'capitalist developmental state' and an explanation for Japan's postwar economic miracle in terms of government-led intervention.⁵ According to Johnson, 'the state . . . took on *developmental* (author's emphasis) functions'⁶ with state-sponsored industrial policies promoting Japan's economic takeoff. Johnson argued that 'Japan's state-guided but privately-owned economic system was the primary agent responsible for Japan's spectacular, if unexpected, post-World War II advance to the rank of the world's second most productive economy'.⁷

Two important questions arise out of the capitalist developmental state model. Firstly, does it offer an accurate explanation of Japan's postwar economic miracle?⁸ Secondly, does it offer an adequate description of Japan's political economy?

To date, critics have focussed almost exclusively on the first of these questions, citing the empirical evidence that growth in a large number of industries occurred without government intervention,⁹ and that:

in Japan (Boulder, CO: Westview Press, 1994); 'state-led capitalism' (T. J. Pempel, *Policy and Politics in Japan: Creative Conservatism* (Philadelphia: Temple University Press, 1982), p. 89; 'guided economy', or *yūdō keizai* (Martin Bronfenbrenner, 'Economic Miracles and Japan's Income-Doubling Plan', in William Lockwood (ed.), *The State and Economic Enterprise* (Princeton, NJ: Princeton University Press, 1965), p. 539.

³ Edward Lincoln, 'Japan: Using Power Narrowly', *The Washington Quarterly*, 27 (Winter 2003–04), p. 117.

⁴ Stanford: Stanford University Press, 1982.

⁵ This model is known generically in the literature as 'the government model'. Its various attributes are summarized in Michael E. Porter, Hirotaka Takeuchi and Mariko Sakakibara, *Can Japan Compete?* (Cambridge, MA: Perseus, 2000), pp. 21–29.

⁶ Johnson, MITI, p. 19.

⁷ Chalmers Johnson, 'Japanese "Capitalism" Revisited', *JIPRI Occasional Paper*, 22 (August 2001), p. 1.

⁸ In 1950–1955, Japan's average annual real growth rate was 10.90%; 8.7% in 1955–60; 9.7% in 1960–65; and 12.2% in 1965–70. See Table 1 in Toshimasa Tsuruta, 'The Rapid Growth Era', in Ryutaro Komiya, Masahiro Okuno and Kotaro Suzumura (eds), *Industrial Policy of Japan* (Tokyo and San Diego: Academic Press, 1988), p. 49.

⁹ The list is long and includes sewing machines, cameras, bicycles, motorcycles, pianos, zippers, transistor radios, colour TVs, tape recorders, audio equipment, fishing gear, watches and clocks, calculators, electric wire, machine tools, textile machinery, agricultural machinery, ceramics etc. See also Table 2.1 in Porter, Takeuchi and Sakakibara, *Can Japan Compete?*, p. 28. As Komiya points out, competitive industries such as those listed above 'developed without any dependence on industrial protection and promotion policies . . . they developed under their own power without any particular benefits from industrial policy measures. It would undoubtedly be the executives of these firms who would disagree with the most vehemence to the statement that industrial policy in Japan was extremely strong, systematic, and comprehensive. Given a chance to speak, they would proclaim that they had succeeded on their own, through tremendous labor in the face of great difficulties, and not because of government

a number of other factors – an extremely competitive market environment based on vigorous entrepreneurial spirit, rapid and steady expansion of domestic as well as foreign markets, an abundant supply of imported foreign technology, and superior adaptability of Japanese firms to such technology – were also responsible for bringing about rapid economic growth.¹⁰

The general verdict is that as an explanation, the capitalist development state (CDS) thesis overplayed the role of the bureaucracy and underplayed the significance of both Japanese business entrepreneurs in driving economic growth and the US market in soaking up Japanese exports.¹¹

This paper largely focuses on the second question. As a descriptive model, the CDS thesis uses the role of government in aiding industry as the basis for macro-level depictions of the Japanese state, including not only its bureaucratic system, but also its political and policymaking system (a 'system of bureaucratic rule'¹² in which 'politicians reign and the bureaucrats rule'¹³), its social system (in providing key 'social supports' for 'the cooperative government–business relationship'¹⁴) and indeed, its overarching national priorities and goals ('the Japanese state . . . [gives] its first priority to economic development'),¹⁵ as well as its dominant public policy philosophy and value system (a 'growth first philosophy' that subordinates all other national goals to industrial growth). Johnson describes Japan as a 'developmental, plan rational state whose economic orientation was keyed to industrial policy'¹⁶ and in which 'the government will give greatest precedence to industrial policy, that is, to a concern with the structure of domestic industry and with promoting the structure that enhances the nation's competitiveness'.¹⁷

Other proponents of the so-called 'government model' argue along broadly similar lines. Wheeler *et al.* refer to the 'widely accepted commitment to economic growth as

favors that in fact seldom came their way.' Ryutaro Komiya, 'Introduction', in Komiya *et al.*, *Industrial Policy of Japan*, p. 8.

¹⁰ Motoshige Ito, Kazuharu Kiyono, Masahiro Okuno-Fujiwara and Kotaro Suzumura, *Economic Analysis of Industrial Policy* (San Diego: Academic Press, 1991), p. 19. See also Katsuro Sakoh and Philip H. Trezise, 'Japanese Economic Success: Industrial Policy or Free Market?', *Cato Journal*, 4 (Fall 1984), pp. 521–548.

¹¹ Tsuruta, for example, reports that exports expanded rapidly in the 1960s, at an average annual growth rate of 17.9% in 1960–1965 and 15.1% in 1965–70. See Table IV in 'The Rapid Growth Era', p. 53. Johnson has also conceded that 'Japan's high-speed economic growth depended fundamentally on large and growing exports to the United States'. 'Japanese "Capitalism" Revisited', p. 2.

¹² Johnson, *MITI*, p. 320.

¹³ Johnson, *MITI*, p. 316.

¹⁴ Johnson, *MITI*, p. 312.

¹⁵ Johnson, *MITI*, p. 305.

¹⁶ Johnson, quoted in Stephen Wilks and Maurice Wright, 'The Comparative Context of Japanese Political Economy', in Stephen Wilks and Maurice Wright (eds), *The Promotion and Regulation of Industry in Japan* (Houndmills: Macmillan, 1991), p. 15.

¹⁷ Johnson, *MITI*, p. 19.

the dominant goal of public policy'.¹⁸ The primary state goal that supersedes all others and to which national resources are directed is the promotion of so-called 'strategic or growth industries'.¹⁹ As they argue, Japan 'maintained a strong commitment to economic growth – against which all other goals were weighed'.²⁰

The capitalist developmental state is, therefore, one in which national social and economic goals and policies are in thrall to the overarching goal of industrial development. The model posits a hierarchy of state goals in which all non-industry sectors are subordinated to industrial takeoff and growth. As Wheeler *et al.* observe:

to a degree that is probably unmatched anywhere, the Japanese government set about after World War II to formulate and then hold to a more or less clear set of priorities, against which all policy measures were evaluated. Faced with the task of recovering from defeat, the government (and by implication the country as a whole) was intensely interested in 're-catching up' to the other industrialized countries of the West; it effectively translated this single goal into policies that enhanced high economic growth by promoting high savings and investment, and more specifically a high level of investment in certain specified sectors deemed critical to the growth process.²¹

Thus, by virtue of being a 'developmental' state, the government automatically gives top priority to industrial development. As Johnson claims, Japan is a developmental state first 'and only then a regulatory state . . . This commitment to development . . . is . . . a prerequisite.'²²

The question is, however, if all these things apply – if the government gives overwhelming precedence to industrial policy, if it emphasizes 'strategic industries' to the exclusion of others, if the main task of the developmental state is economic growth, and if the government–business relationship defines Japan's political economy – where does agriculture and other inefficient, non-growth sectors fit in? Johnson's answer is clear: 'the capitalist developmental state . . . simply ignores the nonstrategic sectors of the society'.²³

Agriculture and similar sectors are excluded from the model because they are 'non-developmental'. By definition, the capitalist developmental state has a predominantly 'developmental orientation'. Johnson's singular focus is on economic growth as a process

¹⁸ Jimmy W. Wheeler, Merit E. Janow and Thomas Pepper, *Japanese Industrial Development Policies in the 1980s* (New York: Hudson Institute, October 1982), p. 10.

¹⁹ This term was coined by Robert Uriu, *Troubled Industries: Confronting Economic Change in Japan* (Ithaca and London: Cornell University Press, 1996), p. 24.

²⁰ *Japanese Industrial Development Policies*, p. 66.

²¹ *Japanese Industrial Development Policies*, p. 6.

²² Johnson, *MITI*, p. 306.

²³ Johnson, *MITI*, p. 316.

induced by an economic bureaucracy (MITI).²⁴ He cannot, therefore, include declining sectors as exemplifications of his model. Agriculture at most enters as a subordinate system support, not as a generic element of the model itself: 'the system works by serving those interests that are necessary to perpetuate it (agriculture in postwar Japan . . .), but it otherwise excludes parochial interests that would deflect it from developmental goals.'²⁵ In other words, agriculture is only functional for political system maintenance; it helps to underpin the political stability necessary for economic growth. It belongs under the umbrella of the legislative branch of government, which is 'restricted to "safety valve" functions.'²⁶ Indeed, Johnson's prescription for other aspiring developmental states is that political claimants must be guarded against by the legislative and judicial branches who must stand ready 'to fend off the numerous interest groups in the society, which if catered to would distort the priorities of the developmental state.'²⁷

This paper rejects these central propositions of the CDS model. It argues that the model does not capture the relationship between the state and the economy in Japan. In relegating non-performing sectors to secondary elements in the so-called 'developmental state' or omitting them altogether, Johnson fails to note that key structural features of his capitalist developmental state (drawn from his analysis of secondary industry) have their exact parallels in the system of state intervention in agriculture. Moreover, far from being devalued in national policy, non-developmental sectors often received preferential treatment.

The first section of the paper identifies cross-sectoral parallels in the system of state intervention in agriculture and industry, while the second section draws out the implications of these parallels for the capitalist developmental state as a descriptive model of Japan's political economy. Commonalities in interventionist structures point to the fact that the CDS model both over-generalizes and under-generalizes the essential features of Japan's political economy, which is more accurately labelled an 'interventionist' rather than a 'developmental' state. Problems in the descriptive model also raise further questions about the validity of Johnson's thesis as an explanation for Japan's rapid economic growth.

²⁴ His precise claim is: 'The particular speed, form, and consequences of Japanese economic growth are not intelligible without reference to the contributions of MITI.' *MITI*, p. vii.

²⁵ Chalmers Johnson, 'The Japanese Political Economy: A Crisis in Theory', *Ethics and International Affairs*, 2 (1988), p. 87. As he argues elsewhere: 'In the case of interests . . . upon which the perpetuation of the political system depends – the political leaders must compel the bureaucracy to serve and manipulate them.' *MITI*, pp. 315–316. Krauss and Pierre argue along similar lines, suggesting that in an electoral system that generates considerable constituency pressures for market-distorting intervention in the large industry sector, these pressures have somehow dissipated or been compensated by politicization of other sectors such as agriculture, construction, retailing, transportation and postal services. Ellis S. Krauss and Jon Pierre, 'Targeting Resources for Industrial Change', in R. Kent Weaver and Bert A. Rockman (eds), *Do Institutions Matter? Government Capabilities in the United States and Abroad* (Washington, DC: The Brookings Institution, 1993), p. 174.

