

# Social Science

# Japan 6

February 1996

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## Japan's International Relations: The Present and The Future

This issue of *Social Science Japan* focuses upon Japan's international relations. Contributors from within the Institute and from outside analyze present issues surrounding Japan's international relations in various fields, and make proposals for Japan's future role in dealing with them. Topics include the US-Japan alliance, UN peacekeeping operations, ODA, global environmental problems, international trade and monetary issues. Readers are warmly invited to send comments and counterproposals to SSJ-Forum (see back cover).

On Christmas Day 1995 the Institute of Social Science received approval from the Ministries of Education and Finance to establish on a formal basis the Information Center for Social Science Research on Japan. This approval, which is accompanied by several new posts, will enable us to expand and improve our publishing and other information services. Future issues of *Social Science Japan* will, of course, announce any interesting new developments.

This issue is the last to be produced by Jonathan Lewis, who is leaving the Institute to complete his PhD in Scotland. He has greatly appreciated the patience and encouragement of both contributors and readers. In order to allow his replacement, David Leheny, time to learn the ropes, the next issue of *Social Science Japan* is planned for July 1996.

**Note.** Previous issues of *Social Science Japan* have carried a call for articles. Our thanks go to all those who have sent manuscripts. Unfortunately, due to space limitations we have been unable to print many of the articles. Because this situation is unlikely to be remedied in the foreseeable future, we have reluctantly discontinued the call for articles.

# The US-Japan Alliance

MURATA Kôji

THE *raison d'être* of the US-Japan alliance has been seriously questioned since the demise of the Cold War. The tragic rape incident in Okinawa last year highlighted the alliance's fragility. The fundamental question is whether or not the alliance can survive without any particular threat. If it can, then the US-Japan relationship represents a new model of alliance.

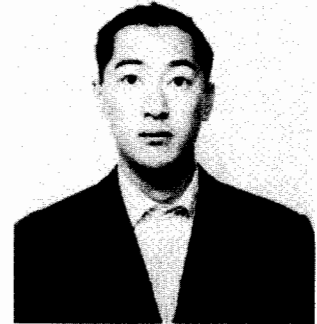
The US-Japan alliance is unique for two reasons. First, it is a bilateral alliance between the victor and the vanquished of a major war. While Germany and Italy joined the North Atlantic Treaty Organization, the latter is a multilateral alliance. In a multilateral framework, relations between former enemies are more relaxed than in a bilateral one. Although the United States formed bilateral alliances with Taiwan, South Korea, and the Philippines in postwar Asia, those countries were not the vanquished in the Pacific War. Second, Japan and the United States do not have common historical and cultural backgrounds. Despite these potential sources of tension, the US-Japan alliance has survived for four decades. As we look for ways to maintain and to further develop this historically unique alliance, we must keep the following points in mind.

## *Rationales for the Japan-US Alliance*

The Soviet threat was not the only reason for Japan and the United States to conclude and maintain the US-Japan Security Treaty. In fact, in Northeast Asia and the Western Pacific, the Soviet military presence was not significant until the late 1970s. Japan's primary aim in concluding the security treaty with the United States was to join the international community, especially the Western free market led by the United States. On the other hand, the United States wanted to maintain a favorable balance of power in East Asia, in keeping with a long tradition of US policy towards the region dating back to John Hay's Open Door diplomacy.

These original purposes of the alliance are still valid. The free market system is spreading across East Asia, which is the most rapidly developing region in the world economy. Japan, a longtime beneficiary of a free economy, needs to keep the United States in the region to continue this trend. At the same time, East Asia is faced with many post-Soviet threats such as ethnic conflicts and regional rivalries. The United States needs to keep Japan on its side because, while Japan and China are the only countries that could tip the regional balance of power, the latter is not yet completely democratized and its future is still unpredictable.

The above rationales for the Japan-US alliance are closely related. Economic prosperity facilitates political stability and political stability is a precondition for economic prosperity. This suggests that the US-Japan alliance can continue to work well even without the Soviet threat, because the primary rationale for the alliance is mutual stability and prosperity rather than containment of a third country.



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## The US-Japan Alliance *continued*

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The US-Japan alliance was *mainly* aimed at deterring the Soviet military threat from the late 1970s to the late 1980s. Tokyo and Washington fully utilized the Soviet military threat to justify strengthening the alliance relationship. Given the longtime Japanese indifference towards security issues, it was natural for the two governments to take this opportunity. This tightening of security ties, however, led some people to assume that the US-Japan alliance was *solely* aimed at deterring the Soviet military threat and that the alliance was no longer useful without such a threat. But although the wolf is gone, it does not necessarily mean that we do not need a watchdog anymore.

### *The Great Experiment*

The United States and Japan are respectively the largest and second largest economies in the world. The sum of their Gross National Products is about 40% of that of the whole world. According to traditional balance-of-power theory, the two greatest powers should not form an alliance. Thus Kenneth Waltz, a giant of neorealism, calls attention to the possibility of Japan's acquiring nuclear weapons. When World War II ended, the Grand Alliance between the United States and the Soviet Union collapsed and the two superpowers struggled for world hegemony. Japan, however, has no need to challenge the United States for world hegemony or primacy. In 1941 Japan fought the United States over hegemony of the Pacific, and in 1945 it suffered total defeat. The totality of Japan's defeat is the country's most important lesson from the past, and it makes postwar Japan's position very different from those of Germany after WWI and Russia after the Cold War. The United States and Japan are therefore engaged in a great historical experiment, aiming to demonstrate that the world's two greatest powers can coexist peacefully. The importance of this experiment for Japan cannot be understated; for example, the recently revised National Defense Program Outline uses the term "US-Japan security arrangements" thirteen times.

The experiment also shows that differences in culture or civilization are not necessarily a barrier to a long-term peaceful relationship, if the countries share common democratic values. Due to its common cultural and historical backgrounds, the Anglo-American alliance is often referred to as a special relationship; due to its different cultural and historical backgrounds, the US-Japan alliance also constitutes a special relationship. The longevity of the US-Japan alliance suggests that the clash of civilizations is not inevitable.

### *Levels of Analysis*

Many political scientists employ the systemic, societal, and individual levels of analysis. On the international systemic level, the US-Japan alliance still seems to be valid. As argued earlier, although the Soviet threat is gone, East Asia still witnesses various regional and ethnic conflicts. The US-Japan alliance, the alliance between the strong, is essential to stabilize the region. For example, without an effective US-Japan alliance, the US-Korea alliance

and the new multilateral Asia-Pacific Economic Cooperation could not survive.

On the societal level, Japan and the United States, in spite of their cultural and historical differences, share a common political value: liberal democracy. Differences between the Japanese and American political and economic systems sometimes cause tensions between Tokyo and Washington. Nonetheless, Japan is the most mature democracy in East Asia.

The problem probably lies at the individual level. Political leaders in Tokyo and Washington do not have enough interaction and mutual trust. The connection between the two capitals was much closer during the so-called Ron-Yasu period than it is now. Friendship between political leaders has not only symbolic but also substantive importance, and this is especially true when two countries do not have common historical and cultural backgrounds.

President Clinton represents the Vietnam generation which, unlike George Bush's generation, does not see the US-Japan relationship in terms of patron and client. Many political leaders in Japan, however, still have this old mentality, and even the more independent-minded younger politicians seem to think along similar lines. The US-Japan alliance will remain in short-term crisis until leaders in both countries overcome this conceptual generation gap. While the short-term outlook is bleak, one can be more optimistic for the long run.



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## Data Sources on Japanese Foreign Policy

MURATA Kôji

JAPAN is no longer a wonderland for scholars of international relations. Reliable materials are available, published in Japan and overseas, to allow good studies of Japanese foreign policy. Some of the best are presented below.

Probably the most useful single guidebook on the topic is ASADA Sadao, ed., *Japan and the World, 1853-1952: A Bibliographic Guide to Japanese Scholarship in Foreign Relations* (NY: Columbia University Press, 1989). This historiographic-bibliographical volume covers all the major publications by Japanese scholars on Japan's diplomatic history and foreign relations. It also analyzes in depth current controversies over Japanese diplomatic history. The first part of the same editor's *International Studies of Japan: A Bibliographic Guide* (Tokyo: Japan Association of International Relations, 1988) covers studies of Japan's foreign relations with major powers after the regaining of independence in 1952. In Japanese, IKEI Masaru's *Nihon Gaikôshi Gaisetsu*, 3d



*In order to fill the gap left by the unavailability of policymakers' personal papers, an oral history project is now under way to carry out interviews with former Japanese policymakers. The project, named "United States-Japan Relations from Detente to the 'New World Order': Comparative Historical and Theoretical Perspectives on Alliance Cooperation and Conflict," is being conducted by the Washington-based National Security Archive and many Japanese scholars. The results of this project will be published both in Japanese and English.*

## Foreign Policy Data Sources continued

ed. (Tokyo: Keio Tsûshin, 1992) provides a concise study guide and chronology.

MASUDA Hiroshi and KIMURA Masato eds., *Nihon Gaikôshi Handbook: Kaisetsu to Shiryô* (Tokyo: Yûshindô, 1995) is a collection of basic documents from Japanese diplomatic history. Kitaoka Shin'ichi ed., *Sengo Nihon Gaikô Ronshû: Kôwa Ronsô kara Wangan Sensô made* (Tokyo: Chûô Kôron, 1995) is a well-balanced anthology of influential articles on Japanese foreign policy. The authors include KONOUE Fumimarô, KIYOSAWA Kiyoshi and YOSHIDA Shigeru. *Shinban Nihon Gaikôshi* (Tokyo: Yamakawa Shuppansha, 1992), written by various specialists, is a helpful dictionary covering the period from the 1860s to the early 1990s. The larger entries include suggestions for further reading.

The following periodicals are especially important: *Kokusai Seiji*, *Kokusai Mondai*, and *Gaikô Forum*. *Kokusai Seiji* is the quarterly organ of the Japan Association of International Relations and *Kokusai Mondai* is published monthly by the Japan Institute of International Affairs. The former is more academic and the latter more current. *Gaikô Forum*, also monthly, includes many senior and retired diplomats' opinions.

As for official documents, Ministry of Foreign Affairs (MOFA), ed., *Nihon Gaikô Bunsho*, 180 vols., is essential. This series so far covers from the late Edo period to the Manchurian Incident. Reflecting their importance, the London Naval Conference and the US-Japan negotiations before the Pacific War are also included. MOFA, ed., *Gaimushô no Hyakunen*, 2 vols. (Tokyo: Hara Shobô, 1969) is an official history of MOFA. Although Japanese archives are not as well organized as many in American and Europe, the following archives among others are open to the public

- *Foreign Record Office, MOFA;*
- *War History Department, National Institute for Defense Studies;*
- *Depository for Documents on Political and Constitutional History, National Diet Library*

Asada's *Japan and the World* provides a detailed guide to the documents in these archives. *Nihon Kindai Shisô Taikei Bekkan: Kindai Shiryô Kaisetsu Sômokuji Sakuin* (Tokyo: Iwanami Shoten, 1992) is also a very helpful index of the basic historical documents on Japanese politics, economy and society.

In the United States, the Japan Documentation Center (JDC) of the Library of Congress tries to obtain unpublished, primary source materials in the areas of Japanese government policy, business, economics, environment, and defense. The JDC holds an annual conference on the documents and resources relevant to Japan's public policy.

Japanese political leaders and senior officials do not usually make public their personal documents and diaries. There are, however, some important exceptions. Satô Eisaku's diary will soon be published by the Asahi Shimbun. Satô was the prime minister of Japan from 1964 to 1972. Shîna

*continued on page 10* ⇨

# Japan's Contribution to UN Peacekeeping

**TAKAI Susumu**

**PEACEKEEPING** by UN peacekeeping forces started in 1956 with the establishment of the First UN Emergency Forces (UNEF-I) to deal with the Suez Crisis. In the same year Japan was admitted as a member state to the United Nations. On its admission, Japan stated its commitment to upholding the UN's lofty purposes and principles by all means at its disposal. From the Suez Crisis to this day, however, little international consideration has been given to Japan's interpretation of events and its opinion of how best to maintain international peace and security. In particular, there is a clear gap between Japan and other UN member states in the recognition of, and enthusiasm for, UN peacekeeping.

