

Dynamic Capitalism

By Shoichi Akazawa

The whole world is anxiously watching to see what further changes will take place in the former Soviet Union as these countries move from centrally planned economies under the Communist Party to market economies under the invisible hand. This switch to capitalist structures grounded in democratic structures is not, however, an easy process. Rather, it is a very difficult, very time-consuming process that is bound to be fraught with frustration.

Even though people may be agreed on capitalism's desirability, capitalism has many forms and differs from country to country and time to time. At the risk of over-simplification, capitalism's four main streams today are the European model, the American model, the Japanese model and the overseas Chinese model.

The European model started with the industrial revolution and has been evolving ever since. As such, it has gone through a neo-capitalist phase, has grappled with the serious issues in business-government relations and in defining mixed economic structures, and has changed over the years to serve the needs of each society at each stage.

The American model is characteristically more aggressive than European capitalism is. While this American model obviously has its roots in Europe, it has been infused with the frontier spirit of people who emigrated from Europe to the New World to make a better life for themselves and their children—the very energy that has done so much to shape American society. In this, American capitalism is very much a reflection of American society itself.

Japanese capitalism has developed from different roots and in different ways. During the centuries of isolation, feudal Japan developed its own very distinctive cultural and art forms and had a dynamic merchant class from the 18th century on. When relations with the Western industrial countries were abruptly resumed in the 1860s, much of the Japanese intelligentsia—Yukichi Fukuzawa and Eiichi

Shibusawa come to mind—advocated grafting Western technology onto the Japanese soul under the *wakon-yosai* banner. This *wakon-yosai* spirit lives on even today.

Peter Drucker frequently alludes to Japan's development to illustrate his thesis that a country must respect its cultural traditions and create modalities of economic management that are consistent with those traditions if it expects to succeed as a modern capitalist economy. Yet as the many differences between the Japanese model and the Euro/American models have been identified and analyzed, there have been some Americans who have pointed with alarm at Japan's supposedly fundamental differences from the entire rest of the world. On this side of the Pacific, there have been Japanese—Sony Chairman Akio Morita, for example—who have advocated doing everything possible to make Japanese systems compatible with Euro/American systems.

Personally, I believe that a country's economic system is inseparable from its historical, cultural, and social heritage and that the economy will not develop or metamorphose without forthright leadership. Just as I reject the revisionists' contention that Japan is incapable of change, so do I recognize that all Japan is astir with the debate over what needs to be done to ensure continued growth and prosperity. And I am confident that the globalization and diversification of the world's politico-economic systems will accelerate the pace of change in Japan and elsewhere.

The *Journal* welcomes letters of opinion or comment from its readers. Letters, including the writer's name and address, should be sent to: the Editor, Japan Economic Foundation, 11th Floor, Fukoku Seimei Bldg., 2-2 Uchisaiwai-cho 2-chome, Chiyoda-ku, Tokyo, 100 Japan. Letters may be edited for reasons of space and clarity.

A Better Life

The cover story, "Collapsing of Its Own Weight," in the April/May issue was an interesting and informative article that examined Tokyo from a number of different, sometimes unusual, perspectives.

Although Tokyo is rightly regarded as one of the more livable and "civilized" major world metropolises, it nevertheless does face a number of pressing problems that its residents doubtless would like to see solved.

Also, as the author of the article pointed out, people throughout Japan are affected by what happens in Tokyo. That a small town of 49,000 in Kyushu felt compelled to open up what virtually amounts to an "embassy" in Tokyo graphically illustrates the problems many areas outside the main centers face. The office director's lament that "it's almost as though I'm in some foreign country" is a poignant commentary on the dramatically uneven development taking place within Japan.

It was heartening to read, though, that a small town in Gunma Prefecture is rejecting many resort development projects by Tokyoites and taking matters into its own hands by developing plans for revitalizing the area and creating an attractive community landscape. In Tokyo, a disturbing trend is the rapid disappearance of mixed neighborhoods where business and residents cohabited. These integrated residential and business communities were, in my opinion, one of the more appealing aspects of Tokyo.

Now, we are witnessing the mushrooming of more and more "bed towns," and the spectacle of children and wives lining up for hours to try and procure one of the 140 reserved seats available on the Fujisawa-Tokyo train line! (The use of double-decker trains could partly alleviate this "commuter nightmare.")

Now that a certain level of economic affluence has been reached in Japan, perhaps its citizens will demand a better quality of life and, better still, take their own action to achieve this.

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COMING UP

The impact of the collapse of the Soviet Union and Eastern Europe is worldwide and will be protracted. It will inevitably affect U.S.-Japan relations for better or worse, and Japan may be obliged to change its politico-economic and even strategic posture in the world, especially in Asia. But one can hardly predict how things will develop in the coming years. The *Journal* examines this quandary facing Japan in the Cover Story of the August/September edition.

The next issue also includes an article on U.S.-Japan legal disputes and some advice on how to break into the Japanese market.

