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DISCUSSION PAPER No2

**THE STATE
AND CAPITAL
IN JAPAN**

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PREFACE

Since the First World War the bureaucratic state has played an increasing role in shaping the development of the capitalist economy and society as a whole at both national and bloc levels.

The most obvious expression of this has been the extension of the state's direct ownership and control of many areas of production. But more recently we have witnessed moves towards the disinvestment or 'privatisation' of state-owned concerns on a substantial scale. This process, far from being the ideological preserve of Thatcherite Tories, has been pursued with almost equal vigour by left-wing governments in places like France, Spain and Australia. It is paralleled by the relaxation of central state control over the 'micro-economy' and increasing 'market orientation' in China and the Eastern Bloc countries.

Some have suggested that this is the beginning of a reversal of the previously identified trend throughout the world towards 'state capitalism'. Others identify these moves as merely a short term reversal with the main trend likely to re-establish itself as the economic and social crisis deepens. Still others, recognising that it is still the state which is overseeing this whole process, have sought to re-define their whole theory of state capitalism.

It is not enough for revolutionaries to know that capitalism, private or state, is our enemy. The way in which capitalism seeks to change its shape in response to deepening economic crisis, increased competition, and potential or actual upsurges in the class struggle, is important in determining our interventions in the class struggle and our general propaganda against capitalist mystification.

What are the forces at work in modern capitalism which call forth the current changes in state policy? What are the changing relationships between the state bureaucracy and the traditional 'private' bourgeoisie? These are some of the questions which our series of discussion papers and the forthcoming conference in July will seek to answer.

The main theme of the conference will be: "The importance of the market and bureaucracy for capitalism and its enemies". The first short introductory paper explained the basis of the capitalist economy. It identified two primary laws: a "law of value" and a "law of command", in line with capital's twin but contradictory needs of "generalised competition" and "structured order". It went on to examine these basic concepts in relation to the modern-day USSR.

This second paper examines the same basic laws as they apply to the development of capitalism in Japan. It shows how the relationship of bureaucracy and the market has taken a particular form because of that country's specific pre-capitalist class formations and peculiar historical development. It also suggests that the current form may be a model for other capitalist countries.

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Capitalism in Japan exerts a fascination for many capitalists elsewhere. Its image is of robotised factories, electronic gadgetry, streamlined bureaucracy, and so on. Small wonder, then, that 'Japan watching' has become an industry in its own right, with an army of management consultants, business affairs experts and the like eager to suggest how capitalism generally can boost its profits by taking leaves out of the Japanese book. Needless to say, our aim in this pamphlet is somewhat different and it is useful at the outset to show how, despite the carefully packaged image of ultra-efficient capitalism, the roots of the modern Japanese economy and state extend back to the chaos and turmoil of the Japanese revolution of 1868. A discussant at an academic gathering in Oxford recently described the Japanese as the most unrevolutionary, order-loving and conformist people in the world, but this is a caricature that depends entirely on the type of historical amnesia for which academics are famous. The revolution of 1868 is for Japan what 1917 is for Russia or 1789 is for France. The course of Japan's capitalist development over the past 100 years is incomprehensible without reference to 1868, not least because the point at which the revolutionary pendulum finally came to rest in the years after 1868 decided the balance that would be struck between bureaucratic and market forces.

The Japanese Revolution

For a decade or more prior to 1868 opposition currents in Japan had been building up their strength in the provinces, particularly in the South and the West of the country. By 1868 they were strong enough to challenge the Tokugawa government and defeat the forces loyal to it in a civil war which lasted into 1869. The Japanese revolution was thus one of the great revolutions of history and was regarded as such throughout East Asia in the second half of the 19th century. In countries such as China and Korea, the Japanese were considered to be revolutionaries to their marrow, their reputation being similar to that enjoyed by the English during and after the civil war of 1642-9. Japan's aura of revolution was only lost subsequently when its new, post-revolutionary ruling class embarked on a process of imperialist expansion at the expense of other East Asian countries. Taiwan was Japan's first colony, acquired as a result of China's defeat in the Sino-Japanese War of 1894-5, and the building of the Japanese empire was given further momentum by the colonisation of Korea in 1910.

It was not only the eventual imperialist expansion of Japan that characterised the revolution of 1868 as a capitalist revolution. Quite apart from this external development, internally the revolution gave rise to all manner of changes to Japanese society. Power was concentrated in the hands of a bureaucratic centralised state, barriers to trade were removed, the hereditary hierarchy of samurai-peasants-artisans-merchants was swept away, and so on. Above all, impediments to capital accumulation and the extension of wage labour were ruthlessly eliminated.

Yet although the 1868 revolution was capitalist in its effects, it was not a bourgeois revolution. The class

which carried it out was not the bourgeoisie, nor was it inspired by an ideology of bourgeois liberalism. On the contrary, the revolutionaries of 1868 were mostly of samurai origin and the principal slogan they employed to gain support for the revolutionary cause was 'Revere the Emperor and expel the barbarians' (the 'barbarians' being the Western imperialist powers that were then putting increasing pressure on Japan). Although the revolutionaries were mainly of lower samurai stock, they still belonged to the same class as the leading figures of the Tokugawa regime against which they were struggling. They needed a symbol to legitimise their seizure of power and the figurehead of the Emperor served this purpose well. The revolutionary restructuring of Japanese society was thus carried out behind the facade of 'restoring power to the Emperor'.