The reasons for Japan's hesitancy to contribute to UN peacekeeping are threefold:

- the shock of defeat in the Second World War;
- the difficulties inherent in Article 9 of the constitution;
- the limits of the International Peace Cooperation Law.

This article examines each of these reasons before suggesting how Japan's position on UN peacekeeping may change in the future.

## *The Shock of Defeat*

On 15 August, 1945 the Japanese Empire surrendered. One fourth of Japanese wealth had been destroyed in the war, about 1,880,000 military personnel killed and 4,600,000 injured. 40% of Japanese cities had been burned out by air raids which had killed or injured 670,000 civilians. After over 2000 years of independence, Japan was subjected to occupation by the Allied Powers. Those Japanese alive at the time drew three lessons from the dreadful experience of the Second World War:

- that Japan should never again send its troops abroad;
- that Japan should be more sensitive to foreign criticism;
- that Japan should only pursue economic prosperity.

After the war, the United States provided a military umbrella over Japan's society and economy, making it unnecessary for the Japanese to concern themselves with security and defense issues. In such an atmosphere a kind of religious belief developed among many Japanese that peace and a "world free from war" could be obtained without any consideration of national security. Furthermore, under the 1950 Treaty of Mutual Cooperation and Security, the US provided military security for Japan, which was limited by its constitution to pursuing only economic prosperity. This situation – whereby one of the world's biggest economic powers could rely on another state for its military security – generated the attitude among the Japanese people that Japan's contribution to international peace and security was to be solely financial. Discussion by Japanese citizens and opinion-formers about how the country might contribute to UN peacekeeping and peace-enforcement operations was thus minimal.



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## Japan's Contribution to UN Peacekeeping *continued*

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### *Constitutional Difficulties*

After the Second World War, Japan had no military forces at all. Nevertheless, the General Headquarters of Allied Powers put further restrictions on any future military structure by drafting a new Japanese constitution. Article 9 of the new constitution prohibited Japan from having an army, navy and air force as well as "war potentials." Japan was also forced to renounce its right of belligerency. Most Japanese, exhausted and disgusted by the war, willingly accepted these terms.

After Japan regained its independence with a constitution that did not permit military forces, the Japanese Defense Agency was formed in July 1954, and Self-Defense Forces were permanently established to defend the borders of Japan. The creation of the Self-Defense Forces ignited a debate about Japan's right to self-defense that has persisted into the 1990s. In the 1950s the ruling Liberal Democratic Party interpreted Article 9 of the constitution to mean that, while Japan did not have the right of belligerency, it did have the right to respond to acts of aggression in self-defense. However, the government concluded that the constitution did not allow Japan to exercise this right in the context of *collective* self-defense.

The Treaty of Mutual Cooperation and Security was based on this interpretation of article 9. The treaty assured Japan that the US would intervene with military support in the event of an attack against Japan by an aggressor state. Japan itself would not respond. Article 5 of the treaty states:

"Each Party recognizes that an armed attack against either Party *in the territories under the administration of Japan* would be dangerous to its own peace and security and declares that it would act to meet the common danger in accordance with its constitutional provisions and processes." (author's emphasis)

The experience of the Second World War prompted the Japanese to renounce willingly their right – and their responsibility – to dispatch troops abroad. (Japan did send minesweepers after the Korean and Gulf Wars, but they were in territorial waters only). An additional result of US Cold War policy was a general apathy amongst the Japanese public towards not only defense and defense-related issues but also towards international peace and security issues.

### *The Limits of the International Peace Cooperation Law*

During the Gulf War, in response to severe criticism from the US, the Japanese government contributed \$130 billion to the multinational forces. After the war, on 11 May 1991, the government of Kuwait placed an advertisement in the *Washington Post* entitled "Thanks America and the Global Family of Nations" expressing its gratitude to the multinational forces. The Japanese government was deeply disappointed when it found that its name was not included in the message. This heightened the Japanese realization that the allies wanted Tokyo to contribute not only money to UN peacekeeping but also troops, a realization that resulted in the International



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Peace Cooperation Law of 1992. This law enables Japan to send Self-Defense Forces personnel to participate in UN peacekeeping, but subject to five strict guidelines:

- there must be agreement on a cease-fire among the parties to the conflict;
- the parties to the conflict shall have given their consent to the deployment of the peacekeeping forces and to Japan's participation in the force;
- the peacekeeping forces shall maintain strict impartiality, not favoring any party to the conflict;
- should any of the above requirements cease to be satisfied, the Government of Japan may withdraw its contingent;
- the use of weapons shall be limited to the minimum necessary to protect the lives of Japanese military personnel.

These guidelines are based on the government's interpretation of Article 9 as prohibiting the deployment of the Self-Defense Forces abroad as part of a mission which may entail the use of force. According to these guidelines, Japan cannot send its troops to be a part of the UN peacekeeping in an area of the world where a cease-fire has not yet been firmly established between conflicting parties. When the draft of the International Peace Cooperation Law was debated in the Diet, the most controversial point was whether Japan should participate in UN peacekeeping by sending Self-Defense Forces personnel. As a compromise the Japanese government decided that any Japanese troops participating in a UN mission will be prohibited from the following activities:

- monitoring the observance of the cessation of hostilities or the implications of relocation, withdrawal or demobilization of armed forces as agreed upon among the parties to armed conflict;
- stationing and patrol in buffer zones and other areas demarcated for preventing the occurrence of armed conflicts;
- inspection or identification of the carrying in or out of weapons and/or their parts by vehicles, other means of transportation or passersby;
- collection, storage, or disposal of abandoned weapons and/or their parts;
- assistance in the designation of cease-fire lines and other assimilated boundaries by the parties to the conflict;
- assistance in the exchange of prisoners-of-war among the parties to armed conflict.

Because of these restrictions, Japan is currently unable to send infantry to participate in any UN peacekeeping mission. Japan may, however, resume activities under the International Peace Cooperation Law after 1996 in the



## Further Reading

Japan Defense Agency (1995):  
*Defense of Japan 1995*.  
Tokyo: The Japan Times.

TAKAI Susumu (1995): *Kokuren PKO to heiwa kyōryoku hō* (UN PKOs and peace cooperation). Tokyo: Shinsei Shoseki.

NISHIHARA Tadashi and Zelig S. HARRISON, eds. (1995): *Kokuren PKO to nichibei kankei* (UN PKOs and Japan-US relations). Tokyo: Aki Shobō.

KANAMARU Takahiro (1995): *Shin Kokuren ron – kokusai heiwa no tame no Kokuren* (A new theory of the UN: the UN, world peace, and Japan). Osaka: Osaka UP.

## Japan's Contribution to UN Peacekeeping *continued*

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light of its experiences in Cambodia, Mozambique, and on the Golan Heights.

### *Changes Afoot*

Japan certainly appears reluctant and hesitant when it comes to UN peacekeeping. Though maintaining Self-Defense Forces with a strength of 240,000 personnel, Japan's priority continues to be the pursuit of economic prosperity. Economic, not military, involvement would seem for many Japanese to be the most desirable means of contributing to international peace and security.

The reasons for this hesitancy are easy to understand when viewed in the context of Japan's postwar experience. Japan's reluctant stance is, however, unlikely to be permanent. As Japanese political parties undergo a drastic restructuring and domestic and foreign policies become more fluid, one of the fundamental questions policymakers are addressing is how Japan will contribute to international peace and security in the future. Popular sentiment appears to be dividing into two groups. One – see, for example, OZAWA Ichirō's *Nippon kaizō keikaku* (Blueprint for a New Japan; 1993) – insists that Japan must contribute Self-Defense Forces personnel to UN peacekeeping. The other – exemplified by TAKEMURA Masayoshi's *Chīsakutomo kirarito hikaru kuni: Nippon* (Japan: small but brilliant; 1994) – maintains that financial contributions are enough. The former viewpoint will in all probability eventually prevail, as Japan's postwar generations who do not identify with the shock of defeat become the majority. Japan may one day be a seasoned member of the peacekeeping community.



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## Foreign Policy Data

### *Sources continued*

Estuzaburō's diary is available in the above-mentioned Modern Japanese Political History Materials Room at the National Diet Library. Shīna was foreign minister under Satō from 1964 to 1966. Recently, the first and third volumes of *Nakasone Naikakushi*, a semi-official history of the Nakasone Cabinet (1982-1987), were published by the Institute for International Policy Studies, or the so-called Nakasone Institute.

The availability of more open and diverse information will improve the quality of studies of Japanese foreign policy both inside and outside Japan, and make Japanese foreign policy more transparent. In order to further this aim, the Japanese government should declassify its records more systematically and more frequently.



# Yen Rate Volatility and the International Monetary System

Masahiro KAWAI

## *Volatile Exchange Rates*

THE external value of the Japanese yen has fluctuated wildly since 1973, when the world major industrialized countries abandoned the Bretton Woods fixed-exchange rate arrangement for a flexible exchange rate system. As Figure 1 (see next page) indicates, there have been four waves of large and rapid yen-rate appreciation; (i) the period of transition from the fixed to flexible rate system in 1971-73, (ii) the period of recovery from the first oil-price shock in 1976-78, (iii) the period of Plaza and Louvre Agreements in 1985-87, and (iv) the recent period of the post-bubble economy in 1993-95. Though the Japanese yen has appreciated as a trend, its progress has never been purely unidirectional, but instead a series of short- and medium-term ups and downs.

Each wave of yen-rate appreciation has been blamed for weakening the Japanese macroeconomy, and has been countered by expansionary monetary and fiscal policies. These countermeasures, however, have often only exacerbated macroeconomic fluctuations. Examples of such unintended side-effects include the high inflation of 1973-74 and the so-called "bubble economy" of the late 1980s.

The lesson to be learned from this is that a system of stable exchange rates is desirable. Calls for reform of the international monetary system are heard each time the yen appreciates rapidly, but they subside as soon as the exchange rate depreciates to levels consistent with the fundamentals. The recent (1994) report by the Bretton Woods Commission has, however, attracted considerable attention among Japanese economists, and provided a timely reminder that we should be looking more seriously at how we can improve the international monetary system.

## *Assessment of Flexible Exchange Rates*

Under the current system of flexible exchange rates, capital mobility is quite high due to the liberalization of capital and exchange controls and the integration of money and capital markets in the industrialized world. As a result, portfolio shifts in the demand for and supply of foreign exchange have caused large changes in the exchange rate as an asset price. Overshooting, misalignment, and bubbles occur frequently, reflecting investors' anticipation of future events and other psychological factors. Statistical evidence indicates the possibility that the real exchange rates of the industrialized countries are not stationary, or mean-reverting, so that a simple version of purchasing power parity does not hold. In addition, current account adjustment has been slow despite the large movement of exchange rates.

