Chapter Two

The Developmental State:
Odyssey of a Concept

Chalmers Johnson

One of my main purposes in introducing the idea of the “capitalist developmental state” into a history of modern Japanese industrial policy was to go beyond the contrast between the American and Soviet economies. The American-Soviet comparison had become a feature of virtually all the canonical works of the American side during the cold war—such as Samuelson’s Economics textbook. I wanted, instead, to call attention to the differences, not the similarities, between the capitalist economies of the United States and Britain, on the one hand, and Japan and its emulators elsewhere in East Asia, on the other. During the 1970s, when I was doing the research for MITI and the Japanese Miracle (1982), these differences were beginning to show, even though there was, and is today, enormous ideological resistance in the English-speaking countries to any attempt to take them seriously.¹

Looking back on the era of the 1970s, Ronald Dore, in Flexible Rigidities: Industrial Policy and Structural Adjustment in the Japanese Economy, 1970–1980, noted in the second paragraph of his introduction that “they [the Japanese] don’t believe in the invisible hand.” “Why on earth, then,” Dore asks, “should Japan, an economy which almost flaunts its rigidities as a matter of principle, be the most successful among the OECD [Organization for Economic Cooperation and Development] countries at dy-

namically adjusting to these challenges—absorbing the oil-price rises, controlling inflation at a low figure, and shifting the weight of its industrial structure away from declining to competitive industries?"2

Japan’s “flagrantly flouting all received principles of capitalist rationality,” to use Dore’s words (p. 18), was turning it into one of the world’s richest big nations and the model for all the other countries of East Asia, including China. The cases of the so-called East Asian NICs (newly industrialized countries) were also calling into question the lectures of scores of American “dependency theorists” and World Bank officials who droned on about why Latin America was doomed to underdevelopment. At the same time, the Americans and the British, the exemplars of the “principles of capitalist rationality,” were being repaid for their orthodoxy with stagflation, high rates of unemployment, and a hollowed-out manufacturing base. Their decline was checked only marginally during the succeeding decade by Ronald Reagan’s credit card binge, which left the United States as the world’s largest debtor, and Margaret Thatcher’s determination to let the market rule, which only made Britain surly.

During the 1990s, as a result of overconfidence and arrogance, Japan allowed a speculative bubble to develop in its domestic economy. The spiral upward in prices was based primarily on overinvestment in productive capacity and unrestricted bank lending using inflated real estate prices as collateral. When the inevitable collapse came, instead of reforming its banking practices and holding its companies responsible for bad investment decisions, Japan exported the bubble to South Korea and Southeast Asia, thereby precipitating the East Asian economic crisis that started in 1997. Many writers in the United States concluded from these events that the Asian “miracle” was a flash in the pan and that the “end of history,” that is, the elimination of all alternatives to the American way of life, had finally and definitively arrived. Unfortunately for them, these American writers have seen only those aspects of the Asian economic crisis that neoclassical economics illuminates for them. They have refused to notice the cold war context in which the Asian economies flourished or how overextended they themselves are as the economic and military guarantors of the Asian system. In any case, my history of the Ministry of International Trade and Industry (MITI) was devoted to an explicit period of twentieth-century history, as its subtitle indicates: The Growth of Industrial Policy, 1925–1975.

I invoked the concept of “developmental state” to characterize the role the Japanese state played in Japan’s extraordinary and unexpected post-

war enrichment. I never said or implied that the state was *solely* responsible for Japan’s economic achievements or that it behaved like the state in command economies in assigning tasks and duties to the Japanese people. Nonetheless, many reviewers, usually self-identified as “economists,” allege that I did. Thus began one major stream of response to the concept: it was heretical. Anglo-American “theory” taught that there were only two possible explanations for Japan’s wealth—it must be an extreme instance of “getting the prices right,” or Japan was toying with socialism and would soon begin to show signs of Soviet-type misallocation of resources and structural rigidities. It could not exemplify the role of the state in a market economy, because even what Adam Smith had to say on that subject was no longer credited in the extreme, “rational choice” version of Western economic individualism.3

This line of attack on the concept “developmental state” came as a surprise to me. When I wrote the history of MITI, I did not realize the extent to which economics had become the doctrinaire orthodoxy of the “West” during the cold war and economists the censors of social science deviancy within the English-speaking university establishment. My book was not even consciously directed at the world of academic economics but rather at such issues as the uses of the state in the setting and achievement of social goals, the failures of Soviet-type socialist displacement of the market, comparative state bureaucracies, and public-private cooperation. Thus, I tended at first not to pay too much attention to reviewers who noted that “economists . . . will quibble with some of Johnson’s formulations” (*Journal of Asian Studies*) and “I am afraid that Johnson has unnecessarily alienated many economists” (*Journal of Japanese Studies*).4 I came to realize, however, that my book was an ideological red flag to the bull of Anglo-American cold war orthodoxy about economic correctness. That is to say, MITI, industrial policy, Japan’s economic growth, and above all the idea of a “developmental state” continue to threaten people on both sides of the Pacific with deep vested interests in the cold war relationships.

Thus, without ever contradicting or even confronting the historical evidence I had presented from both prewar and postwar Japan, critics developed several standard ploys for dealing with my book. These and variations on them have been repeated over and over again. One, suggested, for example, by Kuroda Makoto, MITI’s chief negotiator with the United States over trade in semiconductors, is that my history is accurate enough

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but no longer relevant because Japan has changed and no longer does industrial policy in the old way. Another (compare Karl Zinsmeister for the Heritage Foundation) invites readers to imagine how mind-blowingly rich the Japanese would be if the state had not intervened. Or I am taxed with “understat[ing] the economic activities of the private sector” (Nakamura Takafusa), without ever specifying what “private” might mean in Japan as opposed to the United States or how and by whom the incentives the Japanese private actors faced were changed over time.5

Since my book was published in the early 1980s, several other writers have taken up the same broad subject—the role of the state in the Asian market economies—and analyzed it in contexts different from the Japanese and with attention to other aspects of Japan’s activities than industrial policy. The most important of these works are Alice Amsden, Asia’s Next Giant, on the fundamentally different microeconomics of the Korean developmental state from those recommended by the English-language economics textbooks; Robert Wade, Governing the Market, on many aspects of Taiwan’s economic growth but particularly on the corporatist politics that sustain the developmental state; and Jung-en Woo (Meredith Woo-Cumings), Race to the Swift, on how the single most important tool of industrial policy in the growth of South Korea was control of finance. Another critically important work that theoretically distinguishes the capitalist developmental state from the Soviet-type command economy, market socialism, and laissez-faire is Yu-Shan Wu, Comparative Economic Transformations: Mainland China, Hungary, the Soviet Union, and Taiwan.6

In a sense, these works led to the World Bank’s unintended paean to economic success: The East Asian Miracle: Economic Growth and Public Policy (1993). The Japanese aid-giving authorities forced the ideological conservatives of the bank to write this study as a condition for further Japanese funding. The study does not actually say anything new and is intentionally misleading on fundamentals, but in the foreword the president of the World Bank, Lewis T. Preston, writes, “This diversity of experience

[in East Asia] reinforces the view that economic policies and policy-advice must be country-specific, if they are to be effective.” If Jeffrey Sachs and similar advisers in Russia and Eastern Europe had taken this stricture seriously when they were asked to help restructure the command economies there, the outcomes might be much less vexed and politically volatile.

