



Title	Some Observations on Economic Planning in Japan
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Citation	関西大学経済論集, 19(4): 559-570
Issue Date	1969-10-20
URL	http://hdl.handle.net/10112/15133
Rights	
Type	Departmental Bulletin Paper
Textversion	publisher

Article**SOME OBSERVATIONS ON ECONOMIC
PLANNING IN JAPAN**

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Whether or not a country may be said to be engaging in national economic planning will depend, first of all, on how the term "planning" is defined. The problem of definition is not an easy or clear-cut one in view of the many ways, as well as the gradations of degree, in which planning may be practiced. It is entirely conceivable, at one extreme, that no formal institutional apparatus exists either for formulating a plan or for executing one, yet a strong consensus and support among the major economic decision-makers as to longer range goals and the means of attaining them results in the accomplishment of the goals. What we have in this instance is the complete absence of formal economic planning and an informal functional equivalent.

Any reasonable concept of planning must involve a conscious program of guiding national economic activity through the coordinated decisions of governmental bodies. In practice, certain minimum formal institutional arrangements are to be assumed, along with sufficient administrative powers in the hands of governmental agencies. For present purposes national economic planning, defined in a fairly strict sense, may be said to involve three factors: (1) the drawing up of a formal economic plan, (2) the existence of powers of implementation in the hands of governmental agencies, and (3) the willingness to employ the powers of implementation on a continual, day-to-day basis and in a reasonably coordinated fashion. Each of the above conditions requires some comment.

The plan itself, in predominantly free market economies, is a comprehensive projection involving broad economic aggregates. For the key sectors, particularly the "growth" industries, the data will generally be more refined. Since the plan objectives are concerned with determinants of growth and structural change the key variable to be manipulated will be investment, and the time span will be medium to

long-term. Stabilization policy is, properly speaking, outside the scope of the plan. The second condition is that government bodies (mainly the ministries) be in a position to influence the more critical variables—in particular, investment—both quantitatively and qualitatively. This can be accomplished either by control over decisions made within the public sector or through effective influence on the private sector or, in the realistic case, by both. The assumption is made that in a free enterprise market system private firms will not, of their own accord, conform to a national economic plan program. The final point, and a *sine qua non* for effective planning, is that the powers of implementation be actually used on a continuous basis; in effect, that the plan be made fully operational. This requires, of course, that the relevant government bodies pursue their own activities in conformity with the plan goals.

The above, then, represents a set of criteria by which effective national economic planning may be judged. All three conditions need not be found together, at least to the same extent. In the socialist system of the Soviet Union all three are present in the strongest possible practical form. Indeed, the plan itself is, technically, legally binding on the overwhelming majority of firms that comprise the public sector. At the other end of the scale is the United States, which scrupulously avoids any display of national economic planning. Nevertheless, the absence of a plan does not prevent the government from establishing goals of a national character in areas deemed of vital national interest. In these cases very strong financial support will be provided by governmental agencies to the private sector. Perhaps the best examples are to be found in the support given to pure research and to the training of scientists and engineers at the graduate level in the universities. About 80% of the pure scientific research done in the United States is financed, one way or another, by the government, and a very high proportion of all advanced students in the science and engineering fields are subsidized by government funds at some stage of their training. It is not as a result of the interplay of free market forces alone that the United States ranks highest among the free nations in the number of trained scientists and engineers per thousand of population.

The free-market economies of western Europe are generally less allergic than the United States in their attitudes toward explicit planning approaches, and provide interesting examples of variety and degree of planning. Italy possesses a large public sector and is able to exert strong controls over the financial sector of the economy.

Nevertheless, for political and social reasons, there is actually a minimal amount of formal planning. Formal central planning has probably evolved the least in West Germany, partly for political and ideological reasons, but also because the informal arrangements for coordinating business decisions in the private sector serve some of the purposes of formal, centralized planning. In France, on the other hand, the historical record of lack of discipline and coordination in the national interest of private economic groups encouraged the government to take a strong hand in directing the economy. France, therefore, may serve as a convenient example of strong economic planning in a basically free-market system and as a model for comparison purposes.

