

94-F-24

**"Industrial Policy" of Japan: A Beginner's Guide**

Firms and Industrial Organization in Japan (7)

by

Yoshiro Miwa

The University of Tokyo

July 1994

Discussion Papers are a series of manuscripts in their draft form. They are not intended for circulation or distribution except as indicated by the author. For that reason Discussion Papers may not be reproduced or distributed without the written consent of the author.

**"Industrial Policy" of Japan: A Beginner's Guide**

Firms and Industrial Organization in Japan --(7)

Intruduction to Part III: Industrial Policy  
chapter 8 (with the same title),

of the book forthcoming in 1995

Yoshiro Miwa

University of Tokyo

6. July 1994

Firms and Industrial Organizations in Japan

forthcoming from Macmillan in 1995

Yoshiro Miwa  
Professor of Economics  
The University of Tokyo

CONTENTS

Preface (not yet written)

Ch.1. An Introduction to Japan's Economy and Industry:  
A Brief History and Three Misconceptions

Part I. SMALL BUSINESS AND DIVISION OF WORK: The Dual Structure,  
A Gap between Image and Reality of Small Business,  
and Subcontracting Relationship

Introduction to Part I

Ch.2. Monopoly, Corporate Profits, and the Dual Structure

Ch.3. The Image and Reality of Small Business, and Policies for Them

Ch.4. Subcontracting Relationship (Shitauke Relationship):  
The Case of Automobile Industry

Part II. FINANCIAL MARKET:

Loan-Concentration, Mainbank, and the Corporate-group-view

Introduction to Part II

Ch.5. Economic Analysis of the "Loan-Concentration Mechanism"

Ch.6. "Mainbank" and its Functions

Ch.7. An Anatomy of the "Corporate-Group-View"

Part III. INDUSTRIAL POLICY

Introduction to Part III

Ch.8. "Industrial Policy" of Japan: A Beginner's Guide

Ch.9. Economic Consequences of Investment Coordination  
in the Steel Industry

Ch.10. Coordination within Industry: Output, Price, and Investment

.....(available by the end of July)

Part IV. Intrafirm Organization and Interfirm Relationships

Ch.11. Corporate Governance in Japanese Firms: The Body of Employees as  
the Controlling Group and Friendly Shareholders

Ch.12. Interfirm Relationships

Reference

[Any comment, advice, suggestion, and question is very welcome. But, please  
not quote.]

[Macpt3in.miwa]

Part III. Industrial Policy:

[Introduction to Part III]

In Part III, focus centers on the role of the government, especially "industrial policy," the other aspect of the "Japan-is-different-view." As mentioned in Section 1-2, one of the basic misconceptions of the Japanese economy is on 'industrial policy,' such as "the Japanese government has had a strong power to intervene the private sector. It used constantly the power under the name of "industrial policy," which has been one of the main engines of its industrial success." Like technical jargons on the Japanese economy critically reviewed in the previous chapters, there is neither clear definition of nor wide agreement on "industrial policy." As a result, so many have been talking under the title of "industrial policy" about different affairs, and have discussed the effectiveness, caring little for the difference. For those who support such views as the "Japan-is-different-view," the "Japan-Inc.-view," and the "dual-structure-view," the importance of "industrial policy" is so obvious that they simply search for episodes and anecdotes consistent with their interest. They tend to include a wider group of policy measures in the choice set for industrial policy, and emphasize the importance.<sup>1</sup> Furthermore, Japan's industrial success is so remarkable that many tend to search for something peculiar and make illogical conclusions, ignorant of the post hoc, ergo propter hoc fallacy. Therefore, before reading the literature, one has to ask and examine by oneself what the author is discussing. Note, therefore, that to ask "can industrial policy be effective for promoting the economic growth?" is almost the same with asking "can the government do anything for the economic growth?" "Has the government policy contributed to its rapid economic growth in Japan?" is another question and has to be empirically

---

<sup>1</sup> Recall the businessman's answer in the second episode in Section 7-2.

examined. Note also that the effectiveness of "industrial policy" is not a black-and-white affair, but a "grey" matter to varying degrees.

In Chapters 9 and 10 which are the core of Part III, I investigate the details of one type of "industrial policy," that for coordination within industry, especially that in equipment investment, mainly before 1970, in so-called the heyday of Industrial Policy. Thus, I do not try to answer the above mentioned first question. Instead, I closely look at what occurred in the industry and how the government intervention influenced individual firms' behavior and industrial performance. Chapter 9 is for a detailed case study on one type, equipment investment, of policy for coordination in one industry, steel industry. Chapter 10 is for a generalization of the conclusion of chapter 9, into three types, output, price, and investment, also referring to oil refining industry. Chapter 8 is an introduction to these two Chapters, and I explain the historical background of 1960s and point out several instructions for beginners to learn Japan's industrial policy.

As shown in Section 1-2, the above misconception on "industrial policy" has to be replaced with the fact: "It is a matter of definition whether the Japanese government has had a strong power for intervention. It rarely used, however, the power, if any, and the net contribution of 'industrial policy' to Japan's industrial success is negligible, if any." Recall the seven components of the fact, from [Fact. III-1] to [Fact. III-7], contrasted with misconceptions. They can be briefly summarized as; (1) the presence of Japan's government is rather small; (2) under the present administration system, almost every industry has a counterpart in government which devotes all its efforts for that industry, which results in indiscriminate policies and is unsuitable for "targeting policies"; (3) in postwar Japan, the government has never had so strong power, and moreover it lost the power step by step by a series of "liberalization"; (4) the government neither could nor did make the maximum use of the power; (5) many assert that the government has capability to beat the market in selecting industries and targeting resources on the economy to them,

however, no evidence has ever been shown for this point; (6) many argue that government policies are the main engine of Japan's industrial success, however, no evidence has ever been provided, and their contribution is too exaggerated.<sup>23</sup>

Quite often so wide variety of topics on "industrial policy" are discussed at once, and at least the two questions have to be clearly distinguished: (1) what the government should do for industries to stimulate the growth and productivity increase of the economy? (2) what it could do and actually did for that purpose? Many talk about the market-failure-argument as the basis for "industrial policy" and then try to find episodes and anecdotes as evidence for the effectiveness, often backed up by the bureaucratized-Japan-Inc.-view. However, as Stigler[1975, p.113] points out, "We may tell the society to jump out of the market frying pan, but we have no basis for predicting whether it will land in the fire or a luxurious bed." Besides, policies are decided and carried out in the political process, and ideal policies, the answer to the above first question, will not be necessarily chosen with four reasons. First, the government may not follow the target. It may prefer "equity" to "efficien-

---

<sup>2</sup> For the details, see Section 1-2.