Downturn Prompts Gov't Pump-priming

The Economic Planning Agency, in a monthly report released on February 25, admitted officially that the Japanese economy had now receded into a downturn. The report for the month of February said business managers were turning bearish under pressures of swollen inventories, and acknowledged that the Japanese economy was "in the midst of an adjustment phase," with a general feeling of business deceleration prevailing across the nation.

For the first time in more than four years there was none of the pet language of "expansion" that had characterized every EPA monthly economic report since December 1987. It last appeared in the EPA report for January. On March 6, the Bank of Japan released its quarterly survey on business sentiment and inventory levels, generally known as *Tankan*, saying that the nation's business confidence had slid to its lowest point in more than four years.

The bleak business outlook prompted the government of Prime Minister Kiichi Miyazawa to adopt a seven-point package of pump-priming measures, including a front-loaded implementation of fiscal 1992 public works projects and financial rescues for smaller businesses. The package, announced on March 31, will increase the amount of money spent on public works by the government and local autonomous entities in the first half of fiscal 1992 (April through September of 1992) by more than ¥3 trillion compared with the same period of fiscal 1991, according to calculations by the Economic Planning Agency. EPA officials said that the economy should pick up to attain the government-set growth target of 3.5% for fiscal 1992, when front-loaded spending by electric power companies and other public utilities is taken into account.

The Bank of Japan, moving to augment the government action the following day, lowered its official discount rate by 0.75 percentage point to 3.75%, the lowest level since December 1989. The step taken by the central bank and the government package together form the first mix of



The scene at Tokyo Stock Exchange on April 9, 1992, when the Nikkei Stock Average tumbled to ¥16,598.15, its lowest point in five years.

fiscal and monetary measures since May 1987, when similar steps were taken to counter the recession caused by the appreciation of the yen.

The stock market had doubts about the effectiveness of the new measures, however, with the Nikkei Stock Average on the Tokyo Stock Exchange plunging below 19,000 for the first time in five years and three months on April 1. Prime Minister Miyazawa urged securities industry executives to consider a higher dividend payout and other steps to reinvigorate the slumping stock market. Similar calls also came from members of his Liberal Democratic Party, but to no avail. On April 9, the Nikkei index fell below 17,000 to close at 16,598.15, the lowest in five years and five months.

Finance Minister Tsutomu Hata, meeting the press the same day after the government budget bill cleared the Diet, went out of his way to stress that there was no cause for concern about the nation's banking industry. He was referring to the falling prices of bank shares, one of the major factors responsible for the depressed stock market.

Also on April 9, the U.S. Federal Reserve Board began letting the federal funds rate move lower. The Tokyo stock market rebounded the following day, with the Nikkei index recovering to climb past 17,000. Some analysts believed that stock prices might have bottomed out. No optimism seemed warranted, however, as to the prospects for the Japanese economy in the immediate future.

Gov't Takes Initiative On Fast-Breeder Reactor

The government will take the lead in constructing a demonstration reactor of fast-breeder reactors under a new policy formulated by the Atomic Energy Commission. The new initiative, announced on February 8, is a departure from the commission's previous policy, which envisioned private electric power companies playing the leading role in fast-breeder reactor development. Instead, the private sector will play a supporting role in the development drive.

Japan's national atomic energy policy emphasizes development of fast-breeder reactors to make the most effective use of uranium. Breeder reactors burn plutonium obtained in the processing of spent nuclear fuels, producing more plutonium than they consume. Stable oil and uranium prices have dampened the enthusiasm of electric utilities for the expensive undertaking, however, leading the commission to propose having the governmental Power Reactor & Nuclear Fuel Development Corporation take a more active role.

Japan's positive stand on breeder re-



The *Pacific Crane*, berthed at a dockyard in Yokohama, is now being converted into a plutonium transport vessel, with state-of-the-art high-tech equipment and safety features including a reinforced hull.



The Maritime Safety Agency's new patrol boat, the *Shikishima*, built to escort the ship carrying plutonium to Japan from France and Britain.

actor development could invite controversy, as it comes at a time when most other countries have put the technology on hold.

In another controversial nuclear power decision, the Science and Technology Agency and the nuclear fuel corporation have assigned the government full responsibility for the safety of a 30-ton shipment of plutonium to Japan from Britain and France. The plutonium will be transported aboard a converted Japanese-owned cargo ship originally used to transport spent nuclear fuel in Britain. The first consignment of 1 ton of plutonium is scheduled to be sent in November from a French port near the nuclear processing plant where it has been stored. The ship bringing it will be escorted by a Maritime Safety Agency patrol boat on its nonstop voyage to Japan.

Foreign countries will be closely monitoring the shipment of nuclear materials, which could be used to make nuclear weapons. The United States and other countries have pointed out the risk of a nuclear hijacking by terrorists, or even accidents which could lead to ocean pollution. Some neighboring Asian countries have also expressed concern about the storage of weapons-grade plutonium in Japan.