One surprising fact is that macroeconomic disturbances and policies have been transmitted internationally even under flexible exchange rates. Consequently international coordination of monetary and fiscal policies are often required for macroeconomic management. The major industrialized

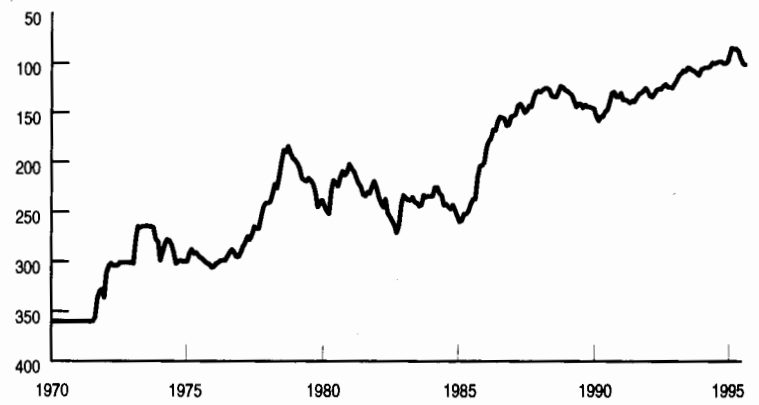
See KAWAI, Masahiro and the Research Institute of International Trade and Industry, MITI, eds., *Endaka wa naze okoru – hendô suru kawase rêto to nihon keizai* (Causes of the appreciation of the yen: fluctuating exchange rates and the Japanese economy) (Tokyo: Tôyô Keizai Shinpôsha, 1995).

See Bretton Woods Commission, *Bretton Woods: Looking to the Future* (1994).

See KAWAI, Masahiro, *Kokusai Kinyûron* (International Finance) (Tokyo: University of Tokyo Press, 1994).



Figure 1  
Movements in the Yen/  
Dollar Exchange Rate,  
1970-1995  
(Monthly Averages)  
Source:  
IMF International Financial  
Statistics, on tape.



## Yen Rate Volatility *continued*

countries have indeed joined in their efforts of policy coordination in such forums as the G7, economic summits, and IMF meetings. The role played by the USA as the world's major reserve-currency country has, however, been different and asymmetric. Even with mounting current account deficits, the USA has retained macroeconomic policy autonomy because its deficits have been financed almost automatically and at very low cost. Though the asymmetric position of the USA has gradually been eroded, it still enjoys great freedom in macroeconomic policy management.

### *Fixed versus Flexible Exchange Rates*

The biggest advantage of a system of fixed exchange rates is that it forces the countries in the system to maintain constant exchange rates, thereby enhancing the usefulness of international moneys for crossborder economic transactions. Since a fixed-rate system requires monetary policy convergence among the countries, the authorities cannot pursue highly inflationary policies. In other words, financial discipline is imposed.

The greatest disadvantage is the loss of monetary policy independence. However, this loss is not great once the countries in question satisfy conditions for optimum currency areas, by integrating their markets for goods, services, capital, labor, and money, experiencing similar macroeconomic shocks, establishing cross-country fiscal transfer mechanisms, and making their inflation-output trade-offs more similar. In an optimum currency area, only one independent monetary policy is needed for stabilization purposes, so exchange rates can be pegged. Another disadvantage is that, if pegged parity is adopted, disruptive and often self-fulfilling currency speculation can occur, which may eventually cause parity changes or force the authorities to abandon the fixed rate system as they did in the case of the Bretton Woods agreement.

This suggests that, if there are good economic grounds for adopting fixed exchange rates, it is advisable that the participating countries should commit themselves to permanently pegging the exchange rate, thereby eliminating the possibility of future parity changes and hence "one-way option" currency speculation. One of the most effective ways would be to establish a single central bank and a single currency. The Maastricht Treaty aims to accomplish precisely this in Western Europe.

### *Proposed Reforms of the International Monetary System*

Prominent economists have proposed various ideas for reforming the international monetary system. We consider three major proposals here.

The first is Richard Cooper's "world single currency system." This allows only one central bank and one single currency. Countries in the world form a central bank and endow it with the authority to issue the world currency, and their present central banks become something like regional Feds in the USA. Though highly unrealistic, this system would be perfectly functional in

FIXED VERSUS FLEXIBLE EXCHANGE RATES	
<b>(1) Fixed Exchange Rate System</b>	
<i>Pros</i>	
<ul style="list-style-type: none"> <li>• Exchange rate stability</li> <li>• Enhanced usefulness of international moneys</li> <li>• Financial discipline</li> </ul>	
<i>Cons</i>	
<ul style="list-style-type: none"> <li>• Loss of monetary policy independence</li> <li>• "One-way option" currency speculation</li> </ul>	
<b>(2) Flexible Exchange Rate System</b>	
<i>Pros</i>	
<ul style="list-style-type: none"> <li>• Monetary policy independence</li> </ul>	
<i>Cons</i>	
<ul style="list-style-type: none"> <li>• Exchange rate instability</li> <li>• Loss of financial discipline</li> </ul>	

See COOPER, Richard N., *The International Monetary System: Essays in World Economics* (Cambridge, Mass.: MIT Press, 1987).



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a fully integrated world economy, which can be considered as a large optimum currency area.

The second is Ronald I. McKinnon's "gold standard without gold." His idea is that the monetary authorities of the G3 (USA, Japan and Germany) should adopt the type of monetary policy that would be required under a gold standard system; that is, the monetary authority should direct monetary policy towards stabilizing the tradeable-goods price at a constant level, thereby giving a nominal anchor for fixed exchange rates. This bold proposal is also unrealistic because it sees the only objective of monetary policy as ensuring stability of tradeable-goods prices and exchange rates, and furthermore it forbids monetary authorities from pursuing macroeconomic stabilization policies, including the achievement of full employment.

The third is Williamson and Miller's "target zone system." They propose to use monetary and fiscal policies to maintain the real effective exchange rate within a narrow band and at the same time to pursue macroeconomic stabilization. Although this proposal is more realistic than the previous two, it is not without problems. One difficulty is that it calls for stabilization of the real, rather than nominal, exchange rate. Since the authorities can adjust the nominal exchange rate parity, "one-way option" currency speculation based on anticipations of future parity changes can occur. Another problem is that the Williamson-Miller proposal urges the industrialized countries to adopt policies symmetrically, giving almost no incentive to the USA to stay in the target zone system. And if the USA were to remain asymmetric in its policymaking, Japan and Germany would have no incentive to maintain the exchange rates within narrow margins because they would end up importing possibly undesirable US macroeconomic policy.

*Yen Internationalization, Convergence and Exchange Rate Stability*

The Japanese yen has increasingly been used for international economic transactions by both residents and nonresidents. However, yen internationalization is extremely limited in comparison to that of the Deutsche mark and relative to the weight of the Japanese economy in the world. Though the external value of the yen has risen considerably, the money and capital market in Tokyo has not been growing. Indeed, the hollowing out of the Tokyo market is causing deep concern. The relative lack of yen internationalization is a product of regulations prevailing in the Tokyo market and has contributed to the continued asymmetrical role of the US dollar in the international currency market.

Yen internationalization has many advantages, including the reduction of exchange risks for Japanese traders, investors, and borrowers. There are two other advantages for the world economy. First, the world can choose from a wider menu of convertible currencies. Second, yen internationalization mitigates asymmetry in the world monetary system and puts pressure on the USA to pursue disciplined macroeconomic policies. Since the most important factor contributing to further yen internationalization is the

See MCKINNON, Ronald I., "Monetary and Exchange Rate Policies for International Financial Stability: A Proposal," *Journal of Economic Perspectives*, 2 (Winter 1988), pp. 83-103.

See WILLIAMSON, John and Marcus H. MILLER, Targets and Indicators: A Blueprint for the International Cooperation of Economic Policy, *Policy Analyses in International Economics*, No. 22 (September 1987), Institute for International Economics, Washington, D.C.

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*continued on page 19*



# Japan and the International Trade System

**ITÔ Motoshige**

*JAPAN'S* economic system is being shaken by movements in the international economy. The liberalization of agriculture under the Uruguay Round, and especially the relaxation of quantitative restrictions on imports of American agricultural products, is greatly affecting Japanese agriculture. Trade liberalization of services, the subject of bilateral Japan-US talks, has brought about great change in the Japanese service sector, particularly finance, construction, and retail.

The conclusion of the Uruguay Round has brought us to the next stage in the development of an international trade system. As it seeks to establish itself, this system enmeshes Japan on various levels: in bilateral negotiations with the US and the EU; in regional frameworks such as APEC; and now in the multilateral WTO.

Within this evolving system, an important question for Japan is how far trade can be liberalized in developing and newly industrialized economies. In particular, Japan is anxious to pursue trade liberalization in APEC, and to support China's affiliation to the WTO. The prospects of resolving these issues, which will also be raised in bilateral talks, seem fairly good.

The real problem is between the advanced industrialized countries, which show no signs of agreeing on what direction further development of the international trading system should take. Having already abolished import quotas and reduced tariffs in many sectors, the next subjects of reform include the harmonization of competition policy and government regulations, trade and investment, labor, and the environment. The thorniest of these problems are labor and the environment, which of course encompass developing countries too, and for the moment all we can do is watch developments concerning these issues within the WTO. The problems more immediately concerning the Japanese economy are competition policy and deregulation.

The Japanese economic system has changed greatly in the last ten years. The main causes of this systemic change have been the appreciation of the yen and the internationalization of the world economy. The relaxation of the Large-Scale Retail Stores Law under the Japan-US Structural Agreement; the deregulation of financial and securities markets; the strengthening of antitrust laws and the intellectual property system; the liberalization of agriculture; the introduction of a more flexible antidumping system: all these represent major changes in their respective sectors, and taken together they have resulted in a transformation of the structure of Japanese industry. The increasing overseas activities of Japanese enterprises and the sudden surge of imports, especially of manufactured goods, mean that Japan's role in the international division of labor is changing. Further progress in this direction will entail more adjustments in Japan's domestic economic structures.

The internationalization of the advanced industrial economies has gone beyond abolishing border restrictions. The issue now is how to harmonize national economic systems. Competition policies, regulations of various

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kinds, tax systems, and limitations on investment all differ from country to country and impede international competition and trade.

Changes in the world trading system will proceed simultaneously on three levels – bilateral, regional, and multilateral. Now that the multilateral Uruguay Round has ended, regional frameworks such as NAFTA, the EU, and APEC have become the powerhouse behind the development of the international trade system. How APEC functions from now on is therefore a matter of great importance for Japan.

Regional trade talks always carry some threat of regionalism and opposition to open trade. For the time being, however, regional talks seem to be stimulating international trade. This is because regional structures are competing with each other to liberalize trade, and because economic activity within each region is increasing (an effect known as “regional agglomeration”). In East Asia, rapid economic growth and the resulting expansion of investment and trade are pushing APEC forward. The challenge is to use this motive power to make progress on the above-described problem of coordinating national systems.

The effects of regional-level talks are not, of course, confined to that region. The EU has an interest in APEC, and NAFTA is affected by the development of the EU. The important point is how these regional developments fit into the global framework, and this is where much is expected of the WTO. The WTO’s task is to grasp accurately the significance of regional and bilateral developments for the global framework, and to prevent conflicts between regional and global trade arrangements. The WTO must also lead discussions on investment, competition policy, regulations, the environment, labor, and other issues critical for the further development of the international trade system.

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**James BABB** *University of Newcastle, UK*

December 5, 1995

### The Politics of Religion in Japan

Professor Babb examined the relationship between religious groups and political parties in postwar Japan. He suggested that Japan does not fit existing models of political-religious relations because the Japanese state has historically not taken a benign view of religious organization. His analysis of the Sōka Gakkai/Komeitō underlined its use of tactics similar to those of the Japanese Communist Party and its changing relationship with the LDP.



**Mary BRINTON** *University of Chicago*

December 15, 1995 [talk co-sponsored by the Dept. of Education, University of Tokyo]

### Married Women's Participation in the Economies of Korea and Taiwan

Professor Brinton claimed that differences in married women's employment between the two societies cannot be explained by labor supply conditions (women's education, pre-marital work experience, and fertility rates) alone since these are very similar in the two societies. Instead, attention should be paid to the intersection between labor supply and demand and, in particular, to the effects of government policies which have shaped the nature of labor demand.

## CONFERENCE Japan-US-Canada – Second Trilateral Symposium on Contemporary Problems of International Law

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# Sea Changes in Japan's Development Assistance

ONO Naoki

JAPAN is currently redefining her vital interests and identifying new policy priorities to cope with the emerging post-cold war system. One part of this reconsideration concerns the role of development assistance, which has been a major foreign policy instrument for more than four decades. In retrospect, the transformation of Japan's capacity for and use of development assistance has reflected both her changing position and role in the postwar bipolar international system and the evolution of the East Asian political economy.