After 1868 real power did not lie with the Emperor, however, but with a new leadership composed of young men from the lower strata of the samurai class who had no coherent policy for modernising Japan on a capitalist basis. Rather, since the samurai were traditionally a warrior class, it was military considerations that were uppermost in their minds. As they saw it, their principal task was to defend Japan's independent existence in the face of the threat of subordination to the Western imperialist powers. Hence, soon after 1868 the post-revolutionary priorities were formulated in the slogan 'Rich country; strong military'. 'Strong military' was self-explanatory; Japan had to acquire the means to defend itself militarily from the threat posed by the Western powers. But already by the second half of the 19th century, to be strong militarily meant not merely to have sizeable armed forces equipped with artillery and warships. It also meant having the industrial base to produce the military hardware. In other words, the 'rich country' half of the 'Rich country; strong military' equation acted as a code word for industrialisation.

Yet industrialisation involved far more than a series of technical operations, such as building factories, sinking mines and modernising shipyards. It also implied bringing about the social changes that accompany these technical operations - that is, of seeing to it that a class emerged at one pole of society that had undisputed control of the newly created capitalist enterprises, while at the other pole of society a different class took shape that had no alternative but to work for whatever wages it could find in the factories and offices. This was how it came about that the post-1868 leaders, despite the fact that it was far from being commitment to capitalism that had drawn them into the revolutionary struggle, found themselves, once in power, responsible for the rapid development of a capitalist state in Japan. An additional irony was that, despite their own samurai background, economic development ensured that they rapidly cut their links with the samurai class and even brought about its destruction. Although some capitalists in present-day Japan can boast of their samurai pedigree, the vast majority of samurai were soon reduced to destitution and became one of the elements from which the wage-earning class in Japan was forged.

State and Industry

Industrialisation took the form of the state establishing the nuclei of several basic heavy industries, such as shipbuilding and iron and steel, in the late 19th century and early 20th century. The state took this step because it recognised that, while there were strategic reasons why the development of such industries could not be delayed, there were no sources of private capital sufficient for the scale of investment required. Nevertheless, although the state took the initiative, this was not a policy of nationalisation. The industries were established out of state funds, with bureaucrats overseeing the building of factories, the importing of machinery, the recruiting of technical experts from abroad and the training of the initial workforce; yet once the new enterprises were in working order, it was official policy to transfer them into the hands of private entrepreneurs. Enterprises were sold at bargain prices to nascent capitalists, often on easy terms with extended repayment. Underpinning this policy of the state disposing of the industries it had established, there seems to have been a perception that enterprises would only flourish if they were exposed to market forces and forced to be competitive. Counterbalancing this view, however, was the realisation that Japan's fledgling industries could not compete on equal terms with well-established rivals in Western countries. Industries such as shipbuilding and iron and steel were of such importance to the Japanese state and its military ambitions that they could not be allowed to succumb to Western competition. The outcome was that, even after they were transferred to private owners, enterprises in strategic areas of the Japanese economy were assured of sustained support by state agencies. Support took many forms: generous subsidies, exceptionally low rates of taxation, government-funded research and development and, of course, disciplining of the workforce. With regard to the last of these, as soon as there were any signs of Japanese workers starting to organise to improve their wages and working conditions, the movement was suppressed under the provisions of the 'public peace police law' of 1900. The police were routinely employed to break up meetings and intimidate wage earners and, whenever they proved unable to suppress unrest, the government never hesitated to call out the army.

As far as heavy industry was concerned, then, the pattern of industrialisation was very different from the way in which countries such as Britain or the USA industrialised. In Britain and the USA the pace of industrialisation was not forced by the state, since the initiative remained with private entrepreneurs. As a consequence, private capitalist interests were fiercely independent and, while it goes without saying that they recognised the need for a state, they resisted any (by their standards) excessive intervention in their affairs by the state. This was never the case in Japan. In the heavy industrial sector, entrepreneurs owed their very existence to the state and their businesses prospered to the extent that company policies dovetailed with the expansionist ambitions of the state. A hand-in-glove relationship therefore developed between the major industrial concerns and the agencies of the state, with the former showing a readiness to accept 'administrative guidance' (as it is often called in Japan) from the