<sup>3</sup> I am part of the majority of economists, identified as the "non-miracle-occurred" school by Chalmers Johnson[1982, p.9], which school "do not literally assert that nothing happened to Japan's economy, but they imply that what did happen was not miraculous but a normal outgrowth of market forces." The following statement of Hugh Patrick quoted in Johnson[1982, p.8] represents this view: "I am of the school which interprets Japanese economic performance as due primarily to the actions and efforts of private individuals and enterprises responding to the opportunities provided in quite free markets for commodities and labor. While the government has been supportive and indeed has done much to create the environment for growth, its role has often been exaggerated." This has led many, typically political scientists such as Johnson and David Friedman, author of Friedman[1988], ask who then led, or who made, such a miracle. These scholars will not accept the "invisible hands" view suggested by economists as a persuasive answer. Readers who subscribe to this view are asked to consider a similar question put forward in the 1920s by non-Americans, such as Europeans or Japanese: who led, or what made, the miracle of the rapid growth of the American economy since the nineteenth century? My answer, like that of many economists, would be "invisible hands."

cy."<sup>4</sup> Second, the government may not have capability to beat the market, that is, not only the market but also the government fails. As shown by a series of collapse of socialist economies, the centralized economy is too complicated to be efficient. Third, environments function as strong restrictions to policy choices. For instance, as mentioned above, the present administration system unescapably results in indiscriminate policy decisions. As shown in Chapter 3, the government, with broad public support and enthusiastic political backing, has put much emphasis on policies for small business. But it has been so thin and indiscriminate to be effective. Fourth, the government has neither strong power to choose freely the ideal policies nor strong trust and support of firms and the public to have them follow the policy will.

Chapters 9 and 10 focus on the second question, which is purely empirical. I choose one type of "industrial policy," that for coordination within industry, mainly in 1960s. This type of policy has three characteristics. First, typically it need not money, and can be carried out without outside budgetary check. Second, it is essentially a cartel promoting-and-supporting policy and is for the interest of the majority of incumbents, therefore it was the most popular type of policy intervention toward industry. Third, as will be discussed in the next Chapter, the central and symbolic issue of the "New-Industrial-Order-Debate" around 1960 was on the evaluation of this type of policy intervention, and with this debate the government, symbolically MITI, tried to enact the Special Industries Law in vain. I focus on policies in 1960s, since it is the heyday of "industrial policy."<sup>5</sup> My conclusion is that the role of the policy and its contribution to Japan's industrial success even in the heyday was negligible, if

---

<sup>4</sup> Note that such groups as farmers, small business, and retailers have had strong political powers and requested policies for them.

<sup>5</sup> Komiya[1988, p.13], for instance, states that from the 1950s to the mid-1960s is the heyday of industrial policy, and Tsuruta[1988, p.82] argues that "the willingness of the government to intervene in industrial activity was at its strongest in the 1960s."

any.<sup>6</sup> The government has lost the power step by step with a series of "liberalization," which suggests that this conclusion also applies in 1970s onward.

Note four points. First, I do not discuss "targeting policy" in 1970s, for instance, and whether my conclusion also applies to such cases is another question. The argument below, however, suggests that the factors conditioning policy for "coordination within industry" also applies to "industrial policy" in general. Thereby, one has to examine carefully whether none of such factors as the characteristics of administration system, the government's capability, and its power has functioned as a restriction, and whether one is not simply searching episodes for "successful targeting policy" on the assumption that it was in total "successful."<sup>7</sup>

Second, we are talking about the role of the government policy, which requires a careful identification of policy effect. Many talks about industrial policy without caring for it, which results in an overvaluation of the effect. Quite often, firms talk about a cooperative action and then ask the government (their counterpart) to take a form of "policy." In this case, the role of the government is only a veil, but many tend to include all related individual firms' actions into the "policy" evaluation. As will be shown below, in policy for cooperation within industry, the role of the

---

<sup>6</sup> Tsuruta[1988, p.80]'s evaluation of industrial policy in the Rapid-Growth era, for instance, is basically the same: "The goal of government policy was to bring about a concentration of production and the formation of an industrial structure of specialized manufacturers. This was done with the aim of improving international competitiveness in advance of the opening of the economy, but one cannot say that the policy was successful."

<sup>7</sup> Next question for those who find it successful is, "Why has it occurred in Japan, not in socialist economies where the government has much stronger power?" Some readers may comment that Japanese industrial policy has made a great success, for instance, in R&D policy, referring to the case of VLSI Technology Research Association. But this is also an instance of searching for an episode on that assumption. As Wakasugi[1986, pp.146-66, especially p.163] points, this case is rather exceptional, and on average, research associations established on the same law (the Mining and Manufacturing Technology Research Association Law enacted in 1961) have not been so productive and efficient.



government has been almost always passive and marginal, which will surprise readers.<sup>8</sup>

Third, why Japanese industrial policy was ineffective is another question. However, as above argument suggests, the reasons must be multiple. Even when the government could overcome most of them, the capability of the government must be the final barrier.<sup>9</sup> Moreover, there still remains the possibility that any ideal government will not be able to beat the market.

Fourth, "industrial policy" is not peculiar to Japan. Whatever the title is, the government intervention to industries were more usual and stronger at least in socialist economies than in Japan. Also, the term "industrial policy" was so popular in UK in 1910s and 20s as to publish a government report in 1918, "Committee on Commercial and Industrial Policy after the War, Final Report,"<sup>10</sup> for instance, and Japanese term "sangyo seisaku (industrial policy)" was a translation in 1960s of a French term, "politique industrielle."<sup>11</sup>

---

<sup>8</sup> Note, however, that my negative conclusion is composed of two parts: (1) the government played a minor role, if any; (2) trials for coordination did not last long and had no serious effects. Thus, my basic conclusion is that the sum of the effect of the policy and that of individual firms' coordinating behavior was negligible.

<sup>9</sup> The history of socialist economies proves it.

<sup>10</sup> See Hannah[1983, p.43]. The committee "stressed the benefits of the activities of combinations and were impressed by the need for large-scale organization to meet German and American competition." Note also that it is the Prime Minister of UK, Mr. John Major, who made the following speech at the CBI Annual Dinner on 18 May, 1993: "You create the world class companies. But in a thousand ways, the decisions that we take in Government can help you or hinder you. So we, too, are part of Britain's competitiveness. All our policies - not just our economic policy - need to be focused on the future strength of the British economy."