I do not here feel the need to review the theory of the developmental state. That has already been done quite brilliantly in the works cited above, as well as in the articles collected in this volume. Before leaving the subject, however, I would like to mention two articles that in my view make major contributions to synthesizing the different aspects of the developmental state and solving noteworthy East Asian puzzles (for example, was Hong Kong before its return to China an example of laissez-faire? Answer: no). These are Ziya Onis, “The Logic of the Developmental State,” and Manuel Castells, “Four Asian Tigers with a Dragon Head: A Comparative Analysis of the State, Economy, and Society in the Asian Pacific Rim.” These works deserve to be better known. For my own thoughts on the developmental state after MITI and the Japanese Miracle, see the collection of my essays entitled Japan, Who Governs? The Rise of the Developmental State.

The developmental state exists and is in the process of altering the world balance of power, whether or not the Anglo-American academic and journalistic establishments recognize it. My purpose here is not to restate what has already been well said but to undertake three lesser tasks: first, to summarize what MITI and the Japanese Miracle actually said, which has often gotten lost in the ideological disputation about its possible implications: second, to reveal for the first time the editorial debate that preceded publication of the book over whether the Japanese case constituted a model; and, third, to consider the reviews under four broad headings: (1) What was more important, the market or industrial policy? (2) Is Japan a democracy, and is the capitalist developmental state compatible with democracy? (3) Did Japan’s success depend on the period in which it occurred? and (4) What is the nature of bureaucratic-civilian relations (these terms are preferable to public-private) in the capitalist develop-

mental state? These four areas cover all the serious controversies surrounding *MITI and the Japanese Miracle*.

**The Thesis**

In the immediate paragraphs below, I quote extensively from *MITI and the Japanese Miracle* in order to provide a synopsis of the argument it contains. The essence of the argument is that credit for the postwar Japanese economic "miracle" should go primarily to conscious and consistent governmental policies dating from at least the 1920s:

[A] state's first priority will define its essence. . . . For more than 50 years the Japanese state has given its first priority to economic development. Some of the Japanese state's priorities for economic development, such as the imperialism of the Pacific War, were disastrous, but that does not alter the fact that its priorities have been consistent. (Pp. 305-6)

Overcoming the depression required economic development, war preparation and war fighting required economic development, postwar reconstruction required economic development, and independence from U.S. aid required economic development. The means to achieve development for one cause ultimately proved to be equally good for the other causes. There are striking continuities among the state's various policy tools over the prewar and postwar years. (P. 308)

The issue is not one of state intervention in the economy. All states intervene in their economies for various reasons. . . . The United States is a good example of a state in which the regulatory orientation predominates, whereas Japan is a good example of a state in which the developmental orientation predominates. A regulatory, or market-rational, state concerns itself with the forms and procedures—the rules, if you will—of economic competition, but it does not concern itself with substantive matters. (Pp. 17, 19)

A state attempting to match the economic achievements of Japan must adopt the same priorities as Japan. It must first of all be a developmental state—and only then a regulatory state, a welfare state, an equality state, or whatever other kind of functional state a society may wish to adopt. (P. 306)

The fundamental problem of the state-guided, high-growth system is that of the relationship between the state bureaucracy and privately owned business. This problem erupted at the very outset of industrial policy. . . . Over the past 50 years Japan developed and attempted to implement three different solutions to this problem—namely, self-control, state control, and cooperation. None of them is perfect, but each is preferable to either pure laissez faire or state socialism as long as forced development remains the top priority of the state. (Pp. 309-10)
The Supreme Commander for the Allied Powers (SCAP) never singled out the civilian bureaucracy as needing basic reform. However, SCAP eliminated completely from political life one major rival of the economic bureaucracy, the military; and it transformed and severely weakened another, the zaibatsu. ... The purge had little effect on the economic ministries. ... Even more important was SCAP's insistence that the economic functions previously shared between the government and the zaibatsu should now be placed exclusively in governmental hands. (Pp. 41, 44)

The Enterprises Bureau's next big initiative was the enactment of the Foreign Capital Law (1950). The Foreign Exchange and Foreign Trade Control Law of 1949 had already given the government power to concentrate all foreign exchange earned from exports (by law such foreign exchange had to be sold to a foreign exchange bank within 10 days of its acquisition), and this power made possible the control of imports through the use of a foreign exchange budget. MITI made every effort to suppress imports of finished goods, particularly those that competed with domestic products, but it urgently sought imports of modern technology and machinery. The problem was to keep the price down and to "untie the package" in which such foreign technology normally came wrapped—to separate the foreign technology from its foreign ownership, patent rights, know-how agreements, proposals for joint ventures, capital participation, voting rights, and foreign managers on boards of directors. The Foreign Capital Law dealt with this problem. It established a Foreign Investment Committee and stipulated that foreign investors wanting to license technology, acquire stock, share patents, or enter into any kind of contract that provided them with assets in Japan had first to be licensed by the committee. (P. 217)

Specialists on modern Japan will differ as to the precise elements and the weight to be attached to each element in such a model, but the following, based on the history of MITI, is my own estimation of the essential features of the Japanese developmental state. ... The first element of the model is the existence of a small, inexpensive, but elite state bureaucracy staffed by the best managerial talent available in the system. ... The duties of this bureaucracy would be first, to identify and choose the industries to be developed (industrial structure policy); second, to identify and choose the best means of rapidly developing the chosen industries (industrial rationalization policy); and third, to supervise competition in the designated strategic sectors in order to guarantee their economic health and effectiveness. These duties would be performed using market-conforming methods of state intervention. (Pp. 314–15)

The second element ... is a political system in which the bureaucracy is given sufficient scope to take initiative and operate effectively. This means ... that the legislative and judicial branches of government must be restricted to "safety valve" functions. ... A non-Japanese example would be something like the American legislative branch's relationship to the wartime Manhattan Project or to the postwar nuclear submarine development program. (Pp. 315–16)
The third element of the model is the perfection of market-conforming methods of state intervention in the economy. ... [Japanese methods include] creation of governmental financial institutions, whose influence is as much indicative as it is monetary; the extensive use, narrow targeting, and timely revision of tax incentives; the use of indicative plans to set goals and guidelines for the entire economy; the creation of numerous, formal, and continuously operating forums for exchanging views, revising policies, obtaining feedback, and resolving differences; the assignment of some governmental functions to various private and semiprivate associations (JETRO [Japan External Trade Organization], Keidanren); an extensive reliance on public corporations, particularly the mixed public-private variety, to implement policy in high-risk or otherwise refractory areas; the creation and use by the government of an unconsolidated "investment budget" separate from and not funded by the general account budget; the orientation of antitrust policy to developmental and international competitive goals rather than strictly to the maintenance of domestic competition; government-conducted and government-sponsored research and development (the computer industry); and the use of the government's licensing and approval authority to achieve developmental goals. Perhaps the most important market-conforming method of intervention is administrative guidance. ... It is necessary to avoid overly detailed laws that ... put a strait jacket on creative administration. ... Highly detailed statutes serve the interests primarily of lawyers, not of development. ... At its best Japanese administrative guidance is comparable to the discretionary authority entrusted to a diplomat negotiating an international agreement. Success depends upon his skill, good sense, and integrity, and not on a set of legal requirements that no matter how well crafted can never truly tell a negotiator what to do. (Pp. 317–19)

