

The Enigma of Japanese Capitalism (Part 3)

- Plan for Peaceful Use of Asset-Rich Japan
- Contributing to an Adaptation to the "Age of Mega-Competition"
- Japanese-style Marshall Plan for Optimum Asset Allocation and a Millennial "Glorious Revolution"

By Wasa Takahiro and Sonoyama Hideaki

What can we learn from 20th-century relations between Japan and the United States?

This is the third and final installment in our series aimed at unraveling the enigma of Japanese capitalism. In examining the financial crisis of a Japan that cannot seem to find a reliable means of reviving its economy, we have in the previous two installments described the problem primarily as stemming from Japan's historical reality and the impact that this has had on the way the government has exercised the power of the State. We have relied on certain interpretations of historical facts, certain analytical concepts, and certain judgment criteria, and we have attempted to establish a relationship between these things and United States history and the system and laws that have developed there.

For this reason, we have intentionally avoided any discussion of how to actually solve the problems facing Japan. All we have been trying to do is to present an overall picture of the issues at hand. There was a need to go beyond a simple description (in our capacity as people involved in the policymaking effort) of causes that are intertwined in a most complex fashion, and to make new "discoveries." Toward that end, we have made an effort to learn from the U.S., the country with the most advanced capitalist market economy, and the country which has exercised the greatest influence, in both nominal and real terms, over the way post-war

Japan has managed its economy.

We have, in fact, made quite a few "discoveries," and we continue to do so even now. Because two authors have been working together on this project, the results have been that much greater. We have discovered that there is a need to "look at 20th-century Japan-U.S. relations in order to discern what lies ahead in the world of the 21st century." In this sense, we need to be like Alexis

we must first understand the Puritan Revolution, which paved the way for the Glorious Revolution. To understand the Puritan Revolution, we must understand the impact of the Protestant Reformation upon the Renaissance that followed. The need to do these things is another one of our "discoveries."

The following is a report on our discoveries.

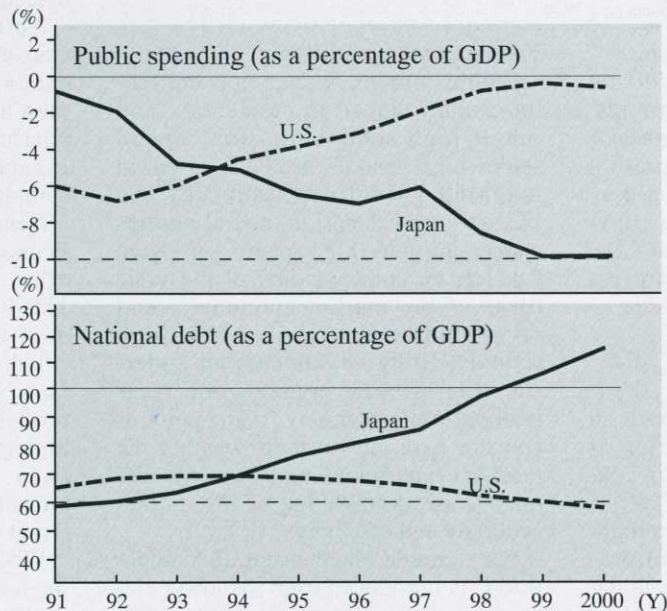
The United States' expanding budget surplus – the "peace dividend"

On June 26, U.S. President Bill Clinton announced that the budget surplus forecast for FY 2001 and subsequent years had been revised sharply upward. The cumulative surplus over the next ten years, said the president, is now expected to reach US\$4.193 trillion, some US\$1.3 trillion higher than the figure that he had cited in his Budget Message to Congress in February.