<sup>11</sup> I will return to this point in the next chapter. Readers may comment, "why so many talks and new literature on Japan's industrial policy?" My answer is twofold. First, many ignore the post hoc, ergo propter hoc fallacy. Second, strong demand for the talks and literature exists among politicians, government officials, journalists, and academics, especially in the former socialist economies. It creates the supply, which the politicians and government officials in Japan support enthusiastically both on the belief of the effectiveness and for their self justification. Thereby, now there exists the "Japan's-industrial-policy-literature" industry. Recall note 76 in chapter 6 on the "Mainbank-literature" industry.

## Chapter 8. "Industrial Policy" of Japan: A Beginner's Guide<sup>1</sup>

### 8-1. Introduction

"It is well known that the Japanese government devised a complicated system of policies to promote industrial development and cooperated closely for this purpose with private firms. It is not generally well understood among non-Japanese, however, exactly through what process policy decisions were made and organized, what were the policy means, and what actually were the policies. Even in Japan, while a great number of fragmentary reports appeared at the time in newspapers and elsewhere, an overall picture of the system of industrial policy was seldom clearly presented to the public. Thereby, what is well known among insiders quite often is unknown to the public, including academics. Therefore, it is a hard task to explain the system of Japanese industrial policy" (Komiya[1975, pp.307-8]). This statement, with which Ryutaro Komiya begins a section on "industrial policy," reflects the situation of talks on it in 1975. In my view, up to the present there has been nearly no fundamental change in this point, even after the publication of Komiya, Okuno, and Suzumura eds.[1988].<sup>2</sup>

Not only the content of "industrial policy" but also the direction of interest in it greatly changes with time. In reading the historical document and the related literature, therefore, it is hard to realize for what purpose, why, and for whom it was written, and what was the central issue of controversy. It is much harder to understand both from the minutes of a symposium on a related topic what was not discussed there and from the government's document what the government officials did not want to touch on. Most what we have and can see now for the study of industrial policy

---

<sup>1</sup> This chapter is a revised version of Chapter 11 of Miwa[1990] whose original was published in 1984.

<sup>2</sup> The original Japanese version was published in 1984. This volume is the result of a joint research project over a two-year period, and it includes the original of Chapter 10 below. Frankly, I was often surprised and shocked at the debates and discussion among the conference participants which reflected the situation.

are of such character, and thus intrinsically biased.<sup>3</sup> Thereby, one needs a guide for know-how to collect and survey the related literature and to select relevant information from a great number of fragmentary reports and talks. Such know-how can rarely be acquired and accumulated directly through government's documents, public statement of government officials, and the published literature. Hints often come through a conversation with a person who was on the spot of the policy formation and its implementation, and a chat before and after a conference rather than a formal discussion. Finding such hints also needs preliminary know-how and skill.<sup>4</sup>

What follows in this Chapter is a guide for this purpose, based on my own limited observations, scattered interviews, press reports, and the like. Though such good guides as Komiya[1988] and Tsuruta[1988] are already available, any guide cannot be perfect and almighty for all research interest. As mentioned in the Introduction to Part III, next two Chapters are on policies for coordination within industry, on which this Chapter focuses.

We observe two peaks of intensity of interest on Japan's industrial policy, which we see in Section 8-2. It is critical for the study to realize the difference of interest between two peak times both in the subjects and in the direction. The term "industrial policy" became popular in Japan later than the second half of 1960s, but policies for industries have longer history. Section 8-2 is for "industrial policy" as an expression, where I discuss how and for what purpose it was adopted. Section 8-3 is for the substance of industrial policy, where such questions are discussed with concrete examples as what were industrial policies, how and under what restrictions they were implemented, and what was the role of

---

<sup>3</sup> Exceptions are, Komiya[1975], Kosai[1981], Tsuruta[1982], Komiya et als. eds.[1988], and Miwa[1990].

<sup>4</sup> Two opposite views on the statement of US government officials on the US-Japan trade conflicts existed in the chat after the above mentioned conference. "They are too naive and square in reading the government documents" was the one, and "It is only a strategy. They know the reality very well" was another.

the government and their relationship with business. Section 8-5 is the core of this chapter, where I discuss the industrial policy formation process, the role of Shingikai (councils), and information available for outsiders, for instance, council reports and their bias. Section 8-6 is for the importance and difficulty of the task of identifying the impact of a policy, and Section 8-7 is for brief concluding remarks.

## 8-2. Change in Interest on "Industrial Policy"

Both the direction and intensity of interest in "industrial policy" has greatly changed over time. Of the intensity we observe two peaks. One is in the second half of 1960s, of which at the core is the merger of Yawata Steel and Fuji Steel into Nippon Steel in 1970 and the related controversy (hereafter I call this period, Period I).<sup>5</sup> The other is in 1980s when "industrial policy" gathers world wide attention mainly stimulated by the industrial success of the Japanese economy (Period II).

In Period I, the focus centered on the relationship between "industrial policy," and the Antimonopoly Law and related competition policies. There was a hot and exuberant debate on the position and role of anti-monopoly policy, which was then a new comer in the system of national economic policy. "Industrial policy," or more accurately, policies of Ministry of International Trade and Industry (MITI), collided against it as a representative of the traditional types of policy. The debate was mainly among those who were familiar with the details of the process and the history of economic policy in Japan, "insiders," and the interest in this period was domestic. Because the interest in Period II was with Japan's industrial success, it came first from abroad and next at home, thus as a result, was international. Also, instead of insiders in Period I, the wide public had strong interest in this period. The central questions were: what was a net contribution of industrial policy to Japan's industrial success?

---

<sup>5</sup> I will return on this merger in Section 8-7.

how it could occur? why in Japan? and what are the lessons for other countries, particularly for less-developed? Some had a special interest in the role of industrial policy in such high-tech industries as electronics.

As shown in the preceding chapters, briefly in Section 1-1, for the study of Japan's industrial success the period before 1970 has the critical importance. Thereby, Period I must be of the prime concern for those who are along the line of the interest in Period II. Thus, both in Period I and Period II focus centers on the policy in Period I. But the audience and participants of debates and the direction of interest are completely different, which causes difficulty. Note also another difference. The questions in Period II are positive ones such as "what the government did?" and "what effects it had?" The central point of the debate in Period I, however, was normative such as "what should be the role of the government?" "what should be the ideal position of the antimonopoly policy in the national economic policy system and its relationship with industrial policy?" Therefore the debate in Period I was a kind of theological one, that is, big and exuberant but abstract and hard to follow.