latter. The closeness of this relationship was continually reinforced by the material benefits it brought to both sides. The militaristic state needed the products of heavy industry to fight a succession of wars between 1894 and 1945, by means of which it carved out an empire in East Asia. From the point of view of the state (and particularly of the politically influential armed forces) industry was therefore a means to an end. Looked at from industry's point of view, however, war was good business. Each successful military campaign brought fresh markets and sources of raw materials under Japanese control. In addition, the loot derived from military victories was ploughed back into the Japanese economy and served as a valuable source of capital accumulation. For example, under the peace terms imposed on China at the end of the very first of Japan's modern wars (the Sino-Japanese War of 1894-5 that has already been referred to) China was forced to pay an indemnity of ¥366 million. This gave enormous impetus to the industrialisation process in Japan, with the number of factories in 1896 (the year after the war) being 2½ times greater than in 1893 (the year prior to the war). The advantages accruing to Japanese capital from repeated wars were not even nullified by military defeat in 1945. Despite the enormous destruction wreaked on Japanese cities by the intensive American bombing (including the atom bombing of Hiroshima and Nagasaki) the four biggest industrial combines of the period (Mitsui, Mitsubishi, Sumitomo and Yasuda) emerged from the war with total assets of more than ¥3000 million, compared to ¥875 million in 1930.

So far we have focused on Japanese heavy industry, but it should be mentioned that in the light industrial sector (mainly textiles) the state played a far more restricted role. Here entrepreneurs were mostly left to sink or swim as best they could in the choppy waters of the world markets and the state's hands-off policy in this sector contrasted so sharply with the support it gave to heavy industry that the resulting economic structure was often referred to as the 'dual economy'. More will be said about the 'dual economy' in relation to postwar Japan, but it should be noted that one of its consequences was a 'dual workforce'. In heavy industrial enterprises the workforce was predominantly male, relatively skilled and relatively stable. Although the wage rates of these workers in heavy industry were low by Western standards, they were above the prevailing average in Japan. On the other hand, in light industrial enterprises, such as the textile mills, the workforce was overwhelmingly female, unskilled and transient. Young peasant girls were brought from the villages to work for 2 or 3 year stretches under conditions that almost defy description. Their wage rates were derisory, their working conditions murderous and, during the few hours when they were not working, they were kept under lock and key in the company compounds to prevent them from running away. Divisions of this order within the wage-earning class represented a formidable obstacle to workers' solidarity and conferred a corresponding bonus on the capitalist class. It is hardly surprising therefore that, while the detailed workings of the dual economy/dual workforce system have been altered considerably since the early decades of industrial capitalism in Japan, the general approach of divide and rule has been assiduously maintained.

The Political System

Needless to say, capitalist development in Japan was achieved by means of pumping surplus out of peasants and wage earners and channelling this wealth into industrial and commercial investment. The full weight of the state was brought to bear on the peasants and wage earners to stifle any resistance, but the overall strategy of development was one which evoked a hostile response from other more 'influential' sectors of Japanese society. During the closing decades of the 19th century the Japanese government derived more than three-quarters of its revenue from the land tax and, although this burden ultimately fell on the peasants, the large landowners objected to the state's policy of favouring industry at the expense of agriculture. The rise of the centralised, bureaucratic state also meant that, as power became more concentrated, some of the revolutionaries of 1868 found themselves losing out in the scramble for positions and privileges. Those who held power were using autocratic means in order to propel Japan forward along the path of capitalist development, so not surprisingly, during the 1870s, the demand for 'democracy' became a powerful rallying cry among all sorts of critics of the regime, including landowners and disappointed samurai revolutionaries.

The state reacted to this challenge by buying time. It agreed to produce a written constitution which was to define the rights of the state and 'citizens' alike, but it argued that, in order to do this, its officials needed to study the constitutions of other 'advanced' countries. This process of ostentatious 'study' lasted until the Japanese constitution was eventually introduced in 1889, while all the time the state consolidated its position and pushed ahead with capitalist development. When the constitution was finally unveiled, amid great ballyhoo, it was couched in terms of the royal 'we' - that is, 'we', the Japanese Emperor, condescendingly granting various rights to 'his' people. Not only was the document liberally decked out with royal tinsel, but it provided for a political system which neutralised any challenge to the priorities which the state was pursuing.

According to the constitution, power lay with the Emperor. What this meant was that the real power-holders acted in the name of the Emperor. In reality, power was held by the military (whose commander-in-chief was the Emperor) and state officials (who claimed to be the 'servants of the Emperor'). 'Democracy' was supposedly catered for by the setting up of a national assembly, yet not only was the electorate initially restricted to 1 per cent of the population by linking voting rights to payment of high rates of tax, but the national assembly's powers were severely limited. Cabinets were not answerable to this body, but to the Emperor, who could appoint and dismiss ministers at will (in other words, at the will of his military and civilian advisers). Those political parties that succeeded in getting their candidates elected mainly represented landed interests (since most of those who had the vote were landowners) and, although they could create a lot of noise in the national assembly, it did not provide them with the means to obstruct the state's drive towards industrialisation.

Political and economic development brought about two important changes to this political system, even though there was no formal amendment to the Japanese constitution until it was replaced by an American-dictated document in 1946. The first of these changes was that big industry eventually claimed a share of power, along with the military and the state bureaucracy. The First World War was a turning point in Japan's capitalist development, in that the country went into the war with a majority of GNP accounted for by agriculture and emerged with industry representing the greater share. This meant that the state no longer had to protect industry from the 'democratic' demands made by the major political parties on behalf of landed interests. Industry was now perfectly capable of looking after itself, since its resources outstripped those of the landowners. The big industrial combines therefore used their wealth to take over the main political parties from the landowners.

