The Role of the State in Economic Development: Expansion of the Government's Role in Japan from 1945 to 2000

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Abstract

The post-WWII economic development in East and Southeast Asia was a process of catching-up with other industrialized economies in the West. This article aims at explaining why the Japanese Government continuously engaged in the post-WWII economic development and how it contributed the country to an economic prosperity prior to the 1990s. Compared to market-driven approach in understanding the Japanese economic miracle, the author points out that the notion of 'developmental states' (also known as state-led approach) remains most influential explaining the rapid economic growth, at least stabilizing the economy of a country after the bursting of bubble economy. Referring the case of the post-WWII Japan, both the relevant quantitative and qualitative data included in this article clearly proves that the notion of 'developmental states' did constitute as a kind of legitimate and effective industrializing strategy to help promote the economic growth before the 1990s, even under the economic recession in the 1990s, this approach was still able to provide its convincing argument to illustrate how the Japanese Government accommodated, if not kicked out any globalization force, in effect, the economic pressure from the US, which was capable to continue its hegemony in the national economy. Although it has had the growing number of people and scholars to question the validity of 'developmental states', the author argues that the notion of 'developmental states' still had the most significant role to play in the Japanese economy from 1945 to 2000, whether or not Japan experienced its prosperity.

Keywords: Developmental States, Political Economy, Free Market, Post-WWII, Cold War, Economic Development, Japan, Japanese Government, Economic Miracle, Globalization, Bubble Economy, Economic Recession

Introduction

Background

Economic climate and political development are always shaping the lives of people in various sectors of Asian societies. Comparing to those Southeast Asian countries, a great number of East Asian countries were doing well in economic development, at least the rapid GDP growth, particularly before the economic downturn in 1997. After the WWII, Japan was typically seen as a template in all economic miracle for other less

developed countries to learn. In terms of the net household saving of the post-WWII Japan, as indicated in *Table 1*, the Japanese ranking always situated at the second or third highest all around the world (OECD, 2002).

Table 1: Net Household Saving as a Percentage of Disposable Household Income

	1960	1975	1985	1990	1997	2000
US	7.2	8.9	6.6	4.9	5.0	7.6
Japan	14.5	22.8	15.6	14.1	13.1	13.7
UK	4.5	11.4	5.4	4.4	7.4	6.9
Germany	8.6	15.1	11.4	13.9	11.6	8.6
Italy	16.5	26.9	17.8	15.6	14.5	10.8
Canada	3.8	12.7	13.4	10.5	4.7	16.6

Source: OECD (2002)

Why was the Japanese Economic Development from 1945 to 2000 a Matter?

Borrowing the words from Chase-Dunn and Grimes, '[T]he current world-system is a power hierarchy between core and periphery in which powerful and wealthy "core" societies dominate and exploit weak and poor "peripheral" societies. Within the current system, the so-called "advanced" or "developed" countries constitute the core, while the "less developed" countries are in the periphery. The peripheral countries, rather than developing along the same paths taken by core countries in earlier periods are instead structurally constrained to experience developmental processes that reproduce their subordinate status. In this moving context, core and peripheral countries generally retain their positions relative to one another over time, although there are individual cases of upward and downward mobility in the core/ periphery hierarchy' (1995). Put it simply, the world-system theory above clearly pointed out the structural relations of power or class relations as the fundamental cause of inequalities among states in an international political economy.

To be an exception, the post-WWII Japanese economic development (from the 1960s to the late 1980s in particular) had been unparallel and its economic miracle actually represented an ideal economic institution and practice in East Asia. Such phenomenon before the 1990s could least likely be explained by the world-system theory. Losing almost one third industrial base during the WWII, this defeated country could effectively upgrade to the richest G7 nations within several decades (Vestal, 1993). In the 1990s, however, such miraculous economic boom seemed to come to an end. Its economy since then has not grown very much, unemployment rate has gradually increased and the value of stock market has sunk to one third its 1990 size. Has the economy looked like it might become one of the powerhouses in the post-WWII world really fallen into economic stagnation? If this is the case, how long will it remain there? Is Japan no longer being a good model of economic development of other less developed countries to learn?