As a result, for those along the interest of Period II, it is not easy to read and use the documents and literature written in Period I on industrial policy of the time. The reason can be summarized with seven points: (1) detailed information seldom exists on what the government did under the name of "policy"; (2) no information exists on the "policy" effect; (3) few record exists on the ex post evaluation of whether some concrete "policy" was beneficial to the economy; (4) few information is available on the decision and implementation process of industrial policy, which reflects the theological character of the debate; (5) most literature, typically minutes of symposia among insiders, and the government documents are so polemical that it is hard to realize the implicitly assumed historical background and institutional arrangements; (6) information on the details of concrete policies, their background, environments, and effects, are mostly provided from the one side of the

debate, that is, from the side for "policies," therefore strictly biased<sup>6</sup>; (7) the debate focused on such industries as steel, oil refining, petrochemical, and automobile which are different from industries of recent concern such as electronics.<sup>7</sup>

Thereby, few literature along the interest of Period II exist even today, especially written by those who know well both what actually occurred and the institutional environments. One has to recognize the difference of his interest from that of the literature and documents, and search for information appropriate to his interest.<sup>8</sup>

### 8-3. "Industrial Policy" as an Expression: Character and Background

It is not long since a phrase "industrial policy" began to be used frequently in Japan. It is later than the second half of 1960s when Japan's GNP was catching up and outgrowing that of G7 countries other than US (see Table 1-1). People used it mainly in relation both (1) to industries in manufacturing and (2) to policies of MITI, Ministry of International Trade and Industry.

In 1960s the public in Japan began to demand freer economy and support strongly the view that placed more emphasis on the workings of the price mechanism and the role of interfirm competition. They also insisted that antimonopoly (antitrust or competition) policy should play a larger

---

<sup>6</sup> As a result, detailed information on failed trials is seldom provided. For instance, in the automobile industry MITI tried to adopt two important policies in the process of moving toward liberalization, the 1955 "People's Car" concept and the 1961 "producer group" concept, but neither of these two plans saw the light of the day. Though there still remains the problem of definition and identification, only a rough image of the concepts is observable, and "insiders" of the policy debates seldom speak on these topics. Briefly on these concepts, see Mutoh[1988, p.316].

<sup>7</sup> Instead, such industries as energy, transportation, telecommunication, textile, and financial industries will be selected as ones where the government intervention has been the most strongest, and agriculture and coal mining as ones where the amount of the government subsidy has been the largest.

<sup>8</sup> An academic who had participated in the debate once informally commented on the original version of papers adopted in the next two chapters, "After all it was like a war, and we had to win...."

role. In response, the government, especially MITI, tried to justify their intervention into business sector as a well-designed and rational economic policy with a clear goal, and began to call what they had been doing "industrial policy."<sup>9</sup> Thereby, it is not the policy itself but the phrase that was newly adopted and promoted as "industrial policy." It cannot be a well-designed policy newly introduced with a clear concept. Thus, often cited Kaizuka[1973, p.167]'s statement is admirably put: "industrial policy is the policies formulated and implemented by MITI."<sup>10</sup>

The decade since the second half of 1950s was the period for a series of "liberalization" since import liberalization, which requested and forced the government to change the relationship with industry. Prior to the Industrial-Policy-Debate was the New-Industrial-Order-Debate in the first half of 1960s, where "jisyu-chosei [coordination by themselves; hereafter, self-coordination] or kanmin-kyocho [literally, the government-business cooperation scheme; or the kanmin system]" was the symbolic slogan. "The Kanmin System was a resource allocation policy in which the government tried to guide private investment in line with its expectations of economic growth by intervening in the investment activities of the firms in an industry" (Tsuruta[1988, p.70]), to the government proposal of which industry opposed strongly, favoring a self-coordination. "By self-coordination is meant the development of the new industrial order through the autonomous (or joint) activities of the firms in an industry. Lying behind this insistence ... was the fear that the Kanmin System would be a forerunner to direct government controls" (ditto, p.69). Note, however, that the two systems confronted in the debate "had the following elements in common: (1) the view that the organization of industry was distinguished by the presence of excess competition and insufficient scale, (2) the feeling that it was necessary in coping with international competition to merge firms and concentrate production so as to expand firm size, and (3)

---

<sup>9</sup> Morozumi[1966] is the representative literature.

<sup>10</sup> First appeared in 1968.

that the Antimonopoly Law should be gutted so as to give freedom in principle to form cartels and to arrange mergers" (ditto, p.69). Thereby, the main difference was not on the goal but on which side to take the leadership and the role of the government.<sup>11</sup>

The Industrial-Policy-Debate in the second half of 1960s, following the New-Industrial-Order-Debate, focused on the elements which were taken for granted in the previous debate, and thereby has four characteristics. (1) Industry and the government, which confronted in the previous debate, stood on the same side of the debate, the one for the policy. Thereby, the debate was between "insiders" of the policy with detailed information and "outsiders," and it was abstract and theological. (2) As a result of the previous debate, there was an agreement between industry and the government on the necessity of the policy, thereby to place lesser emphasis on the antimonopoly policy, but still remained a keen conflict on how the policy should actually be implemented and what should be the role of the government. Partly because of this, only few literature is available on the details of concrete policies. (3) Focus centered on "excessive competition." Hardly, however, any participants in the debate have bothered to explain with any degree of clarity what they meant by it. One of the few attempts was that of Morozumi[1966, p.61]: "'excessive' competition is competition such that the losses to the national economy exceed the gains that arise from that competition." But as Komiya[1988, p.11] comments, "the use of 'excess' is tautological and the meaning of 'loss' or 'gain' to the 'national economy' is vague, so it cannot be said that this definition has much content." The debate was between those who took for granted the

---

<sup>11</sup> For the details of the Debate, see Tsuruta[1988, pp.63-70]. Though "excessive competition" was the key concept for the new-industrial-order, both sides took for granted the necessity of policy for its prevention. Neither clear definition of "excessive competition", therefore the policy goal, nor extensive discussion on it is available even now, and the literature of the government side has strong proclivity to emphasize the importance of its role and leadership. Note that the symbolic event in the debate was the government's trial in vain to enact the Law on Extraordinary Measures for the Promotion of Specified Manufacturing Industries, which implies that the government was the loser of the debate. On this point, see also Tsuruta ditto.



necessity of the policy for the prevention of excessive competition and those who placed much emphasis on the workings of the price mechanism and the role of the antimonopoly policy, and proceeded without clear common understanding of the key concept. Thereby the exuberant debate lasted long, but it was only repetition of argument on different planes.<sup>12</sup> (4) As the central goal of industrial policy was the prevention of excessive competition, the main policies measures, at least in minds of debate participants, were reorganization of industry through mergers, output coordination, and investment coordination.<sup>1314</sup>

#### 8-4. The Substance of "Industrial Policy"

It is in the second half of 1960s and after that the public began to use frequently the term "Industrial Policy" and the Industrial-Policy-Debate gathered wide attention. But it does not imply that before that period there were no such policies as to be called "industrial policy" from the interest of Period II. Many, especially those who highly appreciate its contribution to Japan's industrial success, call 1960s the "heyday of industrial policy," and few challenge the view that the role of the government was larger and its intervention to business was more frequent and forceful in the first half than in the second half. Before the Debate,

---

<sup>12</sup> When textbooks in economics began to talk about "market failures," at the last stage of or after the debate, the proponents of the policy immediately adopted this phrase: industrial policy is the policies for the case of market failures. Today everybody knows that the government almost always fails and such an adoption the phrase was too naive, however, the debate was theological and thereby this point is uncritical. Recall the statement of Stigler[1975] quoted in the Introduction to Part III.