French post-war planning begins with the First Plan for reconstruction (1947-1952) and, except for a year's gap between the First and Second Plans, is continuous up to the current Fifth Plan (1966-1970). In the decree of January, 1946 which provided for the drafting of the First Plan there was, at the same time, established a specialized planning body, the Commissariat du Plan. From an institutional point of view the status of the Commissariat is of especial interest. It is the key organ for the coordination of the government's economic policy and holds responsibility both for the drafting of the plan and for following the plan through the various stages of consultation and execution. The unusual feature of the Commissariat is its position among the ministries and other agencies. Placed outside the normal structure of government relationships it is responsible directly to the Prime Minister's office and derives much of its influence from support at top government levels and, in particular, from the Finance Ministry's Department of Treasury. It is a major point of policy to maintain the Commissariat as neutral as possible with respect to the rivalries and competition for power which inevitably arise among governmental bodies. It is with this in mind that the staff is deliberately kept small, with virtually all the technical work relating to the plan performed by other agencies. Ultimately, the objective is to produce a plan receiving the broadest possible support among the separate economic interest groups, and a major task of the Commissariat is to secure this support through its extensive representation on committees and through its informal contacts with influential individuals in both the public and private spheres.

Contact with the plan by the major economic groups is secured via the various Planning Commissions, with representation by employers, workers, and high-level government bureaucrats. The Commissions provide much of the basic industrial data on which the economic

forecasts are made, but they are also free to comment on any aspect of the plan and its parts. Consultation on the plan, both in the initial and final stages of plan drafting, is secured formally by participation of two bodies, the Economic and Social Council and the High Planning Council. At this level of consultation broad social goals, as well as important and relevant political factors are likely to be taken into account.

Plan implementation relies heavily on the public sector, and this, in fact, is considered the key to effective planning in France. It is a consequence of the exceptionally large expenditures generated in this sector. Government ownership is especially prominent in the energy and transportation fields, with coal, gas, and electricity all nationalized, and with significant government participation in the field of oil exploration and development. It may be noted that Electricité de France is the largest single investor in the country. In transportation the railroads are nationalized and the government holds a majority interest in Air France and in the shipping companies. In the industrial sector itself government ownership of enterprises is limited to a very few cases, though the impact of purchasing policy of the public sector is strong in many industries.

In its ability to manipulate credit conditions the government is in a strong position to influence the level and direction of investment in the private sector. The situation in France is similar to that in Japan in that private enterprises are heavily dependent upon financial institutions for their investment funds. Typically, something over a third of total gross private investment is externally financed. Credit conditions are carefully controlled by the government through the central bank (Banque de France) and the various specialized credit institutions (especially the Caisse des Depots et Consignations and the Crédit National), which are either publicly owned or privately owned but publicly controlled. Loans to private firms are also available through the Economic and Social Development Fund which employs Treasury funds. Finally, there are a number of fiscal devices available which serve to encourage certain desirable areas of economic activity, such as interest grants from the Treasury and tax exemptions ("fiscal contracts") which are provided at the discretion of the Ministry of Finance. All in all, these represent a formidable array of powers at the disposal of government authorities.

The record indicates that the government has been willing to employ these powers and, moreover, to employ them in a manner which supports the national plan. Conformity with the plan on the part of

the public sector has been assured at least since 1962, when the Ministry of Finance instructed that all claims on budget funds would be judged by plan criteria. Moreover, in the provision of medium and long-term investment funds to the private sector it has been the practice for the credit institutions to consult with other agencies before passing on loan applications. *Crédit National*, for example, has a standing arrangement for consultation with the Planning Commissariat. The Commissariat, in turn, will consult with the Ministry of Finance and the Ministry of Industry if the loan in question has a bearing on the plan. The general tendency is to keep plan implementation activities within manageable limits by concentrating on a limited number of firms and key industries. This, combined with the cooperation of the public sector, is considered to provide sufficient leverage for the plan. In terms of the threefold criteria employed in this paper there is little question that the French system of planning represents a highly advanced one for a developed capitalist country.