The second change was that universal manhood suffrage was introduced in 1925 (women remained unenfranchised until after the Second World War). That the extension of suffrage had little to do with democracy is made clear by the fact that it was accompanied by a new 'peace preservation law' that gave the authorities draconian powers to suppress any movements they regarded as a threat. All the same, even the poorest male peasants and workers now had the vote and the main political parties reacted to this by developing networks of agents for gathering votes. The system worked best in the countryside where, because of the grip which the largest landowner would generally have on local affairs, he was in a position to 'deliver' the village vote. Money flowed into the main political parties from the big companies and was distributed by candidates for the national assembly to landlords and other agents, who traded votes in return. The tentacles of the system spread into the utmost villages, with money trickling down in one direction and votes being siphoned up in the other. It was this system that was laughably called 'democracy'.

Despite the fact that big industry took control of the political parties from the landowners during the 1920s (the landowners being reduced to a subsidiary role, as described above) the parties still operated out of a national assembly that had strictly limited powers. As a result, big industry did not rely solely on the political parties to represent its interests but developed links with other wielders of power - the military and the state bureaucracy. These links were both formal (an extensive network of committees where representatives of industry, the military and the bureaucracy regularly conferred) and informal (bribery of military and civilian officials by the large companies) and together they proved an effective means of harmonising the interests of militarists, bureaucrats and capitalists. So effective, in fact, that the political parties eventually became dispensable and were forcibly merged into the Imperial Rule Assistance Association in 1940.

The balance between bureaucratic and market forces within Japanese capitalism was well illustrated by the measures that were taken as Japan moved towards all-out war with the United States. Conscious of the weakness of Japanese capital relative to the American giant, the military wished to impose strict government controls on the economy in line with a comprehensive economic plan. The major industries were arranged

into cartels, with the leaders of the large companies at their head, and a Cabinet Planning Board was established. Control associations were set up to oversee each branch of the economy, but far from this representing bureaucratic domination over market forces, it was significant that the heads of the cartels gained the highest posts in the control associations. A general economic plan was indeed drawn up by the Cabinet Planning Board and handed down to the control associations for implementation, but competition for limited resources between rival control associations, and between rival capitalist interests even within the same association, was never eliminated. The control associations were thus, at one and the same time, both instruments of bureaucratic control and arenas for economic competition.

Japan lost the war with the United States, but both Japan's capitalist class and its state bureaucracy survived largely unscathed. As Japanese capitalism rose phoenix-like from the ashes of the Second World War, a balance was again struck between bureaucratic and market forces for the purpose of outperforming economic rivals within world capitalism.

The American Occupation

Following its defeat in 1945, Japan was under American occupation until 1952. The USA's foremost intention was to prevent Japan from ever again threatening American interests and its initial policies towards its defeated foe have been summarised as demilitarisation, democratisation and deindustrialisation. Demilitarisation involved disbanding Japan's armed forces and inserting into the 1946 constitution an article which reads:

the Japanese people forever renounce war as a sovereign right of the nation and the threat or use of force as means of settling international disputes. In order to accomplish the aim of the preceding paragraph, land, sea, and air forces, as well as other war potential, will never be maintained. The right of belligerency of the state will not be recognized.

The military were thus eliminated as one of the wielders of power in the Japanese state and many of the leading members of the prewar political parties were purged because of their involvement in Japan's former military expansion. 'Democratisation' took the form of extending citizens' rights and turning the national assembly into the apparent hub of political activity. In practice, this meant that the national assembly came to fulfil much the same role as the Emperor had done in prewar Japan. As with the Emperor, the national assembly became the most important symbol of political legitimisation. Decisions were taken in its name, and people's attention was deflected by its antics, but real power resided elsewhere. As for deindustrialisation, this entailed a plan to break up the giant economic conglomerates that had cooperated with the Japanese military and had reaped vast profits from the war. In the early postwar years Japan became largely a closed economy, isolated from the world markets, with approximately 50 per cent of the workforce engaged in agriculture.

Although the USA had utterly defeated Japan and was in a position to dictate whatever terms it like to its former enemy, it lacked the personnel to rule Japan directly. Few

Americans had any knowledge of Japanese language or culture, and most of those who did were descendants of Japanese immigrants who, despite their American citizenship, had been rounded up en masse and interned in camps as 'enemy aliens' during the war. The American occupiers thus had to rule Japan by means of some element within Japanese society and there were few suitable candidates other than the bureaucracy. The Japanese bureaucracy was barely touched by the otherwise widespread purges which the Americans enforced; it saw its principal rivals in the struggle for power (the military and big industry) either eliminated or under threat; and it also had at its disposal a range of sweeping economic controls, which the USA decreed so as to be able to restructure the Japanese economy as it saw fit. The bureaucracy thus emerged from the occupation with its power greatly enhanced.