Undoubtedly, all questions above seem to be quite difficult to answer at one go since the answer will highly depend on how the role of state (i.e., the Japanese Government) to successfully evolve in the economic arena. However at least, we understand that history would repeat itself. The study of history provides people with skills which are not confined to the study of the past, so that we are able to further understand what the good of the past was and more importantly we will not commit the similar mistakes in the foreseeable future. In the twenty-first century, what are the economic lessons that the Japanese Government can learn from the past? The objective of this article focuses on the powerful role of state in the Japanese economic development after the WWII. It hopes to allow readers to grasp a more all-rounded scenario regarding why and how the post-WWII Japanese Government devoted remarkable and more significantly sustainable input on the economic development from 1945 to 2000, whether Japan experienced its prosperity or recession.

Conceptual Framework: Market-driven Approach *vs.* State-led Approach

According to World Bank (1993), economic development could be simply understood as a substantial increase in national income, which mainly measured by the rate of GDP or GNP growth. With respect to the post-WWII Japan, *Table 2* indicating both economic boom as well as the recession (Ichimura, 1998) was actually happening on irregular basis as time goes by.

Table 2: The GDP Growth Rates of the Post-WWII Japan

Period of Postwar Years	GDP Per Capita (in US Dollars)	Real GDP Growth Rate
1945 - 1952	380	5.0
1952 - 1960	760	9.2
1960 - 1970	966	10.4
1970 - 1980	4,789	5.2
1980 - 1990	14,387	3.8
1990 - 1998	32,496	2.2

Source: Ichimura (1998)

Being an important sub-system throughout the whole society, it is not strange for us to call into question whether the subject of economic development should be mostly driven by the market force, or the state-led effort. In the current literature, there are two bi-polar perspectives which attempt to discuss so. In this article, the author argues why the market-driven explanation is unable to offer as a kind of convincing stance on the Japanese economic success or turmoil but only the state-led force can help provide an all-rounded answer on this.

The Mainstream Perspective: A Market-driven Approach

In the West, the mainstream perspective was originally founded on the assumption that every individual was treated as a rational-choice making agent and as a result maximized personal benefits at the least cost (Allingham, 2002). With regard to the interpretation given by Petri (1993), most economic miracle occurred in the post-WWII East Asia was simply because those countries did seize all 'right fundamentals', including a stable macro-economic environment for saving and investment, as well as a competitive, open economic structure that encouraged the development and growth of enterprises. Put it simply, despite the market failure and the consequent inefficient

allocation of resources, market force can be regarded as the paramount dynamism to lead the economic development without any state intervention.

Regarding the economic miracle occurred in the post-WWII Japan, Denison and Chung (1976) proposed such miraculous economic growth that could largely attribute to a world of 'right fundamentals' such as the high investment level supported by the low-interest rate bank loans, particularly the low-interest rate after 1986, which came from the huge amount of net household saving as listed in *Table 1*. Therefore, a large and active government would just slow down or even worse upset the economic growth.

Undeniably, the mainstream perspective can to a certain extent provide a series of logical and valid arguments how different factors contribute to the economic growth and success, but it is less likely taking into account why the 'right fundamentals' were coming to Japan at that moment. In the words of Friedman, it was obvious that '[A]pplied to this issue of explaining rather than describing the Japanese economic success, however, the (market regulation) thesis encounters problems. The most serious objection is that references to market efficiency really provide no explanation for Japanese growth at all. If Japanese producers did a better job of responding to market demands, we need to know why they were more capable than manufacturers elsewhere. If the market operated more efficiently in Japan and hence disciplined producers more effectively, we again need to know why this was so' (1988).

Tracing back the explanation made by Denison and Chung for further illustration, this school of thought has not really explored why there was a lower interest rate bank loans to support the high investment rate in Japan during the mid-1980s. To bear a closer analysis, almost everyone can discover whether this perspective has overlooked a deeper and basic factor which was the role of state playing in the Japanese economy. The truth was, to get out from more than one year of economic downturn caused by the revaluation of *yen*, the Japanese Government initially reduced interest rate during the mid-1980s in order to stimulate the domestic demand and subsequently the relevant corporate investment.