Upon hearing this news, Wasa Takahiro couldn't help thinking back to the article published by Chrysler chairman Lee Iacocca after the crash of the New York Stock Exchange ("Black Monday") in October 1987. Iacocca's article was translated into Japanese and published in the *Nihon Keizai Shimbun* under the Japanese title "How to

Revive an Ailing America." In calling for the annual budget deficit to be cut by US\$100 billion, Iacocca stated, "the only thing they [i.e., the Administration and Congress] have to worry about is accounting (translation)." It appears now that Iacocca's deficit-cutting pro-

Graph I: Japan as "Economic Loser"
– The United States and its Peace Dividend –
(Public spending and the national debt in Japan and the U.S. since the end of the Cold War)



Source: OECD Economic Outlook (#66, December 1999)

de Tocqueville, who wrote, "In America I saw more than America."

To accomplish this project, we must trace back in time to England, where most people in the U.S. have their ancestral roots, to the "Glorious Revolution" of 1688. In order to do so,

Appendix I

A Tax Policy that Maintains Japan's "Land-Based Economy" Tax Burden Adjustment – Charter or Indulgence?

1994 – Natural Law Remains "Censored" Even After the First Thorough Reforms in 30 Years

"Basic Policy on the Reassessment of FY 1994" (Ministry of Home Affairs)
Approved by the Central Fixed Property Valuation Council on November 14, 1991

I. Making land assessments more consistent and appropriate

II. Measures to adjust the tax burden

In order to promote the achievement of a more consistent and appropriate tax burden, the government shall consider the advisability of carrying out reassessment while taking note of the tax base that would result from making the tax burden more consistent and appropriate. In so doing, the government shall...

(1) ...formulate a relatively moderate adjustment based on taxes for the previous year; and

(2) ...revise exemptions to tax standards for land zoned for housing (especially small-sized residential plots),

and shall formulate comprehensive measures to ensure that no one will be subject to a sharply increased tax burden.

posal will be achieved.

Also, it is apparent now, ten years after the end of the Cold War (1989), that there has indeed been a "peace dividend." I am reminded of the article I wrote about the historic moment shared by President George Bush and Mikhail Gorbachev during their summit meeting in Malta. The article was entitled, "*Seijo-ka e no Gekido to Nihon* (Japan and the Stormy Path to Normalization)." In that article, I argued that property and equity prices in Japan had risen to unsustainable heights, and that the bubble was bound to burst.

Trade imbalances between Japan and the U.S., and Japan's growing budget deficit

On the day before President Clinton's June 26 announcement, Japan carried out a general election for the Lower House of the Diet. Our government is faced with a number of issues that have attracted close scrutiny throughout the world, such as the question of how to straighten out the government's finances, who bears political responsibility for Japan's abnormal "zero-interest-rate" policy, etc. These issues, however, were hardly even addressed during the election campaign.

Prime Minister Mori Yoshiro's gaffe

in referring to Japan as "a divine country centered on the Emperor" made him an easy target for the opposition parties, and this was one factor that contributed to avoidance of more substantive issues. The more fundamental reason why substantive issues were not addressed, however, is that we have almost no leaders in either the executive or legislative branch who understand the accounting that Lee Iacocca was talking about.

In contrast to the United States, which managed to get itself on the road to a full financial recovery, we see no reason to be optimistic about Japan's prospects in light of the behavior of our ruling and opposition parties, all of whom seem to want to dump our economic problems on the Ministry of Finance. As long as efforts to stimulate domestic demand continue to rely on public-works spending, businesses have no choice but to place their strategic focus on exports and overseas investments. As a result, the prospects for improvement of the trade imbalance between Japan and the United States are virtually nil.

The Japanese government's budget deficits cannot be allowed to go on expanding indefinitely, nor can the Japan-U.S. trade imbalance. If we do not prepare for this foreseeable crisis, serious consequences will be inevitable. Apart from acting as quick-

ly as possible to develop an accurate estimate of the damage this will bring about, there is nothing we can do to keep the damage from occurring. We must train as much of the population as we can to think along these lines. The welfare of our country depends on our ability to do so.