²⁶ Johnson, *MITI*, p. 315.

²⁷ Johnson, *MITI*, p. 315.

Cross-sectoral parallels: industry and agriculture

Striking parallels can be discerned between certain features of government intervention identified by Johnson as operating in the industrial growth sectors of his capitalist developmental state and those characteristic of the agricultural sector. These parallels encompass the principal structures of intervention – institutional infrastructure, legal underpinnings and financial support structures – as well as key policy instruments, institutionalized processes of government–industry consultation and bureaucratic practices.

Institutional infrastructure

In the primary industries sector, the Ministry of Agriculture, Forestry and Fisheries (MAFF) is the functional equivalent of MITI (now Ministry of the Economy, Trade and Industry, or METI). In short, the MAFF does for agriculture what MITI does for industry. In this respect, the MAFF as much as MITI qualifies as a ‘pilot organization’.²⁸ As Johnson explains, although it is controversial to define the scope of the pilot agency, ‘MITI’s experience suggests that the agency that controls industrial policy needs to combine at least planning, energy, domestic production, international trade, and a share of finance (particularly capital supply and tax policy)’.²⁹ In like fashion, MAFF is the guiding and controlling agency for agriculture. It has been described as the ‘manager’ or ‘boss’ (*motojime*) of primary industries.³⁰ All comprehensive planning for the farm sector and associated industries is done in the MAFF, which, amongst its many functions, is charged with ‘planning and drafting of basic policies concerning the official work under the responsibility of the MAFF’ (Minister’s Secretariat), ‘promoting, improving and adjusting the production, distribution and consumption of food, beverages and oil’, and ‘adjusting the import and export of goods under ministry responsibility and managing import tariffs and international agreements relating to goods under ministry responsibility’ (General Food Policy Bureau), ‘promoting, improving and adjusting the production, distribution and consumption of agricultural products including silk’ and ‘promoting, improving and adjusting the production, distribution and consumption of materials used by the agricultural and livestock industries i.e. fertilizers, agricultural chemicals, agricultural machinery and feedstuffs’ (Agricultural Production Bureau), ‘all-inclusive official work concerning the adjustment of the tax system relating to agricultural, forestry and fishing industries, the food industry, and other industries under ministry responsibility’, and ‘comprehensive planning and drafting of financial measures for the promotion of

²⁸ Johnson, *MITI*, p. 319.

²⁹ Johnson, *MITI*, p. 320.

³⁰ Kawakita Takao and Onoue Yukio, *Nōrinsuisanshō [Ministry of Agriculture, Forestry and Fisheries]* (Tokyo: Intamedia, 2001), p. 53.

agricultural, forestry, fishery and food industries and other industries under ministry responsibility' (Management Improvement Bureau).³¹

In the capitalist developmental state, 'MITI's vertical bureaus'³² are replicated in the MAFF, with the five pre-2001 bureaus (*kyoku*) responsible for Economic Affairs, Agricultural Structure Improvement, Agricultural Production, the Livestock Industry, and Food and Marketing Bureau. They sub-divided into a further 78 departments (*bu*) and divisions (*ka*).³³ Like MITI, industries fall under the jurisdictional competence of a given ministerial bureau, division or section (*genkyoku*). As Komiya explains:

In 1970, among its [i.e. MITI's] nine bureaus, five acted as *genkyoku*: the Heavy Industries Bureau, the Chemical Industries Bureau, the Textile and Light Industries Bureau, the Coal and Mining Bureau, and the Public Utilities Bureau. Internally, a bureau is subdivided into divisions and then into sections, the majority of which are in turn responsible for one or another part of the relevant industry; these can be termed the *genkyoku* divisions or sections. For example, within the Heavy Industries Bureau could be found, among others, sections for iron and steel, industrial machinery, electronics and electrical machinery, automobiles, aircraft, and rolling stock.³⁴

As Komiya further observes, 'the statement that "industrial policy consists of the policies formulated and implemented by MITI" is admirably put, but not quite accurate. Rather, it should be phrased that "in postwar Japan, industrial policy consists of the policies of the various *genkyoku* of the government"'.³⁵ Moreover:

even within manufacturing, MITI was not the only *genkyoku* ministry. As noted previously, the Ministry of Agriculture, Forestry, and Fisheries had responsibility for the various food processing industries, such as soft drinks, along with industries obvious from its name. Pharmaceuticals were overseen by the Ministry of Health and Welfare, while shipbuilding was the bailiwick of the Ministry of Transport. And last, not only were banking, insurance, and securities part of the domain of the Ministry of Finance, but so were beer, sake, and other alcoholic beverages.³⁶

³¹ 'Nōrinsuisanshō Soshikirei' ['Ministry of Agriculture, Forestry and Fisheries Organizational Ordinance'], in Nōrinsuisanshō (ed.), *Nōrinsuisan Roppō* [A Compendium of Agricultural, Forestry and Fisheries Laws] (Tokyo: Gakuyō Shobō, 2001), pp. 25–44.

³² Johnson, *MITI*, p. 312.

³³ For details of pre- and post-restructuring MAFF, see Aurelia George Mulgan, *Japan's Interventionist State: The Role of the MAFF* (London and New York: RoutledgeCurzon, 2005), pp. 47–53.

³⁴ 'Introduction', Komiya *et al.*, *Industrial Policy of Japan*, p. 16.

³⁵ 'Introduction', Komiya *et al.*, *Industrial Policy of Japan*, p. 13.

³⁶ 'Introduction', Komiya *et al.*, *Industrial Policy of Japan*, p. 16.

For the MAFF, its Livestock Industry Bureau was in charge of the livestock industry, the Agricultural Production Bureau supervised the production of specific crops such as fruit and flowers, upland field agriculture and silkworm cultivation, the Food and Marketing Bureau administered farm wholesale markets, vegetable distribution and the sugar industry, while the purview of the Agricultural Structure Improvement Bureau encompassed the agricultural and rural public works industry.

Amongst institutions critical to 'the cooperative government–business relationship'³⁷ in Johnson's capitalist development state are 'MITI's vertical bureaus and the corresponding officially sanctioned trade associations for each industry'.³⁸ Unelaborated by Johnson, the relationship is detailed by Komiya who refers to 'the Japan Iron and Steel Federation, the Japan Automobile Manufacturers Association, and the Shipbuilders Association of Japan, as well as numerous minor associations at the narrower industry level. In general they worked in close cooperation with the relevant *genkyoku*, but the nature of the relationship varied in each case'.³⁹

These same groupings and relationships are replicated in the agricultural sector, with various trade associations operating under the umbrella of individual MAFF bureaus. Trade associations under the aegis of the former Agricultural Structure Improvement Bureau, for example, included the Overseas Agricultural Development Consultants Association, the Land Improvement Construction Association and the Agricultural Engineering Industry Association, while those under the Food and Marketing Bureau included the Amino Acid Association, the Flour Industry Association, the National Federation of Confectionery Industry Associations and the National Corn Starch Industry Association. Similarities between trade associations in industry and agriculture also extend to their executive and staff structures. In many cases, these organizations act as repositories for both seconded and retired bureaucrats from their sponsoring ministry. Such institutionalized links provide for both sectoral mobilization in line with bureaucratic goals and direct industry representation in administrative circles.

Amongst the 'panoply of market-conforming methods of state intervention'⁴⁰ detailed by Johnson is 'the assignment of some governmental functions to various private and semiprivate associations'.⁴¹ As examples, Johnson cites *Keidanren* as the peak industry body and the Japan External Trade Organization (JETRO) as a government trade promotion agency. For agriculture he could have cited the National Central Union of Agricultural Cooperatives (a semi-private peak body of agricultural cooperatives) and any one of a large number of corporatized agricultural interest groups with dual public and private functions, all sharing the common feature of 'affiliated

³⁷ Johnson, *MITI*, p. 312.

³⁸ Johnson, *MITI*, p. 312.

³⁹ 'Introduction', Komiya *et al.*, *Industrial Policy of Japan*, p. 17.

⁴⁰ Johnson, *MITI*, p. 318.

⁴¹ Johnson, *MITI*, p. 318.

agency' (*gaikaku dantai*) of the MAFF.⁴² The close equivalent of JETRO under the MAFF's jurisdiction is the Agriculture and Livestock Industries Corporation (ALIC).

Another feature of state intervention in the capitalist developmental state is 'an extensive reliance on public corporations, particularly of the mixed public-private variety in high-risk . . . areas'.⁴³ In order to help finance industrial development, the Japan Development Bank (JDB) was established in 1951 'for the purposes of supplying long-term investment funds to industry'.⁴⁴ Agriculture, however, had its equivalent in the Agriculture, Forestry and Fisheries Finance Corporation established in 1953,⁴⁵ and specializing in high-risk financing for agricultural development.⁴⁶ Loans from the JDB are subsidized either in the form of interest payments on JDB loans, or interest payments to private sector financial intermediaries 'in order to bring down the market rate of interest'.⁴⁷ The Agriculture, Forestry and Fisheries Finance Corporation on the other hand, provides long-term, low-interest loans subsidized by the government to persons engaged in primary industries or firms in the business of manufacturing, processing or distributing foodstuffs.⁴⁸

Legal underpinnings

One of the essential features of the Japanese developmental state is the reliance on law.⁴⁹ MITI's 'primary powers rest on Diet-enacted statutory authority'.⁵⁰ So do the MAFF's. The MAFF's Establishment Law and attached organizational ordinance, like those of MITI, enumerate the tasks for which it is legally responsible. The similarities do not end there, however. The same terminology can be found in the establishment laws of both organizations. Articles 1 and 2 of both laws pertaining to their purpose (*mokuteki*)

⁴² See Aurelia George Mulgan, *The Politics of Agriculture in Japan* (New York and London: Routledge, 2000), pp. 108–163.

⁴³ Johnson, *MITI*, p. 318. Elsewhere Johnson refers to 'some 115 government corporations covering such high-risk areas as petroleum exploration, atomic power development, the phasing out of the mining industry, and computer software development' (p. 313).

⁴⁴ Seiritsu Ogura and Naoyuki Yoshino, 'The Tax System and the Fiscal Investment and Loan Program', in Komiyama *et al.*, *Industrial Policy of Japan*, p. 135.

⁴⁵ In fact as Calder points out: 'The Agriculture, Forestry and Fishery Finance Corporation . . . emerged . . . reacting against MITI's efforts to channel scarce funds toward industry. When the Japan Development Bank was set up in 1951, agriculture was initially accorded only a special account within the JDB. But in 1953 the diet initiated legislation to establish a separate agricultural finance institution, so that agriculture would not be forced to compete directly for scarce government funds with the basic industries that were the JDB's fundamental clientele.' *Strategic Capitalism*, p. 231. Elsewhere he states that: 'The classic function of politics in the financial policy formation of the 1950s and 1960s . . . was to broaden access for small business and agriculture, which were hardly the priorities of MITI's industrial strategists' (p. 230).

⁴⁶ The corporation has separate accounts for infrastructure development, management structural improvement, general facilities, management support and stabilization, and agricultural disasters.

⁴⁷ Ogura and Yoshino, 'The Tax System', p. 143.

⁴⁸ See also the discussion below on finance to industry and agriculture.

⁴⁹ Johnson, *MITI*, p. 319.