The Revisionist Perspective: A State-led Approach

As we can see so far in the above explanation, the mainstream perspective can be merely noted as a kind of supplement because of its structural defect in presenting the ideas. Opposed to the market-led approach, the state-led approach as discussed below mostly viewed an outstanding economic growth and success in East Asia to be the expected result of 'state intervention' instead of 'stimulates a free market' (Wade, 1993). In other words, 'free markets' never exist behind the miraculous economic growth and more importantly the mainstream argument about 'government failure' in East Asia is just an illusion rather than a reality. In the understanding of Wade (1993), he further pointed out that '[B]igger and better markets do often need bigger and better states, while bigger states do often seek to control or eliminate markets.' Clearly here, in the eyes of revisionists, the market dilemma occurred is just a popular appearance of the post-WWII East Asian economic development.

The leading revisionist to explain the post-WWII Japanese economic development was absolutely represented by Chalmers Johnson. As Araki (2004) wrote, the notion of 'development states' was firstly noted from his classic work, *MITI and the Japanese Miracle: The Growth of Industrial Policy*. With regard to this classic work written by Johnson, the post-WWII Japan could just be seen as a 'developmental state' more than a 'regulatory state' in the context of economic development (1982). Certainly, it does not necessarily mean the Japanese Government was always regarded as a strong state in guiding the country throughout the process of economic development. In fact, the post-WWII Japan even in the twenty-first century has just been in the sense of 'goal rational' and then being a 'developmental state' on one hand, whereas the one in the US has been seen as 'market rational' under 'a regulatory state' on the contrary.

With respect to the economic miracle occurred in the post-WWII Japan prior to the 1990s, Johnson meticulously noted that its success could be attributed to two main reasons, namely the dual functions of industrial policy in industrial rationalization and meanwhile industrial structure policy, under the strong administrative guidance of MITI (1982). As a result, there is no denying that the MITI was mostly playing a crucial role to ensure the abandonment of outdated and bad practices among the Japanese industries. More than that, the strong bureaucrat-business link (also known as 'iron triangle'), namely those MITI's technocrats in close relations with both *Keiretsu* and *Zaikai* (Kerbo and McKinstry, 1998; Sugimoto, 2003) were going a step further in the obvious contribution of initial reconstruction and later development of the post-WWII Japanese economy.

By viewing the role of MITI from another angle, it could at the same time be noted as a new form of nationalism to substitute the failure of militarism following the end of the WWII. As Samuels interpreted in details, such new form of nationalism (techno-nationalism) was considered as an effective political tool for the post-WWII Japan to resolve an ideological conflict between industrialization and democracy (1994) in favor of national unity and social cohesion.

Discussion I: Why was 'Developmental State' Valid to Help Promote the Post-WWII Japanese Economic Growth Prior to the 1990s?

As already examined in the conceptual framework, the explanation obviously proves the groundless arguments of the mainstream perspective at least in the case of Japan after the WWII. Indeed, merely the revisionist perspective is able to offer a more in-depth understanding to explain its continuous economic growth and even miracle, particularly from the 1960s to the late 1980s. In the following, three more factors will be introduced from one to another to help illustrate why the notion of 'developmental states' would be more valid to shape the post-WWII Japanese economy prior to the 1990s.

Historical Factor: Origin of State-led Approach in the Pre-WWII Japan

The origin of state intervention in the Japanese economy can be traced back to the late Tokugawa to the early Meiji period and its successful experience also rooted from what had later been adopted in the post-WWII era at large.

Being challenged by the West since the mid-1850s, in the purpose of 'Rich Country, Strong Army', the newly-established Meiji Government did pay remarkable efforts to put in place the infrastructure of a capitalist industrial economy by the early 1880s (Gordon, 2003). For those industries supported by the government's funding, they were always capital-intensive, producing high-value goods and paying high wages as well as benefits for their employees. In addition, those large firms tended to initiate a lifetime employment system by offering job security to all skilled workers who were in short supply.

Those large firms, were also noted as *Zaibatsu* (just as *Keiretsu* in the post-WWII Japan), started to play a dominate role in the Japanese economy by 'swiftly mobilizing scarce resources of capital, skilled labors and technology in new industrial endeavors' (Gerschenkron, 1962). Referring the Japanese economic map before the WWII, the top four *Zaibatsu* were called *Mitsui*, *Mitsubishi*, *Sumitomo* and *Yasuda* in order of size. After the depression occurred in 1907 and 1908, many medium and small size enterprises had become bankrupt, leading to further development of *Zaibatsu* and their expanding financial influence over Japan.