In other words, top priority should be given to improving the national government's crisis management capability. The most effective "teaching material" for this purpose would be an examination of "the lost decade" of the 90s. We must make an effort to read the market and increase accountability.

The "self-evident truth" of the market economy – land value tax and BIS regulations

Japan's bubble economy peaked in 1989, the year the Cold War came to an end, and then at the outset of the 1990s, the bubble burst. When the collapse of the bubble revealed an unprecedented level of bad debt, the response of banks, securities firms, and the business community in general showed a clear helplessness in the face of the enormity of the problem. The same helplessness was observed on the part of the politicians (the legislative branch) and the government.

There were two very important changes made to the system around the time of the end of the Cold War that we cannot afford to overlook. One was the imposition of a national land value tax. The other was the adoption of a higher capital adequacy ratio of 8% by the Bank for International Settlements (BIS) for banks that have international operations.

From the standpoint of market economy standards, the need for both of these is self-evident. Indeed, from the standpoint of the legal requirement for equal levels of taxation for all, the system adopted by the Ministry of Home Affairs, in which land taxes were imposed at the local level in the form of fixed asset taxes, went against the spirit of the Tax Law.

Also, Japan's low capital adequacy

Graph II: The Bubble Economy and the "Land-Based Economy"
 - Allocating Assets in the Worst Way

-Using Double-entry Bookkeeping and Current Value Accounting to Understand the Declining Efficiency of the Japanese Economy -

requirements revealed a problem with the credit creation (lending) activities of Japanese banks. When banks compete to give out loans under unhealthy conditions, Gresham's Law dictates that "bad money drives out good." Japan and its low capital adequacy requirements provided a classical example of how this works. The settlements system has an impact upon the well-being of the entire community, and by allowing their capital reserves to sink to dangerously low levels, banks violated the public trust.

The Cold War: a strange peace, and a boon for a Japan defeated in war

Japan has borrowed heavily from Western civilization since the Meiji Restoration. Then, after World War II, Japan embarked on a period of rapid economic growth. This is "Japan's historical reality," and it is one that many Japanese people find difficult to believe, for it happened within the context of systems and laws that were not built by any one single person acting on his own ideas. Japan's success, however, is nothing more than the success of a "star pupil" that lost to the United States in war and allowed itself to be governed by the victor's occupying forces.

But the international political situation after the end of World War II was highly unusual. It was a time of shrill confrontation between the United States and the Soviet Union, who were aligned on opposite sides of an ideological debate between freedom and communism. The era benefited from the United States' containment policy against the Soviet Union. A peace like none ever seen before continued for 40 years, but it was an abnormal peace in abnormal times.

Japan was part of the Western camp

that eventually emerged victorious in the Cold War. No effort of our own could have brought Japan any better fortune than that which attended this fortuitous set of circumstances. Furthermore, we must not forget that the tragedy of being the first country ever to be attacked with atomic weapons resulted in a Constitution that renounced warfare as an instrument of policy, and this position helped our country achieve even faster economic development.

This has been the "fate" of post-war "modern Japan." It goes beyond anything that we were aiming actively to achieve through our own independent effort. It must be noted that the Cold War was the product of the 20th century's two world wars and the awesome advances in the destructive power of

modern weaponry that were achieved in the period between the two great wars.