⁵⁰ Chalmers Johnson, 'MITI and Japanese International Economic Policy', in Robert Scalapino (ed.), *The Foreign Policy of Modern Japan* (Berkeley: University of California Press, 1977), p. 259.

and the establishment (*setchi*) of the two ministries are identical (and are likely to be the stock clauses used in all ministry establishment laws). Article 3 of both laws also outlines the ‘official duties’ (*ninmu*) of the ministries. When reference is made to bureaucratic function in relation to specific industries under ministerial jurisdiction, the same language is often used. For example, Clause 1 of Article 3 in MAFF Establishment Law refers to ‘increasing (*zōshin*), improving (*kaizen*) and adjusting (*chōsei*) the production of agricultural, livestock, forestry and fisheries products, food and drinking products, fats and oils, and the speciality products of the agricultural, livestock, forestry and fisheries industries’, while Clause 2 refers to ‘increasing, improving and adjusting the consumption and distribution’ of these same products.⁵¹ Likewise, Clause 2 of Article 3 of MITI Establishment Law refers to ‘increasing (*zōshin*) and improving (*kaizen*) the production, distribution and consumption of mineral products and manufactured goods and their adjustment (*chōsei*) as well as examination (*chōsa*).’⁵²

Additionally, each ministry has a set of laws that is its primary task to administer, implement and enforce. The focus, content and purpose of these laws are wide-ranging. They describe the various interventionist functions of the ministry as well as the instruments and supporting structures through which this intervention takes place. Tsuruta, for example, draws attention to the ‘laws that supported government intervention in agriculture, transportation, communications, finance, and services.’⁵³ He argues further that the ‘ability of the government to have its policy goals reflected in the decisions of industry, that is, the extent to which the government is able to wield influence, depends on whether the government has legally binding powers to intervene and the extent to which such intervention is backed up by law.’⁵⁴ The 1934 Petroleum Industry Law, for example, allowed ‘direct government controls for the purpose of ‘providing for a stable and inexpensive supply of oil.’⁵⁵ It:

gave the government quite comprehensive authority, including the power to authorize new entry and expansion of production facilities, the requirement to file crude oil import and refinery production plans with the government, the ability to recommend changes in production plans in line with changes in demand and supply, and the power to set standard retail prices of petroleum products. When the government holds such comprehensive ability to affect industry decisions, the government can exert substantial influence over the development of the organization of the industry.⁵⁶

⁵¹ ‘Nōrinshō Setchihō’ (‘Ministry of Agriculture and Forestry Establishment Law’), in Nōrinshō (ed.), *Nōgyō Roppō* [A Compendium of Agricultural Laws] (Tokyo: Gakuyō Shobō, 1976), p. 14.

⁵² Tsūshōsangyōshō (ed.), *Tsūshōsangyō Roppō* [Compendium of Trade and Industry Laws] (Tokyo: Tsūshōsangyō Chōsakai Shuppanbu, 2000), p. 2591.

⁵³ Tsuruta, ‘The Rapid Growth Era’, p. 57.

⁵⁴ Tsuruta, ‘The Rapid Growth Era’, p. 77.

⁵⁵ Komiya, ‘Introduction’, p. 6.

⁵⁶ Tsuruta, ‘The Rapid Growth Era’, p. 77.

MAFF through its Food Agency exercised equivalent powers over Japanese rice production, distribution and price under the 1942 Food Control Law. In this way, it exerted comprehensive control over the development and operation of Japan's rice industry. It bought and sold domestic and foreign rice, it restricted farmers to designated rice collectors, and it required rice wholesalers and retailers to be approved by prefectural governors under a national quota system, thus restricting new entries into the market. Finally, the Food Agency 'controlled' production through price incentives and administratively determined rice production cutbacks. All this was done in the name of the 'stable supply of rice at stable prices'.

The MAFF, like MITI, drafts and administers laws to foster specific industries operating within its jurisdictional constituency. As Johnson, points out: 'During 1956 the ministry began its sponsorship of a long series of "industry laws";⁵⁷ such as the 1956 Machinery Industry Promotion Special Measures Law, the 1957 Electronics Industry Promotion Special Measures Law, and the Aircraft Industry Promotion Special Measures Law all of which were specifically targeted to the advancement specific industries. Equivalent laws under the MAFF's jurisdiction include the Special Measures Law for Promoting Fruit Farming, the Law Concerning the Promotion of Dairy Farming and Beef Cattle Production, and the Temporary Measures Law for Improving the Management of Industries Processing Speciality Farm Products.

As Keidanren points out, however, industry laws can be divided up according to their main interventionist purpose: laws that impose entry regulations to adjust supply and demand (in addition to the Petroleum Industry Law, it includes the Sericultural Industry Law under the MAFF and the Aircraft Manufacturing Industry Law under MITI/METI); laws that regulate new installation or additions to facilities (it cites the Sweetening Resources Special Measures Law under the MAFF and the Law on Special Measures for the Adjustment of Retail Business under MITI/METI); laws that regulate imports (it gives the example of the Food Control Law/New Food Law with respect to rice, wheat, barley, and the Provisional Measures Law on the Importation of Specific Kinds of Petroleum Refined Products under MITI/METI); laws that regulate prices (again the Food Control Law, and the Gas Utility Industry Law under MITI/METI); laws that maintain prices (it refers to the Law Concerning the Stabilization of Livestock Prices under MAFF); and laws that impose other kinds of regulations on businesses (it gives the example of the Livestock Dealers' Law under the MAFF and the Petroleum Pipeline Business Law under MITI/METI).⁵⁸

The important point to note from these parallels is the equivalence in the legal supports for administrative intervention across sectors. Agricultural and industry laws have parallel purposes. MITI and the industrial sector do not amount to a special case; they are only a representative example of the modes and means of state intervention in the Japanese economy, as is the MAFF and agriculture.

⁵⁷ Johnson, *MITI*, p. 226.

⁵⁸ <<http://www.keidanren.or.jp/english/policy/polo09/table1.html>>.

Furthermore, like industry laws, agricultural laws are supplemented by ‘bureaucratically originated cabinet orders, ordinances, rules, and administrative guidance’.⁵⁹ The MAFF intervenes in agriculture and agriculture-related sectors on the basis of laws and ordinances (ministerial ordinances, enforcement ordinances, regulations and so on). These establish the rules and principles on which government intervention in the agricultural and related sectors takes place.

Financial support structures

Amongst financial support structures to industry, Johnson allocates singular prominence to the Fiscal Investment and Loan Program, or FILP (*Zaisei Tōyūshi Keikaku*, or *zaitō*), which he describes as ‘the “second” or investment, budget’.⁶⁰ Johnson regards the FILP (along with the Japan Development Bank) as ‘perhaps the most important of all’ the ‘special institutions’ or ‘sacred treasures’ from which ‘Japan obtained a special economic advantage’.⁶¹ He describes the system of collecting private savings through the postal system, concentrating it in government accounts, and investing it in accordance with a separate, bureaucratically controlled budget (FILP) as one of the key ‘social supports for government–business cooperation’.⁶² Similarly, he cites the ‘selective access to governmental or government-guaranteed financing’ as one of ‘the chief mechanisms of the cooperative [government–business] relationship’.⁶³ The ‘creation and use by the government of an unconsolidated “investment budget” separate from and not funded by the general account budget’, is listed as one of a panoply of ‘market-conforming methods of state intervention’.⁶⁴ In short, the FILP played a pivotal role in the capitalist developmental state: ‘From 1953 on it became the single most important financial instrument for Japan’s economic development . . . When FILP was created, the Development Bank was authorized to borrow from its fund, and then to make loans to industrial customers who had been approved by MITI.’⁶⁵ Johnson provides figures for JDB loans to industry as a per cent of total capital invested in industry – 22% in 1953, but only 5% by 1961) but particularly to JDB’s contributions to MITI’s designated strategic industries – electric power, ships, coal, and steel.⁶⁶ In 1953–55, 83% of JDB financing went to these four industries.⁶⁷

However, Johnson’s analysis is selective and is based on a very skewed understanding of this so-called ‘second budget’. Undoubtedly the FILP is an extremely important component of the financial apparatus of government intervention in the

⁵⁹ Johnson, *MITI*, p. 319. See below for a discussion of MAFF administrative guidance.

⁶⁰ Johnson, *MITI*, p. 12.

⁶¹ Johnson, *MITI*, pp. 11, 12.

⁶² Johnson, *MITI*, p. 313.

⁶³ Johnson, *MITI*, p. 311.

⁶⁴ Johnson, *MITI*, p. 318.

⁶⁵ Johnson, *MITI*, p. 210.

⁶⁶ The JDB ‘encouraged plant investments by providing de facto subsidies in the form of below-market interest rates on investment loans to key industries’. Ito *et al.*, *Economic Analysis*, p. 18.

⁶⁷ Johnson, *MITI*, p. 211.

economy. Funding made available through the FILP does not support direct expenditure by the government, but is loaned as capital to public corporations of various kinds (*kôko*, *kôdan*, *ginkô*, *jigyôdan*, *eidan*, *kikô*, *kikin*, *kyôkai*, *sentâ* etc.), to designated corporations (*tokushu gaisha*) or is diverted to various budgetary special accounts, or to local government.⁶⁸ However, while the list of *kôko* includes the JDB and the EXIM Bank, it also includes the Agriculture, Forestry and Fisheries Finance Corporation, as well as the Small and Medium Enterprise Industry Finance Corporation and the State Managed Enterprise Finance Corporation. Similarly, the *kôdan* include two for primary industry (the Agricultural Land Development Corporation and the Forestry Development Corporation) (and none for industry). Other corporations focus on road development, environmental protection, banking, international cooperation, pensions and so on. In other words, FILP provided investment funding for industry, but it also furnished the same kind of financial support for a wide range of other valued enterprises, including agricultural development and the provision of social infrastructure.⁶⁹

Key policy instruments

The parallels that are evident in the institutional, legal and financial structures of intervention across industrial and agricultural sectors are also apparent in the key policy instruments used by the state to intervene in these sectors.⁷⁰ The first of these identified by Johnson is 'the use of indicative plans to set goals and guidelines'.⁷¹ Wheeler *et al.* point to the Japanese practice of 'articulating clear goals and then . . . formulating consistent policies in search of such goals'⁷² in the form of 'future-oriented "visions"'.⁷³ These take form as 'government-sponsored studies . . . denoting a coherent . . . outline of likely future trends . . . These have served . . . as a genuine consensus of expectations among those groups most directly concerned with the problem at hand'.⁷⁴ As Wheeler *et al.* explain:

In the case of the broad-based 'visions' of industrial development policy, the Ministry of International Trade and Industry (MITI) takes charge of the writing process, but always in consultation with various representatives of industry, labor, the political parties, the media, and certain pressure groups. Drafting of more detailed sectoral or industrial visions is commonly under

⁶⁸ Ôkurashô, *Zaisei Kinyû Tôkei Geppô* [*Ministry of Finance Statistics Monthly*] (Tokyo: Ôkurashô, May 1999), pp. 178–181.

⁶⁹ See also the discussion below.

⁷⁰ Wheeler *et al.* in fact offer a much more detailed and systematic analysis of industrial development policy instruments than does Johnson. See *Japanese Industrial Development Policies*, pp. 6–10.

⁷¹ Johnson, *MITI*, p. 318.

⁷² Wheeler *et al.*, *Japanese Industrial Development Policies*, p. xxii.