Although the USA was far and away the most powerful nation-state in the years following the Second World War, developments within world capitalism still managed to frustrate some of its ambitions, particularly in East Asia. At the end of the Second World War, the intention was to weaken Japan permanently and to groom China under Chiang Kai-shek for the role of the USA's principal ally in the Far East. By 1949 Mao Zedong's forces had upset American plans by carrying out a state-capitalist revolution in China and the following year the Korean War broke out. America found itself involved in a major war in East Asia, which it could not sustain if its supply lines extended across the Pacific to the USA. Where else could the USA turn for the supplies it needed to service its war machine other than to Japan? Yesterday's enemy was suddenly discovered to be a 'democratic' ally, plans to dismantle the economic conglomerates, such as Mitsubishi and Mitsui, were laid aside and, whatever the American-dictated constitution might say, the USA started to urge Japan to rearm. Consequently, the Korean War gave an enormous boost to the Japanese economy, exports were encouraged once more and market forces reasserted themselves so as to complement bureaucratic economic controls.

Bureaucracy and the Market in Tandem

From the 1950s until the onset of the world economic crisis in the 1970s, the Japanese economy grew spectacularly. In 1955 Japan's GNP was less than half the size of Britain's GNP but, between 1955 and 1973, the economy grew on average by more than 10 per cent each year. Yet although in 1965 Japan's GNP was about to outstrip Britain's, it was still only 12 per cent of the USA's GNP. In recent years Japan's annual growth rate has been reduced to around 4 per cent, but it has still economically outperformed most other industrialised countries, including the USA and Russia. This resulted in Japan's GNP in 1986 being 47 per cent of the USA's GNP and 89 per cent of Russia's GNP. The most recent predictions issued by the Japanese Economic Planning Agency are that, by the year 2000, Japan's GNP will be 60 per cent of the USA's GNP and 19 per cent bigger than Russia's GNP.

Part of the reason for Japan's economic success relative to its major rivals, such as the USA and Russia, lies in its rulers' skilful combination of planning and the market. Compared to Russia, Japan has an economy that is far more open

to market forces. There is intense economic competition on both the domestic and external markets between giant companies such as Mitsubishi, Mitsui and Sumitomo and this provides a continual stimulus for innovation, as each company seeks to gain an advantage over its competitors. In other words, the stifling of economic initiative that occurs in state-capitalist countries due to centralised economic controls is largely avoided in Japan. On the other hand, the Japanese economy is much more the product of long-term, strategic planning than is the case in the USA and other 'Western' countries. A number of government agencies, of which the Ministry of International Trade and Industry (MITI) happens to be the best known, play a major economic role by exerting 'administrative guidance' so as to be permanently restructuring the Japanese economy in anticipation of, or in response to, trends within world capitalism. In view of the fact that they are independent capital units and also economic giants in their own right, it is not surprising that there have been cases of major Japanese companies resisting such 'administrative guidance' or following it only reluctantly and under the threat of the state applying sanctions. Nevertheless, although such cases have occurred, there are many reasons why they are the exception rather than the norm. As we have seen, the way in which heavy industry was developed in Japan following the 1868 revolution has predisposed the major companies to cooperate closely with the state. Also, the more recent historical experiences of Japanese capitalism provided the state bureaucracy with the means to impose its economic priorities whenever this became necessary.

Until the economic crisis of the 1970s, Japan's economic growth was buoyed up by exports. It is true that Japan exports a much smaller proportion of GDP than do many West European countries (13 per cent, compared to 22 per cent in Britain's case, for example) but Japanese companies still captured important shares of the world markets with a succession of products. Japan's economic successes came in waves. Whereas textiles had been the major export in prewar days, ships and steel led Japan's resurgence in the 1960s. These were superseded in turn by electrical consumer goods and motor cars, while currently it is electronic and other machinery which is at the cutting edge of Japan's export drive. This changing pattern of exports reflects shifts that have occurred within the Japanese economy as a whole. It is not that ship-building and steel production, or even textiles, have disappeared but that their relative importance has declined as a succession of other industries have moved to centre stage. A major reason for the success of Japanese companies on the world markets has been that their competitive efforts have been underpinned by the anticipatory structural planning of the national economy carried out by the bureaucratic agencies of the state.

When one talks about economic 'planning' in a Japanese context, one is referring to something different from the type of economic 'planning' that has traditionally been practised in state-capitalist countries, such as Russia. In countries like Russia what the planners traditionally aim to do (what they achieve in reality is a different matter) is to engage in micro-economic planning by setting annual input/output targets for all enterprises under state control. By way of