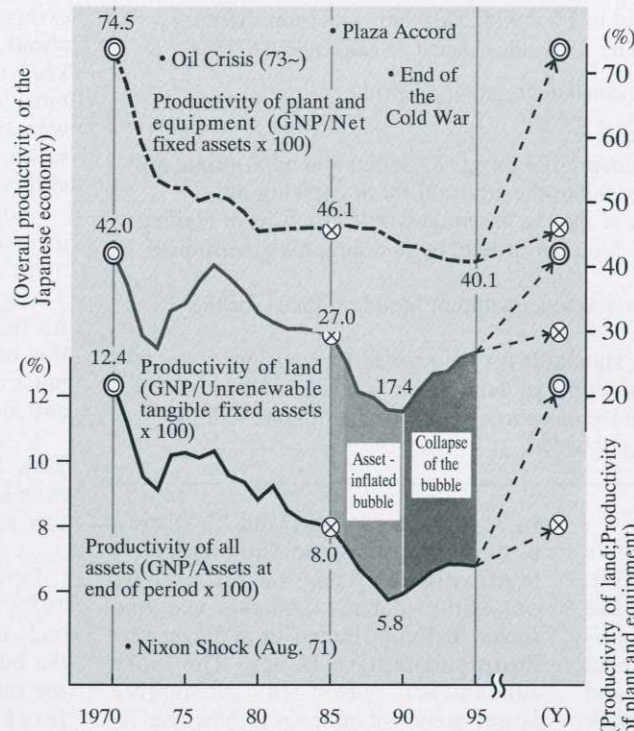
A "modern nation" that rejects civilian control

Japan has had no choice but to be a modern nation, because if, as the world's largest creditor nation throughout a 15-year period in the latter half of the 20th century, Japan had flouted the philosophy and rules of the market economy, it would have been difficult to maintain the stability of the global economy. A nation must have courage and a sense of responsibility if it is to "shoulder the burdens that come with success." A certain noblesse oblige, in other words, is required. In this respect, Japan has failed miserably to perform its responsibility as a civilized society.

The factors that have brought Japan to this position in the world economy are the very same factors that have caused the Japanese people to lose faith in the government's domestic economic policy.

People do not trust the government's ability to exercise the power of the State properly. The government has not met the expectations of the people, in whom sovereignty rests, so how is it going to gain the trust of foreign countries, which have conflicts of interest with Japan? On the contrary, Japan is looked upon with suspicion and seen as a threat. This is only to be expected.

The primary objective of a democratic system of government is to preserve life, liberty, and property (the right to pursue happiness). To this end, a legal framework is indispensable. The highest organ of State power is the legislative branch. Its members are chosen through free elections, and it makes its decisions on the basis of majority votes. Japan's system



Note: ---> indicates the recovery of economic efficiency in the future to
 ○ 1) the level that the price mechanism in the market had not started to function (1970), or
 ⊗ 2) the level before the beginning of the asset-inflated bubble (1985).

Source: Economic Planning Agency, SNA and the Annual Report on National Accounts

basically meets all these formal requirements.

Nevertheless, Japan's system is riddled with inadequacies and fails regularly to perform as it should. Yet in spite of the obvious failures, the same mistakes keep getting repeated over and over again. This happens because the forces opposed to clarification of the problem are in control of the system. Our country has rejected civilian control.

Meiji Japan – modern civilization censors *Leviathan*

There is a reason for this, however. A taboo exists among Japanese political scientists against studying the ideas of Thomas Hobbes, author of *Leviathan*. When former Minister of Education Nagai Michio translated *Leviathan* into Japanese in 1979, the book was introduced as “a work that argues in favor of the theory of state power.”

All four parts of *Leviathan* were translated in 1966 by Mizuta Hiroshi and Tanaka Hiroshi. According to Tanaka, the work was first translated into Japanese in 1883 by the Meiji government's Ministry of Education. Only Volume II was translated, and was given the Japanese title *Syukun-ron Kan* (*Theory of Sovereignty, the Last*). Some parts of the book were censored, including anything dealing with natural law. Chapter 26 (On Civil Law) is a good case in point.

In the final part of this chapter Hobbes discusses the confusion between laws and charters. He states, “A law may be made to bind all the subjects of a Commonwealth: a liberty or charter is only to one man or some one part of the people. For to say all the people of a Commonwealth have liberty in any case whatsoever is to say that, in such case, there hath been no law made; or else, having been made, is now abrogated.” This sentence was not translated into Japanese. The attempt to treat a charter as law was probably the ideological aim of the new Meiji government when it established the imperial system. It wasn't until 21 years after the

end of World War II, however, that this question was first raised. During the 83 intervening years, we were taught to think of charters, rather than laws, as law.