## *From Aid Recipient to the World's Largest Aid Donor*

At the beginning of the Cold War in the late 1940s, Japan was not an aid donor but a recipient of foreign aid. When the US occupation ended in 1952, Japan was still recovering from the war and her economic, and especially export performance was very weak. The spreading of the Cold War to Asia with the outbreak of the Korean War in June 1950, followed by China's sending of troops into the Korean Peninsula in late 1950, virtually terminated Japan's trade with her most important prewar trading partner. Japan therefore had to look for alternative markets. Against this background, Japan's de facto foreign aid began in 1954 in the form of reparation payments to Southeast Asia. While Japan also started to provide technical assistance in Southeast Asia by becoming a formal member of the Colombo Plan, reparations were used as a lever to increase Japanese exports and to promote trade with Southeast Asian countries. This policy was in tune with American efforts to link Japan with the region and to help Japan's economic recovery after the loss of the Chinese market. Its primary function, in other words, was to boost the Japanese economy by promoting exports rather than to compensate for damage inflicted in wartime. Combined with official credits via the Export-Import Bank of Japan, this pattern of export-promoting tied aid continued until the late 1960s, by which time Japan had joined the OECD and its Development Assistance Committee and emerged as a major aid donor.

In the 1970s, Japan became the second largest economy in the West, recovered quickly from both oil crises and recorded huge trade surpluses. One result of this was that Japan's commercial interests-oriented aid posture became untenable. While a bias to Southeast Asia and an emphasis on loans continued to be distinctive features of Japanese development assistance, "burden sharing" became the key word in Japan's development assistance policy during the 1970s. Japan's first "aid-doubling" plan was announced in 1977 and aid to "front line" states such as Pakistan and Somalia was also expanded. In addition, development assistance was identified as a means of recycling Japan's huge balance of payments surplus, resulting in an increase in the proportion of untied loans. These developments continued during the 1980s, until in 1989, just as the Cold War ended, Japan became the world's largest aid donor.

During the Cold War, then, Japan went from aid recipient to the world's largest aid donor. Three features of Japanese development assistance, ↵



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*The opinions expressed here are the author's own and do not represent the views of FASID.*

## Sea Changes in Japan's Development Assistance *continued*

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however, persisted throughout this period. First, policies for extending development assistance or dealing with the North-South problem were based on the East-West confrontation. Japan's position and her aid allocation were thus primarily aimed at accommodating Western, and particularly US, interests. Second, although towards the end of the Cold War she began to seek a global role in development assistance, Japan's Asia-oriented aid allocation reflected her role as a major regional power in East Asia. Third, due to the constitutional constraints on the use of military forces overseas, development assistance was Japan's principle instrument of security policy, and was also used to further Japan's economic interests, in particular to secure natural resources such as oil.

### *Searching for a New Paradigm*

With the end of the Cold War, the bipolar world has started to change into a multipolar system, forcing Japan to reconsider how to use development assistance as a foreign policy instrument. While it remains uncertain what kind of multipolar international system will emerge, the following elements will be central to Japanese thinking on development assistance.

First, considering her constitutional constraints and the integration of the two countries' economic activities, it is vital for Japan to maintain an alliance relationship with the United States. Japan will, however, be expected to play a different role from that of the past 50 years. The United States currently has a vital interest in creating and supporting an international regime that fosters stability and growth. American foreign policy is thus increasingly concentrating on such issues as supporting transition economies in the former Soviet bloc and avoiding the intensification of ethnic conflicts. The North-South concept no longer applies in this new international situation.

Second, in addition to a changing global system, critical changes are taking place in Asia. In particular, many East and Southeast Asian nations are graduating from their developing country status thanks to their rapid economic development. This means that the primary recipients of Japan's development assistance will become non-eligible for assistance in the near future. Regardless of economic strength, however, East Asian countries will continue to be Japan's overriding foreign policy concern. Japan must therefore seek a different role as a major power in the region. Japan will also have to deal more with China as a regional power of increasing importance, and development assistance may not be the most effective means of handling this security concern.

Although development assistance will continue to be indispensable in humanitarian cases, most obviously in the least developed countries of Sub-Saharan Africa and South Asia, it is obvious from the above that Japan has to redefine the role of its development assistance under the emerging multipolar international system. Development assistance will no longer be a major factor in those areas of greatest concern to Japan's foreign policy, so

### Further Reading

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non-aid and nonmilitary measures will have to be emphasized more. In the case of ASEAN, forms of non-aid cooperation such as intellectual exchange will be increasingly required. Toward China, Japan will have to take more security-oriented measures, such as extending aid to India to counterbalance China's growing influence, expanding intelligence activities, and working out confidence-building measures. Meanwhile, participation in peacekeeping operations in the Middle East and other areas of ethnic conflict will be important for maintaining good relations with the United States.

To conclude, the evolving global situation means that development assistance will not continue to play the crucial role it has done in Japan's foreign policy, although it will remain a significant domestic political issue and budget item. International cooperation will be a more appropriate concept than development assistance for Japan's foreign policy, and development assistance will have to be integrated with other foreign policy measures. One precondition for the realizing of such a transformation is the administrative reform of aid-related institutions. To deal with these challenges, Japan's foreign policy making capacity, and especially her analytical capability which she was able to neglect during the Cold War, must be strengthened. □

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liberalization and strengthening of the Japanese financial industry, efforts to transform Tokyo into the world's leading financial center are indispensable. Since yen internationalization results in a multiple-reserve currency system, there is a danger of increased exchange rate volatility. To avoid the undesirable disturbances of currency substitution and the consequent exchange rate volatility, more active macroeconomic policy coordination is necessary.

To maintain a stable world economy, a system of stable exchange rates will be necessary, and macroeconomic convergence across countries is a prerequisite for this. The transition from the European Monetary System to Economic and Monetary Union will provide many lessons in this respect.

In our present situation, however, adoption of a single currency system for the world as a whole, or even for the industrialized world, remains a pipe dream. A move to a rigorous target zone system seems almost as unlikely. The most the industrialized countries can do is to attempt to smooth out exchange rate fluctuations through consultation, exchange of information, and ad hoc policy coordination including coordinated interventions in the currency market. Such a loose framework of policy coordination and macroeconomic convergence may set the stage for a more rigorous and symmetric arrangement of policy coordination and exchange rate stability. Japan must maintain a sound macroeconomic environment and further internationalize the yen. Given that Japan suffers greatly from large and wild fluctuations of exchange rates, it should lead the world in establishing a framework for policy coordination to achieve exchange rate stability. □

**Yen Rate Volatility**  
*continued*

# Japanese Environmental Diplomacy

**YONEMOTO Shôhei**



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FOR many Japanese, tackling environmental problems – and especially Asia’s environmental problems – is one area in which their country clearly can and should make an active contribution to the international community. Having overcome serious environmental problems of her own and almost completed a domestic program of antipollution and energy saving investments, it seems natural that Japan should transfer the resulting advanced environmental technologies to other Asian countries.

Aside from this generally held belief, there are other good reasons for Japan to play an active role in looking for solutions to the region’s environmental problems. First, as the evidence becomes conclusive that rapid industrialization in China and South Korea is responsible for the acid rain falling on Japan, it is in Japan’s national interest to work on measures to deal with this problem. Second, on the problem of global warming, the incremental costs of conserving natural resources rise exponentially, making it more efficient for Japan, which has become a relatively low resource consumer, to start diverting a part of her environmental spending to capital-poor developing countries, where the investments will have a greater effect. Such “joint implementation” measures are currently being examined at the Framework Convention on Climate Change talks. There are, however, several obstacles in the way of such policies.

“Environmental diplomacy,” in other words diplomatic activity to preserve the environment in a region that covers more than one country, grew up in Europe. Its first results were the Long-Range Transboundary Air Pollution Convention, and environmental protection treaties for enclosed waters such as the North and Mediterranean Seas. Several factors must, however, be in place for this kind of environmental diplomacy to work. First, the countries concerned must have the fiscal capacity and the social consensus to invest in the environment, and must have mutual relations mature enough to withstand frank discussion of each others’ shortcomings. In addition, a scientific infrastructure consisting of observation, computer simulation and other systems, is needed to provide an accurate picture of the problems being discussed. The lesson of Europe seems to be, therefore, that environmental diplomacy is something that occurs between advanced countries, and even then is by no means easy.

Seen from this perspective, the difficulties confronting Japanese attempts at environmental diplomacy in Asia are daunting. While Japan’s early economic development has given her the financial and technological means to support environmental policies in neighboring countries, precisely this imbalance in economic development makes such support difficult.

Even confining the discussion to East Asia, the region’s complicated history is reflected in a bewildering variety of political and economic regimes. There are the quasi-advanced economies of South Korea, Taiwan and Hong Kong, the enormous Socialist developing economy of China and its smaller neighbor North Korea, the liberalizing advanced economy of the Russian Far

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East, and the liberalizing developing economy of Mongolia. Plus, of course, the economic giant Japan. Given that environmental investment is greatly influenced by social values that are, in turn, largely dependent on the stage of economic development, it is small wonder that the heterogeneity of social systems in East Asia is reflected in equally divergent environmental policies. To give one example of the difficulties involved, many Japanese environmental policymakers argue that, because the substances that cause acid rain in Japan are being blown over from China, Japan should provide capital and technology to help China reduce its air pollution. There is certainly no doubt that China is suffering from severe air pollution. But it is one thing for the Chinese government to recognize this problem, and quite another for it to decide to accept large amounts of Japanese capital aimed at reducing acid rain.

Faced with this diversity of regimes, the problem for Japan is how to raise the priority given to the environment in the region without provoking a backlash against perceived interference in other countries' domestic affairs. The solution lies in increased levels of systematic research, which will make Japanese efforts to persuade other countries more effective, and in a readiness to accept the financial burden of environmental policies in the region. Although Japan is currently supporting many environmental projects throughout Asia, these efforts are not coordinated. A broad concept is needed to underpin all Japan's efforts in environmental diplomacy, one with a wider scope than the 1992 ODA Charter. One possibility would be an "Asian Environment Initiative" which would require any Japanese activity in Asia to give top priority to environmental protection.

As part of a broad redefinition of nonmilitary national security, Japan should accept that her military contribution to the international community will continue to be extremely limited, and instead make the solving of global environmental problems a pillar of her foreign policy. In the post-Cold War order, it is no longer unusual to consider environmental problems as part of national security strategies. Japan should therefore propose to its neighbors joint research and monitoring of the northern Pacific, which is currently a void as far as internationally coordinated environmental activity is concerned, and an observation system to track air pollution across the whole of East Asia. Japan should offer to fund these projects. As the research starts to reveal sources of pollution and the necessary measures to stop it, Japan will be in a position to offer environmental ODA to deal with specific problems.

In military diplomacy, confidence building measures generally entail the exchange of accurate information. Similarly, environmental observation systems such as those proposed above would not only contribute to Japan's own national security in the narrow sense, but would also lay the foundations for a new dimension of nonmilitary, noneconomic international relations which could help to reduce tension in East Asia.



# Japanese Labor Organization and Public Policy

Ehud HARARI

THE 1980s saw two related developments in Japanese labor policy and politics. One was the transformation of the structure of the labor union movement: the emergence of the moderate, pragmatic Rengô with a membership of about 8,000,000 (in 1995, 62% of organized labor), and two much smaller national centers, the Communist Zenrôren and non-Communist "radical" Zenrôkyô. This transformation followed the gradual dissolution of the former national union centers (Sôhyô, Dômei, Chûritsu Rôren, and Shinsanbetsu). The formation of Rengô in 1989 was heralded by its founders as the conclusion of a long, bumpy process of reunification of the labor movement and the beginning of a new era in organized labor's internal relations and its relations with employers associations, political parties and the state bureaucracies.