The fourth and final element of the model is a pilot organization like MITI. ... 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). ... The key characteristics of MITI are its small size ... its indirect control of government funds (thereby freeing it of subservience to the Finance Ministry's Bureau of the Budget), its "think tank" functions, its vertical bureaus for the implementation of industrial policy at the micro level, and its internal democracy. It has no precise equivalent in any other advanced industrial democracy. (Pp. 319–20)

The Take-Home Message

Many of these quotations, particularly the four-part model, come from the final chapter of MITI and the Japanese Miracle, titled "A Japanese Model?" This chapter did not exist in the original manuscript but was added at the insistence of the chief editor of Stanford University Press. Although usually such editorial decisions are of no great importance, ex-
cept perhaps to the author, in this instance they relate to what is perhaps the single most important question concerning the Japanese developmental state. Is it duplicable? Is there really a Japanese model? What are the general, culture-free lessons to be learned from the Japanese case?

There is no longer any question that the Japanese use of market mechanisms for developmental purposes has been successfully emulated in other countries. The most important examples, in descending order of their distance from the Japanese precedent, are South Korea, Taiwan, Singapore, and Hong Kong. The growth of these five capitalist developmental states has also tended to promote growth in the surrounding areas—through trade, investment, emulation, and other influences. During the 1990s, the People’s Republic of China also began to adapt the institutions of Japan’s developmental state to its own Leninist heritage, a command economy it was attempting to dismantle. Beyond Japan and the NICs, this growth has often occurred without an explicit pilot agency such as MITI and has produced severe economic and environmental dislocations together with high levels of structural corruption. These were the primary reasons why Thailand and Indonesia were the countries first affected by the economic crisis that began in 1997. None of the Asian cases is a clone of the Japanese experience. Some followers improved on the Japanese model (for example, state control of chaebol—that is, zaibatsu—banks in Korea), and others ignored Japanese-type controls on unchecked growth and paid the consequences (for example, repeated bouts of inflation in mainland China). Nonetheless, as is made clear below and in other papers in this volume, all the East Asian cases reflect particular forms of state guidance that were first demonstrated to be effective by Japan.

That was not, however, the take-home message I had in mind when I was writing the history of MITI. I never doubted that Japan was a better model for both the second and third worlds than Anglo-American capitalism, but I was trying to signal by way of a broader conclusion a different point—namely, that the “learn-from-Japan” craze then sweeping the United States was dangerously ahistorical and simple-minded. I conceived the book in terms of eight chapters: an introduction to the Japanese developmental state, an analysis of the functions and status of the Japanese state bureaucracy, and six chapters on the history of Japanese industrial policy from 1925 to 1975. My primary focus was the prewar and postwar continuities, both institutionally and in terms of personnel, that my research had revealed. To the extent that I had a didactic purpose at all, it was to stress that Japan’s case would be hard to emulate. If nothing more, it depended to a large extent on losing a big war to the right people at the right time.

The only reviewer who ever divined this message from the published book was Walter Goldfrank. He accepted that “the structures and practices of MITI (Ministry of International Trade and Industry) and its pre-
decedor ministries particularly, bear primary causal responsibility for the growth and diversification of postoccupation Japanese industry." He then asked, Is this history generalizable? His answer (and mine) is, Yes, but only if a nation is similarly committed to the mobilization of industry.

The Japanese case is actually one of an economy mobilized for war but never demobilized during peacetime. The political costs of running an economy in this fashion were not ones that Americans under Ronald Reagan were about to pay. "Although he does not put it so baldly," wrote Goldfrank, "Johnson argues that the Japanese model is not transferable: its economic bureaucrats enjoy a scope and initiative unthinkable in U.S. politics, while its planning and control mechanisms have evolved through a sequence of conjunctures and state interventions that together have amounted to a long and nonrepeatable learning process." That is certainly one of the conclusions that I drew from my research while I was in the process of doing it. I had no doubt that other Asian, African, and Latin American nations would try to emulate Japan, but I did not recommend that the United States try it. I instead stressed that the United States would have to match Japan—just as it had matched, not copied, the USSR—when Japan's enrichment started to turn to empowerment. In doing so, the Americans would have to draw on and perhaps reform their own particular national heritage, not copy that of a country fifteen hundred years older than they were.

I wrote my history of MITI during the summer and autumn of 1980, after some eight years of research on the subject. I then submitted it to Stanford University Press, which had already published three earlier books of mine. Its chief editor, J. G. Bell, was one of the most talented academic publishers of the time. He had extraordinary knowledge of trends in scholarly publishing about Asia and an almost perfect ear as an editor. I trusted his advice about the structure of my manuscript. On December 29, 1980, Bell wrote to me, in part:

A strong last chapter seems to me absolutely necessary. Such a chapter might go over some of the same ground as Chapter 1, and would surely make the same basic point that you make in Chapter 1, but would be very different from Chapter 1 by reason of its references to specifics now known to the reader. Without such a chapter the reader is baffled. Which of the various elements of MITI's success are to be considered central, and how do they relate to the others? The fact that they get the brightest guys from Todai? The fact that so many high-level bureaucrats go on from MITI to become high executives in industry? The fact that MITI operates in some terrain between state socialism and laissez-faire capitalism that is free of the major drawbacks

of both extremes? The fact that MITI somehow has a mandate to anticipate difficulties, plan accordingly, and get its plans embodied in legislation? What does MITI's 50-year experience add up to? What is the take-home message?

On January 3, 1981, I replied:

In the case of MITI, I tried to write a narrative history about how the Japanese state economic apparatus grew (something that I believe is quite original since histories of bureaucracies are rare), combined with two chapters on, respectively, the Japanese economy and the Japanese bureaucratic polity. Your comment that the "effect [of the narrative history] is one of accident, expediency, chance" leads me to think that I have succeeded, even though you don't like it, since that is precisely the message I wanted to convey to any country thinking of setting up its own MITI. The narrative is what's original about this book—it is really hidden history. Most books on Japan do not even mention MITI, let alone the Ministry of Munitions. All books that do mention MITI do nothing more than that—because nobody knows anything about it, and the ministry—like all bureaucracies—prefers to remain confidential. What I consider original about the book is not chapter one but (a) the time frame, and why the external observer must take this larger time frame into consideration; (b) the identification of some key political actors in Japan who are normally overlooked—because they are bureaucrats (i.e., Yoshino, Shiina, Kishi, Sahashi, etc.); and (c) the detailed analysis of the ways in which an effective state bureaucracy works. . . . I certainly could write a last chapter, but some of my conclusions would be distinctly downbeat and perhaps unnecessarily harsh on the Japanese. I do not think, for example, it would be nice to say that fascism may be good for a nation, or to call the final chapter—as at one time I was thinking of doing—"From the Wonderful Folks Who Brought You Pearl Harbor."