After World War II, “elite bureaucrats” made a huge contribution to the building of Japan as an “economic nation” under the framework of a Constitution that renounced warfare. This political philosophy amounted to a modern paradigm until very recently. “Administrative guidance” based on the government's power to grant (or not grant) licenses and certificates enabled the government to exercise its authority by negating the modern concept of the rule of law.

The ultimate masterpiece of the national polity we are describing here is the “land-based economy” brought into being by the Ministry of Home Affairs' tax system. As land prices skyrocketed during Japan's extended period of rapid economic growth, a fixed asset tax ratio of 1.4% resulted in an effective rate of taxation of one-tenth. This situation calls to mind the situation in Western Europe on the eve of the Protestant Reformation, when the Church sold indulgences to raise money for the construction of cathedrals.

The battle for the soul over the last three centuries and the “modern spirit,” as interpreted by Will Durant

In Part I of this series, we attempted to examine why the world's largest creditor nation now finds itself in financial crisis. We approached this task by asking the question, “what can we learn from the United States, where the economy is subject to the rule of law?” An examination of this question made it clear that the rights of taxpayers, and especially the working classes, who assumed sovereignty over the economy, have been trampled upon.

The theory of modern accounting, which was developed on the basis of double-entry bookkeeping, played a big role in helping us reach this finding. The German literary giant Johann Wolfgang von Goethe once said that

double-entry bookkeeping is one of the most beautiful discoveries of the human spirit. U.S. capitalism was able to overcome the Great Depression that began in 1929 because of the “modern spirit” that flows from that country's democratic political system.

What exactly is this “modern spirit”? In *The Story of Civilization*, Will Durant defined the modern spirit as a combination of Christianity and the Renaissance, and wrote that the key drama of the past three centuries has been the struggle of Christianity to survive in the face of Copernicus, Darwin, and their ilk, and that next to this battle for the soul, all the struggles between states and social classes hardly merit a mention, such is their relative insignificance.

During the Enlightenment, Europeans began to invest great hopes in science, reason, and philosophy. Describing the birth of the modern spirit, Durant wrote that philosophy and science were the gods of the Enlightenment. But how many post-war leaders in Japan have understood the first thing about any of this? Could it possibly be that we have simply been unable to discern this learning in them?

We must leave the “economic animal” behind

The philosophy upon which the United States was founded in 1776 was fundamentally based on the ideas put forth by Hobbes some 125 years before in *Leviathan*. The American Revolution, in other words, was a product of the modern spirit. The French Revolution occurred fully a century and a half after the people's revolution known to history as England's Puritan Revolution. Hobbes wrote *Leviathan* during his exile in France, having fled the Puritan Revolution. It was the record of a man who had stood as witness to the birth of a modern nation, and the writing of this work gave Hobbes a sense of mission that mitigated the pain of the circumstances in which he found himself.

In the introduction to *Leviathan*,

Hobbes wrote, "He that is to govern a whole nation must read in himself not this or that particular man, but mankind." The democracy of Socrates and Plato was born anew nearly 2,000 years later in England. Part 1 (Of Man) can be seen as the renaissance of the "political animal" (Aristotle) that supports democratic government.

Both of the present authors have witnessed the reality of "Japan, the economic nation" for the past 30 or 40 years, and it is clear that our country is drastically different from the United States. Japan does not understand the United States in the paradigm of the "modern spirit." Or, to be more precise, Japan misunderstands the United States. As Japan moved into its period of modern history under the Meiji government of the late 19th century, it banned *Leviathan*. If this wasn't a case of the "political animal" being locked up in a cage by "the education effect," then what was it? Japan must stop being an "economic animal."