The other development was the increasing participation of labor leaders in formal, semiformal and informal forums of public policymaking and policy implementation. This trend was closely related to increasingly cooperative labor relations at the enterprise level since the mid-1970s. It also marked the confluence of, on the one hand, state bureaucracies' readiness to give a large, though selective, part of organized labor access to policy processes, and on the other hand, labor's choice to increase its participation in public policy processes.

These two developments raise six questions:

1. *What is the structure of the labor policy network?*
2. *What are the similarities and differences in the positions of union organizations and employers' associations regarding issues of labor policy?*
3. *Has Rengô evolved into a truly unified cross-sectoral (public-private), overarching peak association?*
4. *How far have Rengô and its affiliated industrial unions progressed in developing their independent research and policy analysis capabilities?*
5. *To what extent have Rengô and its affiliates participated in public policy processes, and how influential has their participation been?*
6. *How has labor participation in policy processes changed with the end of the Liberal Democratic Party's domination of the cabinet?*

The following are my tentative answers to these questions.

## 1. The Labor Policy Network

As Tsujinaka and Broadbent and Kume point out, the Japanese labor policy network centers around the Ministry of Labor (MOL), and the areas of labor policy are fairly clearly reflected in the internal structure of the MOL. As a result of recent changes in the structure of labor market and of labor-management relations at the enterprise, industry and national levels, however, we can see shifts in the relative power of MOL bureaus. The other components of the network are:

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- *Nikkeiren and other employers' associations;*
  - *Rengô, its affiliates, and a few industrial unions unaffiliated with any national center (Zenrôren and Zenrôkyô and their affiliates are conspicuously excluded from the network);*
  - *a few politicians, primarily former union leaders;*
  - *scholars at universities and research institutes.*

In addition, my research suggests that a select group of veteran journalists familiar with labor issues have also become part of the labor policy network.

## *2. Labor-Employers Policy Consensus*

Confluence of interests, changes in perceptions on both sides, and forums for joint consultation at the enterprise, industry and national levels have resulted in common positions on a variety of issues. There are differences, however, between the agreed positions of Rengô and Nikkeiren at the national level and the agreed positions of industrial unions and employers' associations at the industry level. Concerted efforts at cooperation have thus not eliminated all policy differences between labor and employers and between levels of organization.

## *3. The Unity of Rengô*

Although Rengô has continued to be the predominant national union center, it has not become as unified as its founders hoped it would. Despite the dissolution of the former national centers, structures of the former affiliates of both Sôhyô and Dômei remain. In some industries Rengô affiliates formerly affiliated with Sôhyô and Dômei have merged, and in some industries negotiations on mergers are under way, but elsewhere the pre-Rengô structure of separate industrial unions has persisted. Furthermore, the split of the national labor movement into two alliances of private and public sector unions that seemed possible in the early 1980s has not occurred, but there is a clear public-private cleavage within Rengô over such issues as deregulation. The privatization of major public corporations and national enterprises has papered over only part of this gap. All these internal divisions have limited Rengô's ability to speak authoritatively.

## *4. Rengô's Research Capacity*

Rengô leaders have been aware of the necessity to diversify their sources of information and to improve their policy analysis capabilities. Rengô has expanded its Research Institute for the Advancement of Living Standards (Sôgô Seikatsu Kaihatsu Kenkyûjo, Sôken) and the research units of some of its affiliates, and has contracted out research to organizations and individual scholars outside the labor movement. It has also established forums and study groups whose members include not only members of Rengô and its affiliates but also Diet members, leaders of employers' associations, scholars



and journalists. These forums and study groups resemble in their membership composition statutory and non-statutory advisory bodies established by the government, with one notable exception: LDP Diet members are excluded. Despite these efforts, responses to my survey suggest that Rengô still relies to a remarkable extent on information disseminated by or requested from the Ministry of Labor.

### *5. Rengô's Influence*

The largest national center of organized labor, Rengô behaves as if it were the sole representative of organized labor. This behavior is reinforced by the tendency of Ministry of Labor and other state bureaucracies to exclude the smaller national centers and most unaffiliated industrial unions from participation in policy processes. Contacts between MOL bureaucrats and non-Rengô unions are generally limited to the presentation of petitions by the latter to the former. There has been a marked increase in Rengô's participation in statutory and non-statutory advisory councils – most notably, but not only, in those formed by the Ministry of Labor – and in informal contacts between Rengô officials and bureaucrats.

Rengô has four publicly stated policy goals:

- (a) To acquire new rights and benefits of direct concern to its members*
- (b) To defend acquired rights and benefits*
- (c) To promote macro-economic policies with direct and indirect effects on its members*
- (d) To increase benefits to the unorganized and underprivileged.*

In decreasing order of Rengô's affirmativeness and influence, the goals can be ranged (a),(c),(b), and (d).

### *6. Union-Party Relations*

For five years after its foundation in 1989, Rengô seemed to be becoming a political force to be reckoned with. In addition to supporting candidates of the two socialist parties, it ran its own candidates in the 1989 House of Councillors elections and won 12 seats. Its leaders, especially former chairman Yamagishi, played a notable role in the movement for political reform, for example in establishing the so-called "Private Temporary Advisory Council on Political Reform" (Minkan Rinchô) in 1992. After decades of being identified with the losing coalition of union-socialist parties, in 1993 Rengô became a member of a winning coalition when the socialist parties joined a non-LDP, non-Communist cabinet. At that time Rengô seemed poised to orchestrate the emergence of a major new, broadly based pro-labor party.

By the following year, Rengô's bright prospects turned out to be a mirage. The two socialist parties (the Socialist Democratic Party of Japan and the Democratic Socialist Party) not only failed to bury their hatchets, but went in



separate and conflicting directions. The SDPJ formed a "bizarre" coalition cabinet with its tradition "enemy" the LDP and the small Sakigake party, while the DSP became a minor component of the opposition Shinshintô. With some of its members loyal to the SDPJ and some to the DSP, and humiliated in the July 1995 House of Councillors election, Rengô is currently licking its wounds. It is reevaluating not only its own role in politics, but also the role of labor unions in Japanese society, the relationship between union activities at the enterprise, industry, and national levels, and the role of regional and international union organizations. The current and former union leaders I have interviewed consider the current union-party relationship to be a temporary one, and hope for the formation of a major new party (probably in a three-party system) "favorable to labor and sympathetic to wage earners." In the meantime, under its new chairman Ashida Jinnosuke Rengô is focussing on strengthening its organization, seeking ways to reverse the decline in union membership, and urging its affiliates to cooperate with any politician favorable to Rengô's position, irrespective of party (with the exception of the Communists).

The socialist parties' participation in the Hosokawa and Hata cabinets has increased Rengô's sense of policy efficacy. While the SDPJ's participation in the Murayama and Hashimoto cabinets has facilitated continued access to policymaking, policy conflicts between the SDPJ-LDP-Sakigake coalition and the Shinshintô have at times forced uncomfortable compromises on Rengô. A prominent case in point is the passage in 1995 of the Family Care Leave Law (*Kaigo kyûgyô hô*). Faced with a choice of backing a Shinshintô bill identical to that Rengô had advocated for several years, and supporting a less favorable cabinet bill resulting from a compromise between the SDPJ and the LDP, Rengô sided with the latter in order to help the SDPJ remain in power.

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# China's Economic Reforms

TAJIMA Toshio

It is frequently said that China's current economic development was made possible by the economic reforms and opening of the economy to the world that took place in late 1978. According to the orthodox view, China's centralized economic system was formed in imitation of the Soviet Union in the 1950s, and during the Cold War the country pursued a strategy of economic development through import substitution. This strategy was changed by the economic reforms and open-door policies, which by allowing more diverse economic activities paved the way for the current rapid economic development.

The fact is, however, that since 1957 the Chinese economy has seen several waves of administrative decentralization and industrial deconcentration. Furthermore, the country's economic development from the mid-1960s onwards was not led by state-owned enterprises as envisaged in a Soviet-style centrally planned economy. Last but not least, the changes in external economic policy would have been impossible without the twin "Nixon Shocks" of 1971.

We cannot understand contemporary China's economic development without an understanding of this historical background. In particular, we must remember that the pre-1978 Chinese economic system contained elements, such as a non-state owned sector and decentralized industrial organizations led by regional governments, that were not to be found in the Soviet-style planned economy.

## *Departures from the Soviet Model*

China's first attempt to break away from a Soviet-style planned economy began in 1956 when Mao Zedong, Head of State and leader of the Communist Party, criticized the excessive development of concentrated, heavy industries. The following year Mao's criticisms led to reforms of economic planning, public finance, the distribution system, industrial government and other sectors. These reforms promoted decentralization and furthered the right of state firms to make profits. They also combined with the Great Leap Forward to overheat the economy, prompting recentralization in the early 1960s. Then in 1966 Mao launched the Cultural Revolution, bringing political and economic chaos to China. In the middle of the chaos, work began on the construction of self-sufficient regional economies. Steel, chemical fertilizer, cement, agricultural machinery, electricity generation and other heavy industries were set up in each county, and people's communes became more integrated with industry. These developments were further strengthened by fiscal decentralization beginning in 1970 which accelerated the breakup of industrial organizations and the development of locally balanced regional economies. Despite several ups and downs, this decentralized system still exists today.

An important background factor in the changes that took place in the early 1970s was the coming on tap of China's own oil reserves at that time, allowing China to export oil and to import large plants for petrochemicals,



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fertilizer, steel and other sectors. These imported plants eased the bottleneck in materials supplies to manufacturing industries, a vital precondition for the economic reforms and accompanying rapid economic growth of the late 1970s and 1980s.

### *Economic Reforms and Economic Growth*

From 1978 to 1984 agriculture was the engine of China's economic growth. After 1984 growth was driven mostly by industry, and particularly by non-state owned industry. The agricultural development that fuelled Chinese economic growth in the early 1980s is usually explained by the relaxation of price and distribution controls and by the shift from collective to individual farm management. The expansion of fertilizer supplies made possible by the importation of industrial plant in the 1970s, however, raised the quality of farm products. This improvement, along with the establishment of basic infrastructure under collective management, set the scene for the growth of agriculture. When it happened, this growth produced a surplus in the agricultural economy, thereby expanding the domestic market and ensuring the continuous development of rural industry. It also, by increasing the supply of agricultural products, increased the movement of labor between sectors and regions.

Non state-owned light industry replaced agriculture as the driving force behind the economy in the mid-1980s. Rural industry and foreign-owned factories in the coastal regions showed particularly rapid growth. Huge numbers of factories producing goods for export were set up by people of Chinese descent living in Hong Kong, Taiwan and other Asian countries. Especially after the Plaza Accords of 1985, the coastal region of China became an integral part of the dynamic East Asian economy.

The development of agriculture and the growth of the non-state owned industrial sector in the coastal region were clearly the direct and indirect results of the economic reforms and of the open-door policies. About half of total industrial production, however, was still accounted for by state-owned manufacturing industries, which had been the backbone of the socialist economy and which responded very sluggishly to the reforms. State-owned industries benefited little from structural reforms and deregulation, and in many cases were woefully inefficient.

On the other hand, industrial organizations that had been broken up under the decentralization reforms of the early 1970s were galvanized by the economic reforms that started in 1978. In addition to mainstay industries such as steel and motor vehicles, these state-owned enterprises moved to meet new demands created by the reforms such as consumer electronics. Locally controlled enterprises became able to import technologies from overseas, and arms manufacturers shifted to making civilian products.

The tendency of industrial organizations to break up has its origins not only in China's historically decentralized economic system, but also in the still relatively early stage of industrialization and in the inevitability of regional



markets due to transportation costs in this continent-sized country. The result of these limitations is that the market and market competition in China are incomplete.