Bell's reply of January 7 was unyielding:

Now, then, whether argument or narrative, there can be no serious doubt that the book needs a Conclusion. . . . You should set forth your conclusions without regard to whether some readers might regard them as downbeat, pro-fascist, unnecessarily hard on the Japanese, mean to Eldridge Cleaver, etc., so only that you say as courteously as possible exactly what you think the facts warrant saying. . . . You should let all us chickens in on the take-home message, whether this be that "accident, expediency, chance" is the name of the game as opposed to the various forms of economic, racial, and historical determinism, . . . or whatever. Because us chickens can read what you wrote, but us can't read what you think about what you wrote unless you write it. Dig? OK if it's not socko, better if it is.

There it was. I had asked his advice and he had given it. He once commented that the original manuscript ended the way bagpipe music usu-
ally ends: it sounded like the piper had walked off a cliff. The book needed a chapter that set forth a Japanese model, regardless of whether I thought creating such a model was a good idea. When Gary Allinson later wrote in a review for the American Political Science Review that chapter 9 was "a tour de force, an exemplary model in its own right," Bell never let me forget that it was written at his insistence and that such advice is what good editing is all about.  

Today I agree with him. But, analytically speaking, the issue still remains that it is hard to abstract a "model" from historical reality. This is one of the errors of both the Marxists and the neoclassical economists: they overgeneralize the histories of Germany and France, on the one hand, and of England and the United States, on the other. These kinds of errors are not new in what are called the social sciences—Bentham believed he could draft a system of laws for any country from China to Peru, and Rousseau actually drafted a constitution for Poland without ever going there. But any social science worthy of the name, it seems to me, must deal with both the generalizable and the particular without ruling one or the other out of court. The current fad for "rational-choice theory" and other forms of extreme economic reductionism are simply the latest examples of attempts at social science that fail this elementary test. They are combinations of sterility and hubris that resemble Scholasticism. I believe that the "developmental state" actually exists in time and space in East Asia and also exists as an abstract generalization about the essence of the East Asian examples. It is both particular and generalizable.

The Translation

Even before MITI and the Japanese Miracle was published, officials of MITI had heard about my research and approached me for permission to do a translation. The JETRO officer in San Francisco, who reported to Tokyo on activities at the University of California, Berkeley, where I was then teaching, had written back to his ministry about what I was doing. Nonetheless, the ministry did not know much about me; I had not spent a lot of time interviewing at MITI, and most of my research was documentary, except for a major interview with former vice-minister Sahashi Shigeru. Each of us should probably have been more cautious about the other before agreeing to work together.

13. My thanks to Professor Leslie Lipson for reminding me of these early examples of misplaced universalism, in a letter dated September 8, 1994.
A Senior MITI officer, Yamada Katsuhisa, the former secretary of Miyazawa Kiichi when he was MITI minister and in 1980 head of the Planning Office in the Ministerial Secretariat, flew to California to say that the ministry itself wanted to translate my book as a way of instructing new officers about the difficulties of Japan’s postwar high-speed growth. I agreed, and he arranged for a group of bright, young MITI officials, each partly educated in an English or an American university, to do the translation. They were unpaid and did the work after hours. I met with them on several occasions in Tokyo to resolve problems. They did a good job, and the terms hatten-shiko-kata kokka (developmental state) and kisei-shiko-kata kokka (regulatory state) became better known in Japan than their English equivalents did in the United States.\textsuperscript{14}

MITI also used the translation to promote the political career of Yano Toshihiko, who retired in 1981 as vice minister and the following year ran successfully for the upper house of the Diet. He is the listed “supervising translator” (kanyakusha), even though he did not actually participate in the work, and with each copy of the book the ministry included a long dialogue between me and Yano in which he repeatedly says that I got the history right but did not pay enough attention to the ways Japan and the ministry were opening up to the outside world. My book thus helped both Yano’s political campaign and MITI’s public relations effort to convince the outside world that MITI had changed. Yamada suggested to me that if I would write a sequel about MITI after 1975, stressing Japan’s commitment to “internationalization” (kokusaika), he would arrange interviews with all the then living ministers and vice ministers. I declined on grounds that it is impossible to have perspective on a governmental agency while it is actually making and implementing policy. But it also occurred to me that I was being set up to become the ministry’s captive propagandist. There is no doubt in retrospect that it would probably have been better if I had entrusted the translation to a scholar (as I did with the Korean and Chinese translations). But having the book published with MITI’s blessing ensured extensive reviews in Japanese—it was briefly on the business books best-seller list in September 1982—and that it would be widely read.\textsuperscript{15}

Looking back on it, MITI may have more regrets about translating my book than I do about not ensuring a scholarly translation. The ministry has always been ambivalent about its own history and industrial policy, depending on whether it was writing in Japanese or in English. In Japanese, MITI officers reviewed the book lavishly. In the official house organ of


\textsuperscript{15} \textit{Nikkei Business}, September 20, 1982, p. 211.
the ministry, Iwatake Teruhiko (MITI, 1934–59) wrote, “The value of this book lies in showing the great contributions of MITI officials to high-speed growth,” which was of course precisely why the ministry translated it.16 In a rather hostile interview with Bernard Krisher, the then MITI minister, Abe Shintaro, used my book to defend the ministry. “At one point in the interview,” wrote Krisher, “Abe came close to boasting about this protectionism. He rose from his desk to fetch a copy of Chalmers Johnson’s new book, *MITI and the Japanese Miracle*, which describes the origins and operations of the system.” This system was “the MITI way, a quiet protectionism that never acknowledges its name.”17

In English, on the other hand, the ministry has consistently argued that its role and that of industrial policy have been overstated by foreign observers. In the early 1980s, Japanese propaganda organs emphasized the “special circumstances surrounding the 1950s–1960s” when MITI was hyperactive, and they listed “ways in which Americans exaggerate Japan’s industrial policy.”18 A decade later, they were still at it: “There are even those who argue that Japan is fundamentally different with a set of rules that are [sic] incompatible with those generally accepted elsewhere. . . . In Japan, we use the term ‘industrial policy’ to mean those government strategies that are put in place to supplement the market mechanism only when and where necessary.”19

The point is obvious. MITI is emphatically not an academic research organ. It has always taken shelter in secrecy and likes to confuse its competitors with misinformation. In 1973, when the ministry changed the name of the Enterprises Bureau to the Industrial Policy Bureau, some officers complained that it was not a good idea to say too publicly exactly what that key bureau actually does. In Kozo Yamamura’s review of *MITI and the Japanese Miracle*, he goes out of his way to reassure an unknown MITI official who, he says, wanted to issue a denial that the ministry was as powerful as I had described it. Not to worry, writes Yamamura, “There are many of us outside Japan who do not believe MITI in effect ‘runs’ the Japanese economy or that MITI has ‘perfected’ the art of industrial poli-

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cymaking." I think Yamamura misunderstood his informant, who was merely trying to prevent foreigners from finding out too much. Much the same worry was expressed by Kuroda Makoto, MITI’s best-known hardline negotiator, after Sony’s Morita Akio wrote about how Japanese capitalism differs from Anglo-American capitalism: “We must not provide a dangerous basis for the argument that says Japan conducts itself by a different set of rules and must be treated differently... For some time I have repeatedly stated that we should avoid expressions such as ‘Japanese-style practices.’” Just a few years after his review, even Yamamura was asking, “Will Japan’s economic structure change? Confessions of a former optimist.”