<sup>13</sup> Recall note 10 of the Introduction to Part III on the British industrial policy in 1910s which stressed the benefits of the activities of combinations and was impressed by the need for large-scale organization to meet German and American competition.

<sup>14</sup> Komiya[1988, p.2 and p.20] points, "There is today an Industrial Policy Bureau within MITI, but even within MITI the term was not widely used until around 1970." "The Vice-Minister of MITI in 1970 gave a talk entitled 'Japanese Industrial Policy' before the OECD Industrial Committee. Subsequently the Secretariat of the OECD published Industrial Policy of Japan (OECD[1972])."

these policies were called Industry Rationalization Policy, Industry Upgrading (Kodo-ka) Policy, Industrial Structure Policy, Industry Reorganization Policy, and so on.<sup>15</sup> Therefore, those who hold the interest of Period II and ask what was the net contribution of industrial policy to Japan's industrial success have to go back at least to the first half of 1960s and further to the second half of 1950s, neglecting the term "industrial policy."

Let us see what industrial policies were, how and under what restrictions they were implemented, and what was the role of the government and their relationship with business, referring to the examples of the list-price system (koukai hanbai seido, literally open [public] sale system) and the investment coordination of the steel industry, and output coordination in petroleum refining.<sup>16</sup>

The steel list-price system began in June 1958. The system remained till June 1991 when it was finally abolished, but it was before the end of 1962 that it materially functioned in line with the initial objective. It is in 1965 when the so-called Sumikin (Sumitomo Metal Industries) Incident occurred in relation with output coordination. The beginning of investment coordination in the steel industry was in December 1959, when MITI requested that the industry coordinated on its own the implementation of the long-term capacity plan. Formally, the goal was for the industry to draw up a long-term investment plan for approval by the Industrial Finance Committee of the Industry Rationalization Council. Without remarkable achievements, however, the discussion called "coordination" ended, for example, for 1965-67, in that in effect each firm's plans would be approved

---

<sup>15</sup> "A system of using Shingikai [policy councils] on major policy matters has gradually come into use in postwar Japan. These are consultative bodies whose deliberations are referred to in the process of policy formation, and whose principal members are private individuals, including former bureaucrats" (Komiya[1988, p.18]). The Industrial Structure Council which advises the Minister of International Trade and Industry on industrial policy in general was established in May 1964, however it is a reorganization of two consultative bodies, the Industry Rationalization Council born in 1949 and the Industrial Structure Committee born in 1961.

<sup>16</sup> All these examples are from Chapters 9 and 10 below.

in full. From 1962 petroleum refining fell under the Petroleum Industry Law, and "the industry had the striking distinction" that there was strong government intervention in output, pricing, and investment. The law was intended to allow "to minimum extent required coordination of the activities of firms in the industry, as with the liberalization of petroleum imports it is expected that the petroleum market will be in disarray."<sup>17</sup> What calls our attention is that the method of output coordination in this industry even under the Law, at least in its form, barely differed from that of the steel industry. MITI requested the cooperation of the Demand Specialists Committee of the Petroleum Association of Japan in January and February of each year, for the Petroleum Supply and Demand Plan, which in turn underlay the Petroleum Supply Plan required under Section 3 of the Law. According to the Fair Trade Commission "the Petroleum Supply Plan...only indicates the planned volumes which MITI feels desirable for the country as a whole, and does not indicate production levels for each individual petroleum refiner."<sup>18</sup> The output coordination under the Petroleum Industry Law began in the second half of FY 1962, and in the second half of FY 1963 was the so-called Idemitsu Incident which did not go along with output coordination.<sup>19</sup>

These examples illustrate the answers to the questions listed above. (1) The Law and institutional arrangements mentioned above were established for the industry on the process and after a series of liberalization. With these, the government tried to maintain the government-industry relationship as before, with the pretext of the prevention of market disarray after liberalization. Thereby neither new policy concept nor new

---

<sup>17</sup> Tanaka[1980], p.19 and p.28. Komiya[1988, p.6] refers to this law "with its presumption of pervasive direct government controls for the purpose of 'providing for a stable and inexpensive supply of oil'" as an example of "prewar and wartime economic thinking." He comments that it "reflected the strong influence of wartime government materials planning, though another contribution was the memory of oil embargo placed on Japan by the United States and other countries."

<sup>18</sup> Fair Trade Commission[1983, p.210].

<sup>19</sup> For the details of the Incident, see Section 10-4.

institutional arrangements were introduced with these, but only new terms.<sup>20</sup> (2) Around 1965 these newly introduced arrangements proved to have lost functions and be ineffective in achieving the initial objectives, which illustrates that the basic character of the government-industry relationship changed with the liberalization of trade and capital movements. (3) On the process of the change was the New-Industrial-Order-Debate which arose between those who intended to maintain the relationship as before and those who did not. It began as a response to changes in the policy environments and institutional arrangements, and thereby waned with time and the process of changes. We observe any influence of the Debate neither on the way of policy implementation nor on the direction of the change in the relationship. (4) The government played an important role both in the New-Industrial-Order-Debate and the Industrial-Policy-Debate. Though both the central issue and the opposing side were different in the two debates, they participated with business for the common goal, that is, to assert to the public and persuade them the validity of the intervention. Thereby, the above (3) on the New-Industrial-Order-Debate also applies to the Industrial-Policy-Debate.<sup>2122</sup>

---

<sup>20</sup> "During the period right after the war policy makers possessed a fair amount of leverage over industries and private firms through their power of approval of import licenses, foreign capital inflows, and technology import licenses.... During the rapid growth era the leverage of the government disappeared bit by bit, or at least its importance declined drastically, with the liberalization of trade and capital movements" (Komiya[1988, p.9]).