The planning system in Japan has seemingly enjoyed a reputation abroad for being thorough and effective. This point of view (which is not substantiated in this paper) undoubtedly stems from the visibility of the apparatus for formulating plans and from the highly developed system of controls which have only recently been relaxed. The Economic Planning Agency (EPA), which has the authority for developing medium and long-term plans, dates from July, 1955. It was in direct line of succession to the Economic Counsel Board (1952-1955), which, in turn, replaced the Economic Stabilization Board which was established in 1946. These changes represent the expanded scope of planning activities and the changing objectives required by a continually developing economy. Under the EPA plans begin with the 1955-1959 plan and continue to the Economic and Social Development Plan for 1967-1971. All are five-year plans except for the ten-year National Income Doubling Plan (1961-1970). It is interesting to note that all the plans were superseded before their terminal dates due to early fulfillment of plan objectives. The latest in the series of plans is a purely long-range, indicative plan which was only recently announced whose target date is 1985. The goal is apparently to maintain both long and medium-term plans concurrently, with frequent revision of the latter.

The status and role of the EPA deserves special comment. Since its establishment its functions have expanded considerably and it now boasts an elaborate structure containing six bureaus and five subordinate committees and councils which it lists as "auxiliary organs". The EPA sees itself as the agency responsible for both formulating

and coordinating basic national economic policy, and claims equal status in the governmental structure with the ministries. Its head is technically, a Minister of State responsible directly to the Prime Minister's office. The ministries themselves are, in EPA's view, primarily administrative with respect to economic policy. This division of labor is not, however, widely shared. The ministries, in particular the Ministry of International Trade and Industry, enjoy a degree of administrative independence that permits them to express and practice their own policy views to a considerable extent. While it is true that consultations over the plans bring together the heads of the interested ministries and of the EPA at the cabinet and other levels, the evidence is clear that the main coordinating functions that EPA claims for itself are not, in fact, exercised. The picture that emerges is one of government agencies and ministries carefully guarding their respective areas of jurisdiction and in many instances seeking to expand these areas. One result is the frequent overlapping and duplication of activities, particularly in the research field. Judgement on this competitive environment for governmental bodies need not, of course, be negative. One highly placed official, for example, has expressed the opinion that the situation generates new ideas and an intellectual ferment which override the disadvantages.

The contrast of EPA with its French counterpart extends also to their respective ranges of activity. The Commissariat du Plan, it was noted, concentrates entirely upon the plan in its various stages of formulation, consultation, and execution. Even the basic research and data-gathering are left to other agencies to perform. EPA, however, by its own statements, feels committed to an involvement in virtually all phases of economic research and public economic policy. In addition to long-range forecasting and the presentation of medium and long-term plans, it also counts among its regular duties the development of short-term forecasting models along with appropriate policy suggestions regarding prices and wages, regional economic studies and recommendations, the presentation of national income statistics, an annual "White Paper on the Japanese Economy" (the English version is known as the Economic Survey of Japan), White Papers on the world economy, and various surveys. Most of these are produced by the EPA's Research Bureau, while "fundamental" research, including the publication and analysis of national income statistics is the function of the EPA's Economic Research Institute. The extent of overlapping with similar activities undertaken elsewhere is perhaps inevitable in view of the fact that the ministries themselves maintain sizeable

economic research groups within their organizations. This can be seen, for example, in the industrial zones studies made during the past year by EPA and the Ministry of International Trade and Industry which incidentally, involved quite different approaches to the problem.

Implementation of economic policy is the function of the ministries, among which the Ministry of Finance and the Ministry of International Trade and Industry are most important for the plan. To a lesser extent the Ministries of Agriculture and Forestry, Transport, and Construction are also relevant. What is now to be considered is the degree of control or influence which the various ministries can exert in their respective jurisdictions. Within the public sector control is, of course, complete. But state ownership is only partial for the transportation and communication industries (where publicly owned enterprises are concentrated) and the total impact in terms of plan support is very limited. Consequently, it is the ability of the ministries to influence the private sector that is of major concern for the plan.