MITI is not interested in abstract analysis of the Japanese economic system, and while its translation of my book may have served its interests at one time, it no longer did so a few years later. Nonetheless, because of its prompt translation, my book was widely read and reviewed in Japan as well as the United States. Hiraiwa Gaishi, then head of Tokyo Electric Power and later president of Keidanren, concluded his review by saying that Japan needed a “new MITI” for the period after 1975. A leading automotive journal castigated MITI as industry’s “overprotective mama” and as a bureaucratic sokaiya (“corporate extortionist”). Takemura Ken’ichi, a journalist of the pulp magazines, used his review to tell Ronald Reagan to provide some real incentives for people in the United States to save, to stop protecting declining industries and the lawyers who represent them, and to create modern trading companies that can compete anywhere in the world.

In this varied context, I received my most comprehensive review in any language. A doctoral candidate at Keio University, Oyama Kosuke, writing in the obscure Kikan Gosei Kanri Kenkyu (Administrative management research quarterly), presented the book’s argument, reviewed major foreign reviews, and concluded that my book raised four fundamental issues of continuing controversy. I agree with him. In the pages that follow I want to analyze each of Oyama’s four categories, laying out what is at issue, what is often misunderstood or obscured, and where the controversies stand nearly two decades after the book was published. It goes without saying that this categorization is somewhat artificial and that some is-

sues, such as the compatibility of the developmental state with democracy and relations among bureaucrats and civilians, clearly overlap. Nonetheless, Oyama’s framework is useful so long as it is not pushed too far.

**Industrial Policy versus the Market**

Oyama’s first point concerns the question of how influential the Japanese state’s industrial policy was and how much of Japan’s high-speed economic growth was actually the result of market forces. He cites as specific representatives of the market forces school Kozo Yamamura in his review of MITI and the Japanese Miracle in the *Journal of Japanese Studies* and Komiya Ryutaro, who during the 1980s was Japan’s best-known exponent of Anglo-American economics and a critic of MITI but who subsequently retired as a professor and went to work for MITI as head of its research institute. Yamamura indeed poses the question directly in his review: “To what extent has the postwar economic performance been due to the policies of a ‘developmental state’ and to what extent to ‘market forces?’”

Yamamura’s alternative explanation to the developmental state is that “Japan was still ‘catching up’ with the West and was ‘lucky’ in many ways.” He also throws in the old canard about how Japan was about to undergo fundamental structural change that would reveal MITI’s accomplishments to be meaningless: “I have the distinct feeling that Johnson will come to regret all this discussion concerning MITI’s ‘effectiveness’ and some of the other laudatory remarks he made about MITI. Because when Japan too begins to have its economic woes, as it clearly has begun to have, MITI’s batting average is going to decline awfully quickly. In this sense, I think Johnson’s book came out ten years too late.”

I do not know whether Yamamura came to regret his prediction, but Japan went on in the decade after he wrote these words to extract a cool trillion dollars from the rest of the world while racking up the greatest trade surpluses ever recorded. Even when the Japanese economy fell into a self-induced recession in the 1990s, its households continued to save close to a fifth of their income, it became the creditor nation to the rest of the world, including the United States, and each year the government invested several hundred billion dollars in infrastructure. Are these the “economic woes” Yamamura had in mind?

As for Yamamura’s own explanation for Japan’s high-speed economic growth, it boils down to good luck. Yamamura believes that industrial policy was not important in Japan’s catching up with and overtaking external

26. Ibid., pp. 214.
reference economies because "the 'winners' had been in effect 'pre-selected' by the Western nations."27 All Japan had to do was emulate them. He does not go into why, among all the nations allied with the United States, Japan was the only one that carried this catch-up strategy to the point of altering the world balance of power. As far as he is concerned, Japan was just lucky.

I would argue that the very contrast between industrial policy and market forces is false and probably ideological. Industrial policy is not an alternative to the market but what the state does when it intentionally alters incentives within markets in order to influence the behavior of civilian producers, consumers, and investors. Americans are perfectly familiar with the state's structuring of the domestic real estate market to favor family ownership of houses. American industrial policy allows its citizens to deduct mortgage interest payments in calculating their taxable income, and they respond by obtaining and carrying large mortgages. As Richard E. Caves concludes from the same evidence that Yamamura dealt with, the analytical issue is "the overall pattern of business incentives created by MITI's policies.... MITI has enough instruments to create substantial positive inducements for many types of conforming decisions by the private sector; it can also make life thoroughly miserable for any company that defies its wishes.... MITI has been able to guarantee a fat price-cost margin and easy access to needed inputs for any sector it chose to encourage."28 Altering market incentives, reducing risks, offering entrepreneurial visions, and managing conflict are some of the functions of the developmental state, as I have demonstrated historically and as some economists have started to demonstrate theoretically.29

There is a powerful argument that can be made against industrial policy, but Yamamura does not make it. The real objection is not to its use as an alternative to or a displacement of market forces but that it is more commonly used to protect vested interests than to achieve national development. The state can structure market incentives to achieve developmental goals, as the Japanese case clearly illustrates, but it can also structure them to enrich itself and its friends at the expense of consumers, good jobs, and development. Several reviewers of MITI and the Japanese Miracle made this point. Robert Reich, for example, stressed that Japan's private business strategies depended on its public industrial policies—"Neither could exist without the other." But because the United States has an easily lobbied government, its industrial policies serve primarily

27. Ibid., p. 213.
29. See, for example, Ha-joon Chang, The Political Economy of Industrial Policy (New York: St. Martin's Press, 1994).

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the interests of politically well-connected, declining industries, not the goal of high value-added jobs for Americans. "Rapid industrial change," writes Reich, "is relatively easy to achieve when the leaders who plan it have no serious worries about politics..." [This was] Herbert Hoover's dream of an associationist state—a dream which came to brief fruition in Franklin Delano Roosevelt's National Recovery Association. Neither provides for direct review by, or accountability to, the people in the factories, towns, or regions that will be affected."30 This was even more true in the case of contemporary Japan from 1925 to 1975, a point to which I will return in the next section.

Before leaving the issue of the economists and their views on industrial policy, I would like to raise the question of why arguments like those of Yamamura, although logically flawed, recur so often and with such vehemence in English-language discourse. I believe it is because they are ideological. Although there is a contemporary impulse in academic social science to overlook or discount ideology, Martin Malia reminds us of the costs of doing so in the case of the former USSR. One of the most embarrassing failures of "revisionist" Sovietologists was their inability to see the strains within the USSR that led to its collapse. The key variable that they consistently discounted or misconstrued during the last three decades of the Soviet Union's existence was ideology.31

In dealing with Japan, Western ideologists want to defend Western laissez-faire capitalism against Soviet-style displacement of the market. A central ideological dimension of the cold war was to posit a "free" market system in which the state served only as referee over and against the socialist displacement of the market for state ends. The achievements of the Japanese developmental state were inconvenient for both sides in this debate. They illustrated to the West what the state could do to improve the outcomes of market forces, and they illustrated to the Leninists that their big mistake was the displacement of the market rather than using it for developmental purposes.