<sup>21</sup> Note that before this period the government hardly needed to assert to and persuade the public the validity of intervention because of both the tradition since Meiji era and the institutional arrangements inherited from the prewar and wartime economy.

<sup>22</sup> In emphasizing the importance of the conflicts between the Antimonopoly Law and industrial policy, Iyori[1986, p.71], a former high official of FTC, states that "whether Japan's remarkably high rate of economic growth...can be attributed to the maintenance of competition by means of antimonopoly policy or to skilful control and guidance through the use of industrial policy is subject to unending debate." This picture has been widely accepted as persuasive. However, as I wrote in a book review (Miwa[1990, p.95]), "he overestimates the importance of the role of the government. Today many Japanese economists think that the contribution, if any, of the Government in attaining economic growth is indirect and rather minor."

## 8-5. Industrial Policy Formation and Information Available for Outsiders

Where is information on "industrial policy?": what actually was done? how and for what purpose was it formed and implemented? what was the effect? Are they available for outsiders, that is, for those who neither were on the spot of the policy formation nor had direct economic interest on individual policy decisions? No ready-made well-organized information is available seems to be the right answer. Judging from its volume, the most important source of information on Japan's industrial policy is a series of reports and related documents of Shingikai (policy councils), the representative of which is the Industrial Structure Council and its predecessor, the Industry Rationalization Council. As mentioned above, however, they are products of politicized process and not for explaining policy for outsiders, and thereby strongly biased.<sup>23</sup> Before going into the details of the bias, let us see roughly the policy formation process and its participants in 1960s.

### Industrial Policy Formation Process

Lots of policy actions were recognized both by the government and the related business firms as a part of routine work, which needed no formal policy formation process. As mentioned above, "industrial policy" was a phrase attached to what the government had been doing, and only a part

---

<sup>23</sup> When a paper heavily and directly depending on such policy councils' reports was presented at the above mentioned conference on Industrial Policy, many participants relatively familiar with the policy formation process unanimously criticized it strongly that it was so naive. One compared policy councils to a school arts festival or a school visiting day. What outsiders observe has almost no relation with everyday education, and it requires tremendous amount of skill and prior information to learn from observations something essential on the school and education. However, to counter Patrick's statement quoted above in note 3 of the Introduction to Part III, Johnson[1982, p.9] offers a view expressed by Shigeru Sahashi, former vice minister of MITI, to assert that "many Japanese would certainly dispute Patrick's conclusion that the government provided nothing more than the environment for economic growth."

required formal process for policy formation and implementation. What follows concerns only the latter.

"Through what process were decisions relating to industrial policy made in Japan? There are almost no empirical studies of this question based on questionnaire surveys or other data." As Komiya[1988, pp.14-20]<sup>24</sup> illustrates the formation process the most beautifully, I summarize here the essence of his argument on policies in 1960s.

The Diet played almost no role in setting industrial policy. Those groups whose influence was substantial in the formation of industrial policy on the government side were the genkyoku - the bureaus, divisions, and sections within ministries responsible for particular industries - and the bureaus and divisions that mediated between different parts of a ministries and different ministries. On the private side there were the industry associations, and in an intermediate role were the industry councils and advisory committees, the Industrial Structure Council is the representative, that formally are part of the government. In addition, two more groups had perhaps some influence, the zaikai, a group of corporate executives, and the banks and financial institutions that supplied funds to industry. It was quite unusual for only one of the above groups to have a predominant influence regarding a given decision. Thus the decision-making game of setting industrial policy consisted of the above players trying to convince each other as to the proper policy position, to realign their respective goals, or even at times to strongarm their opponents.

MITI is the single most important genkyoku ministry within the Japanese government, and the Heavy Industries Bureau, for instance, was one of its five genkyoku bureaus, within which could be found, among others, sections, genkyoku sections, for iron and steel, industrial machinery, electronics and electrical machinery, automobiles, aircraft, and rolling stock. Each genkyoku had the primary responsibility for developing and

---

<sup>24</sup> For more details, see Komiya[1975, pp.307-318].

supervising policies for a given industry, and as a part was responsible for drawing up policy relating to its industry or industries.<sup>25</sup>

Immediately after the war, the government took the leading role in the interaction of the genkyoku and the associations. As time passed, however, the balance of power shifted toward the industry groups, so that the genkyoku ministry came to play more of a mediating role. Later on the genkyoku took into consideration the express interests of the industry (or at least its leading firms), organizing these interests and interacting on the basis of them with other sections, bureaus, and ministries on the industry's behalf.<sup>26</sup> Many of the industry associations consisted of nothing more than friendly gatherings or forum for exchanging information with others in the industry. Therefore, the majority of the associations had relatively little influence on either outsiders (the government and politicians) or insiders (individual, especially dissident, firms).<sup>27</sup>

Shingikai (policy councils; hereafter, councils) are only a part, rather a minor part, of the policy formation process. The members of councils are formally nominated by the Minister of MITI and therefore tend to include those individuals thought useful by MITI bureaucrats. The majority thus consist of industry leaders, zaikai members, and former bureaucrats, with there being in addition very small number of scholars, journalists, and others. It is not the case that only things desired by the ministry are reflected in the councils' reports, for on issues directly affect the interests of firms, industry representatives do speak out

---

<sup>25</sup> Thus, as now, each industry had one associated genkyoku. As Kyogoku[1983, p. 347] points, in Japan "the basic unit of bureaucracy in allocating responsibility is the division in the main ministry with jurisdiction [over the industry; genkyoku section]....For matters within a given jurisdiction, each division of the ministry by itself personifies the Japanese government."

<sup>26</sup> The central question here is what for the government took the leading role before the shift of the balance of power. Though it is still an open question, it seems too simplistic to answer that it was for consumers' interest and that the character of the policy changed with the shift. Note that from the start each genkyoku had to compete with others for the interest of associated industry.

<sup>27</sup> As shown in the next two chapters, none of these groups, including industry associations, had strong influence on dissident firms.

strongly. In fact, on such issues, the councils were forum in which parties could adjust proposals to reflect their joint interests.<sup>28</sup> Thus proposals that were passed through these councils, that is, that had been negotiated to reflect vested interests, could be afterwards implemented relatively smoothly, at least in terms of the industries represented on the relevant councils.<sup>29 30</sup>

#### Information Available for Outsiders and their Bias

Because of the characteristics of policy formation process and the position and role of councils in it, their reports and related documents have strong bias, which has to be noted in using them for a study of industrial policy. The most important point is that basically they were for insiders, that is, for those who participated in the negotiation for their vested interests. Since each party had almost no incentive for disclosure<sup>31</sup> and reports were written under strict constraints necessary for agreement, only the

---

<sup>28</sup> For instance, the 1961 "producer group" concept mentioned in note 6 above "was made public in May 1961 by the Industrial Finance Committee of the Industrial Rationalization Council. The concept envisioned producers being divided into groups of two to three firms each, with one group for 'mass production' vehicles..., a second group for specialty vehicles..., and a final group for minicars" (Mutoh[1988, p.316]). In the end this plan never saw the light of the day, since it could not pass the Council. Thereby, still we have Honda, Mitsubishi, and Mazda.