⁷³ Wheller *et al.*, *Japanese Industrial Development Policies*, p. 6.

⁷⁴ Thomas Pepper, Merit E. Janow and Jimmy W. Wheeler, *The Competition: Dealing with Japan* (New York: Praeger, 1982), p. 7. The 'visions' were produced by MITI's Industrial Structure Council.

the direction of an official advisory body known as the Industrial Structure council. These 'visions' . . . provide an important planning tool.⁷⁵

For example, in May 1970 the MITI's Industrial Structure Council issued a report entitled *MITI Policy in the 1970's* (also known as the *Vision for the 1970's*). Subsequently: 'Several industrial policy Visions were . . . issued, with the *Long-Term Vision of the Industrial Structure* (the 1975 *Vision*) drawn up as a revision to the *Vision for the 1970's*, followed in 1980 by the *MITI Policy Vision for the 1980's*, known generally as the *Vision for the 1980's*.'⁷⁶ These visions outlined the basic goals and directions for future Japanese industrial policy with actual policies formulated in line with the basic policy directions outlined in the report. As Uekusa explains, the role of the visions 'is strongest when the policy goals it set forth provide a comprehensive framework for other policy measures'.⁷⁷

An identical process was replicated in the agricultural sector by the Agricultural Policy Advisory Council (APAC), which was charged with examining and then drawing up reports containing the basic aims and directions for agricultural policy. In 1980, for example, APAC was charged with reviewing developments in agriculture and farm policy in the light of the deteriorating political, production, economic and fiscal environment of agriculture. Its 1980 report was entitled 'The Basic Direction of Agricultural Policies in the 1980s'. However, by the mid-1980s, the MAFF realized that its long-range vision for agricultural administration formulated in 1980 with a target year of 1990 needed to be revised in the light of several negative developments in the policy and production environment of agriculture. It requested APAC to revise its report and seek 'a vision for Japanese agriculture in the 21st century'.⁷⁸ APAC published its recommendations in the form of a new long-term vision for agricultural policy entitled 'Basic Directions for Agricultural Policy Towards the 21st Century' (*Nijūisseki e mukete no Nōsei no Kihon Hōkō*) in November 1986.

Second is the provision of direct and indirect government financial assistance to industry in the form of subsidies and low-interest loans. Johnson, for example, refers to 'the supply of low-interest funds to targeted industries through governmental financial organs [and] subsidies'.⁷⁹ As Komiyama observes, 'industries thought "important" or "basic" [to economic growth] were provided with subsidies and low-interest finance'.⁸⁰ Agriculture, however, was targeted through the same funding channels: the budget and government-sourced investment funds. As the late Minato Tetsurō commented, 'there are many ways of achieving the basic as well as the immediate objectives of agricultural

⁷⁵ Wheeler *et al.*, *Japanese Industrial Development Policies*, p. 7.

⁷⁶ Masu Uekusa, 'The Oil Crisis and After', in Komiyama *et al.*, *Industrial Policy of Japan*, p. 97.

⁷⁷ Uekusa, 'The Oil Crisis and After', p. 101.

⁷⁸ *Nihon Keizai Shinbun*, 23 April, 1986.

⁷⁹ Johnson, *MITI*, p. 29.

⁸⁰ Komiyama, 'Introduction', p. 6.

policy, but the “clincher” (*kimete*) involves finance (*zaisei*) and loans (*kinyū*).⁸¹ *Zaisei* refers to fiscal funds outlaid in the form of subsidies from budgetary sources. *Kinyū* denotes the provision of loan funds (using government financial resources) for capital investment in agriculture and related sectors called government program loans (*seido kinyū*).⁸²

Third is trade protection, which Johnson identifies as ‘discriminatory tariffs . . . [and] import restrictions.’⁸³ MITI’s infant industry policies, for example, involved heavy import protection ‘in the form of high tariff rates and import quotas’⁸⁴ (e.g. on automobile and heavy electrical industries). However, farm commodities enjoyed the same trade policy protection, with the liberalization policies of the 1960s exempting certain key items from both industry and farm sectors – automobiles until 1965; computers until 1976;⁸⁵ lemons until 1964; grapefruit until 1971; refined sugar until 1972; and so on.⁸⁶

Fourth is ‘the use of the government’s licensing and approval authority to achieve development goals,’⁸⁷ which Johnson cites as one of the key ‘market-conforming methods of state intervention.’⁸⁸ In the hands of the MAFF, this same authority has been used for a variety of development and non-developmental goals chiefly in areas of agricultural product distribution and marketing.

Fifth is taxation policy, the ‘targeted tax breaks’ that Johnson claims are offered to industry,⁸⁹ and the ‘special tax measures,’⁹⁰ such as ‘special depreciation measures that are applicable to “designated plant and equipment”’⁹¹ referred to by Wheeler *et al.* Exact parallels can be found in the agricultural sector. Farmers, agricultural cooperatives, other agricultural organizations and collective agricultural production organizations such as agricultural production corporations (*nōgyō seisan hōjin*) have all benefited from reduced rates of tax. For example, farmers ‘enjoy preferential income

⁸¹ Minato Tetsurō, *Shin Nōsei no Sōzō [The Creation of a New Agricultural Policy]* (Tokyo: Nōrin Tōkei Kyōkai, 1972), p. 135.

⁸² This is defined officially as follows: ‘policy financing that central and local governments undertake whereby they advance financial funds such as providing interest subsidies to the lending of private financial organs in order to implement policy objectives with respect to agriculture on the basis of laws, cabinet ordinances, regulations and rules etc.’ Nihon Nōgyō Nenkan Kankōkai (ed.), *Nihon Nōgyō Nenkan [Japan Agricultural Yearbook]*, 2000 (Tokyo: Ie no Hikari Kyōkai, 1999), p. 321.

⁸³ Johnson, *MITI*, p. 29.

⁸⁴ Ito *et al.*, *Economic Analysis*, p. 19.

⁸⁵ Ito *et al.*, *Economic Analysis*, p. 20.

⁸⁶ Johnson himself refers to the 22 industries exempted from the claim of ‘100% liberalization’ by the government in May 1983. ‘Four of the exceptional industries were the standard “sacred cows” of all countries – agriculture, mining, oil, and retail trade – and one was leather goods . . . But the other 17 were the new strategic industries that MITI was nurturing.’ *MITI*, p. 302.

⁸⁷ Johnson, *MITI*, p. 318.

⁸⁸ Johnson, *MITI*, p. 318.

⁸⁹ Johnson, *MITI*, p. 311.

⁹⁰ Wheeler *et al.*, *Japanese Industrial Development Policies*, p. 8.

⁹¹ Wheeler, *et al.*, *Japanese Industrial Development Policies*, p. 8.

tax, asset tax and inheritance tax treatment'.⁹² Likewise, the agricultural cooperatives do not pay the corporate tax rate; they pay the lower juridical persons tax (*hōjinzei*).

Sixth is 'government assistance when an industry as a whole begins to decline'⁹³ which Johnson identifies as one of the chief mechanisms of the cooperative relationship between government and business. Wheeler *et al.* also refer to 'policies for declining industries'⁹⁴ as one of the major characteristics of Japanese industrial development policies. Likewise, Ito and others refer to 'adjustment assistance to structurally depressed industries'⁹⁵ as a key aspect of industrial policy. In the agricultural sector, this aspect of administrative intervention takes on 'global' dimensions: arguably, the entire superstructure of agricultural intervention constitutes a sector-wide declining industry policy, with assistance to agriculture in fact rising as industrialization spurred rapid economic growth: 'In Japan . . . high economic growth widened the gap between labour productivity in agriculture and in other sectors, and price support was used to lessen inequality and provide stability.'⁹⁶

Cross-sectoral parallels also manifest with respect to business mergers. As Ito and others point out: 'MITI promoted mergers in chemical, petroleum, metals and machinery industries to enable them to realize latent economies of scale and strengthen international competitiveness.'⁹⁷ MAFF has been in the merger business for exactly the same reason, promoting farm mergers through the establishment of incorporated group farms (*nōgyō seisan hōjin*).

Finally, a key feature of industrial development policies is 'science and technology assistance',⁹⁸ which Johnson refers to as 'government-conducted or government-sponsored research and development' (the computer industry).⁹⁹ The state has played an identical if not more prominent role in the agricultural sector as the major driver of technological advances via technology initiatives and specifically the MAFF's own agricultural technology institutes as well as other agricultural research organizations funded by the MAFF.

Institutionalized processes of government–industry consultation

One of the key features of business–government cooperation in the capitalist development state is 'the creation of numerous, formal, and continuously operating

⁹² Masayoshi Honma, 'Japan's Agricultural Policy and WTO Negotiations', in Masayoshi Honma *et al.*, *Some Key Issues for the East Asian Food Sector*, *Pacific Economic Paper* 305 (Canberra: Australia–Japan Research Centre, July 2000), p. 1.1.

⁹³ Johnson, *MITI*, p. 311.

⁹⁴ Wheeler *et al.*, *Japanese Industrial Development Policies*, p. 9.

⁹⁵ Ito *et al.*, *Economic Analysis*, p. 23.

⁹⁶ Honma, 'Japan's Agricultural Policy', p. 1.2. As Honma's Table 1.1 shows, the weighted averages of nominal protection rates for agriculture in Japan skyrocketed from 18% in 1955 to 74% in 1970. (p. 1.3)

⁹⁷ Ito *et al.*, *Economic Analysis*, p. 20.

⁹⁸ Wheeler, *et al.*, *Japanese Industrial Development Policies*, p. 8.

⁹⁹ Johnson, *MITI*, p. 318.

forums for exchanging views, reviewing policies, obtaining feedback, and resolving differences'.¹⁰⁰ In MITI's case:

there were in 1970, for example, 27 different councils and advisory committees (*chôsakai*), of which 15 were for industrial policy issues . . . The Industrial Structure Council advised on industry policy in general, and there also were councils, among others, for machinery, petroleum extraction, coal mining, and promoting electronic data processing, aircraft, and energy.¹⁰¹

These were 'consultative bodies whose deliberations are referred to in the process of policy formation'.¹⁰²

For the MAFF there were 14 advisory councils, with the two key groupings being APAC (now the Food, Agriculture and Rural Areas Advisory Council, which came into existence with the passage of the New Basic Law in 1999) and the Rice Price Advisory Council (RPAC). APAC was formally attached to the Prime Minister's Office but its secretariat was in the MAFF. The RPAC advised on the MAFF's recommended rice price. Other agricultural councils were concerned with issues such as food distribution, agricultural mechanization, sweetening materials, agricultural infrastructure (irrigation and drainage), livestock promotion, silk thread industry promotion, agricultural production materials and agricultural mechanization.

These councils were structured in the same way as those attached to MITI. Many were geared to specific sub-industries such as those for livestock and sericulture, for example. Their equivalents were the Electronics Industry Council and the Textile Industry Council. They were composed of the same cross-section of members: in the case of MITI – former bureaucrats, journalists and representatives of private firms; in the case of MAFF – industry representatives, ministry OBs, journalists and representatives from consumer organizations.

Most importantly, however, these councils performed exactly the same role in the agricultural policy formation process as those for industry. They existed to build a sector-wide consensus on agricultural policy, to legitimize bureaucratic policy initiatives, to exchange information between the ministry and private producers, and to provide an opportunity for producers to participate in the government's policymaking process through exchanges of ideas before policies were finalized.¹⁰³ As Tsuruta notes: 'The ISC [read APAC] was a forum for the formation of a consensus about industrial [read agricultural] policies, the exchange of information between the government

¹⁰⁰ Johnson, *MITI*, p. 318.