Western ideologists sensitive to these issues are quick to intervene in discussions of Japanese capitalism. David Williams has noticed an interesting instance in the book edited by Ezra Vogel, Modern Japanese Organization and Decision-Making (1975). Williams observes:

[Peter] Drucker, the dean of American business experts, wrote an article for the volume titled "Economic Realities and Enterprise Strategy." A unique case in Vogel's collection, Drucker's article is immediately followed by a set of dissenting comments by Hugh Patrick. Why, we must ask, should the argu-

ments of one of the most influential students of world business trends require immediate correction by an economist? The reason is actually quite bold: Drucker’s conclusion, that Japanese firms pursue financial ends other than short term profits, denies one of the key tenets of mainstream economic analysis. The universal reach of classical political economy requires stiff rejection of the very idea that Japanese economic practice could differ in any substantial way from Anglo-American economic practice by definition. It was because the issue was so fundamental to all theoretically aware economic discussion that Patrick was forced to attack Drucker’s conclusions, as it were, on the spot.32

Given these ideological considerations, the subject of Japan as a “developmental state” arouses resistance to its dispassionate study that has grown only more intense since my history of industrial policy was published.

DEMOCRACY AND THE DEVELOPMENTAL STATE

In his review, Oyama stresses and agrees with my contention that in the Japanese developmental state “the politicians reign and the bureaucrats rule” (seijika wa kunrin-shi, kanryyo ga tochi-suru).33 He also notes, however, that even though Japan is ruled by bureaucrats, it is more “democratic” than the military and/or bureaucratic authoritarianism that prevailed in all East Asia and many regimes in Latin America at the time. Yet, he is also concerned that MITI’s policies have strengthened the abstract entity called Japan but have not done much to enrich the lives of Japanese consumers and city dwellers. The Japanese people’s standard of living did not change anywhere near as much as the change in the Japanese gross national product. Furthermore, because I stressed that after MITI officials failed in the 1960s to enact specific new legislation authorizing their orders to industry, they continued their oversight anyway under the cover of “administrative guidance,” the question naturally arises: Is Japan a democracy under the rule of law, or is it merely administered through law when convenient?

These critically important questions lie at the heart of the study of the Japanese polity and, by extension, of the developmental state. In addressing this subject, American political science has squandered at least a decade trying to force Japan into various versions of American pluralist, constitutional, and rational choice theory, while avoiding empirical re-

search on the Japanese state itself. Many political scientists in Japan contributed to this obfuscation by agreeing that Japan was really just a late-blooming version of American democracy and a proper place to apply the usual voting studies, game-theoretic electoral rules, and principal-agent theories of bureaucracy. Even to suggest otherwise was “revisionism” and “Japan-bashing.”

The result is that there is still not even an elementary mapping of the Japanese government in English. There is no history of the prewar Ministry of Home Affairs (Naimusho), the pinnacle of the developmental state until it was dismembered into many other agencies by the American occupation. There are also no histories of the Ministries of Finance, Justice, Construction, Transportation, and so forth; no analysis of the thousands of nonprofit foundations (zaidan hojin and shadan hojin) created in the 1980s and 1990s for bureaucratic purposes; and no understanding of what, if anything, changed when during 1993–94 Japan changed parties and prime ministers four times. Writing in 1994 in the newsletter of the Institute of Social Science of the University of Tokyo, Professor Hiwatari Nobuhiro confesses, “Political studies of Japan have not yet fully addressed either the symbiotic relationship between the bureaucracy and politicians or the role of political parties. We still need an understanding of the Japanese state.”

One persistent theme in the reviews of MITI and the Japanese Miracle is that the book came dangerously close to a defense of fascism. For example, in an insightful review of the book, Christopher Howe says: “One may question whether in his [Johnson’s] comparisons with systems such as that in the U.S., he has adequately weighed the political implications of the existence of such a powerful, semi-autonomous group in society. For as the author shows, from 1936 the same group that devised the post-war ‘miracle’ worked hard for one of the most desppicable political regimes experienced in the twentieth century.” Murray Sayle echoes this point: “In his magisterial MITI and the Japanese Miracle, Chalmers Johnson credits the capitalist developmental state with being ‘a genuine Japanese invention.’ With respect I believe that Mussolini holds the patent, although he never got his model to fly.” Richard Nielson adds: “There are severe political difficulties in a democracy to effectively implement an industrial policy. . . . [Johnson treats] the political issue as a constraint. . . . Industrial policy was an important component of fascist ideology.” And even the distinguished theorist of technology policy Kodama Fumio worries many Japanese and foreigners (notably E. O. Reischauer, former Ameri-

can ambassador to Japan) when he praises MITI for its commitment to "social engineering."  

My position on this controversy is to deny any necessary connection between authoritarianism and the developmental state but to acknowledge that authoritarianism can sometimes inadvertently solve the main political problem of economic development using market forces—namely, how to mobilize the overwhelming majority of the population to work and sacrifice for developmental projects. An authoritarian government can achieve this mobilization artificially and temporarily, but it is also likely to misuse such mobilization, thereby making it harder to achieve in the future. In the true developmental state, on the other hand, the bureaucratic rulers possess a particular kind of legitimacy that allows them to be much more experimental and undocinaire than in the typical authoritarian regime. This is the legitimacy that comes from devotion to a widely believed-in revolutionary project. Korean public anger at the rules the International Monetary Fund tried to impose on South Korea in 1997 is a good example of public support for a developmental state. The leaders of a developmental state do not enjoy legitimacy in the sense of a mandate bestowed on them by civil society. The concept of civil society (or its absence) has, in any case, been invoked much too facilely by foreign "experts" trying to explain the failure of such revolutionary regimes after the fact. The legitimacy of developmental states cannot be explained using the usual state-society categories of Anglo-American civics.

The successful capitalist developmental states have been quasi-revolutionary regimes, in which whatever legitimacy their rulers possessed did not come from external sanctification or some formal rules whereby they gained office but from the overarching social projects their societies endorsed and they carried out. As Ha-Joon Chang and Robert Rowthorn note, "Even central planning works better than the market for situations where there is one overriding objective, as in wartime or in a space program." This one overriding objective—economic development—was present among the Japanese people after the war, among the Korean people after Syngman Rhee, among the Chinese exiles and the Taiwanese.

37. On this point, see Castells, "Four Asian Tigers with a Dragon Head."
after Chiang Kai-shek acknowledged that he was not going home again, among the Singaporeans after the Malayan Emergency and their expulsion from Malaysia, among the residents of Hong Kong after they fled communism, and among Chinese city dwellers after the Cultural Revolution. What distinguishes these revolutionaries from those in the Leninist states is the insight that the market is a better mechanism for achieving their objectives than central planning. The market includes people who want to work for a common goal; central planning excludes them.