Beyond Japan gained back its independence from the US in 1952, the basic policy of the Japanese Government was to strengthen this defeated nation by trade and put its top priority on export. 'Export or die' was a popular thinking in those days (Ohno, 2006). Most people at that time strongly believed that they should earn money by export in order to purchase raw materials which they always lacked. In this way, this should be the most crucial point why the Japanese Government set up both Economic Planning Agency and MITI in 1952 in order to achieve the goal of economic independence (without the economic support from the US) and hence offered technological support for those Japanese enterprises.

Cultural Factor: *Nihonjinron* as a National Discourse to Promote the Post-WWII Japanese Economic Growth

Culture is a fundamental but meanwhile complicated term in different cases, which can be noted as the central concept to further understand how a society works. Actually, there is no one true meaning of culture since its definition ('a particular way of life') varied in temporal-spatial situations (Williams, 1982). Borrowing the ideas from Sugimoto, cultural determinism just put the focus on the idea of the cultural uniqueness of Japanese that could help defend its national sense of self against other oppositional ideologies (2003). In fact, such national discourse could be traced back to the pre-WWII era (Kowner, 2002) and in the meantime had its deep roots as discussed in *The*

Chrysanthemum and The Sword, a popular study of Japan by the US anthropologist Ruth Benedict in 1946.

In the post-WWII Japanese economic growth and even miracle, *Nihonjinron* did appear to be a genre again for projecting the indigenous merits of Japaneseness (Morris-Suzuki, 1998). In the words of Kowner, there were premises of *Nihonjinron* including but not limited to the cultural homogeneity of Japanese which 'share a single language, religion and lifestyle and belong to a single race' (2002). Because Japanese people are unique, the implication is that they are superior over foreigners, whether or not in economic achievement.

To be clear, cultural determinism stresses that the Japanese economic success should be an outcome of the unique Japanese character and culture. Since Japan is a vertically-constructed society and most Japanese are of strong group orientation, they are so willing to strictly follow the state guidance or intervention in terms of economic development. In the understanding of Petri, authoritarianism was in this regard legitimated by Confucianism, meaning the long-term political stability in favour of the economic growth (1993). Put it in a concrete way, since most Japanese workers were fine to devote themselves to their corporations because of their 'neo-feudal loyalty' under the Japanese management just as life-long employment (Dohse et al., 1985), this kind of unique Japanese character and culture in all *Keiretsu* and *Zaikai* as a result helped revive the post-WWII Japanese economy within a very short period of time (Glazer, 1976) and even created a brilliant economic miracle thereafter.

Geopolitical Factor: Economic Support from the US to the Japanese Government in a Bi-polar World

After the WWII, the US initially planned to punish Japan in the first year of occupation. However, the Cold War promptly occurred after the WWII and the establishment of China in 1949 drastically changed the US mind. The US Government since then strongly believed that a reliable ally (Japan) under the US control was a must in Asia in the purpose of promoting containment policy to stop the spreading of Communism (Best, 2008). In other words, Japan should not be a threat to the US and its specific geographical location would be further helpful for the capitalist bloc to resist the communist regimes led by both the USSR and China.

In order for Japan to be integrated into the Cold War capitalist order (also known as Bretton Woods System) and thus act as a bastion against Communism, the Japanese Government must be strengthened by the US substantially because Japan might be turned as a Communist state if this defeated nation was too weak in the bi-polar world. With the entire support from the US, the post-WWII Japan was successfully integrated into a semi-peripheral role in the global political economy, in line with the US global policy (Cumings, 1993) against the communist countries.

On one hand, the US stopped its hostility towards Japan starting from the

introduction of Dodge Line in 1949 (Ohno, 2006). Further funds provided by the US Government were injected to ease the Japanese financial deficit and inflation, as well as to limit the over-issuing currency. As expected, the Japanese economy was gradually stabilized. From the early 1950s, the US even did not request Japan to pay any war indemnity as previously mentioned. More notably, Japan had just dismantled 7% machinery required in the indemnity plan, that helped a lot the economic recovery. On the other hand, with the full support from the US, Japan was at the same time allowed to join those economic international organizations under the Bretton Woods System the World Bank and IMF in 1952; GATT in 1955 (Brown and Ainley, 2009). Since China had been contained by the capitalist bloc specifically after the Korean War, the non-Communist economies of Southeast Asia became to the fore as both a source of important raw materials and a market for the Japanese export-oriented economy.