A "New Deal" to remake Japan as a political animal

In an economic nation such as ours, the government only has authority to set economic policy, but the interests of the very people in whom our economic sovereignty lies – working taxpayers – were sold down the river by an economic bubble of unprecedented proportions. Their interests were betrayed once again when the government set about to deal with the collapse of the bubble. The government had thus lost the right to be viewed as an economic leviathan. A review of the past 70 years of U.S. history tells us that if our government is to regain the status of an economic leviathan, it will have to carry out a Japanese "New Deal."

Since the ethical imperative of politics requires that one must take responsibility for his own actions (as can be seen in Max Weber's phrase "ethic of responsibility" in *Politics as a Vocation*), a politician is obligated to honor his contract with the people, in

whom economic sovereignty resides. As long as our politicians refuse to admit that they have entered into a contract that they cannot possibly fulfill, no resolution can be reached. This being the case, until a reasonable plan is put forward for the attainment of our goals, the government cannot recover the trust that it has lost. It is a matter of acting upon the modern spirit that Durant was referring to when he wrote that "philosophy and science were the gods of the Enlightenment."

For traditional Japanese society, with its emphasis on harmony, the sacrifice inherent in a majority-rule democratic political system was too much. We censored talk of a political philosophy based on natural law, and made Protestantism a taboo subject. Our actions have inflicted damage upon the world economy, and considering the clout that the Japanese economy wields, to stay the present course is a dangerous option. But the very fact that the world cannot countenance our current situation gives the political animal a chance to jump out of its cage. We must take advantage of this opportunity.

IEEPA – guaranteeing the security of Japanese assets in the United States

The United States has maintained close relations with Japan for many years, and during the course of this relationship has almost certainly gained a feel for the dangers facing the Japanese economy. From the experience of its own history, the U.S. has come to a theoretical understanding of the problems inherent in capitalism, therefore, it seems to the authors that the U.S. is a nation in which the economy is subject to the rule of law.

In comparison with Japan, the U.S. has passed far more legislation aimed at creating market rules. This point is exceedingly clear to everyone, but there is an even more decisive difference between the two countries – the degree to which this legislation is actually reflected in the way the market economy is managed. The United States has powerful bureaucratic machinery,

which ensures that the rule of law is a reality in the economic sphere.

The philosophy and know-how behind this rule of law has an impact upon international relations, most notably in the case of the International Emergency Economic Powers Act (IEEPA).

This law supposes that any Japanese assets invested in the United States that are deemed (by the U.S. president) to have an adverse impact on the national interests of the United States will be frozen. This provision was overlooked as a purely academic matter during the Cold War, but it has recently become an issue in our bilateral relationship. This law was passed by the U.S. Congress in 1977. During an interview with Wasa Takahiro about two or three years after the end of the Cold War, a knowledgeable person described this law as "the economic version of a nuclear bomb."

Realizing the rule of law in the economic sphere – risk management in Japan

After Prime Minister Hashimoto Ryutaro's cabinet announced in 1996 that it was planning to launch a Japanese version of the "Big Bang" financial reform, risk management became a hot topic in Japan. The Big Bang was formulated against the backdrop of momentous change. The shortcomings of the "convoy system" were becoming apparent. Similarly, it was becoming clear that government regulatory agencies could no longer take so much responsibility for ensuring the success of firms in the industry they were responsible for overseeing. The realization of these facts had created strong demand for the private-sector to take responsibility for their own profitability without looking to the government for a bailout in times of trouble. (Or perhaps, it might be more accurate to say that the government began allowing the private-sector to take responsibility for themselves.)

If the private-sector is to assume this type of responsibility and carry out true

Appendix II

New Theory of National Wealth for the Economic Leviathan
 A Country Where the Economy is Subject to the Rule of Law
 – U.S. National Security (1977)

LAWS OF 95th CONG. – 1st SESS.