¹⁰¹ Komiya, 'Introduction', p. 18.

¹⁰² Komiya, 'Introduction', p. 18.

¹⁰³ See, for example, the reference to the Industrial Rationalization Advisory Council established by MITI in 1949, which is described as providing 'an opportunity for private bodies to participate informally in the government's policy-making process through the exchange of ideas with bureaucrats on major industrial policies before they were finalized'. Ito *et al.*, *Economic Analysis*, p. 17.

and the private sector [read agricultural producer representatives], and concerted appeals by the private sector [read agricultural producer representatives] to the government.¹⁰⁴

Bureaucratic practices

MITI and MAFF use the same bureaucratic practices to achieve their interventionist objectives: administrative guidance (*gyōsei shidō*), the retirement of former bureaucrats into relevant posts in outside organizations (*amakudari*) and the formation of industry cartels. Johnson devotes an entire chapter of his book on MITI to ‘Administrative Guidance’ (Chapter 7) having listed it as one of the tools of industrial policy implementation.¹⁰⁵

However, MITI does not exercise a monopoly in this tool of bureaucratic intervention. The MAFF, for example, uses administrative guidance widely to elicit the cooperation of subordinate organizations with its administrative directives. It targets all those collectivities and entities nominated in agricultural laws and ordinances including public and semi-public groups, private companies in agriculture-related industries and individual producers. The list includes local government at all levels, regional MAFF bureaus, the statutory agricultural interest groups (agricultural cooperatives, the agricultural committee system etc.), government-affiliated agencies (*gaikaku dantai*), private sector companies operating in fields under the MAFF’s administrative purview, and individual farmers and agricultural production groups.

As for *amakudari*, the MAFF uses it as a mechanism whereby retired agricultural bureaucrats can run its interventionist empire as well as influence the activities of private sector companies operating in a wide range of industries, both agriculture-related and non-agriculture-related. *Gaikaku dantai* are the most important target destinations for MAFF ‘old boys’ (OBs), underlining the role that *amakudari* plays as a mechanism for facilitating agricultural intervention via the MAFF’s extended institutional infrastructure.

The question of cartels raises a particular issue of equivalence in the agricultural sector because there are no obvious parallels, at least amongst agricultural producers. This is due to the difficulties in coordinating large numbers of individual producers as opposed to a few dozen firms. Moreover, in agriculture, the government itself has fixed, stabilized and guaranteed prices for farm products through direct administrative intervention involving price setting by the MAFF Minister. Nevertheless, the rice acreage reduction program (*gentan*) first introduced in 1970 is a prime example of a production cartel in the agricultural sector. The number of hectares (ha) subject to the *gentan* rose from 337,000 ha in 1970 to 1,013,000 ha in 2001.¹⁰⁶ The scheme was implemented by

¹⁰⁴ Tsuruta, ‘The Rapid Growth Era’, pp. 58–59.

¹⁰⁵ Johnson, *MITI*, p. 29.

¹⁰⁶ See Table 1 in ‘Nōsanbutsu Ryūtsū – Nōsanbutsu Ryūtsū to Shijo no Kōzō Henka: Shokkan Seido no Hōkai, Soshite Shinshokuryōhō e’ [‘Agricultural Product Distribution – Changes in the Market

the MAFF as a nationally coordinated program in cooperation with local government and Nokyo.¹⁰⁷ As Godo points out, the rice acreage control program is in reality 'a government-led rice production cartel. The government . . . sets a target acreage that should be diverted from rice planting so as to prevent excess supply of rice . . . the target acreage is allocated among all the villages in Japan.'¹⁰⁸ Price maintenance was one of its fundamental aims. As Godo notes, 'in aggregation, the cartel effect of the acreage control program contributed to rice farmers' benefit by maintaining high rice prices'.¹⁰⁹

Implications of industry–agriculture parallels for the CDS model

The evidence of a common interventionist architecture in industry and agriculture points to further deficiencies in the capitalist development state as a model of Japan's political economy. These can be discerned by examining the ways in which the model both over-generalizes and under-generalizes the key features of Japan's political economy.

The CDS model over-generalizes in several respects. Firstly, it implicitly claims that the government–business relationship embodies a special kind of state–economy system and builds a vast analytical apparatus on the basis of examples in heavy industry and the export-oriented manufacturing sector within a narrow historical timeframe.¹¹⁰ However, the mechanisms that Johnson and others identify are not specific to the secondary industry sector, and hence they do not embody the distinctiveness of Japan's political economy any more than those in the agricultural sector.

Indeed, too many systemic descriptions of Japan's political economy have been drawn from the analysis of Japan's secondary industry sector, especially in manufacturing. Even intra-industry sectoral analyses from a comparative political economy viewpoint omit any reference to agriculture.¹¹¹ The literature has placed an almost exclusive emphasis on industry as laying claim to a special and distinctive system of government–private sector relations, which in turn embodies the quintessential

Structure and Distribution of Agricultural Products: The Collapse of the Food Control System and Towards the New Food Law'], *Nōgyō to Keizai*, 66 (July 2000), p. 207; Nōrin Tōkei Kyōkai (ed.), *Shokuryō, Nōgyō, Nōson Hakusho Fuzoku Tōkeihyō* [A Statistical Compendium to the Food, Agriculture and Rural Areas White Paper], 1999 (Tokyo: Nōrin Tōkei Kyōkai, 2000), p. 98; *Nihon Nōgyō Nenkan*, p. 38.

¹⁰⁷ Cartels have also operated in food import markets amongst companies with 'designated' status as food importers or end users.

¹⁰⁸ Yoshihisa Godo, 'Reforming Japan's Agricultural Policies', in Robert Stern (ed.), *Issues and Options for U.S. Japan Trade Policies* (Ann Arbor, MICH: University of Michigan Press, 2002) p. 80.

¹⁰⁹ Godo, *Reforming Japan's Agricultural Policies*, p. 80.

¹¹⁰ As Uriu points out, Johnson's 'analysis ends with the advent of the Oil Shock of 1973'. *Troubled Industries*, p. 24.

¹¹¹ See for example the individual industry chapters in C. Johnson, L. Tyson and J. Zysman (eds), *Politics and Productivity: How Japan's Development Strategy Works* (New York: Ballinger, 1989), and those in Wilks and Wright (eds), *The Promotion and Regulation of Industry*.

elements of the Japanese-style political economy.¹¹² Such analytical bias has led to a very limited understanding of the relationship between the state and the economy in Japan. The focus on secondary industry explains the widespread assumptions that:

- the target of administrative guidance is limited to private sector enterprises¹¹³ when in fact it is also widely used by bureaucrats in the central ministries to influence the behaviour of public sector and also quasi-public sector actors such as local government, public education institutions, *gaikaku dantai*, public corporations and others;
- *amakudari* is something that occurs predominantly from the bureaucracy into the boardrooms of private sector business corporations and organizations,¹¹⁴ whereas there is an equal if not larger movement of former government officials into organizations in the public sector, i.e. public bodies such as government corporations and semi-administrative entities, particularly in highly regulated and protected sectors such as agriculture,¹¹⁵
- deregulation is something that affects only government controls over firms and corporations in private sector-dominated areas of the economy (e.g. Japanese industry),¹¹⁶ whereas in fact it is a far more significant issue in public sector-dominated areas of the economy such as education, and health and welfare, whilst also affecting the operations of individual primary producers such as farmers;
- state intervention focuses on aiding private sector businesses to grow, whereas it has also assisted the public sector to expand, with a proliferation of the public and semi-public groups from the 1950s onwards as government ministries enlarged the institutional infrastructure of intervention in their administrative domains;

¹¹² One exception is Kent Calder, *Crisis and Compensation: Public Policy and Political Stability in Japan, 1949–1986* (Princeton, NJ: Princeton University Press, 1988).

¹¹³ Ulrike Schaede, 'The 'Old Boy Network and Government–Business Relations in Japan', *Journal of Japanese Studies*, 21 (Summer 1995), pp. 300–302; Steven K. Vogel, *Freer Markets, More Rules: Regulatory Reform in Advanced Industrial Countries* (Ithaca and London: Cornell University Press, 1996), p. 201; Wheeler *et al.*, *Japanese Industrial Development Policies*, p. 78.

¹¹⁴ See Schaede, 'The 'Old Boy' Network', pp. 296–297. Johnson argues that such targeting of key industries for *amakudari* is 'not an unintended consequence of the developmental state: it is in fact an objective of the developmental state'. *MITI*, pp. 70–71. Some scholars, whilst acknowledging that bureaucrats may find post-retirement employment in public and semi-public bodies, restrict the use of the term *amakudari* to the retirement of bureaucrats into private, profit-making firms. See B. C. Koh, *Japan's Administrative Elite* (Berkeley: University of California Press, 1989), pp. 235–236. Koh points out that in the former case, the term *yokosuberu* (slide sideways/side slip) is used. He admits, however, that 'the broad meaning of *amakudari* encompasses both' (p. 236).

¹¹⁵ According to the 2000 White Paper on public corporations, 8,059 out of 26,354 had former bureaucrats on their board, out of which 7,307 had board directors designated by the government agencies that had direct jurisdiction over them. *The Japan Times*, 18 November 2000.

¹¹⁶ Vogel, *Freer Markets*, particularly the comment that 'deregulation implies that governments are relinquishing their regulatory powers, getting out of the business of trying to control business' (p. 2).

- the FILP benefits only 'favoured industrial sectors and government-sponsored development projects',¹¹⁷ whereas it has also favoured beneficiaries such as agricultural public corporations that make funds available to farmers and agriculture-related businesses.

Secondly, the CDS model over-generalizes within the manufacturing sector itself. It has a narrow focus on a small number of so-called 'strategic' industries that underwent dynamic export-led growth in the 1950s and 1960s, omitting any analysis of government–business relations in those sectors (including those exporting manufactured goods) where state intervention was either low or non-existent. The CDS analysis implies that the nature of government–business relations in its chosen industries provides a model for government–business relations as a whole. Empirical work by others such as Porter *et al.*, however, shows that 'the government model was almost entirely absent [in a broad sample of competitive industries] . . . There were no major subsidies and little or no intervention in competition.'¹¹⁸ Hence, the CDS model does not necessarily capture the nature of government–business relations amongst growth industries or in the industry sector as a whole. These relations can be highly variable with little or no state intervention in some industries.

Thirdly, the CDS model, in order to characterize Japan as a 'developmental state', over-generalizes about the priority the Japanese government allotted to strong, growth industries as the drivers of the economy and economic growth, whilst deliberately downgrading or ignoring other weaker industries and societal goals. Symptomatic of this perspective is the bias inherent in Johnson's view that MITI was 'the leading state actor in the economy',¹¹⁹ whereas other ministries can also lay an equal claim to being 'important agents affecting the economy'.¹²⁰ Because Johnson's focus was MITI, he overplayed the significance and role of MITI in the Japanese economy.¹²¹ He argues, for example, that the 'centre that exerts the greatest *positive* influence is the one that creates and executes industrial policy'.¹²²

Furthermore, even during the high growth period, the state did not prioritize the development of growth industries to the detriment of others. While the government was assisting some sectors to grow, it was ensuring that others shared in the profits of growth. The Japanese state practiced a form of socially responsible capitalism that analysts have variously labelled as 'communitarian capitalism', 'socialist egalitarianism', 'conservative socialism', 'socialist conservatism' and 'pseudo-socialism'. It delivered growth with

¹¹⁷ Vogel, *Freer Markets*, p. 169. See also Hartcher who describes it as 'a giant public-sector financing system . . . [designed to] suck up the savings of the people and channel them to industry'. Peter Hartcher, *The Ministry: How Japan's Most Powerful Institution Endangers World Markets* (Cambridge, MA: Harvard Business School Press, 1998), p. 185.