What finally deserves to highlight at this point would be the special procurement brought by the Korean War and the later Vietnam War from the US Government towards Japan. Not only the revenue and consuming power of most Japanese people had greatly increased which led to a great prosperity in consumption, but also numerous foreign reserves were earned by the Japanese Government as a powerhouse to keep implementing those huge economic plans in every three to five years thereafter.

Discussion II: How did 'Developmental State' Work in the National Economy, whether Japan was in Prosperity or Recession from 1945 to 2000?

The Occupation Period (1945 - 52)

Japan was defeated in the WWII and surrendered to the Allied Forces in 1945. Referring the data indicated in *Table 3*, as the defeated country in Asia, one fourth of national assets was destructed in such aggressive wars and this scenario was noted as the main reason to explain why Japan had only achieved the very limited GDP growth in the early recovery period, as previously shown in *Table 2*.

Table 3: **Destruction of National Wealth (Billion *yen*)**

	Total Damage	Estimated Value of Undamaged State	National Wealth Remaining at War's End	Percentage of Damage	National Wealth in 1935 (Calculated at Value at War's End)
Gross Value of National Assets	64.3	253.1	188.9	25	186.7

Source: Takafusas (1994)

During the occupation period until 1952, Japan was occupied by Allied Forces, in effect the US force. General Douglas MacArthur, Supreme Commander for the Allied Powers, was in charge of the Occupation Authority and meanwhile he embarked on a series of reforms in the post-WWII Japan (Gordon, 2003). In 1946, *Keizai Antei Honbu* (also known as Economic Stabilization Board) was established to formulate a national policy and reconstruction. The Board had extensive and peremptory powers, which absolutely made it play the role of powerhouse in economic planning in the occupation period and it obviously marked the beginning of state-led economy again in the post-WWII Japan. In 1947, a radical reorganization leading to a considerable expansion in the size of Board was further carried out, including the formation of MITI (Uchino, 1983) which was to be clear lining with the state-led approach. The function of MITI, in the words of Wolf, this was 'a system of business activity which can best described as "economic totalitarianism", government-directed enterprise in which all the energies of Japan have been mobilized to overwhelm world competition' (1983). To make this in simple, the joint collaboration of business, government and party (The Liberal Democratic Party since 1955) in power would be at the same time responsible for the initial economic recovery and later economic growth.

According to Takafusas, there were three main themes regarding the economic reform arena in that period of time, which included the dissolution of *Zaibatsu*, the anti-monopoly law and deconcentration, and democratization of labors (1994), with the goal of liberalizing Japan with never to be a possible threat to the world peace after 1945. Perhaps the half-hearted *Zaibatsu* dissolution was a convincing way to further help illustrate how the post-WWII Japanese economic reforms were introduced with political motives. Since the *Zaibatsu* had had close correlations with most politicians during the inter-war period and this had somehow furnished to the later outbreak of the WWII, the Occupation Authority under the US leadership therefore determined to dismember all *Zaibatsu* according to the Yasuda Plan in 1946. Yet, from 1948, such dismemberment policy drastically changed to the reconstruction of new *Zaibatsu* as it was hoped to safeguard Japan to stand on its own foot by getting rid of communism in the bi-polar world.

The Reconstruction and High Growth Period (1952 - 73)

When the American occupation came to an end during the early 1950s, the post-WWII Japanese economy was going to stabilize. According to Vestal (1993), from 1951 to 1954, the real GDP growth rate was 7.4% in average per year. This could be probably explained by the outbreak of the Korean War in the early 1950s so that the US had made use of Japan as a base of operations and providers of wartime materials to fight against the communist bloc. Needless to mention, the wartime demand was a remarkable boost to Japanese economy and therefore provided the funding Japanese needed to get their economy going.