Can such revolutionary legitimacy in a developmental state ever be democratic? One must first note, in the words of John Schaar, “Democracy is almost the most prostituted word of our age, and anyone who employs it in reference to any modern state should be suspect of either ignorance or bad motives.” With that stricture in mind, if one means by democracy some form of state accountability to the representatives of the majority of citizens combined with respect for the rights of minorities, the answer is probably no. At the same time, the leaders of the developmental state do enjoy legitimacy in the sense that their claim to political power is based on some source of authority above and beyond themselves. They differ in this sense from authoritarian rulers whose continued rule depends on their monopoly of force remaining a genuine monopoly. The source of authority in the developmental state is not one of Weber’s “holy trinity” of traditional, rational-legal, and charismatic sources of authority. It is, rather, revolutionary authority: the authority of a people committed to the transformation of their social, political, or economic order. Legitimation occurs from the state’s achievements, not from the way it came to power.

Such legitimacy based on projects or goals is, of course, fragile in that it normally cannot withstand failure. Equally serious, it cannot adjust to victory and the loss of mission. The legitimacy of the leaders of a developmental state is like that of field commanders in a major military engagement. It comes from people working together, and it probably cannot long survive either defeat or victory. This problem is an abiding source of instability in such regimes, one that often leads to severe crises, such as after Japan’s defeat in World War II or the Korean revolution of 1987.

To the extent that a developmental state possesses legitimacy and is not just a dictatorship of development, its leaders are somewhat akin to those of revolutionary mass movements. It goes without saying that they manip-

ulate their followers through propaganda, have enormous difficulty in being held responsible for failures, and often misuse the state for private purposes. But they can also alter the balance of power. The postwar bureaucratically led movement to enrich Japan was a revolutionary project, one that enjoyed legitimacy among the Japanese people for what it promised rather than for how its leaders got there. To think of such a regime as authoritarian is to both miss the point and fail to recognize real authoritarianism when it occurs.

THE TIME FRAME

Oyama’s strictures on the time frame of my study—1925 to 1975—can be dealt with speedily. He makes two points, with both of which I agree. The issue here is not a difference but a clarification of views. Oyama’s first point is that 1925 to 1975 is an arbitrary time frame and that there are several other ways of periodizing modern Japanese history. He specifically mentions Bernard Silberman’s division of Japan’s modern century into a period of bureaucratic absolutism, 1868–1900, and a period of limited pluralism, 1900–1936.41 Although I believe Silberman’s division mislocates the periods of absolutism and does not deal with the prewar and postwar continuities surrounding World War II, I accept Oyama’s basic point that there are other possibilities.

Hidaka Rokuro’s three cycles of democracy and bureaucracy seem to me more accurate in identifying periods of relative absolutism. His cycles—each of which has two parts, democratization followed by bureaucratization—are cycle one, Meiji Restoration to the constitution, followed by 1890 to the end of Meiji (1912); cycle two, Taisho democracy, 1912 to 1931, followed by militarism, 1931 to 1945; and cycle three, postwar democratization, 1945 to 1960, followed by high-speed growth and single-party rule, 1960 to 1989.42 This schema is obviously quite different from that of Silberman. But not evident in either of them is the fact that Japan’s preoccupation with industrial policy coincides with the greatest periods of both militarism and democracy. The high tide of state influence over the economy occurred during the war and the occupation. One of my purposes in stressing the era 1925 to 1975—from the founding of the Ministry of Commerce and Industry to the aftermath of the “oil

shock)—was precisely to see Japan in a different light than that shed by the usual "victor's history."

Japan was working on and implementing industrial policy before 1925, of course, and I agree with Arthur Tiedemann in his review for the American Historical Review. "Many of the concerns, attitudes, practices and policies that he [Johnson] believes originated as responses to the 'situational imperatives' of the post-1925 period really are rooted more deeply in Japan's past." But the period 1925 to 1975 is still a distinct unity in my opinion because it was dominated by men born in the middle to late Meiji era who virtually all survived the war and continued to work for the government if they were not uniformed military officers, and because it was a period of global, not just Japanese, concern for economic policy. Japan's use of industrial policy to transform its economy coincided with Stalin's First Five-Year Plan, Hitler's New Order, Roosevelt's New Deal, Keynesianism, the German Wirtschaft Wunder, the Chinese Great Leap Forward, the "welfare state," and many other ideologies and formulations of the proper role of the state in economic affairs. Japan made a critically important contribution to this era and to the modes of thought and political lessons that grew out it. The period of my history also virtually coincides, in Japanese terms, with the Showa era, and while I agree that there is nothing sacrosanct about 1925 to 1975, that is also true about the Showa period, the twentieth century, or the "postwar" era.

Oyama's second point is more important. He asks why I ended my study in 1975. What started to change then? More precisely, did the success of the Japanese developmental state in the postwar era depend on unusually favorable international conditions? If the postwar conditions were unusually favorable, is the developmental state possible under different international conditions? These questions are in line with Goldfrank's criticism that "Johnson's book consistently understates the contributions of world-systemic factors (e.g., Japanese and U.S. imperialism, the opportunities in the Asian regimes)." Although I would not put it in Goldfrank's terms, I accept his point.

The cold war both promoted and camouflaged the enrichment of Japan and the rest of capitalist Asia. In MITI and the Japanese Miracle, I described the Korean War as the virtual equivalent of the Marshall Plan for Japan. There is no question about the importance of the environment in which Japan's high-speed economic growth occurred. But two points at least need to be made as guides to future research. First, the policies, attitudes, and delusions of the United States need to be studied, as do those who responded to them. Second, Japan was not the only country allied

43. Arthur Tiedemann, review, American Historical Review 88, no. 1 (February 1983).
44. Goldfrank, review, pp. 722-23.
with the United States or prepared to manipulate the Americans’ preoccupation with the USSR to its own advantage. But it was Japan that gave a virtuoso performance of how to extract the most from the United States while paying the least to support its global strategies. That cannot be explained by “world-system factors.” In a more general sense, the gains from a developmental state strategy may never again be as great as they were from 1945 to 1975, but other things being equal, a developmental state will always extract more of what gains are possible within a particular international environment than will a state with different priorities.

Japan’s commitment to industrial policy did not end in 1975. If anything it became more intense. The new roles for industrial policy that began after 1975 were the nurturing of high-tech industries not already developed in reference economies, promoting Japan’s national interests while pretending to support its competitors’ rules for so-called “free trade” and “borderless economies,” and achieving national security through technonationalism.43 This agenda was very different from that of 1925 to 1975. The mid-1970s saw the end of the era of Japan’s catching up and the beginning of its uneasy tenure as an economic superpower, which is why my book ends there.

Government-Business Relationships

Oyama’s last point of controversy is his most important. It concerns the patterns of interaction within the developmental state between the official state bureaucracy and “privately” owned and managed business enterprises. This area was and remains controversial because scholars cannot agree on how to incorporate and weigh cultural differences as they manifest themselves in economic organizations and labor-management relations. It is the area where scholars have most often trapped themselves by projecting onto Japan the norms of the American private sector. David Friedman, Kent Calder, Daniel Okimoto, and Richard Samuels have all sought to improve on my picture of the developmental state by decreasing the weight of the state in economic affairs and increasing the influence of private managers allegedly responding to private incentives. I believe that they have all erroneously (perhaps also ideologically, because they are all Americans writing during the last decade of the cold war) conceived the relationship between the government and private actors as dichotomous and zero-sum and that Calder, in particular, has failed to

grasp that "private" may mean something different in Japan's ethical system than it does in its own. 46

Oyama accurately notes that I claim to have found three different patterns of public-private interaction during the fifty years of Japan's industrial policies that I cover. These are self-control, state control, and public-private cooperation. By self- or private control I meant that the state delegated control to private cartels for each industry and that each industrial sector was run by the members of the cartels in response to state incentives. This pattern prevailed from approximately 1931 to 1940, and it resulted in almost total control of Japanese manufacturing by zaibatsu organizations.