¹¹⁸ Porter, Takeuchi and Sakakibara, *Can Japan Compete?*, p. 29.

¹¹⁹ Johnson, *MITI*, p. vii.

¹²⁰ Johnson, *MITI*, p. vii.

¹²¹ Wilks and Wright also make the point that Johnson's 'developmental' state model gave rise to a 'misleading "MITI-centric" view of Japan's political economy'. 'The Comparative Context', p. 17.

¹²² Johnson, *MITI*, p. 26.

equity.¹²³ At the same time as the economy was undergoing rapid industrialization, the state was distributing the fruits of this economic growth to other sectors. Indeed, because rapid economic growth was creating problems of structural adjustment in industries like agriculture, the government resorted to distributive politics as a form of social policy in order to ameliorate the conditions of relative economic decline. As Muramatsu *et al.* comment, ‘the beneficiaries of the government’s financial expenditure during the period of rapid economic growth were not *daikigyô* (big industries) but declining or underdeveloped industries. This was to correct the socio-economic inequilibrium caused by the economic growth.’¹²⁴ State intervention through the budget was the primary instrument to ensure this took place.¹²⁵

As for agriculture, not only was the differential in labour productivity compensated through the administrative price mechanism, but it, along with small business, was actually favoured in national policies for economic growth.¹²⁶ For example, the Income Doubling Plan, which ‘was the first official statement of rapid growth policies,’¹²⁷ set forth:

a number of policy concerns (intermediate targets) . . . as essential conditions for economic growth. These areas of concern were (1) modernization of agriculture, (2) the correction of ‘differentials’ through the modernization of small- and medium-scale enterprises and the elimination of the dual structure, and (3) the need to form a new industrial order to cope with liberalization.¹²⁸

When it came to the allocation of government subsidies, agriculture was also prioritized over industry. As Ogura and Yoshino point out:

A balanced evaluation of the government policy in the context of development of heavy and chemical industries in postwar Japan . . . reveals that agriculture,

¹²³ See Terry MacDougall and Ikuo Kabashima, ‘Japan: Democracy with Growth and Equity’, in James W. Morley (ed.), *Driven By Growth: Political Change in the Asia-Pacific Region* (New York: M.E. Sharpe, 1999), pp. 275–309.

¹²⁴ Muramatsu Michio, Itô Mitsutoshi and Tsujinaka Yûtaka, *Sengo Nihon no Atsuryoku Dantai [Pressure Groups in Postwar Japan]* (Tokyo: Tôyô Keizai Shinpôsha, 1986), p. 115.

¹²⁵ This explains, for example, why Johnson virtually ignores the national budget and focuses on the FILP as a financial support to industry.

¹²⁶ Komiya also points to pro-active government modernization policies in small business and in agriculture because of the growing gap between them and the advanced manufacturing sector. He comments, ‘policies to modernize agriculture and small and medium-scale firms through use of modern equipment and mechanization of agriculture were adopted to correct such imbalances in development’. ‘Introduction’, p. 20. Calder also observes: ‘One of the striking features of recent Japanese public policy, viewed both in comparative context and against the backdrop of Japanese history, has been the . . . pronounced bias shown toward the small, across a range of industrial, trade, and credit-policy sectors, often at the expense of the large.’ *Crisis and Compensation*, p. 312.

¹²⁷ Tsuruta, ‘The Rapid Growth Era’, p. 82.

¹²⁸ Tsuruta, ‘The Rapid Growth Era’, p. 57–58.

forestry, and fisheries accounted for over 80% of total subsidies provided to private industry out of the national treasury [over the period 1955–1982]. Of the subsidies provided to nonagricultural industries, roughly one-half went to competitively weak sectors such as smaller business, textiles, and sake breweries. The contribution to the development of high technology, on the other hand, reached a peak of 4% in 1974 and has again declined to slightly over 1% in recent years [the early 1980s].¹²⁹

Even Wheeler *et al.* acknowledge that the ‘government has always provided various forms of direct financial support to selected parts of the private sector, but the absolute amounts have tended to be small and often conditional’.¹³⁰

There is no doubt that some industries were regarded as priority sectors from the perspective of Japanese industrial policy at different times¹³¹ (for example, basic industrial materials, high technology and so-called ‘declining industries’), but this does not mean that they were necessarily regarded as priority sectors in the overall context of national economic and fiscal policy. These industries were prioritized within the industrial sector, not across sectors. The resources they concentrated were those available within the sector; they did not distort the national allocation of resources.

This can be demonstrated by a more detailed look at the allocation of funding to various industries by the FILP, one of the key supports for industry cited by Johnson. The development of major industries and export promotion has been a target of this funding mechanism, but only along with a number of other objectives. The FILP has provided capital for public (both central and local government) investment in social and economic infrastructure (roads, sewage systems, regional development, transport and communications) and policy implementation financing (i.e. loans) for public facilities (health and welfare, education and housing), for industrial development and export promotion, and for non-developmental industry targets such as agriculture, forestry and fisheries, and small business.¹³² Figures for FILP funding allocation show

¹²⁹ Ogura and Yoshino, ‘The Tax System’, p. 122.

¹³⁰ Wheeler *et al.*, *Japanese Industrial Development Policies*, p. 7.

¹³¹ As Uekusa points out, for example: ‘During the 1950s and the first half of the 1960s, Japanese industrial policy sought to concentrate resources in key industries.’ ‘The Oil Crisis and After’, p. 98.

¹³² Wheeler *et al.* cite JDB figures for 1981 which differentiate the use of FILP funds according to public investments, policy implementation financing (JDB etc.) and local governments. They note that in the policy implementation financing category, ‘small business loans (some 43 percent in fiscal 1981) and housing loans (some 26 percent) swamped other disbursements. The loans that are typically cited as promoting industrial development objectives are usually those listed as development loans (9.9 percent) and to some extent export–import loans (12 percent)’. *Japanese Industrial Development Policies*, p. 116. They try to argue, however, that loans to small business ‘also promote industrial development policy . . . [in spite of the fact that] these are viewed by Japanese observers as less important than development or export–import loans . . . a reflection of inbred attitudes about Japanese social structure than the actual economic realities’ (p. 116). In their view, small business loans ‘must be viewed as supporting the broad industry targets of industrial development policy (e.g., basic manufacturing industries in general during the 1950s and 1960s, and knowledge-intensive industries in the 1970s)’

that industrial development (10%) and export promotion (12–15%) have been far from prioritized even amongst policy implementation loans advanced by the FILP. They have been consistently eclipsed by small business loans (more than 40%), and with housing loans (rising from 18.7% in 1977 to 26.2% in 1981). Over the period 1977–81, agriculture and forestry loans averaged around 5.5% of the total.¹³³

Similarly, analysis tracking the changing importance of the user sectors in the FILP, showing the proportions of the total funds going to various sectors on a five yearly basis, demonstrates that the share of basic industries such as electric power, sea transport, coal mining, and iron and steel, that were targeted for funding through the JDB ‘was well below 25% even in 1953–55, immediately after the introduction of the FILP, and continued to fall steadily, finally reaching 2.9% in 1976–81.’¹³⁴ The same figure-set reveals that trade and economic cooperation rose from 2.8% in 1953–55 to a peak of 10.4% in 1966–70, falling to 6.4% in 1976–81.¹³⁵ On the other hand, the ‘overall share of funds going to agriculture and the small-scale sector . . . is seen to be stable at around 20% through the period.’¹³⁶ Meanwhile, ‘the share of funds going to housing, education, and welfare under the ‘improvement of living standards’ category revealed a continuous rise [from 22.9% in 1953–55, to 47.4% in 1976–81].’¹³⁷ As Ogura and Yoshino conclude: ‘It is clear from the above discussion that the weight of the industrial policy related to financing was not exceptionally high in the Fiscal Investment and Loan Program.’¹³⁸

Table 1 reveals the sectoral shares of gross FILP funding from 1960 to 2000. The figures show that, if any sector has been consistently prioritized, it is housing, followed by ‘living environment infrastructure’ and small business. These sectoral shares have, by and large, been stable over the years. Industry, or industrial development, is not particularly favoured at all, and in fact, within the industry sector, it is mainly small business, not large enterprise that has been given preference. The categories of industry and technology, and agriculture, forestry, and fisheries, level peg as sectoral recipients of investment loans.

On balance, given that allocations have been heavily weighted in favour of environmental infrastructure-related items of expenditure (*kankyō seibi kankei himoku*),¹³⁹ the FILP would appear to be much more about building social and economic

(p. 120). As Wright correctly points out, small business is an example of where FILP ‘low-interest loans were offered for purposes of income redistribution, and the interest rates were too low to be handled by private-sector financial institutions, such as the loans made by the Government Housing Loan Corporation, by the Small business Finance Corporation to small and medium-sized firms, and by the regional development agencies’. Maurice Wright, *Japan’s Fiscal Crisis: The Ministry of Finance and the Politics of Public Spending, 1975–2000* (Oxford: Oxford University Press, 2002), p. 551. He could have added agriculture to this list.

¹³³ See Table V–6 in Wheeler *et al.*, *Japanese Industrial Development Policies*, p. 119.

¹³⁴ Ogura and Yoshino, ‘The Tax System’, p. 134.

¹³⁵ See Table III in Ogura and Yoshino, ‘The Tax System’, p. 135.

¹³⁶ Ogura and Yoshino, ‘The Tax System’, p. 134.

¹³⁷ Ogura and Yoshino, ‘The Tax System’, pp. 134–135.

¹³⁸ Ogura and Yoshino, ‘The Tax System’, p. 135.

¹³⁹ Minato, *Shin Nosei no Sōzō*, p. 137.

Table 1. Sectoral distribution of FILP funds

Year/sector	1960	1965	1970	1975	1980	1985	1990	1995	2000
Housing	16.2	14.4	19.3	21.4	26.2	25.4	25.7	29.5	24.3
Living environment infrastructure	11.0	11.5	11.6	16.7	14.1	15.7	11.7	13.7	12.7
Health and welfare facilities	2.8	3.3	2.8	3.4	3.5	2.9	2.8	3.3	2.8
Educational facilities	–	2.7	2.2	3.0	4.4	3.6	1.6	1.7	1.6
Small and medium-sized business	14.6	12.9	15.4	15.6	18.7	18.0	12.2	12.8	12.0
Agriculture, forestry and fisheries	8.9	5.8	5.0	4.1	4.9	4.3	2.5	2.5	1.6
Land preservation & disaster Compensation	0.0	3.9	1.6	1.2	1.7	2.3	1.0	1.1	1.3
Roads	6.9	8.0	8.6	8.0	5.7	8.8	8.1	6.5	6.4
Transport & communications	18.3	13.9	13.2	12.7	9.6	8.5	4.0	3.8	1.4
Regional development	1.2	6.4	4.0	3.3	2.6	2.5	2.0	2.2	2.6
Basic industries	0.6	8.9	5.7	3.0	–	–	–	–	–
Industry & technology	–	–	–	–	3.0	2.9	2.5	2.6	2.6
Export promotion	8.1	8.6	10.6	–	–	–	–	–	–
Trade & economic cooperation	–	–	–	7.7	5.6	5.3	5.2	3.9	5.0
Capital employment	–	–	–	–	–	–	20.1	16.5	25.6

Source: Nôrinsuisanshô, Tôkei Jôhôbu, *Poketto Nôrinsuisan Tôkei* [Pocket Agriculture, Forestry and Fisheries Statistics], Tokyo: Nôrin Tôkei Kyôkai, annual, various issues.

infrastructure than promoting large-scale manufacturing industry. In fact, many of the activities of the public corporations drawing on FILP investment loans have competed on excessively favourable terms with the private sector, effectively preventing them from entering certain fields.