Dec.28

TITLE II – INTERNATIONAL EMERGENCY ECONOMIC
 POWERS

SHORT TITLE

Sec. 201. This title may be cited as the "International Emergency Economic Powers Act".

SITUATIONS IN WHICH AUTHORITIES MAY BE EXERCISED

Sec. 202.(a) Any authority granted to the President by section 203 may be exercised to deal with any unusual and extraordinary threat, which has its source in whole or substantial part outside the United States, to the national security, foreign policy, or economy of the United States, if the President declares a national emergency with respect to such threat.

(b)

GRANT OF AUTHORITIES

Sec. 203 (a)(1) At the times and to the extent specified in section 202, the President may, under such regulations as he may prescribe, by means of instructions, licenses or otherwise –

(A) investigate, regulate, or prohibit –

(i) any transactions in foreign exchange,

(ii) transfers of credit or payments between, by, through, or to any banking institution, to the extent that such transfers or payments involve any interest of any foreign country or a national thereof,

(iii) the importing or exporting of currency or securities;
 and

(B) investigate, regulate, direct and compel, nullify, void, prevent or prohibit, any acquisition, holding, withholding, use, transfer, withdrawal, transportation, importation or exportation of, or dealing in, or exercising any right, power, or privilege with respect to, or transactions involving, any property in which any foreign country or a national thereof has any interest;

by any person, or with respect to any property, subject to the jurisdiction of the United States.

(2)

(3)

late this concept into reality, sacrifices will have to be made. We will have to preserve the ability of enterprises and individuals to engage in free economic activity. We will also have to create an evaluation system and enact relevant legislation. If we are going to successfully "arm" ourselves with a civilization based on a modern spirit, Japan in an age of "mega-competition" will have to adopt the philosophy and know-how of risk management.

A Japanese version of the Pecora Committee is proposed in Japan's House of Councillors

In terms of ideas and systems, Japan is in every sense a modern democratic state. So what is it that we should be doing, and are capable of doing, at this point? We should be starting on the very things that the United States did 70 years ago. In other words, Japan's legislative branch, which is the highest organ of State power, must undertake to clarify the causes of the crisis currently faced by the "economic nation" we call Japan.

We need not set our hopes too high with regard to the question of what such an undertaking is capable of achieving. The only thing we really need to realize is that we have misunderstood U.S. capitalism. We ought to be able to "discover" that the gods of the Enlightenment – philosophy and science – are missing in Japan. Since we have chosen to operate under a capitalist market economy, if we are to make this system work efficiently and in a manner consistent with our objectives, we must have faith in our Diet, which is the hall of democracy.

In fact, this sort of proposal has already been put forward in the Japanese Diet. In a meeting of the Committee on Financial Affairs on April 20, 2000, Shiina Motoo (Independents) said, "I think we should consider establishing a committee here in the House of Councillors to do more or less what the Pecora Committee did in the U.S. Senate." As a result of the work of the Pecora Committee, he

risk management, there must first be rules that ensure free and fair competition. In Japan, however, the subject of natural law was taboo for both the legislative and executive branches, so the market was naturally in a state of anarchy for both companies and individual households. If such a market were "opened" to foreign competitors, the only result would have been to throw the world economy into chaos. Japan has paid the price for this situation by giving away national assets under the

rubric of foreign aid. As for our assets in the United States, in contrast, the worst that can happen is that they might be frozen.

What the Japanese economy most needs now is a government with a first-rate legislative branch and a powerful bureaucratic apparatus capable of enforcing the nation's laws. We must declare our adherence to the concept of an independent "economic nation" that seeks to maximize the national interests and national wealth of Japan. To trans-

explained, the Securities Exchange Commission was split off from the Federal Trade Commission and established as an independent oversight agency.

Minister of Finance Miyazawa Kiichi responded, "Your suggestion deserves careful consideration. Thank you very much."