With the help of sufficient funding, the Japanese Government tried to launch its targeted industries like petrochemicals, coal, iron and steel, electric power, and fertilizers. This targeting was mostly done by MITI and companies that followed MITI's directions received bank loans made possible by the government's support (Johnson, 1982). Textiles were the first main foreign capital earner. They were quickly followed by shipbuilding. In the late 1950s, Japan became the world's largest ship building

industry in the world. And throughout the 1960s, Japan began to develop its strengths in automobiles, motorcycles, electronics and capital equipment. At that time, the Japan's motor vehicles had monopolized the domestic market and gradually started to compete in the overseas including but not limited to the US market as well.

In every three to five years after the occupation period, the Japanese Government kept announcing eye-catching economic plans to stimulate the GDP growth as highlighted above. After the Economic Self-reliance Five-year Plan held in 1955, the Prime Minister Ikeda Hayato further announced a Ten-year National Income Doubling Plan in 1960. He did set a goal of 7.8% annual growth during the decade (1961 70), in the purpose of significantly raising most Japanese living standard by increasing infrastructure construction, advancing technology, developing expertise, restructuring certain industrial sectors and improving external trade with international cooperation (Lin, 2005). In order to help achieve the goal of this plan, the Japanese Government subsequently formulated its financial policy, reduced tax and interest rates, and injected more public funding for the development of transport infrastructure. In terms of the development of transport infrastructure, there was an opening of the Tokaido bullet train between Tokyo and Osaka in 1964. Besides, a superhighway between Komaki and Nishinomiya was constructed in 1965.

The Japanese economy in 1945 had adversely retreated by twenty-five years. Yet, *Table 4* below indicating the economic planning of the Japanese Government aimed at expansion of the industrial base to be obvious proved exceedingly successful to meet the official expectation, which the economic situation in Japan (excluding external trade) could recover to the pre-war level in the 1950s. The 1960s was the most remarkable decade of the Japanese economy. By 1968, Japan did surpass the West as the second largest economy in the world, just next to the US. The 1960s unemployment rate at the same time was low, less than 1.4%, except for 1960 when it was 1.6% (Hamada, 1996). During the early 1970s, following the prior government's anticipation, national income in Japan had actually doubled with achieved an average annual growth rate of 10%.

Table 4: GNP, National Income and Personal Consumption Expenses (Trillion *yen*)

Year	GNP	National Income	Personal Consumption Expenses
Base Year (1956)	9.5	8	6
Target Year (1970)	26	21.5	15.5

Source: Lin (2005)

The Restructuring Period (1973 - 90) and the Bursting of Bubble Economy during the 1990s

After the rapid growth period, the economy in Japan to be unfortunate encountered unavoidable challenges. It often fell into recession, but always managed to restructure itself and came out stronger. Instead of continuing to discuss how the Japanese Government chipped in continuous efforts to maintain the economic prosperity during this period, what the illustration below focused on how the Japanese Government in the contribution of the formation of bubble economy and most critically its dealing method after the bursting of bubble economy.

Being an island country which lacks most natural resources, Japan has always relied on export-oriented industries to generate its revenue to import what is needed from overseas. From the high-growth period, the Japan's competitive strength was going to overwhelm the industries of the US and Europe, which unavoidably bringing the seriousness of trade conflicts between Japan and a number of European countries. In the explanation of Kanemitsu (1989), the trade relations with the US at that period (1974- 82) could be noted as competing partners rather than patron-protégé as in the previous decades. In fact, the immense trade surplus enjoyed by Japan was mostly based on the enormous trade deficit of the US (Iyoda, 2010). Hence, on one hand, the US Government tried to activate neo-protectionism to restrict the quantity of the Japanese export through the Voluntary Export Constraints (VERs) in terms of the textiles, color TVs, steel, machine tools and automobiles through the Japan-US Structural Impediments Initiative Talks in 1990. On the other hand, the US Government kept putting great pressure on liberalizing the entire Japanese market, and even called to amend the structure of 'iron triangle' and hence informal practices of political economy in Japan (Ito, 1993).