State-owned basic industries in China, whether under central or local control, are monopolistic (or at least have the monopoly in that region), and subject to regulations and protection introduced under the planned economy. Small state-owned enterprises have benefited from both weak regulations and the protection of local governments to win growing shares of expanding markets. These enterprises are, however, very vulnerable in times of recession. This vulnerability in turn causes fiscal problems for central and local governments largely dependent on the taxes and profits of state-owned enterprises.

### *Economic Changes and Political Changes*

In June 1981 party leader Hua Guofeng gave way to Hu Yaobang. Hu Yaobang resigned as General Secretary in 1987 to take responsibility for the student unrest the previous year, and his successor Zhao Ziyang fell from grace in the wake of the Tiananmen square killings. This political instability was unquestionably related to changes in the economy: no fewer than three Party leaders fell from power while the economy was in recession.

Even more important from the point of view of the economy is that the Chinese economy has a pronounced tendency to overheat in response to reforms. Attempts to control overheating have caused hard landings, in turn provoking political upheaval. The reform and opening policies failed to address this structural problem.

The policy tools of macroeconomic management, in other words, are not functioning properly in China. This could be either because the mix of fiscal and monetary policies used in China is inadequate, or because the micro-level foundations which would enable the policies to work are missing. As has been argued above, while still a planned economy, the Chinese economy has for a long time been disassociating itself from a system of centrally controlled investment decisions. There is no clear distinction between national and local taxes, and central government relies greatly on redistribution of fiscal revenues from local governments. This means that the ability of central government to impose macroeconomic stability is weak. Furthermore, financial institutions are inseparable from local government. Local government and local government-owned industries are linked by personnel, fiscal and financial ties into close, mutually dependent relationships. As a result, in the 1980s local governments, whose first concern was to develop their local economies, tended to seal off local markets and introduce fiscal and monetary policies that went against the central government's macroeconomic policies. At that time the introduction of the market economy and the reform of state-owned enterprises were seen as the central issues of economic reform. But the necessary conditions for such

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reforms to succeed, such as the formation of a national market and the abolition of controls over and protection for state-owned industries, were never thoroughly established.

### *The Chinese Economy in the 1990s*

Economic reforms in the 1990s fall into four categories.

First, following wide-ranging price adjustments in the late 1980s, from 1992 onwards the fixing of prices and distribution by government was abolished. These changes, and other accompanying the October 1992 proclamation of the "socialist market economy," caused the economy to overheat once again. Although countermeasures succeeded in slowing down the economy, in 1994 the deregulation of crop distribution sparked off a wave of inflation. This classic "market failure" in an incomplete market caused policymakers to rethink the implications of the market economy for China.

Second, in some state-owned enterprises a shareholding system is being introduced to separate ownership from management. Self-management is currently the main issue in the reform of state-owned enterprises. Markets are also being introduced in raw materials, capital equipment and finance, and more recently in enterprise ownership, real estate, and labor.

Third, tax reforms were introduced in 1994 aimed at centralizing fiscal authority and systematizing intergovernmental fiscal relations. The main reforms consisted of clearer distinctions between types of taxes and fiscal activities, and the expansion of value-added and income taxes. The establishment of a national tax system is expected to loosen relations between local governments and enterprises, and to accelerate microeconomic reforms. The strengthening of the income tax on non-state-owned enterprises and on individuals promises to level the playing field for economic competition and to reduce differences in tax burdens.

Fourth, a diverse and competitive financial system is gradually being created. The Chinese Peoples' Bank is being turned into a central bank, finance for government policies is being separated from commercial finance, and securities markets, credit cooperatives and all kinds of trust funds are being set up. This developing financial market, along with the decreased availability of public financing, is accelerating the de facto privatization of state-owned enterprises.

Although many problems remain, the systemic reforms carried out in the early 1990s represent a major step towards a modern market economy. China still needs time to complete its break with the planned economy, and it is inevitable that the transition to a market economy will be accompanied by further economic and political upheaval. It is thus difficult to be optimistic regarding the way ahead for the Chinese economy. On the other hand, if steady economic growth can confer benefits on enough citizens, instability may not degenerate into political chaos.

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# Urban Land Law in Japan

**HARADA Sumitaka**

JAPANESE cities face many problems as they attempt to secure good accommodation and a pleasant living environment for their inhabitants. The negative images of life in Japanese cities reflect these problems: citizens forced to wear masks because of the pollution; workaholics living in rabbit hutches; commuters packed like sardines for hours on end; the list goes on. The bubble economy of the 1980s added to the problems of urban workers by causing land and housing prices to soar. And as if all this were not enough, the Kobe earthquake of January 1995 exposed the physical vulnerability of modern Japanese cities.

A large proportion of these problems are attributable to the urban planning, land, and housing policies pursued during the period of high economic growth. The legal systems supporting those policies differ in many respects from equivalent legal systems in America and Europe, and these differences can also be traced back to the high economic growth period. The Urban Land Law Research Group incorporates this comparative approach in its analysis of the characteristics and problems of Japan's policies and laws for its cities.

In order to do this we have developed the conceptual framework of "urban land law." In each advanced capitalist country, the rapid urbanization caused by economic growth has given rise to complexes of policies and laws regarding all aspects of "urban formation." We see these complexes as having the potential to form a more or less coherent legal system.

The development of these policies and laws originates in the paradoxical fact that land, which is the common physical space in which citizens live and act together, is compartmentalized and made the object of private, individual and monopolistic ownership rights. This being so, if the development and expansion of urban areas were left exclusively to the market principle, urban growth would take place according to the principles governing the exchange of land commodities, which are the physical embodiment of free property rights. Urban land use would be decided mainly on the basis of economic profit and economic efficiency. Housing, the environment and amenities would inevitably suffer. The starting point for our research is, therefore, the conviction that there is a need for a legal system that enables us to control the formation and utilization of urban space from the point of view of society as a whole and not only that of the economy.

Urban land law is based on the principle of controlling urban development rather than leaving it to natural growth based on the market principle. It seeks a balance between market efficiencies on the one hand and citizens' demands for a good living environment on the other. In Japan, however, the administrative and legal mechanisms for pursuing citizens' demands are woefully inadequate. This inadequacy is, in our view, one reason for the problems currently faced by Japanese cities.

Our research has two focuses: first, detailed empirical analysis of urban land issues in Japan; second, comparative research with the United States, Germany, France and the United Kingdom. Our book *Gendai no toshihô*

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elaborates on the approach outlined above and presents our findings to date. In order to compare countries with differing legal and administrative structures derived from their respective legal traditions, we looked for common features and divergence in categories including:

- *the historical development of urban land law and its foundation in legal theory;*
- *institutional and administrative structures of urban planning;*
- *legal conceptions of property rights, including building rights;*
- *systems of developing land and establishing infrastructure, and systems for public intervention in property;*
- *urban land-related tax and public finance systems, including the treatment of profits from development;*
- *housing policies and their relationship to overall urban planning structures.*

The wide range of disciplines and areas of expertise embodied by our group members makes this rather ambitious research project feasible (see box).

Our current focus is on defining a legal system which would put Japanese citizens truly in control of the development around them, at a time of ongoing decentralization and deregulation. Research on similar issues in other countries provides a valuable point of reference in this task. We hope to bring our findings together in two or three years time under the provisional title *Japan's Urban Land Law: Its History, Current Status and Future Challenges*.

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#### The Urban Land Law

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# Economic Cycles, Law, and the Right of Property: The Land Bubble in Japan

Vincent RENARD

**MAINSTREAM** economic theory, in other words neoclassical general equilibrium theory, relies on a set of strong assumptions that do not fit easily with the characteristics of land and property markets (such as atomicity, divisibility, externalities, and transaction costs), and do not help very much in devising sound land policy. The mixed character of land, which is at the same time a private and a public good, is part of the explanation.

Land has also been a constant source of difficulties for lawyers trying to achieve a balance between Civil Law and Public Law. While the former aims to secure the guarantee of property as it is usually defined in the Constitution, the latter is more preoccupied with protecting the public interest as defined by urban planning, zoning, and taxation devices intended to recoup "unearned" increments in land value ("betterment recoupment").

Over the last decade land and property markets in many countries have witnessed a "bubble" phenomenon. "Bubble" in this case means that prices of land and property have been soaring at a rate unrelated to the "fundamentals" of the economy, namely incomes, the consumer price index, GNP or interest rates. These price rises have had serious consequences for urban development and housing as well as for wealth redistribution. They also raise questions about the validity of current urban land management policies.

In Japan, the land bubble has been particularly acute. Land prices, already very high in real terms, more than doubled in greater Tokyo between 1986 and 1988. Prices in other main urban areas, notably Osaka, then followed suit. These soaring land prices have had a series of (mostly negative) consequences. The first has been an increase in house prices that has made it more difficult than ever for households to find an affordable dwelling within reasonable commuting distance.

A second consequence, shared by several European countries including France and Great Britain, is an oversupply of office space. The rate of vacancy in office space in greater Tokyo is currently estimated at about 10% and rising. The reclamation of land in the Tokyo Bay Area and the relocation of the capital city out of Tokyo are much talked about, but offer no immediate solution to the city's land problems and could result in even more empty offices.

Japan's boom-bust cycle has also resulted in a global financial crisis, the true proportions of which are now being revealed. The amount of "bad loans" in Japan, according to the commonly accepted criteria, is currently estimated at between 40 and 80 trillion yen. This is about the same size as the national budget (71 trillion yen in 1995). The collateral for a large part of this "bad debt" is land, the price of which has been falling sharply for three years. The widespread acceptance of land as a collateral for loans, a practice supported by the socially accepted "land myth," seems specific to Japan. It partly explains why the economists, lawyers and politicians offering analyses of and remedies for the situation, are broadly split into two groups.



The first group argues that an ongoing decline in land and property prices poses a threat to the financial system and the economy at large. The government should therefore use every means available, including taxation measures and deregulation, to revitalize these frozen markets (the number of transactions is not even a half of what it was fifteen years ago).

The second group suggests that more structural reform is needed to escape the risky and damaging linkage between land values and the overall financial system. Reforms should aim to bring land and property values into line with basic economic variables such as incomes and consumer prices, and in the process bring Japan's situation into line with that of comparable countries.

Such reform would not only require changes in the economic and fiscal statutes regarding land. It would also – indeed mostly – require a rethinking of the role of land in society, including a redefinition of the right of land ownership.

This problem is a challenge for the social sciences, inasmuch as it concerns economics, law and political science, and also some aspects of sociology.

The very notion of the “bubble” is still unsettled. Japanese economists – all offering empirical evidence – are divided as to the nature of the recent economic cycle, and therefore about the public policy measures that should be applied.

Another key issue is the impact of deregulation – commonly accepted as a priority in public policy – on the operations of land and property markets. Closer cooperation between economists and lawyers should help us to understand the relationships between various public policies, their consequences, and their possible side-effects.

Japan's current land problems are ultimately sociopolitical, rooted in the historical role of property. Studies of the land bubble need to address the question of how Japan has progressively generated a specific balance between various public and private interests vested in land use.



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## **Petitions and Royal Authority**

*- An Intellectual History of Sovereigns and Subjects in Korea and Japan*

**HARA Takeshi** (Research Associate, Institute of Social Science)

*Asahi Shimbunsha, March 1996. Price 2,600 yen.*

*Jikiso to Ōken explores the development of political thought in the Korean dynasty from the 18th to the 20th centuries, and compares it with Japanese political thought during the same period. The book also examines the influence of the Japanese colonialization of Korea on political thought in the two countries.*

# Mark Tilton **Restrained Trade**

## **Cartels in Japan's Basic Materials Industries**

Ithaca & London: Cornell University Press, 1996

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### **Reviewed by HIWATARI Nobuhiro**

*KEIRETSU* and *dangô* have entered the political economy lexicon, and it has become a cliché to say that collusion is common among firms, industries, and between the state and industry in Japan. Will such practices wane in the face of international competition? According to Mark Tilton, collusion is still alive and well in basic industries, despite price inefficiencies and increased international competition.