<sup>29</sup> "The Industrial System Committee of the Industrial Structure Advisory Committee was ...exceptional in its drawing up of the Special Industries Law. Its seven members included former bureaucrats, but no one who was at that time involved in private industry." "Industry ..was against the Special Industry Law, and the ruling Liberal Democratic Party was reluctant to pass the bill, while the opposition parties took the stand that the proposed law was an evil one that would make an empty shell of the Antimonopoly Law. With opposition from beginning to end, debate was halted and the bill killed" (Tsuruta[1988, pp.69-70].)

<sup>30</sup> I do not assert that councils were useless. As Komiya[1988, pp.18-19] argues, "one point that needs to be emphasized regarding such councils is their role in the exchange of information and obtaining consensus on policy matters.... forums such as these have been a very effective means for the collection, exchange, and dissemination of information on industry and as such have contributed greatly to postwar growth." See also Komiya[1975, p.324] and Section 10-5 below.

<sup>31</sup> As is usual, disclosure of information increases the possibility of an intervention of outsiders.



necessary minimum information was included. From this, 10 points follow. (1) A part of the agreement which some party does not want to be known to the public is not included. (2) On the contrary, it includes what some party strongly insists to be documented, with other parties' agreement. (3) It also includes policy declarations on what they agree to pursue and ask the support of the public, particularly when they intend to enact a new law to support the industry with subsidy. (4) No information is available on how each party's interest confronts and is negotiated. No information on what the government or some party proposed but could not reach an agreement, either. (5) No information is usually available on how their interests interacted with other sections, bureaus, and ministries, which neither side of the negotiation want. (6) Points on which the genkyoku does not expect to reach an agreement of parties are not picked up as council's agenda, and thereby their reports include no information on them. (7) No information on the evaluation of past policies is included, unless it is indispensable, like a case for a revision or continuation of the prior policy.<sup>32</sup> (8) At least until very recently, little explanation for the public of what are actually discussed in councils is included.<sup>33</sup> (9) In 1960s, they paid least attention to the Antimonopoly Law, since its position was so minor and the era for the Law was sometimes called its "winter time" (the time for hibernation).<sup>34</sup> (10) No information both on what was apparent among parties and what some party did not want to make public, that is, no insider information, is included. Thereby, they provide information neither on their "joint interests" nor on the alternatives they did not adopt.

---

<sup>32</sup> Even in cases such as textile, coal mining, and agriculture, where the government continually intervened, informative policy evaluation is seldom included.

<sup>33</sup> No statement in 1960s, and in 1970s those reports began to attach a short introductory section to discuss the benefits for the economy, which, however, has been essentially almost always the same and had no content.

<sup>34</sup> It was after and through the experience of the flood of cartels during the period of First Oil Shock and its accompanying inflation in 1973-74 that Japan really recognized the importance of this law. See Miwa[1993, pp.144-45].

As a result, it is hard and requests lots of know-how to learn something essential from council reports and related documents. Likewise, talks and explanations of those insiders on and after the release of council reports, and memoirs they publish later have the same bias, and quite often they are manipulated. They therefore also require much know-how to read. Note at least two points: first, a talk just after the report usually has specific objective, and needs careful investigation. especially when it includes precious information, be careful; second, every individual who takes part in the policy formation is a representative of a party with vested interests, and thereby has no incentive to express an opinion against council reports. this applies also to retired government officials, which is both because of implicit organizational norm and individual interest.<sup>35</sup>

As mentioned above, councils are only a part of policy formation. Moreover, lots of policy actions are recognized both by the government and the industry as a part of routine work, which needs no formal policy formation process. In addition to an obvious fact that council reports do not cover all industrial policies, five additional instructions follow for information collection: (1) actions for industrial policy typically take a form of gyosei shido (administrative guidance). administrative guidance is not an order with legal basis for enforcement but a guidance, and is usually not precisely documented (quite often only orally expressed).<sup>36</sup> thereby, no detailed record exists; (2) the government official in direct charge recognize them as a part of routine work, and do not think it necessary to keep neither detailed record nor ex post evaluation of each

---

<sup>35</sup> Note that the bias increases when a reader solely depends on materials available in English. At least, pay attention to who and for what purpose it is published in English.

<sup>36</sup> For examples and further explanation, see the next two Chapters, especially Section 10-2. Administrative guidance is more frequently used in the financial sector, for which see Miwa[1993], especially Section 5-6.

guidance<sup>37</sup>; (3) the second point mentioned above on memoirs also applies here; (4) as a result of the first point, only officials in direct charge know the details of policy. moreover, officials change their position in a short time<sup>38</sup>; (5) even journalists and scholars who took part in policy formation, especially in councils, rarely had the same type of interests as is common in Period II, and seldom collected and preserved relevant information.

Thereby, there is little to gain by asking such questions as what government leaders think their policies have been, what objectives government officials have pursued, or what has been their evaluation of the effectiveness of their policies. Officials in active service in responsible positions seldom tell us how effective they think government policy has been. The most we can hope for are the opinions and "explanations" of retired officials and members of various policy councils. Although active officials are thought sometimes to express their opinions through retired officials or through these councils, this information is unreliable. Obviously, it is also biased, and it would be simplistic and dangerous to carry out a policy study that relied too much on such information.

With little careful attention to such bias, government reports, typically those of councils, and related documents, with the high growth of Japan's economy and its industrial success, lead readers to conclude that industrial policy has been effective and its contribution to the success great.

#### 8-6. "Industrial Policy" for Evaluation

---

<sup>37</sup> However, this applies not only to industrial policy but also to other fields of policies in Japan. Seldom the government tries to evaluate ex post the effectiveness of a concrete policy and publishes the result.

<sup>38</sup> Even for senior officials in a ministry, thereby, or for officials who belong to different divisions or enter the division at a later date, it is impossible to know in detail the content of administrative guidance.