contrast, in Japan the planning is macro-economic and more long-term. No government agency in Japan would dream of issuing precise instructions to private companies as to what to produce, from where they should obtain their raw materials and to whom they should sell. Japanese companies, large or small, make these decisions mostly on their own initiative and in response to their over-riding concern, which is to read the market correctly so as to be able to sell their commodities at a profit. It is true that, in this respect too, the institutional arrangements of Japanese-style capitalism are somewhat different from those that exist in most West European or North American countries. Whereas companies in these latter countries mostly raise their capital on the stock exchanges, Japanese companies tend to turn to the major banks for the bulk of their capital requirements. Given their enormous resources, the banks are generally prepared to take a longer-term, more strategic view of profit acquisition than shareholders, who tend to expect an immediate return on their investments. Undoubtedly, this relatively greater reliance on banking capital as opposed to equity capital has often given Japanese companies an advantage over their 'Western' rivals, since it has allowed them initially to concentrate their export efforts on capturing a share of the market, even at the expense of short-term profits. Once the market has been penetrated and rival producers have been weakened, however, Japanese companies have then naturally concentrated on what has been all along their (and their bankers') chief preoccupation - making profits. Even in this regard, the role of the state has been important, since the vital support given to Japanese companies by the commercial banks has been buttressed by the policies adopted by the official Bank of Japan. Nevertheless, Japanese companies have never been allowed to lose sight of the fact that their survival depends on their own efforts to realise profits by outselling competitors. They are constantly subjected to the discipline of the markets and, unlike the situation in the 'planned economies' of state capitalism, each company, as an independent capital unit, is responsible for its own economic viability. Japanese-style 'planning' emphatically does not entail the state writing off losses, bailing out under-performers or allowing some industries to operate with permanent deficits.

Two key features of Japanese-style 'planning' are research and development of new commodities in anticipation of future trends in the world economy (or, indeed, in order to fashion such trends) and the rationalisation of industries where Japanese capital can no longer effectively compete. As far as research and development (R&D) is concerned, the secret of Japan's relative economic success does not lie in huge sums of money provided by the state. Government expenditure on R&D is a mere 0.58 per cent of GNP, a lower figure than in all Japan's major rivals (in the USA, for example, state-funded R&D accounts for 1.27 per cent of GNP). Nor can the rise of Japan as an economic superpower be attributed to a vast army of bureaucrats plotting commercial campaigns with military precision. The Japanese state is relatively lean and even agencies as important as the Ministry of International Trade and Industry have a staff that is only a few thousand strong, which makes it a pigmy compared to the giant bureaucratic apparatus at the disposal of many a ministry in state-capitalist countries. Rather, where the Japanese bureaucracy scores is in the calibre of its personnel, its relative freedom of action,

the means at its disposal for implementing its decisions and the readiness of private enterprise to follow its lead. A career in the Japanese bureaucracy offers prestige, power, financial rewards and is frequently even a stepping stone towards a second career (after retirement as a top bureaucrat) as a politician or on the payroll of a private company. Small wonder, then, that the bureaucracy regularly attracts some of the cleverest men (and a few women) of each generation. Once in positions of power, both for historical and institutional reasons, there are few 'democratic' constraints acting on these bureaucrats. To give just a couple of examples, Japanese laws are notoriously loosely worded and many of the controls in force take the form of administrative ordinances which are never even formally submitted to the national assembly, thus providing bureaucrats with considerable latitude in their actions. During the years of Japan's 'economic miracle', the Japanese bureaucracy was equipped with a whole range of controls (some dating back to the American occupation, some of later vintage) for enforcing its decisions and for whipping recalcitrant companies into line. Resort to such coercive measures was exceptional, however, since most major companies were accustomed to see their interests as coinciding with the strategic plans of the state bureaucracy, plans which the bureaucrats drew up in consultation with the leading capitalists anyway.

It may be useful to illustrate these general points with a concrete example. Two of the problems currently exercising capitalist minds throughout the world are energy conservation and pollution control. There are enormous profits to be made by marketing a motor car engine that meets these requirements. Hence the Ministry of International Trade and Industry (MITI) has taken the initiative to organise a consortium to develop a ceramic gas turbine engine. Six petroleum companies, three motor car manufacturers, two ceramics firms and the motor car industry's Japan Automobile Research Institute have jointly established a research institute devoted to this project and aim to develop an engine by 1996 at a cost of ¥7 billion. MITI's role has been to anticipate the market for a ceramic gas turbine engine and to intervene so as to encourage commercial rivals to sink their differences in order to mount a R&D effort which would be beyond the capability of any one of them individually. This is a perfect example of what has often been referred to as the 'plan-oriented market economy system'.

As for the rationalisation of industries where Japanese capital can no longer effectively compete, the state bureaucracy's role here has not been to subsidise ailing sectors of the economy so as to protect them from world market forces. Rather, the agencies of the state attempt to read the signs of the market and to anticipate where the tide is about to turn against Japanese companies. In various sectors of the economy Japanese companies can no longer market certain lines of products at competitive prices, due to high overheads. The relatively high cost of labour power in Japan is significant here, with hourly wage rates in manufacturing being 25 per cent higher than in Britain. The wages gap is even greater in the case of competitors on Japan's doorstep, such as South Korea and Taiwan. It is small wonder, then, that nowadays in the case of a number of products that were once synonymous

with the Japanese export drive (calculators, black and white televisions, radio cassettes, 35 mm cameras) around 50 per cent of even the Japanese home market for these commodities is accounted for by imports, mostly from Taiwan and South Korea. The state bureaucracy's anticipatory response to these developments has been to orchestrate an orderly retreat from areas where Japanese companies are about to lose their competitive edge and to encourage the switch of investment into ever more high-tech and automated/robotised sectors. Without the coordinating role played by state agencies and their authorisation of capacity-reducing cartels and similar arrangements, there would have been more capitalist casualties as rival companies fought life and death struggles for shares of diminishing markets. Instead, the major companies have not merely survived but continued to flourish and the pain of economic readjustment has been transferred to expendable smaller companies and, needless to say, to the working class. This has been achieved by an ongoing process of strategic planning that has catered for the collective self-interest of the giants of Japanese capitalism rather than allowing them, in a completely unsupervised fashion, to inflict excessive damage on one another in an unrefereed war for economic advantage.