This well researched and carefully written book provides the first detailed account of interindustry collusion in Japan. Its rich and original accounts of Japanese market practices equip us for an analysis of whether institutions and practices are changed by internationalization and structural adjustment.

#### *Key Points*

Tilton's main points are as follows:

1. Against prevailing theories, which contend that Japan successfully abandoned declining sectors by using cartels to cut back capacity without restricting imports, Tilton argues that basic materials, as declining industries, retained high domestic prices without significant increases in imports due to cartels and long-term interindustry relational contracting. MITI supported cartels and relational contracting because it valued secure domestic supply of basic materials more than efficiency in depressed industries.
2. The necessary conditions for interindustry relational contracting are (a) industrial concentration in the basic materials industry, (b) a "technological hook" which allows them to refuse supply of high-quality materials to those who decline to purchase overpriced goods, and/or (c) downstream cartel or import protection. Interindustry collusion is also facilitated by state support of informal cartels and import protection, product standardization, low dependence by downstream industries, and a past history of collaboration.
3. The argument is derived from four cases (aluminum, cement, petrochemical, and steel), but the book shows that the conclusions are applicable to other basic materials. Such basic material industries were at one time or another subject to laws (initiated in 1978 and revised in 1983 and 1988) to facilitate structural adjustment of industries hit by either the oil crises, the rapid appreciation of the yen, and/or competition from developing countries. At the core of all these programs (despite diversity) were cartels to reduce production capacity (induced by low-interest loans and tax exemptions), joint-sales arrangements, and price support.
4. The aluminum refining industry is an exceptional case in which lack of buyer cartels and technological hooks caused it to shut down. MITI guided the replacement of domestic supply by Japanese-owned capacities overseas by negotiating capacity reduction, encouraging refiners to invest overseas, and discouraging spot-market imports of completely foreign ingots. In the other three cases, MITI sponsored capacity-cutting cartels and organized

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trade associations and/or joint-sales companies, while industries devised collusive practices to reinforce relational contracting. In cement, these practices took the form of refusal-to-deal agreements between cement and construction trade associations, whereby both parties agreed on exclusive trade for the sake of stable supply, and harassment of Korean firms by longshore and trucking companies and MITI until Korean suppliers were co-opted into the cartel ring. In petrochemicals, collusion consisted of vertical integration of production by pipelines and agreement with downstream users. Downstream users (such as automobile, electronics, and detergent) accepted industry-wide cost-based pricing in order to encourage supplier investment in finely differentiated products and to maintain reliable supply, and because they could influence interindustry prices. Finally, steel companies had technological hooks by which they could retaliate against downstream users for switching to imported steel by refusing to buy their machinery and/or to supply high-quality products, in addition to cost-based pricing. The result in all three cases – which are clearly and convincingly presented by Tilton – was high domestic prices.

### *Assumptions and Questions*

Tilton's basic assumption is that without interindustry collusion and state sponsorship of such practices Japanese markets would have been flooded with crushing volumes of imports because of the price difference between interindustry pricing and imports. Failure to use market signals for industrial restructuring kept the basic materials industries inefficient. The book raises several important questions about the rationality of interindustry collusion.

1. Except for periods of formal recession cartels, domestic prices have been about 30-50 percent above import prices. (1) Is this still overpriced when we take into account security of supply, assurance of quality, efforts to cater to the particular needs of individual buyers, and other merits of long-term relationships? (2) What do import and interindustry prices reflect? If Japanese firms are willing to dump temporary surplus abroad, the same could be true of foreign suppliers exporting to Japan, since basic materials are mostly for domestic consumption even in developing countries. Also, if steel companies gave discounts to the shipbuilding industry, they might have done the same for their long term clients without telling their competitors. If the rationale for industry-wide price agreements is to prevent companies from undercutting their competitors, do such prices reflect actual business (and can we trust interviewees who say they do)?

2. Do high domestic prices necessarily indicate a failure to rationalize inefficient industries? All the industries examined have cut both capacities and employment by means of recession cartels. The lack of information on what the "affordable" price gap between domestic and international prices is in long-term contractual relations, on the temporary effect of yen

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appreciation, and on the impact of international price fluctuations makes it difficult to judge the extent to which cartels and relational contracts hinder rationalization (see Hong W. TAN & SHIMADA Haruo, *Troubled Industries in the United States and Japan*; London: The Macmillan Press, 1994).

3. How effective are contractual relations in committing downstream industries to buy domestic products? The steady increase in steel imports and the implicit threat of "going imports" by buyers in negotiating interindustry prices seem to indicate that export industries will keep buying domestic only as long as benefits of long-term relations offset domestic price-fixing. Thus domestic (e.g. construction) and export sectors may differ in their capacity to support "relational prices."

### *Cartels and the International Political Economy*

Mark Tilton's book is a major contribution in answering two questions at the cutting-edge of comparative and international political economy: (1) Will increased integration of the world economy diminish differences in national institutions and patterns of adjustment? And (2) to what extent can the world system of "embedded liberalism" — in which states have to balance conflicting demands of domestic welfare and multilateral free trade — tolerate different political economies? Clearly, the Japanese pattern of adjustment has involved not only rationalization of production capacity but also redeployment and retraining of workers. This is in sharp contrast to the "reactive" case of the US where emergency import relief measures and voluntary export restraints were employed after firms were hit by imports, and where trade adjustment policies for workers were implemented separately without firms/industries being consulted as the nexus of adjustment (See TAN and SHIMADA).

Tilton also provides insights on the future implications of collusive adjustment. He indicates that the crucial issue is whether the price gap between domestic and international prices remains beneficial to both upstream suppliers and downstream buyers. Especially important, it seems, is the degree of competition in downstream industries and/or whether they are export-oriented. On the other hand, collusive practices might be internationalized by foreign firms being brought into domestic cartels — such as the examples of Korean cement firms or Proctor & Gable — or into the informal international cartels that exist, for example, between Korean and Japanese petrochemicals, steel, and shipbuilding firms, (according to comments made to the present reviewer by Suzuoki Takabumi, editor & former Seoul Bureau Chief of the *Nihon Keizai Shimbun*), or again by shifting inefficient production processes abroad as in the case of aluminum. Also, the degree of convergence to market-led adjustment might differ significantly according to industries, basic materials for domestic consumption being the most insulated from international trends. Thus sectoral differences, as Suzuoki also pointed out, might become more prominent than national differences.

The effects of international pressure on collusive adjustment also seem ambiguous. Tilton expects further US pressure to open construction markets and strengthened antimonopoly law, if implemented, to loosen interindustry ties. On the other hand, past demands by US government, such as increases in public works spending after the two oil crises and the rapid yen appreciation, and voluntary export agreements, ironically, should have helped Japanese construction and automobile firms to collect rents that allow them to maintain their cartels and to afford expensive domestic materials.

Some readers may be tempted to use Tilton's provocative findings as ammunition with which to denounce Japanese trade practices, but they should be careful: this book is no cheap exposé. *Restrained Trade* is a truly valuable springboard to future research.



## Further Reading

Judith GOLDSTEIN (1993): *Ideas, Interests, and American Trade Policy*. Ithaca & London: Cornell University Press.

Gary Clyde HUFBAUER & Howard F. ROSEN (1986): *Trade Policies for Troubled Industries*. Washington D.C.: Institute for International Economics.

Robert Z. LAWRENCE & Robert E. LITAN (1986): *Saving Free Trade: A Pragmatic Approach*. Washington D.C.: The Brookings Institution.

Robert M. URIU (Forthcoming Summer 1996): *Troubled Industries: Confronting Economic Change in Japan*. Ithaca & London: Cornell University Press.

Steven K. VOGEL (Forthcoming Summer 1996): *Freer Markets, More Rules: The Paradoxical Politics of Regulatory Reform in the Advanced Industrial Countries*. Ithaca & London: Cornell University Press.

Leonard J. SCHOPPA Jr., (Forthcoming): *Bargaining with Japan: What American Pressure Can and Cannot Do*. New York: Columbia University Press.

Ronald DORE & Suzanne BERGER, eds. (Forthcoming Spring 1996): *National Diversity and Global Capitalism*. Ithaca & London: Cornell University Press.

Robert KEOHANE & Helen MILNER, eds. (Forthcoming Summer 1996): *Internationalization and Domestic Politics*. Ithaca & London: Cambridge University Press.

NEW BOOK

## *The Establishment of the Japanese Constitutional System*

**BANNO Junji** (Director, Institute of Social Science) **Translated by J.A.A. Stockwin**

Nissan Institute / Routledge Japanese Studies Series. December 1995. Paperback.

For more information see the Routledge OnLine Catalogue at <http://www.routledge.com/routledge.html>

# David Williams *Japan and the Enemies of Open Political Science*

London: Routledge, 1996

Reviewed by Andrew DEWIT

DAVID Williams' second book-length challenge to social science's Eurocentricism is a must-read, both for those who value area studies and those who do not.

The text is a treat to read in a discipline where style is often an afterthought. And Williams' eloquence is matched by his erudition, his argument being informed throughout with the ideas of Comte, Kant, Marx, Popper, and other thinkers seldom seen in political studies of Japan. Their works are Williams' podium to proclaim the need for a robust area studies to tell the story of 20th century Japan, a civilization comparable to ancient Greece, the British Empire, and the American Republic. There is much meat in this, and plenty of fireworks, too, in Williams' withering critiques of positivism and the guilt-ridden contradictions of political correctness.

Blasting both positivism and political correctness is necessary. The former is the obdurate heart of Eurocentrism, the scientific mind-set that clings to its positivist faith even in the face of gales of contrary empirical evidence. Commanding the citadel of this scholasticism are, to use Said's phrase, the "recycled Orientalists" of neoclassical economics, whose dogma has repeatedly thwarted a proper interpretation of Japan. Williams indeed accuses the 1980s recrudescence of Anglo-Saxon orthodoxy of having forced, within Japanology, a retreat from Chalmers Johnson's revelation of MITI's role in the Japanese Miracle. Calder, Friedman, and Samuels - fearful at the sight of the reanimated Smithian corpus - fled rather than carry Johnson's torch forward to shed more light on the new world of industrial policymaking.

To transcend Eurocentrism one must know it, as Fanon did, implicitly. Political correctness, with its anti-literate zeal to incinerate the canon of European thought, is thus a mere gutter flowing backwards into a swamp of mediocrity. Abandoning strict academic standards cheats in particular those who are not the "us" of the European tradition, as it denies them the challenge to match the manifest greatness of Plato, Hegel, Smith, and other so-called "dead white European males." Nor is this problem confined to the peevish victimology so popular and corrosive to truly critical thought on North American campuses. Social science must also step past the distractions of evanescent post-structuralists and others whose methods render them incapable of understanding Japan's postwar accomplishments.

Wary of positivism and trendy dismissals of canonic thought, where is Williams' would-be chronicler of Japan's greatness to turn? A bedeviling difficulty in the quest to express Japan's triumphs is the absence of indigenous first-rank work in political philosophy and political economy. "Japanese culture is caught in an imprisoning 'now-ism' (*genzai-chūshin*), a stultifying immanence of the spirit" that provides poor soil for nurturing a classic. Williams makes this point repeatedly, but suggests that List's work on mercantilism is a useful "proto-canonic text." Moreover, of fundamental importance is the scholar's grasp of "his" (Williams refuses to police his pronouns) position in History and a full-blown "anthropological" and empirical engagement with Japan.