This pattern was followed by state control, meaning the direct imposition of state institutions onto the private economy, displacing private cartels, private ownership, private labor organizations, and private management with so-called control associations (toseikai) during the war and public corporations (kodan, jigyodan, and so on) during the occupation and after the restoration of sovereignty down to the present time. 47 Just as private control was never complete during the first period—steel, communications, and the most important portion of rail transport were state enterprises—state control was never complete during the second period. This was particularly true of the toseikai, which were covertly dominated by the zaibatsu. The most complete achievement of state control actually occurred during the Allied Occupation. This second period lasted from approximately 1940 to 1952.

Neither self-control nor state control worked very well. The first led to extremes of concentration and oligopoly that elicited violent protests against "monopoly capitalism" from workers and particularly from the military and other groups committed to national unity and a national singleness of purpose. The second led to the bureaucratism and misallocation of resources everywhere associated with state socialism. These conditions contributed directly to Japan's defeat in World War II, in which it was not so much outfought as it was outproduced. After 1952, the Japanese public and private sectors reconciled with each other and perfected cooperative management schemes. These schemes avoided an emphasis


47. Although long out of date, still the only study of postwar public corporations is Chalmers Johnson, Japan's Public Policy Companies (Washington, D.C.: American Enterprise Institute, 1978).
on either private profit or the state's socialization of wealth. They were made possible by the elimination of the military from public life, the reform of the zaibatsu replacing owners with managers, and the offering of career job security to male heads of households in strategic, exporting industries. This new approach worked phenomenally well and captured the attention of industrial sociologists around the world. They launched what amounts to virtually a new discipline under the rubric of the "principles of Japanese management."

Oyama, however, perceptively argues that the differences between these three modes are more apparent than real. He believes that each of them boils down to Murakami Yasusuke's "compartmentalized competition" (shikiraretta kyoso). In all three periods there is a single pattern in which the state cartelizes or compartmentalizes each industry, restricting new entrants. It does so by promoting and protecting so-called keiretsu (industrial groups) from any form of legal or financial challenge by outsiders and protecting the domestic economy from international competition. Each individual industry thus enjoys a stable, cooperative environment in which it can divide up the domestic market and export to the American market, given the Americans' postwar willingness to trade access to their market for the right to have U.S. military bases on Japanese soil and other passive forms of support for their foreign policies.

The cartels of the 1930s, the wartime control associations, and the postwar keiretsu all had a similar structure. It consisted of a state "mother" agency or bureau (genkyoku) that maintained a "vertical relationship" with its clients, an officially recognized trade association for each industry, and individual enterprises managing their affairs through ad hoc, nonlegal, Gemeinschaft-type relationships. In Oyama's perspective, the government-business relationship in Japan has always been "informal and covert" (hikoshiki-sei ammoku-sei). State control was never fully achieved before or during the war, and it has never been fully surrendered to the present day.

I believe these are stimulating propositions that deserve further research. The chief evidence for my alleging a dialectical progression toward public-private cooperation is that in the third period Japan perfected new forms of management, enlisted extraordinary labor commit-


ment, and got rich, whereas in the earlier periods it faltered badly. The Japanese have not always been the masters of creative industrial management, to say the least. But the favorable postwar outcome may be due to factors other than improved state-civilian relationships. The exact nature and terms of the internal organization of “Japan, Inc.” remain obscure, and the ideological attempts of the Americans during the cold war to redefine Japan as an appropriate ally did not help in clarifying them.

Rather than attempting this sort of research, Calder reformulates Japan’s modern economic history. He asserts that the state’s schemes for defensive modernization during the Meiji era were “mainly in support of private-sector objectives” and that “institutionally speaking, the role of the private sector in the Japanese economy was thus prior to that of the state.” His evidence for these propositions is drawn from a history of the Industrial Bank of Japan (IBJ), which he only obliquely acknowledges was from 1902 to 1952 a government organ and was “privatized” by order of the Allied Occupation. I also believe he has failed to do elementary area studies research on the different meanings of ko and shi in Japan and “public” and “private” in the United States. He fails to understand that even his “private” managers in the post-Occupation IBJ are not American-style, short-term profit maximizers but engaged in a nationally sanctioned cooperative enterprise. The Japanese manager, as Rodney Clark classically put it, has “a view of management as a bureaucratic and cooperative venture: the government of a company rather than the imposition of an entrepreneurial will on a market place and a work force by superior skill, courage, or judgment.”

Calder’s error, like that of the writers mentioned earlier who overstate or misinterpret the role of the private sector in Japan, comes from a combination of parochialism and ideology. Given the history of federalism and the separation of powers in the United States, it is a particularly inappropriate venue from which to study the East Asian state. This source of error was then compounded by the imperial pretensions of the United States during the Occupation and the cold war. These writers, in my opinion, are trying to force Japan to fit the paradigms of government that they were taught in American political science courses. The best of them learn from their failed attempts and go on to become mature, serious comparativists. They then begin to confront what X. L. Ding is getting at when he writes,

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50. Calder, Strategic Capitalism, p. 25.
In East Asia, the pattern of state-society relations historically differs notably from the modern Western pattern, and the distinctive features of the East Asian pattern do not simply disappear after industrialization or democratization. In East Asia, the states are organizationally pervasive, without clear-cut boundaries. Their powers and functions are diffuse, and they pay little respect to due process. Consequently, the lines between public and private, political and personal, formal and informal, official and nonofficial, governmental and market, legal and customary, and between procedural and substantial, are all blurred. This is the case in precommunist China, in semi-authoritarian Taiwan, as well as in democratic Japan.53

I believe Hiwatari is right when he advises that “Calder should consider who created and protected the special kind of bank (long-term credit bank) that he asserts is the headquarters of ‘corporate-led strategic capitalism.’”54 However, it is equally important to stress, as I did in the earlier discussion of industrial policy versus the market, that regardless of the cultural or nationalistic norms that may prevail in either the state or civilian enterprises, both entities need each other. That is what I think the Japanese discovered as a result of their disastrous midcentury experiences and what American political scientists have yet to discover. The concept “developmental state” means that each side uses the other in a mutually beneficial relationship to achieve developmental goals and enterprise viability. When the developmental state is working well, neither the state officials nor the civilian enterprise managers prevail over the other. The state is a “catalytic” agency, in Michael Lind’s sense of the term, and the managers are responding to incentives and disincentives that the state establishes.55 This is not an easy combination to put together, but when it is done properly, it can produce miracles of economic development. Whether, in the current climate of economic “globalization” and Anglo-American triumphalism, it can manage to maintain its equilibrium is something that remains to be seen. But I am quite certain that if the developmental state goes under, the U.S. regulatory state will not be far behind.