The Ministry of International Trade and Industry (MITI) is in the most strategic position to support the plan. It has wide jurisdiction over a substantial segment of industry, including the important "growth" industries. Its group accounts for probably more than 40% of total private fixed investment. MITI's influence is exerted in a number of ways. It controls licensing procedures for the more important kinds of business activity, including international trade and capital induction involving joint ventures of Japanese firms and foreign interests. It also distributes funds of the Economic Development Fund, in which it has a voice in policy, and supervises safety regulations in industry. The legal basis for these powers tends to be somewhat vague, so that the interpretation of the law by MITI officials becomes extremely important. Changes in policy come about through internal reorientation (usually based on private industry and government consensus) rather than by changes in the laws governing ministry jurisdiction. At least until the very recent shift in MITI policy (announced in July, 1969) the tendency has been for officials to follow a very determined and paternalistically protective policy toward the firms and industries under its supervision. This has been especially apparent where local companies are arranging for joint ventures with foreign companies or where technological or capital imports are being considered. MITI typically will scrutinize in detail such contracts and will frequently force renegotiations to secure more favorable terms. The protectionist attitude has been very evident also in MITI's policy toward the spectrum of commodity imports which are under its control. The situation

is similar for the Ministry of Agriculture and Forestry which oversees most of the agricultural imports.

It would be very difficult to define the actual legal powers of MITI. They are probably far weaker than MITI's actual influence would indicate. Its powers are exerted to a considerable extent through the informal techniques of "guidance", which became increasingly important with the dropping of formal controls under the obligations of GATT, the IMF, and the OECD. "Guidance" is a technique which has been quite effective in the Japanese business environment. It is based upon certain favors which MITI can dispense and also upon a basic mutual understanding between Ministry and private business officials with regard to broad economic objectives. The influence undoubtedly operates in both directions, and it would be a difficult task to determine which side has been the dominant factor. An often encountered opinion is that MITI policy is actually determined by the major private industrial interests which comprise MITI's group. The recently announced shift in its traditional protectionist policy in favor of one of non-intervention apparently reflects the changing views of the private business community. Also, the difficulties which MITI has recently experienced in its attempt to give direction to the automobile industry would indicate the effective limits of its power when dealing with a recalcitrant industry.

There are several questions that may be raised in connection with MITI's contribution to plan objectives. One concerns its actual support of the plan, a second considers its ability to contribute to the plan, and the final question examines the effects of a new policy of non-intervention on MITI's ability to contribute to the plan. With regard to the first point it has already been observed that the relative autonomy of the ministries and their vulnerability to internal pressures place limits on their commitment to the plan. On the other hand, MITI is well situated to influence the determinants of growth, and the degree of support it provides the plan, even if such support is incidental, is considerable. Indeed, the substantial extent to which MITI's policies have been growth-oriented has undoubtedly contributed to the impressive growth record. Planning, in the sense of modifying private business decisions in predetermined ways, is unquestionably what much of MITI's activities have been about. This is particularly the case with respect to the so-called "growth" industries, which MITI has been fostering so sedulously. However, it remains the case that a feeble connecting link between EPA and MITI exists. An interesting exercise would be to consider if MITI's activities would have been significantly

different in the complete absence of the EPA. It is difficult to avoid the conclusion that it would not have been.

MITI's recently announced reorientation in favor of non-intervention and capital import liberalization (with exceptions, as in the case of the "infant" communications and computer industries) undoubtedly represents a weakening of controls. On the other hand it is probably safe to say that the rapid growth and increasing competitiveness of many of MITI's charges have rendered the protective and paternalistic attitude bothersome and obsolete. In productivity terms a number of these industries compare favorably with their foreign counterparts. At the same time it is difficult to classify these same industries any longer as growth industries. The automobile, chemical, petrochemical, steel, and shipbuilding industries would seem to fit this description. MITI will be, in effect, concentrating on the role of protector and encourager of fledgling industries in the newer, more sophisticated science-based areas. It will therefore continue to be an important factor in influencing growth through its ability to effect structural changes in the economy, while its impact on the activities of the established industries is likely to diminish. It may be observed that the pattern of capital-import liberalization that is emerging lends support to this prospect.