Dual Economy/Dual Workforce

The economic role of the state is important not merely with regard to what it does but also in the sense of what it studiously refrains from doing. In other words, the non-actions of the state are at least as important as its actions when it comes to maintaining the dual economy and keeping the workforce divided.

The so-called dual economy is as structurally entrenched today as it was in earlier periods of Japan's capitalist development. In manufacturing, for example, 50 per cent of production is accounted for by large companies (employing more than 300 employees) and the other 50 per cent by small firms (employing less than 300 employees). The parity of these figures does not mean that large and small companies stand in an equal position, of course. The centreground of the Japanese economy is occupied by a relatively small number of giant conglomerates, each of which is surrounded by dozens, or even hundreds, of satellites in the form of small companies. The relationship between each conglomerate and its satellites is unambiguously that of patron to clients. The small firms rely on the giant company for R&D, financial backing and, above all, for a market for their products. Their vulnerability means that they are largely unable to resist the conditions imposed on them by the large company. The 'just-in-time' delivery system (which avoids the large company having to maintain wasteful stocks) is just one example of the way in which the relationship between large and small companies is a lop-sided one, conferring disproportionate advantages on the large company. Small companies are disadvantaged even in periods of economic upsurge, but it is mainly when the economy turns down that the full benefits of the dual economy are felt by the major companies. At such times the giant companies are shielded from the full impact of difficult market conditions by the buffering effect of the small companies.

It is long-standing state policy to allow the smaller companies to take the full impact of the economic ill effects of a slump, while the major companies protect themselves at the expense of their parts-suppliers, sub-contractors, and so on.

As noted earlier, a dual economy necessarily implies a dual workforce. Those workers on the permanent payroll of giant companies are a highly-skilled, overwhelmingly male, 'aristocracy of labour' who, in return for total devotion to their employers, are virtually guaranteed full employment and relatively high wages. Probably less than 30 per cent of the total Japanese workforce belongs to this 'aristocracy of labour', but it is this minority whose conditions are generally portrayed abroad as though they are typical of all wage earners in Japan. In addition to relatively high wages and virtually guaranteed employment, workers on the permanent payroll of the giant companies also receive extensive welfare benefits (housing, education, hospital treatment, pensions) for themselves and their families. This is where the state's role in deliberately neglecting to provide general welfare is crucially important. Company welfare schemes are one of the principal means by which giant companies maintain their grip on their workforce and impose on them standards of loyalty and subservience which are the envy of capitalists elsewhere and which are often described by the 'experts' as though they are genetic traits of the Japanese. Far from there being anything inherently Japanese about the readiness of such workers to kowtow to the company, state officials realise that, if general welfare provisions were substantially improved, one of the principal means by which the large companies bind their workforce to them would be removed. Since workers on the permanent payroll of large companies know that a clash with the company may result not merely in the sack but loss of pension, withdrawal of hospital facilities, their children being deprived of education, and so on, they are effectively hamstrung. The price paid for company welfare benefits is thus a high one and the system works admirably from the capitalist point of view precisely because more than 70 per cent of the workforce is excluded from anything like an adequate welfare system. Those working for smaller companies are disadvantaged in every way: wages are lower (often only 50 per cent of wage rates in the big companies), there is no guarantee of full employment, welfare provision is poor and working conditions can be little better than an insult. As a result, it is hardly surprising that many workers in this position would give their eye teeth to gain entry to the 'aristocracy of labour'. Hence the deprived condition of the majority serves to discipline the relatively privileged minority of workers.

It is worth mentioning that trade unions are virtually confined to the permanent workforce of the large companies and certain categories of state employees. The percentage of wage earners who are organised in trade unions is in long-term decline and now stands at a mere 28 per cent of the total workforce. In most large companies, the entire permanent workforce up to middle management level is organised in a single union and relations between union and management are typically collaborative. The union sees its members' wage levels and welfare benefits as depending on the company's

profitability and, although to maintain even a semblance of credibility the union may periodically go through the ritual of making 'demands' to the company, relations are overwhelmingly characterised by union accommodation to company priorities. It is hardly surprising therefore that, even among unpoliticised workers, unions are regarded with cynicism as representing sectional interests rather than the general well-being of the wage-earning class. For similar reasons, electoral support for the two social-democratic parties, which are organisationally linked to the trade union confederations, has been in long-term decline.