Facing the diplomatic and economic pressure mainly from the US, following the Plaza Accord as a kind of globalization force to be effective in 1985, the Japanese Government had no more alternative but to promise to increase the value of *yen* since then, which then unavoidably marked the beginning of the formation of bubble economy. It never rained but it poured, i.e., such kind of the globalization force without doubt exposed Japan to labour force dispersal (Befu, 2001). The bygone optimistic economic environment in Japan as a result forced those discontented labour force to seek opportunities outside Japan. The increasingly frequent interactions by virtue of more efficient but cheaper transportation and information system, really facilitated a great number of job applications to foreign companies and overseas business establishment. Although the globalizing force superficially contributed a lot to the affirmative development of Japanese economy, we should not forget that the impact of *yen*'s appreciation which will be further discussed as below because of its relatively higher maneuverability by the Japanese Government (through both fiscal and monetary policies) while comparing to that of other possible factors resulted by globalization and also by social development, e.g., human dispersal and aging population respectively.

Doubtless, the increase the value of *yen* to be affected by globalization would inevitably compress the living room of most Japanese enterprises because of the cost of their exports would sharply increase at the same time. To compensate the loss of such Japanese enterprises, Japan Bank finally decided to lower the interest rate more than a half from 1986 to 1987. The low-interest rate under the strong state intervention unavoidably made the speculation of real estate for many Japanese enterprises to

borrow money from *Jusen* (also known as Housing Loan Company) very popular during the late 1980s as listed in *Table 5*.

Table 5: The Percentage of *Jusen* Housing Loans to Individuals and Business

	1971	1975	1980	1985	1990	1991	1992	1993	1994
Housing Loans to Individuals (Percentage)	100	99.5	95.6	67.0	21.4	21.4	21.6	21.4	20.6
Housing Loans to Individuals (Percentage)	0	0.5	4.4	33.0	78.6	78.4	78.4	78.6	79.4

Source: Hori (2005)

Worse still, a great number of Japanese enterprises were increasingly turning to the stock market to fulfill their capital needs, which once again motivated banks to compete in obtaining business from other borrowers. Combining all such factors to be unfortunate led to inflation of stock and also real estate prices. To be affected by the mechanism of 'iron triangle', most Japanese banks encountering such situation did not carefully examine the credit worthiness of many of the borrowers or the worthiness of their proposals very well. As Misawa observed, the loan was just approved in accordance with the related bank's analysis, evaluation of information collected and systematically accumulated by the bank through its historical transactions with that corporation (2006). In other words, no formal or reliable mechanism was taken to secure bank's interests such as collecting loans from those target corporations or if necessary dealing of non-performing loans under the unexpected or disastrous situation.

Such madness speculation in both stock and also real estate markets eventually made the bursting of bubble economy in the early 1990s, most Japanese banks could be seen as the victims in this economic turmoil. Bankruptcies of financial institutions including banks and the resolution of non-performing loans did become a serious problem. In particular, a huge amount of credit (i.e., around forty trillion *yen*) secured by the real estate sector was not recoverable (Misawa, 2004). As discussed in the earlier paragraph, *Jusen*, funded by both commercial banks and agriculture and forestry-related financial institutions, sharply increased lending to the real estate sector without careful consideration in the 1980s, and they were severely saddled with massive non-performing loans in the early 1990s. *Jusen* problem was in fact the first of a series of crises in the Japanese financial sector after the bursting of bubble economy. For such paradigmatic circumstance, there were indeed growing number of people and scholars to severely criticize the financial regulatory failure (Milhaupt and West, 2004) of the Japanese Government. However, it would just be seen as a kind of one-sided explanation, if not an illusion to wholly indicate the ineffectiveness of state-led approach in the 1990s. In my understanding, the proposed solution by Ministry of Finance (MOF) with the bankruptcy of Long-term Credit Bank of Japan (LTCBJ) was a counter convincing proof to help me do the relevant refutation.

LTCBJ was one of the banks that was so aggressive in lending loans to construction and real estate related industries during the 1980s, and just as the case of *Jusen*, most of these loans turned out to be bad-debts (Misawa, 2006). Although MOF's bureaucrats intended to take a series of conservative means (i.e., state-led approach) instead of rely on market or globalization force to solve the LTCBJ's bad-debts, their proposed solution as expected was quite effective in the very beginning if not to be always interfered by other factors that were out of control by the Japanese Government. In particular, the public resentment in Japan against the official action to save the failed financial institutions was so strong since 1995, that it became a political taboo to refer to use of any public funds to address the banking problem (Basel Committee on Banking Supervision, 2004) just as the situation of LTCBJ before its bankruptcy in October 1998.