Another substantial means of control over the private sector is exercised through the manipulation of credit conditions. While this area is associated primarily with short-run stabilization, there is nevertheless, an impact on longer-run conditions via the effects on investment levels. To the extent that credit policy is exercised in a discriminatory fashion by preferential credit treatment of selected firms and industries there will clearly be a structural impact on the economy. Indeed, a degree of unintended discrimination favoring the larger over the smaller firms is almost unavoidable and is probably more pronounced in Japan where special bank liaisons favorable to the larger firms tend to be the rule. The record indicates not only readier access to bank credit for the larger firms, but also substantially, lower interest costs. There are, finally fiscal devices for providing incentives for firms engaging in desirable activities, especially in the export field. These include tax exemptions and accelerated depreciation allowances which are, in effect, a tax deferment or interest-free loan. Their effectiveness in recent years has been limited, however, since certain of the fiscal aids (such as tax exemptions on income derived from export activities) were considered subsidies by GATT and therefore inadmissible.

The situation in Japan has favored a strong emphasis on monetary and credit controls. Firms are highly dependent upon bank loans for their capital needs, while the commercial banks, chronically in an "overloan" position and with a high proportion of their loans in an illiquid form, are heavily indebted to the Bank of Japan. While the ratio of self-financed investment of private firms has fluctuated considerably, depending on general economic conditions, it is typically very low. In 1955 the ratio, for the larger firms, was approximately 40%, but in 1963 the figure dropped to about 30%. More recently there has been a tendency for the capital structure of firms to improve as a result of sustained higher profit earnings, leading to a slightly reduced dependence on outside sources of capital funds. Continued high profit rates and, even more, a reduced economic growth rate, would argue for diminished effectiveness of Bank of Japan credit policy.

The techniques of control employed by the Bank (which is controlled by the Ministry of Finance) include discount rate changes, "window guidance" applied to city bank loan applications, and the selective financing of both depressed and "key" industries. The first two are, of course, devices for maintaining short-run stabilization and are most effective when the economy is already in an expansionary phase. Selective financing of "key" industries, on the other hand, has a direct impact on industrial structure and therefore on long-run growth factors. The Ministry of Finance, with authority over national budget expenditures, exercises the most influence in this important area.

Basic economic policy decisions would appear to be established, ultimately, by a small number of key individuals located in the Finance Ministry, the Economic Council, MITI, and a few of the other agencies. It is at this informal level that the broader problems of coordination are resolved to the extent that they are. The practice of respecting ministry and agency autonomy and of relying on the principle of consensus results in a situation where the lines of authority for maintaining coordination in policy are blurred and effective decision-making becomes the exercise of individual influence. This is, of course, very similar to the decision-making process at virtually all levels of social organization. In moving from plan formulation to plan implementation a greater degree of enforced coordination and of more clearly established lines of authority, while satisfying the wishes of EPA's planning staff, would run counter to a strongly established bureaucratic tradition.

As the situation now exists it is safe to say that the separate

components of the planning process are in strong evidence but that the process taken as a whole (in the sense discussed earlier in the paper) proves to be weak. Planning could be considerably strengthened by enforcing lines of authority, as, for example, enforcing EPA's coordinating powers. How much of a disruption this would entail for established procedures in government is, of course, a serious question. To date, the vigor of the private sector has resulted in growth performances that have consistently exceeded target goals. Under these circumstances there is a question as to whether more thorough planning, which would involve increased interference in the private sector, is advisable or not. It would certainly appear unnecessary. Further doubt over the desirability of strengthening planning stems from questions concerning its effectiveness in its current state of development. The record of both France and Japan indicate a significant divergence between plan goals and actual economic performance. Nevertheless, whatever the technical and practical defects of planning, serious difficulties encountered in trying to maintain adequate growth performance or persistent balance of payments deficits are likely to elicit calls for more effective economic planning.

The ability to implement the plan, in contrast to the cooperative willingness to do so, has already been considered in the light of the legal powers and other forms of influence exercised by the ministries. Both actually and potentially it remains considerable. While "internationalization" of the economy will reduce the ministries' effectiveness in the private sector (this will be particularly true for MITI) their residual powers will nevertheless remain formidable. The mutual responsiveness which characterizes the relationship between private industry and public bodies is not likely to be seriously affected for a considerable time and can be expected to contribute to growth and other economic and social objectives as in the past.

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