Japan: the Democracy That Isn't

It would not do to leave this account of Japanese capitalism without saying something about the spuriously 'democratic' veneer with which the bureaucratic-cum-market structure is overlaid. The rulers of postwar Japan take as much pride in proclaiming its democratic credentials as those in prewar days did when boasting about Japan's imperial trappings. What is striking, however, is that there is a remarkable similarity in the workings of the prewar 'Emperor system' and the postwar 'democratic system'.

Since its formation in 1955, the Liberal Democratic Party (LDP) has always formed the government. As has frequently been pointed out, every element in the LDP's name is a lie. It is not liberal; it certainly is not democratic; and it is not even a cohesive party. As far as the last of these points is concerned, one gets closest to the real nature of the LDP by seeing it as a collection of political factions which are constantly vying for ascendancy, but which nevertheless maintain a degree of cooperation so as to enjoy a share of the power and the privileges which would be beyond their grasp if they acted separately. The last thing that distinguishes these factions from one another is ideology or political principles. Rather than being organised around certain policy goals, each faction is an entirely opportunistic grouping of politicians who follow their faction leader in return for the funds which he disburses. The faction leaders obtain their funds from the political contributions made by the major companies. Such funds are then distributed to individual politicians, who use this money for vote-buying purposes in a manner that essentially has not changed since prewar days.

It is this system of institutionalised vote-buying and corruption which has ensured that the LDP has won every election since 1955. Given the LDP's permanent majorities both on the floor of the national assembly and in its various policy committees, parliamentary debates and discussion are little more than a charade, since the outcome is never in doubt. The real arenas for argument and compromise between the different market-oriented and bureaucratic interest groups that administer Japanese capitalism are the internal committees of the ruling party itself, the government ministries and the extra-parliamentary government advisory committees. Rivalries between different political factions are a conspicuous feature of the bargaining process that is conducted in the party committees, but so too are conflicting business interests,

since every politician is beholden to capitalist paymasters of one type or another. Since the politicians know that they cannot govern without the cooperation of the civil service, there is also close consultation between party committees and the corresponding ministries and this liaison is facilitated by the personnel shifts from the bureaucracy into the LDP. In addition to company interests being articulated by the politicians whom they fund, company chairmen and presidents thickly populate the extra-parliamentary government advisory committees, which are a permanent feature of the Japanese system. For example, Ezoe Hiromasa of the Recruit Company, whose publicly disclosed bribery of politicians and civil servants is currently under scrutiny by the media, sat on four government advisory committees. The function of such committees is to make policy recommendations to the government, which are then translated into detailed legislation by the appropriate section of the civil service bureaucracy. In view of the fact that the civil service supplies the administrative and research staff for government advisory committees, and that the ministries play a key part too in providing information and technical advice to the LDP's committees, one can understand that the bureaucracy, in its turn, is well placed to defend its interests. Thus, in contrast to the claim of the 1946 constitution that 'sovereign power resides with the people', real power in postwar Japan can be seen to be exercised by a triumvirate made up of the leaders of the LDP, the major companies and the bureaucracy.

Conclusions

Little that we have written in this discussion paper can be said to describe features that are unique to Japan. All nation-states are undemocratic, incorporate corruption and minority rule, are based on class divisions, and manage their economies by means of both market forces and bureaucratic controls. The elements do not vary. It is just the particular mix of those elements that is unique to a particular nation-state at a particular historical juncture. If we compare Japan to other nation-states, the mix at which it has arrived has worked demonstrably well in recent decades and this allows us to draw a number of tentative conclusions:-

- (1) For the foreseeable future (and it is in the nature of capitalism that we cannot foresee very far) the Japanese economy is likely to continue to outperform those of many rival nation-states.
- (2) If (1) is the case, there are likely to be crumbs from capital's banquet available for placating sections of the working class in Japan, above all for the 'aristocracy of labour'. Where explosions of working class discontent do occur, they are likely to be among the 70 per cent of the workforce who lie outside the 'aristocracy of labour' and (since these two categories roughly coincide) beyond the pale of the trade unions.
- (3) Also, if (1) is the case, Japan is likely to move into increasingly open confrontation with other powers. Already more than 40 per cent of Americans apparently believe that Japanese economic might is a greater threat to the USA than Russian military might. In a hostile

and protectionist world, Japan is bound to try to push ahead with its strategy of converting economic might into military muscle. The ideological wrappings for this strategy are likely to be nationalism and Emperorism.

- (4) Faced with Japanese competition, other nation-states are likely to respond by increasingly adopting the 'Japanese' mix. Clearly, this is already under way in Britain and elsewhere, taking the form of single union deals, the trend towards a 'dual economy' structure, the downgrading of state welfare provisions, and so on. Wage earners outside Japan are in a better position to resist these moves than workers within Japan, simply because they are moves - changes to the status quo, rather than a continuation of practices to which they have grown accustomed. Where struggle against 'Japanese-style capitalism' does emerge, however, it presents wage earners with an opportunity to go beyond resistance to the 'Japanese style' and to mount instead an all-out attack on capitalism, irrespective of its style, mix or ideological trappings.