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Possessed of the requisite skills, and with List's text in hand, the student appears set to herald Japan's world-historical significance and, as a corollary, cleanse the positivist corruption from political science. Yet what makes Japan, the cyclic darling and dunce of the business journals, such a potentially paradigmatic shock to a complacent Western tradition? The answer, it seems, is found in the economic miracle's superlative expression of List's mercantilist statecraft. Industrial policy is the terra firma on which to battle the orthodoxies of Eurocentrism, and thus Calder and others' unwillingness to defend the thesis of bureaucratic dominance was an act of desertion. Similarly, John Campbell's wise remark that "there is more to Japan than industrial policy" receives a quick slap of criticism, though elsewhere his "methodological pluralism and empirical practicality" come in for a fair measure of praise.

After Williams' many thoughtful pages on the work of great minds, one feels hopelessly plebian in suggesting the book ought to examine in more depth Japanology's distinctly pluralist turn after the oil shocks. The sociology of knowledge approach that implicates neoconservatism in this development may yet be half right, but there were important indigenous features highlighted in, say, the "patterned pluralism" of Krauss and Muramatsu. Unlike the tendentious agenda of the principal-agent school, such hyphenated pluralists did not deny the significant role of bureaucrats in Japan's postwar political economy; they instead offered more flexible models through which to incorporate a host of empirical observations of shifts in the character of Japanese policymaking.

Another issue that Williams never adequately confronts, though it flits a few times through the text, is the fact of rapid economic growth in many parts of Asia, and not just Japan. Williams notes Robert Wade and others' assertions that the institutions of rapid East-Asian growth contradict the holy writ of neoclassicism. Thus if merely violating the dogma of Adam Smith's descendants merits a place alongside Athens, then perhaps modern Malaysia and Singapore and their noisy authoritarian elites have to be included as well. But if paradigmatic significance lies in the governance of Japan alone, then we had best pay more heed to Campbell's close empirical approach guided by a deliberate contest among methodologies. Campbell's strong interest in research on organizational mission - including a nuanced reading of Johnson's masterful study of MITI - fosters empirically robust works that foil the rational choice threat to decree the methodological equivalent of Gresham's Law in Japanology. Such works also promise to uncover, in the institutionally thick ties among Japan's economy, state, and society, the hard evidence for a decisive canonical challenge to Eurocentrism.



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# Big Government, Small Government, and Public Welfare in Japan

*52nd Annual Conference of the Japanese Association of Public Finance  
Scholars, Okayama University, 22-23 October, 1995*

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**SHIBUYA Hiroshi**

AT a session of the JAPFS Annual Conference in Okayama last October Nishimura Shôzô of the University of Kyoto – Japan’s foremost expert on medical economics – gave a presentation entitled “Old People’s Welfare Costs and National Health Insurance.”

Nishimura discussed the possibility of bringing down the overall cost of welfare for the aged by reducing “social hospitalizations” of old people and shifting to subsidized home care. Social hospitalizations, meaning the admission of people to hospital not for medical reasons but because they have nobody at home able to look after them, are paid for by the “health insurance for the aged” scheme (*rôjin hoken seido*), which is part of the social insurance system. The principal way of reducing the overall cost of welfare for the aged is to increase the incentives for local governments to pursue savings. Although reductions in expenditures under the health insurance for the aged scheme also greatly reduce the burden borne by the welfare insurance system, at present the overall effect is not necessarily positive for regional public finances.

As the discussant, I raised three points in response to Nishimura’s presentation:

1. In order to minimize the welfare costs of society as a whole, in other words to reduce the “suffering” (i.e. opportunity costs) of those paying, it is necessary to produce accurate estimates of demand for welfare services and to plan efficient supply of welfare services. To meet demands better met by low-cost home care with expensive hospitalization is inefficient. Reforms to reduce such inefficiencies are, of course, made more urgent by the ageing society.

2. From a wider perspective, there is the problem of the public and private sectors. If both demand for and supply of hospital treatment and home care are handled by the private sector, the principle of market competition works on the supply side to produce efficiency. On the demand side, the wealthy buy the services they want, but the less well off are often only able to afford unsatisfactory services, a situation rather unbecoming of a self-proclaimed welfare state. How should the contemporary welfare state solve this highly subjective and elusive problem of “dissatisfaction” with welfare services? The answer is that market mechanisms, unfettered by politics or government, already arbitrate between satisfaction and dissatisfaction with welfare services. Those on the demand side decide whether to buy old-age care, to spend money on their children’s education, or to leave money to their heirs; in other words, they select the area in which they will be dissatisfied.

However, there are limits to the amount of dissatisfaction people will endure, and there is a social consensus about the minimum acceptable level of public protection. Basic treatments must be provided for all illnesses, no matter how expensive to treat. More comprehensive treatments should be provided at the patient’s expense. The public authorities therefore have to be



able to make accurate appraisals of the costs of particular treatments. Nishimura offered a rational method for achieving such an appraisal.

(3) Nishimura's presentation raised two questions. First, does Nishimura intend to make "big government" more efficient, or to move to "small government"? In other words, is he aiming to improve and thereby maintain a system under which, in principle at least, all welfare demands are met by the public sector? Or is his purpose to create room for market forces, increasing the burden of welfare costs borne privately by moving the care of old people from "social hospitalization" covered by social insurance to subsidized home care?

Second, how does the problem Nishimura raises of the gap between welfare savings in the public sector as a whole and savings by regional governments look from the wider perspective of reducing the welfare costs of society as a whole? Shifting from social insurance-funded hospitalization of old people to home care systems provided by regional governments certainly produces savings for the public sector as a whole, but home care in urban areas where land and commodity prices are high is expensive, while moving patients to rural areas reduces costs to society as a whole. Rather than the central government enforcing such movements, the problem should be left to market mechanisms. The consumers of services, if aware of lower prices in rural areas, can choose between levels of care, leaving money to their children, and other options.

In his reply to these comments, Professor Nishimura emphasized that, if provided with information on welfare services, those paying for welfare will agree on a "high-cost, high-welfare" state for the 21st century.

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## **Changing Welfare State Systems in Japan and the US**

*August 30th 1996, ANA Hotel, Washington, D.C.*

*Papers by:*

Shibuya Hiroshi (University of Tokyo)  
Nakahama Takashi (Otaru University of Commerce)  
Imura Shin'ya (Otaru University of Commerce)  
Tateiwa Juichi (Tokyo Agricultural University)  
Jane Knodell (University of Vermont)  
Marshall Blume, (University of Pennsylvania)

Lance Liebman (Columbia University),  
David Gustafson (PBG)  
Jane D'Arista (Boston University),  
Akiyama Yoshinori (Shiga University)  
Mark Roe (Columbia University)

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**CONFERENCE**

# Contemporary Japanese Studies in Social Science

*International Conference in Berlin, December 5-7, 1995*

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**Wolfgang SEIFERT**

**THIS** international conference, organized jointly by the East Asian Institute of the Free University of Berlin, Tokyo University's Institute of Social Science, and Oxford University's Nissan Institute of Japanese Studies, brought together 12 speakers and 10 commentators from Denmark, France, Germany, Hungary, Israel, Japan, the United Kingdom, and the United States, and 15 other participants. The driving force behind the conference was Professor S.J. Park of the Free University. The conference had three sections, each with four speakers: politics and government, labor and labor relations, and economy and management. The range of subject matter was wide, which allowed specialists to think about links between their work and less familiar fields. For me, this was the most attractive aspect of the conference. Unfortunately, time was too limited to allow comprehensive discussion of the papers.

One weakness of many conference papers on Japanese politics, society and economy is that they do not explore the historical roots of the phenomena they are investigating. This lack of an historical dimension gives a distorted view of contemporary Japan. At the Berlin conference, however, this danger was avoided by the presentation of two reports on the development of democracy in prewar and postwar Japan by J. Banno (Tokyo) and A. Stockwin (Oxford). E. Harari (Jerusalem) then focused on the relationship between governing and the ability to acquire policy-germane knowledge. Harari explained the difference between expertocracy and technocracy by referring especially to the role of the *zoku giin*. K. Kase (Tokyo) analyzed the characteristics of the behavior of the Japanese bureaucracy in international negotiations on agricultural trade.

I. Lenz (Bochum) dealt with technology, employment and gender, while M. Osawa (Tokyo) analyzed the views taken by Japanese scholars of labor and social policy, in particular K. Okouchi, regarding female work and the role of women in society. "Gendering work overlapped with gendering welfare" was identified as the theory behind social policy up to 1995, when for the first time a shift took place. Osawa's report was very stimulating in its combined analysis of theoretical developments and policy formulation. For M. Nitta (Tokyo), no substantial changes have occurred in the structure of labor-management relations in recent years, notwithstanding the lengthy recession. In Nitta's view the argument that Japanese employment practices are disintegrating is based only on isolated episodes. But if that is really the case, how does one explain the ongoing debate in Japan on changing structures in the employment system? Why are even some Japanese managers discussing modifications to the status quo? I found no convincing answers in Nitta's report. The paper given by W. Seifert (Heidelberg) examined positive and negative aspects of the role played by Japan in the early 1990s *Standort Deutschland* debate on Germany's economic competitiveness. Seifert pointed out the paradox that, when many German commentators finally recognized the strength of the Japanese economy, it

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was precisely that recognition that once more produced a distorted image of Japanese realities. Amidst the German recession, people were looking for an outside "model" which had, by definition, to be a positive one, and therefore could not be realistic.

M. Ikeda's (Tokyo) report on the plans of the Japanese auto industry to reduce costs by 30 percent by transforming the subcontracting system pictured these new developments as elements of a lean production system "in its true meaning." It was obvious from Ikeda's presentation that the new, truly lean system would entail a much heavier work load than before. Where, suddenly, was "human-based" Japanese management? T. Abo (Tokyo) presented a very complex picture of global diffusion of the Japanese production system. He carefully examined the conditions under which Japanese companies transfer production systems to their subsidiary plants abroad. One of Abo's conclusions was that Japanese industries have been losing their competitive edge within national borders, but that management and production systems have been spreading rapidly throughout the globalizing economy. In my opinion, we should be doing more research on the social effects of that diffusion. M. Kenney's (Davis, California) paper did not share the view of a Japanese economy fundamentally shaken by financial crisis, since "the microlevel determinants of Japanese success remain as robust as ever." Kenney's claim requires careful empirical analysis. We read many reports of changes in the way Japanese salarymen are thinking. It may well be that these reports are true, but that the change in attitudes is failing to be turned into pressure for change by organized interests. The underlying work ethos of employees, in other words, could be changing under the surface.

Perhaps the most interesting report of the conference was given by R. Boyer (Paris) who was the only participant to try to analyze particular problems in the Japanese political economy from the perspective of the whole of society. While his use of regulation theory to analyze possible means of recovery from the current recession in Japan can be disputed, his paper highlighted the need for comprehensive approaches. Otherwise we will surrender to complex reality, forsaking the identification of structures and institutions in need of reform and taking refuge in details.

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**CONFERENCE**

## **Agricultural Economics Society of Japan 1996 Annual Meeting**

*April 2nd and 3rd 1996, Tokyo Institute of Agriculture (Tokyo Nôgyô Daigaku)*

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1-1-1 Sakuragaoka, Setagaya-ku, Tokyo 156  
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announcement and call for papers

# Social Science Japan *Review*

The Institute of Social Science is revitalizing its English journal by inviting papers from scholars around the world and by adopting a referee system. To reflect the new character of the journal, the title will be changed from *The Annals of the Institute of Social Science* to *Social Science Japan Review*. The journal will publish original papers on social science issues related to modern Japan, including comparative work and studies of international relations involving Japan. All disciplines in the social sciences will be represented in the journal, which will occasionally feature invited contributions on a special topic.

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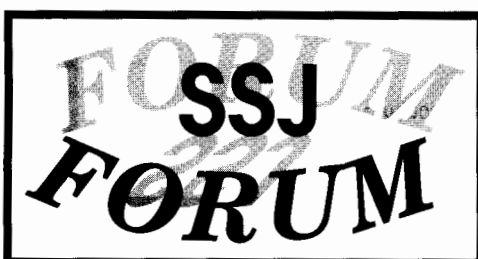
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