What policies or policy actions one does and should take into consideration in evaluating the effectiveness of "industrial policy"? The task of identifying and evaluating the impact of a policy is seldom easy. Ideally, the task of identification can be accomplished by finding the deviations between the actual state of affairs and the hypothetical state without the policy actions. The difficulty lies, above all, in how to model such a state. In the case of industrial policy, it is neither clear what the policy function was, nor what was done in the name of policy. With little attention to the difficulty, most of the government reports and the related literature do not clearly specify the boundaries to what they mean by policy and take a larger set of actions into consideration, so that there is a tendency to overestimate the role and the impact of the government.<sup>39</sup>

The merger of Yawata Steel and Fuji Steel, which gave birth to Nippon Steel, is often used as a representative example of policies to promote largeness and mergers. If, however, this is seen as being the result of (industrial) policy, and it is claimed that this is representative of industrial policy, then it is necessary to make clear what the policy function was, in what way the policy operated, and how the policy contributed for bringing about a merger.<sup>40</sup> In my view,<sup>41</sup> what the policy contributed, if any, was a moral support for the directors of the firms in making the decision to challenge Section 15 of the Antimonopoly Law, which prohibits a merger whose effect "may be substantially to restrain competition in any particular field of trade" and was regarded to

---

<sup>39</sup> This also applies to the impact of the postwar Deconcentration Policies such as Zaibatsu dissolution. I argue in Miwa[1993, pp.147-48] that the Deconcentration Policies played no substantial role in strengthening competition which was one of the main engines of Japan's rapid economic growth. The main reason for my revisionist conclusion is because most previous research did not seek to identify and evaluate the policy effects in isolation.

<sup>40</sup> For instance, the Basic Issues Special Subcommittee of the Industrial Structure Council expressed support of the merger in its August 1968 report, "Opinion on Reforming the Structure of Industry and Mergers."

<sup>41</sup> Most of the participants of the conference mentioned above share the view, I believe.

be the biggest obstacle for the merger, and a general backing for it by expressing their opinion for the merger. The basic fact is twofold: the directors of two firms decided to merge with the support of shareholders; and FTC examined the application and judged it legal. On the process, the exuberant Industrial-Policy-Debate on pros and cons of the merger arose, but it seems to have no effect on its accomplishment.

Let me take another example, the case of steel list-price system.<sup>42</sup> First, if, as those involved at the time claimed, the use of depression cartels was to be avoided, even though they were permissible under the Antimonopoly Law, the policy of output (and price) coordination through the list-price system was used as a substitute. This consisted merely of a cosmetic change. Second, it is necessary to judge on the basis of specific facts what the influence of the government (that is, MITI) was on the output of individual firms under the list-price system. The content of policy cannot be understood simply from the fact that the list-price system was implemented, or that the government took the lead in having it implemented (although, in fact, that does not seem to have been the case). Furthermore, even if MITI indicated specific targets that it officially warned the industry association or individual firms to respect, it is still not possible to know the actual content of the policy.<sup>4344</sup>

---

<sup>42</sup> Mentioned above in Section 8-4, and examined in detail in Section 10-3.

<sup>43</sup> At the end of section Section 10-3, I conclude that "the government did not play a role or have a substantial direct influence on output and price coordination within the list-price system." And also, "in evaluating intraindustry coordination cum industrial policy, our conclusion must be that it was ineffective in the case of the list-price system in the steel industry."

<sup>44</sup> In such cases of failed trial as the 1955 "People's Car" concept and the 1961 "producer group" concept in the automobile industry, and the New-Industrial-Order-Debate for the Special Industries Law, the problem is simple. The plan could not pass either the Council or the Diet and thereby never saw the light of the day, by definition therefore there were no policy actions. In the case of keiretsu diagnosis of Small and Medium Enterprise Agency in 1952-53 for Toyota and twenty-one members of Tokai Kyoho-kai mentioned in Section 4-3, the problem of identification has critical importance. Though it was, after all, a big event and had a great impact on Toyota, one has to be careful not to overestimate the role of the government. Note, at least, that only Toyota's case is famous as successful. Why not for other automobile manufacturers and firms in other

Note, however, that there is a possibility to empty the baby out with the bath water when we ask too rigorously what are policy variables and how the government controls them,<sup>45</sup> since "while a great number of fragmentary reports appeared at the time in newspapers and elsewhere, an overall picture of the system of industrial policy was seldom clearly presented to the public" (Komiya[1975, pp.307-8]) and, as mentioned above, the government reports almost never provide detailed information on their role. One has to care about the definition of industrial policy, and at least make clear what is in his set of industrial policy for evaluation.

#### 8-7. Concluding Remarks

The most basic thing one has to do in the study is to clarify what he wants to know about "Japan's Industrial Policy." For those who, interested in the industrial success of the Japanese economy, investigate what and how the government policy has contributed to it in order to draw lessons for the development of other economies, it is my advice, putting aside the phrase "industrial policy," to focus on the secondary effect of industrial policy, that is, the function as a system for the exchange of information on new technologies and domestic and foreign markets.<sup>46</sup> Note that, though almost every industry has a counterpart in government, called genkyoku, which devotes all its efforts to protecting, encouraging, and supporting firms in that industry, the problem comes from the simple fact that nobody can protect and subsidize everybody. Note also that in two sectors with the strongest political backing and the government's support, agriculture and small business, the policies have not been effective. Therefore, investigation has to begin with case studies of individual policies, not

---

industries, if the government could contributed greatly in the case of Toyota?

<sup>45</sup> This is one of the types of reaction to my two papers adopted in this volume as Chapters 9 and 10.

<sup>46</sup> For details, see Section 10-5 below.

with such general question as "why and how industrial policy contributed to Japan's industrial success?"

Note two points even when one could draw lessons from the investigation and examine the transferability to other economies. First, do your best in clarifying what were the policy variables, under what constraints they were operated, and what were the environments for and against their operation, for which the task of identification mentioned in the previous section is critical. Second, the attitude of people in general to industrial association activity and to the government-business relationship, which stems in great part from the tradition since the Meiji Restoration of a "strong" central government and to the influence of the wide-ranging economic controls that were present during and immediately after the World War II, may be one of the conditions which have affected the form and effectiveness of Japan's industrial policy. The fact that it still survives after several decades since the end of the War implies the existence of wide support of the public to what has been done. One has to examine carefully, before the application, the existence of the conditions and environments, not only institutional and political but also historical and cultural, for the Policy in Japan, one of which is the attitude of the people.<sup>47</sup> It certainly requests further close study.

---

<sup>47</sup> Many praise superior capability of Japan's bureaucrats, and argue that, because of their excellent guidance, Japan has made a great success. Note, however, that many others nod in the affirmative to a comment of my intimate official in the Ministry of Finance: "frankly, we should rather use 'in spite of' instead of 'because of,' that is, in spite of their non-excellent guidance, the Japanese economy made a success."