This is not to deny that the Japanese state has invested in industrial development, simply that the government invested in other national projects as well – in public infrastructure and in weak industries such as agriculture. As Wright points out, one of the reasons for this was that the allocation of funds from the FILP was influenced by ‘the preferences of the LDP leadership and Dietmen, articulated formally through PARC and its divisions.’¹⁴⁰ The allocation of FILP funding was not just a bureaucratic exercise. It was politicized:

Because most of FILP funds were used for capital projects, the content, allocation, timing, and location were issues of great interest to constituency Diet men, and more generally to the LDP leadership . . . their concern was

¹⁴⁰ Wright, *Japan's Fiscal Crisis*, p. 356. This reflects the more general point made by others that Japan's pluralistic politics ensured that the government was responsive to demands from uncompetitive sectors and interests. See Gregory W. Noble, ‘The Japanese Industrial Policy Debate’, in Stephan Haggard and Chung-in Moon (eds), *Pacific Dynamics: The International Policy of Industrial Change* (Boulder, CO: Westview Press, 1989), p. 63.

with discrete policy sectors, housing, welfare, public works, and so on, and with the contents of those policies and the geo-electoral location of projects and programmes to implement them.¹⁴¹

Far from being just a political support to so-called ‘strategic’ industry sectors, the other ‘weaker’ claimants on FILP funding were in fact given preference. One of the main pillars of the capitalist developmental state would, therefore, seem to rest on shaky empirical grounds.

The more general conclusion is that even if the state did catalyze economic growth, this was not all it did. In relegating non-performing sectors to secondary elements in the model or omitting them altogether, Johnson completely ignored what the state was doing in these sectors as well as in areas such as social welfare, housing and education.¹⁴² State goals were heterogeneous; at no time did the Japanese government have the single undifferentiated goal of economic growth.¹⁴³ Nor, on the data presented above, did it prioritize growth industries over others. No sectors were sacrificed or subordinated to the goal of rapid industrialization. Quite the reverse; the government ensured that they benefited directly from it by redistributing the gains from growth. The characterization of Japan as a ‘developmental state’, therefore, can be challenged. It was ‘developmental’ in the nature of some of its policies, which were geared to industrial development and national economic growth, but it was not ‘developmental’ in terms of its prioritization of industrial development over other state goals.

This conclusion is reinforced by pointing out how the CDS model under-generalizes the essential features of Japan’s political economy. Failing to identify the commonalities that exist in the structures and practices of bureaucratic intervention in different sectors of the economy has profound implications for the CDS model of Japan as an explicitly ‘developmental state’. If the same structures of intervention (identified by Johnson as the key features of his capitalist developmental state) are present in both ‘growth’ and ‘non-growth’ sectors (such as industry and agriculture), then how can Japan be characterized as a ‘developmental state’? The CDS model, by definition, cannot accommodate such parallels.

The identification of Johnson’s model as exclusively ‘developmental’ was mandated by his implicit and sometimes explicit claim to be offering an explanation for (government-guided) economic growth.¹⁴⁴ Non-growth sectors were deliberately

¹⁴¹ Wright, *Japan’s Fiscal Crisis*, pp. 361–362.

¹⁴² As Wilks and Wright observe, the developmental state concept ‘emphasizes conditions for growth above other important questions such as the distribution of benefits and political accountability’. ‘The Comparative Context’, p. 13.

¹⁴³ Even Wheeler *et al.* admit that the Japanese government exhibited ‘explicit differentiation of multiple goals’. *Japanese Industrial Development Policies*, p. 76.

¹⁴⁴ For example, Johnson’s statement that: ‘The speed, form, and consequences of Japanese economic growth are not intelligible without reference to the contributions of MITI.’ *MITI*, p. vii. See also Wheeler *et al.* where they argue that: ‘Japan’s industrial development policies have unquestionably played a major role in Japan’s recovery from defeat in World War II and its achievement of historically

excluded because it was those facets of industry–government cooperation that were identified as characteristic of the capitalist *developmental* state, which were critical to Japan's economic growth. They could not be found in non-growth sectors and industries without undermining the explanatory force of the model.

However, if common elements of intervention are discernible in both sunrise and sunset industries, and if there is no particular evidence that *intervention including state assistance is restricted to growth sectors*, then what Johnson was describing was not a 'growth' model at all or, at the very least, it was not just a 'growth' or 'developmental' model. It was a system of bureaucratic intervention *independent of growth*. Johnson was modelling a system of state intervention in the economy, which in practice could have flexible goals, depending on the industry subject to intervention. This suggests that the core feature of the Japanese political economy which Johnson misidentified was 'interventionism' rather than 'developmentalism'. Japan is not and never has been a 'capitalist developmental state'; it is a 'capitalist interventionist state', or more simply an 'interventionist state'. What is distinctive about this state is the methodologies, institutions, practices and policies of Japanese-style interventionism. While these may not be replicated exactly across sectors, they share very significant commonalities as this paper has shown. The similarities extend to a common legal, institutional and financial architecture of intervention as well as common features of government–private sector collaboration and common bureaucratic practices. In short, wherever the state intervenes, it intervenes in similar sorts of ways.

This is where agriculture can be brought back in – not as a singular model of intervention, but as an exemplar of Japan's interventionist state. The similarities between structures of intervention across industry and agriculture are suggestive of the existence of such a common interventionist model. The key point is that the institutional, legal, financial and other characteristics of the Japanese system of state intervention in the economy are not specific to particular industries, but are cross-sectoral. This proposition is supported by other research that reveals the generic mechanisms of state intervention in the Japanese economy.¹⁴⁵

Undoubtedly the degree of intervention will vary from sector to sector.¹⁴⁶ In some industries it will be much more pervasive than in others. Agriculture scores high on all indices of intervention: it is an inefficient, uncompetitive industry containing a morass

unprecedented rates of economic growth throughout the postwar period. . . . The key role of government has been as a catalyst to economic development, facilitating and accelerating this development.' *Japanese Industrial Development Policies*, p. xxi.

¹⁴⁵ Miyamoto's comprehensive listing of generic mechanisms of intervention, for example, makes no sectoral differentiations between agriculture and industry. Miyamoto Kenichi, *Hojokin no Seiji Keizaigaku [The Political Economy of Subsidies]* (Tokyo: Asahi Shinbunsha, 1992), pp. 7–8.

¹⁴⁶ Uriu, for example, notes that intervention 'has been relatively unobtrusive in such cases as the synthetic fiber industry, but has been highly interventionist in industries such as cotton textiles and coal mining'. *Troubled Industries*, p. 6.

of regulated markets at the same time as being subject to direct market participation by bureaucratic agencies as well as direct and indirect financial assistance.¹⁴⁷

The government intervention model is not, therefore, just geared to growth: it operates in many areas where there is or has been no growth. As Katz argues:

We by no means claim that Japan's industrial protection/promotion policies were always limited to the industries that deserved them: genuine infant industries characterized by economies of scale, rapid productivity hikes, inter-industry ripple effects, and rapid growth in world demand. In fact, many industries with no future export potential were aided for all kinds of reasons: because advanced industrial countries had them and so Japan wanted them also; because they would help Japan become more self-sufficient; because they had powerful political supporters; and because of fear of social unrest in declining industries.¹⁴⁸

Levels of intervention may also vary over time in the same industry. What were previously sunrise industries may become sunset industries, calling into play interventionist mechanisms that were not present before. In reality, *state intervention has become far more associated with declining industries* like agriculture, rather than growth industries. As Porter and Takeuchi point out, the 'government model' is far more accurate as a description of the state's role in relation to uncompetitive so-called 'failure industries'¹⁴⁹ than in relation to its successful internationally competitive industries. The 'practices widely believed to explain Japan's success were far more prevalent and pervasive in its failures.'¹⁵⁰ Noguchi, for example, criticizes the CDS model for considering 'the main object of government protection to be large corporations in strategic industries',¹⁵¹ when the main object of government intervention was the low-productivity sector, with agriculture, along with services and distribution and small-scale manufacturers, exemplifying this weak, 'second sector'. As Noguchi explains, the government acts 'to protect the second sector from competitive pressures through import restrictions, limits on market entry,¹⁵² and price controls, and to transfer

¹⁴⁷ See George Mulgan, *Japan's Interventionist State*, pp. 11–26; 47–104.

¹⁴⁸ Richard Katz, *Japan: The System That Soured – the Rise and Fall of the Japanese Economic Miracle* (New York: M. E. Sharpe, 1998), p. 123.

¹⁴⁹ Michael Porter and Hiroataka Takeuchi, 'Fixing What Really Ails Japan', *Foreign Affairs*, 78 (May/June 1999), p. 70. They cite the civil aircraft, chemical, securities, software, detergent, apparel and chocolate industries. See also Table 2–3 in Porter, Takeuchi and Sakakibara, *Can Japan Compete?*, p. 31.

¹⁵⁰ Porter and Takeuchi, 'Fixing What Really Ails Japan', pp. 70–71.

¹⁵¹ Yukio Noguchi, 'Dismantle the 1940 Setup to Restructure the Economy', *Economic Eye*, 15 (Autumn 1994), p. 26.

¹⁵² Entry controls have been described as the 'sine qua non of the entire industrial policy system' (Katz, *Japan*, p. 89), in the sense that they are critical to limiting competition in any sector, particularly from outside the circle of relations between the bureaucracy and private companies i.e. those subject to interventionist/regulatory measures.

income from the first sector to the second through subsidies, as well as financial and tax policies'.¹⁵³

Both economic logic and empirical evidence¹⁵⁴ therefore support the fact that intervention is far more likely to be prevalent in inefficient, uncompetitive industries rather than in dynamic, expansionist export industries, because the call for government support from inefficient industries is so much higher and because dynamically growing industries can exploit their market competitiveness to expand. In the circumstances, they have less need or desire for assistance.¹⁵⁵ As Wheeler *et al.* concede, it is 'ailing industries . . . [that] typically seek government assistance'.¹⁵⁶ The demand in declining industries is for active government intervention in the market:

to promote adjustment and foster industrial restructuring . . . [or, even further] to preserve the industry in question. Governments often use such policy tools as import protection, subsidization, and bailouts to protect an industry from pressures for change or to retard the pace and severity of the adjustment process.¹⁵⁷

In fact, as Uriu notes: 'Policy tools have been utilized to prop up the least competitive firms, rather than support the most competitive.'¹⁵⁸ He concludes:

MITI regulation has consistently supported the *least* competitive firms in each industry (author's emphasis). MITI policies to create a more stable economic environment, such as pro rata or across-the-board cuts in production or capacity, have tended to help the least competitive firms survive and to hold on to their market shares. These policies thus hurt the most competitive firms, whose market shares would have increased otherwise . . . Thus, to the extent that MITI was able to favor the interests of some firms over others, it consistently favored those with the least competitiveness or growth potential. Far from promoting competitiveness, then, Japan's industry policies have helped the laggards survive and have tended to hurt the interests of the most competitive firms. Nothing could be farther from what we should expect of a capitalist developmental state . . . MITI provided the strongest support to industries that were the least 'strategic'.¹⁵⁹

¹⁵³ Noguchi, 'Dismantle the 1940 Setup', p. 25.