Japan's crisis is the chance to make an international contribution

It is very gratifying to know that this legislator was influenced to make his proposal concerning the establishment of a Pecora-style committee because he had read a report written by Sonoyama Hideaki. This report is entitled *Kokusai Shihon Shijo Sisutemu no Otoshiana (Traps in International Capital Markets)*, issued in 40 volumes since October 1995. Unfortunately, however, the activities of the Committee on Financial Affairs that day received absolutely no news coverage. We feel very happy to have the opportunity to use this article to report on his proposal.

What is Japan missing that it needs? This is what we would find most worth our effort to create. This is the message that was sent forth from the highest organ of State power in the land, and it has to do with more than just the needs of Japan in the 20th century. No, it is all about the requirements of the world in the 21st century, for it can contribute to the development and strengthening of market economies in Russia, Eastern Europe, the former Soviet republics, China, and elsewhere in Asia.

The Japan of the late 20th century has thus been visited with an opportunity to make an enormous contribution to the public good shared by all mankind. If we will only open our eyes and seize the chance to "discover" this value, Japan's current crisis could be overcome. We ought to be able to take advantage of the diligent nature of the Japanese people, who have a tradition of stressing the importance of harmony.

If we could familiarize ourselves with the history and current operations

of the U.S. SEC, it would not be so difficult to figure out how to apply the U.S. experience to Japan, because the U.S. has already discovered the mechanisms and structures that have the potential to cause the world's largest creditor nation to stumble into a financial crisis. Of course, we have problems that are peculiar to Japan, such as the land problem, and it is up to us to work out this part of the problem.

Double-entry bookkeeping – what Japan needs (Goethe)

Fortunately, Japan has a very strong economy. Throughout the Cold War period, we enjoyed ideal conditions for accumulating capital. Indeed, no country had ever before enjoyed such an advantageous set of circumstances. Given the fact that Japan had just been defeated in war, there was really no reason to expect that we might build up the enormous store of assets that we now have.

The problem is that these assets have been allocated in the worst possible way. The distortions in our economy have become concentrated in the financial system, where we are now faced with crisis. The fundamental cause of the problem, however, is the fact that the Japanese-style market economy has not been run by a State that believes the economy must be subject to the rule of law. As Hobbes might have said, "Civil law that contravenes natural law is invalid" (Tanaka Hiroshi).

Post-war Japan adopted a Constitution that renounced warfare, and it embarked on a great experiment as an economic nation. The result was a rare event – a miraculously successful planned economy. As a market economy, however, Japan's economy has been a great failure, because Japan's "abrogated rule of law" goes against the principles of natural law, and the latter must apply if Adam Smith's "invisible hand" is to play its proper role. Keynesian policies, as well, have not had the intended effect for this same reason.

To understand this hypothesis, it

would be sufficient to study *Fundamentals of Securities Regulation*. This textbook was written by Harvard University professor emeritus Louis Loss, who enjoys a reputation as "the living dictionary of the SEC." This is so because what Thomas Hobbes wrote in the introduction to *Leviathan* is applicable to capitalist market economies. ("He that is to govern a whole nation must read in himself not this or that particular man, but mankind.")

For an economic leviathan, the field of accounting constitutes one of the blessings of civilization. When Goethe spoke his famous line about the significance of double-entry bookkeeping, he went on to say that the head of a household must use double-entry bookkeeping to keep track of household finances. After World War II, the United States launched the Marshall Plan for the reconstruction and support of Europe to support the free world. Now, ten years after the end of the Cold War, the world's largest creditor nation (Japan) "must use double-entry bookkeeping."

We now have a chance, using the know-how that we have acquired by studying 20th-century Japan-U.S. relations, to make a contribution to the new world order of the 21st century, which will be "an age of mega-competition." The process of transition to this new age will require a Japanese-style Marshall Plan for the development of a market civilization that makes use of the tremendous wealth that we have built up in our country. Perhaps we could call it the "Glorious Revolution" of the millennium. JJT

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