As an alternative to save LTCBJ, what the Japanese Government could do by then was quite limited but state intervention was still able to step in to deal with LTCBJ's problem as much as it could. In June 1998, Sumimoto Trust Bank was selected to be lobbied, if not coerced by the Japanese bureaucrats behind the scene to reach a merger agreement with LTCBJ. Unfortunately, the bi-polar insights between these two banks indicated in the merger press conference held on 26 June had seriously triggered investors' concern, which both banks' stock prices drastically dropped (Tett, 2004). Such unexpected result from the stock market that was without any relationship of state-led approach's effectiveness or ineffectiveness issue had announced the end of 'cooperation' between both banks and more critically marked the prelude of LTCBJ's eventual bankruptcy. Rather than a brutal shakeout, which would result to demise of weaker financial institutions just as LTCBJ since the mid-1990s, MOF's proposed solution mostly preferred to keep such failed bank afloat in the last minute so as to avoid the ripple side-effects of bankruptcies and unemployment (Hori, 2005), in order to secure the interests of the Japanese bank sector and as a whole most population of this country. The above mentioned consideration and proposed solution in solving LTCBJ crisis by the Japanese Government to be clear was noted as a kind of reflection that most of the things in this case were worked out under the notion of 'developmental states' step-by-step successfully.

In addition to those orderly attempts made by the Japanese officials to save LTCBJ, there were still quite a great number of substantial proof after that to let us understand how the notion of 'developmental states' still played its hegemonic role in the national economy during the 1990s. The LTCBJ crisis as highlighted earlier actually led to two new pieces of important legislation in Japan, which were Financial Reconstruction Law and Financial Function Early Strengthening Law (Basel Committee on Banking Supervision, 2004) as the systematic management to deal with the potential bank sector's crisis if necessary. With the new comprehensive safety framework in place, the Japanese Government since then was more capable to save a failed bank especially in the early stage and of course without trigging the negative concern of most populace or mass media. Based on the above new financial laws, tax revenues of more than seven trillion *yen* were used to prop up the faltering fifteen financial institutions in 1999 (Misawa, 2004) to rebuild the creditability and reliability of the Japanese bank sector. With the similar purpose, the Deposit Insurance Law was further amended in 2000 to

fully protect deposits with two or three more years. Despite the wave of globalization, state-led approach to be obvious engaged in the whole 1990s would still be seen as a capable engine to exert its notable influence to the Japanese economy.

Conclusion

The politico-economic process involved in the post-WWII Japan is as highly complex as in other countries in East and Southeast Asia. Just referring what has been discussed and analyzed in this piece of article, the above review clearly illustrates that the state-led economic development in Japan would be mostly effective, what the difference before and after the 1990s is how much efforts that the government should accommodate or co-work with the globalization or market force. To make it in simple, the success of the national economy in my understanding mostly depends on how 'good' economic choices can be eventually made by the specific political characters and even the entire government. To understand the intricate interactions between politics and economy in an in-depth way, more and ongoing related quantitative and qualitative studies are essential in order to formulate a set of more accurate conceptual framework to explain such political economy's model, and as a result provide a set of more all-rounded underlying reasons of illustrating both economic boom and downturn in particular.

Compared to the situation in the 1990s, the twenty-first century's economic hardship in Japan has undeniably been lessened under the guidance of state-led approach but is still difficult to explicitly predict whether or not the Japanese Government would continuously implement such structural reform programmes starting from the Prime Minister Junichiro Koizumi to stimulate the economic growth. For instance, the current state-led, or more accurately, Abe-led economic policy recently aims at exploiting the economic potentiality of Japan through the active sustenance of an inflationary environment (Mark, 2016). It is no denying that the ultimate goal of Abenomics is to boost the stagnating the Japanese economy by initiating reflation. Although the affirmative effects, namely, the hike of stock price and GDP, as well as the declining unemployment rate, are observed, the rise in consumption tax really hinders the upward motive force of the entire Japanese economy (Wakatabe, 2015). Reasonably, the aftermath of Abenomics remains opaque in the current stage but myriad adjustments and adaptations among the economic sectors in response to the fiscal and monetary changes brought by Abenomics and the consequent political and intellectual resistance are expected. As a result, it is still far too early to assess or even speculate the possible outcome and consequences of Abenomics to the Japanese as well as to the global economy.

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