¹⁵⁴ See, for example, Uriu, *Troubled Industries*, and Kym Anderson, Yujiro Hayami *et al.*, *The Political Economy of Agricultural Protection: East Asia in International Perspective* (Sydney: Allen & Unwin, 1986).

¹⁵⁵ Wheeler *et al.*, *Japanese Industrial Development Policies*, p. 12.

¹⁵⁶ Wheeler *et al.*, *Japanese Industrial Development Policies*, p. 11.

¹⁵⁷ Uriu, *Troubled Industries*, p. 5.

¹⁵⁸ Uriu, *Troubled Industries*, p. 7.

¹⁵⁹ Uriu, *Troubled Industries*, pp. 254–255.

Moreover, as Japanese industries have lost their competitiveness, the degree of state intervention has increased. As the 1970s unfolded:

more and more industries have been turning to the government for 'adjustment' aid. These industries . . . include manufacturing industries in decline or suffering under comparative disadvantage in the face of high wage and energy costs or depressed markets for their goods on a worldwide basis. Examples include all types of textiles, nonferrous metal refining, and shipbuilding. In terms of the fiscal burden of industrial restructuring and protection from import competition, the relative weight of declining and internationally uncompetitive industries in industrial policy has been increasing since the high-growth period. The most prominent examples of industries in decline are coal mining, textiles, ocean transport and shipbuilding, nonferrous metals, and petrochemicals. I believe that the direct and indirect cost of backward-looking policies to support such industries has, since the high-growth era, exceeded the cost of resources devoted in a forward-looking sense to the development of new industries.¹⁶⁰

Hence, it is incorrect to argue that as Japan underwent economic growth the quantum of state intervention in the economy necessarily declined. Not only were there many non-industry sectors with high levels of state intervention such as agriculture, but even some basic manufacturing industries began to call for greater government assistance.

In fact the association of CDS-style intervention with weak industries and its greater prevalence in weak sectors has a number of implications for the characterization of intervention in the capitalist development state as 'market-conforming' and 'pro-competitive'. Johnson claims that one of the key elements of his capitalist developmental state:

is the perfection of market-conforming methods of state intervention in the economy. In implementing its industrial policy, the state must take care to preserve competition to as high a degree that is compatible with its [presumably developmental] priorities. This is necessary to avoid the deadening hand of state control and the inevitable inefficiency, loss of incentives, corruption, and bureaucratism that it generates.¹⁶¹

Similarly, Wheeler *et al.* talk about the 'main strength of Japanese industrial development policy . . . is the way in which the various instruments of this policy have complemented . . . the general market forces of the day'.¹⁶²

¹⁶⁰ Komiya, 'Introduction', pp. 9–10.

¹⁶¹ Johnson, *MITI*, p. 317–318.

¹⁶² Wheeler *et al.*, *Japanese Industrial Development Policies*, p. xxi.

In reality, however, intervention is fundamentally designed to shield weak market players from competition. For infant industries during the high growth period, the interventionist state provided assistance and protection when they were developing to a position of competitive strength. As Uekusa points out, during the 1950s and the first half of the 1960s, when certain key (basic) industries were prioritized for development, 'selective or preferential fiscal, tax, and financial policies were implemented, and domestic firms in these industries were protected from foreign competition by setting up tariff and non-tariff trade barriers (such as quotas) and by restricting imports and foreign direct investment.'¹⁶³ Administrative guidance in the 1950s and 1960s was also used 'to restrain competition (such as cartels set up through administrative guidance)'.¹⁶⁴ As Kosai elaborates further, the ideology behind industrial policy in 1945–60 'was not based on neoclassical economics or Keynesian thinking, but was rather neo-mercantilist in lineage. Thus, with the goal of improving national welfare, it was thought appropriate for the government to intervene in the economy to protect and promote industry so as to be able to face foreign competition.'¹⁶⁵

Hence, Johnson fundamentally misunderstood the function of bureaucratic intervention in relation to competition. Intervention was designed to prevent the workings of the market, not to assist it. The longer-term objective might have been a more internationally competitive industry, but *the market mechanism itself was not permitted to deliver this outcome*. The government itself was trying to engineer it by managing markets.

Depending on the levels of competitive power of the industry in question, the duration of intervention was different. However, the intervention itself was fundamentally anti-competitive wherever it occurred and whatever form it took, because it prevented the market from imposing price competition. Even when industrial policy embodied progressive trade and capital liberalization in the 1960s:

the government attitude toward liberalization was one of extreme caution. During the progressive liberalization of trade, when there were thought to be problems with the quality of goods or the competitive strength of strategic industries, such as the automotive and computer industries, liberalization was delayed until it was certain that the industries would be competitive with those of foreign countries. The government also revised the tariff system, raising some tariffs and changing others from a value to a quantity basis, introducing an emergency tariff system, a tariff-quota system, a mixed tariff system, and other protectionist tariff measures as a response to liberalization.¹⁶⁶

¹⁶³ Uekusa, 'The Oil Crisis and After', p. 98. Komiya also makes the general point that: 'Japan in the course of rapid economic growth and industrialization adopted various industrial and other policy measures to protect domestic industry.' 'Introduction', p. 3.

¹⁶⁴ Uekusa, 'The Oil Crisis and After', p. 99.

¹⁶⁵ Yutaka Kosai, 'The Reconstruction Period', in Komiya *et al.*, *Industrial Policy of Japan*, p. 28.

¹⁶⁶ Tsuruta, 'The Rapid Growth Era', pp. 59–60.

When, in later years, the emphasis shifted from basic (heavy and chemical) industries, the same kinds of preferential treatment were applied to high technology industries. As Uekusa observes: 'subsidies were granted, along with favorable tax status and access to government financing, which were provided for under the Machinery and Information Industries Promotion Law'.¹⁶⁷

The above analysis suggests that Johnson's CDS model is not only weak as a description of Japan's political economy, it is also weak as an explanation for Japan's economic growth. The fact that intervention is more prevalent in non-competitive, declining industries serves further to undermine the power of the CDS model as an explanation of Japan's economic growth. In fact, as some economists have pointed out, 'the Japanese government model is a cause of failure, not of success',¹⁶⁸ because lack of competition breeds weakened industries. Cosseted industries protected from the vicissitudes of price competition will have no incentive to become more efficient and competitive, hence they become weaker rather than stronger over time. As Katz comments, the Japanese economic model of protectionist and promotional policies 'turned into a recipe for debilitation. Instead of turning infant industries into export stars, the same tools amounted to a cocoon that protected inefficient . . . industries from competition'.¹⁶⁹

The prevalence of bureaucratic intervention in domestic, non-traded sectors such as agriculture is, therefore, widely regarded as contributing to their low productivity and to wider problems in the Japanese economy. In the 1990s, for example, the system-wide impact of interventionism was seen as exacerbating Japan's economic malaise.¹⁷⁰ Instead of being a 'state-guided high growth system',¹⁷¹ Japan became a 'state-guided low-growth system'. In this context, bureaucracy-led interventionism became more appropriate as a model of economic decline rather than a model of economic growth. Similarly, the 'agriculture model' was a more accurate summation of Japan's political economy than the 'industry growth model'.

¹⁶⁷ Uekusa, 'The Oil Crisis and After', p. 99.

¹⁶⁸ Porter and Takeuchi, 'Fixing What Really Ails Japan', p. 71.

¹⁶⁹ Katz, *Japan*, p. 6.

¹⁷⁰ As Porter and Takeuchi observe, 'inefficiencies in domestic retailing, wholesaling, agriculture, and logistics exacted a heavy toll: higher costs, incompatibility with foreign markets, and weakened competitiveness of many export industries'. 'Fixing What Really Ails Japan', p. 71. Katz made much the same point. Although he contends that the successes of industrial policy outweighed the failures during the industrial take off period of the 1950s-60s, he argues that by the early 1970s, industrial policy had outlived its usefulness and should have been abandoned altogether. See Katz, *Japan*, pp. 4-7, 42. Anchordoguy argues that state intervention produces both successes and failures, and that it is the new environment since the 1990s rather than state intervention per se that is responsible for Japan's economic stagnation. 'Whatever Happened to the Japanese Miracle?', p. 3.

¹⁷¹ Johnson, *MITI*, p. 309.

Conclusion

This paper has focussed on the concept of the capitalist developmental state as a descriptive model of Japan's political economy. It has challenged some of the key propositions and assumptions of the model, which it charges, are not a sufficiently encompassing delineation of either Japanese industrial policy, or the Japanese state and its role in the economy. Johnson assumed that because MITI pursued developmental policies with respect to some industries, and because there was a consensus amongst the Japanese public and policymakers on the importance of catching up with the West, a) developmentalism characterized industrial policies in general, and b) developmentalism also characterized the state in the sense that the Japanese government pursued economic development at all costs, subordinating all other sectors and policies to its 'growth-first' mentality.¹⁷²

By 'bringing agriculture back in', this paper has shown that Johnson's argument is flawed. Intervention can be found in both 'growth' and 'non-growth' sectors and is not, therefore, necessarily 'developmental'. The policy purposes for which the state intervenes are diverse: the state can play both promotional and protective roles. Johnson's descriptive model of Japan's political economy more accurately exemplifies an interventionist state' rather than a 'developmental state'. To turn Johnson's claim on its head: 'Japan is regulatory state first and only then a developmental state.'¹⁷³ Developmentalism is simply a branch of interventionism. It refers to a particular type of industrial policy, or, at the state level, to a government that pursues proactive policies for purposes of national economic advancement. However, the Japanese government did not prioritize economic growth over other social and economic goals by privileging industrial developmental policy. It pursued 'balanced development': non-growth sectors shared in and were compensated by the gains from economic growth.

While the major constituents of interventionism remained constant in both Japan's high-growth and low-growth periods, in practice, intervention is more likely to be found in declining and laggard sectors, and to be 'market-distorting' rather than 'market-conforming'. This suggests that bureaucracy-led intervention is more appropriate as a model of economic decline than a model of economic growth. In this respect, the CDS model not only misrepresents Japan's political economy as a whole, but its key assumption – that the Japanese model of intervention was necessarily a success – is also open to question.

¹⁷² The additional claim – that the bureaucracy dominated policymaking – is not examined in this paper. Indeed, this represents a major confusion in Johnson's works as well as in other analyses of the role of government in the economy. See, for example, Stephen Wilks and Maurice Wright, 'The Japanese Bureaucracy in the Industrial Policy Process', in Wilks and Wright (eds), *The Promotion and Regulation of Industry in Japan*, pp. 32–45.

¹⁷³ The Economic Planning Agency in its White Paper of 1996, for example, acknowledged 'administrative regulation of the economy' as one of the four elements of the Japanese economic system.