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Development, Crisis, and Class Struggle: Learning from Japan and East Asia

Paul Burkett and Martin Hart-Landsberg

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Chapter 9

The Japanese Miracle and Its Contradictions

The early to mid-1950s recovery of the Japanese economy to prewar levels was mostly a result of special Korean War procurements arranged by the United States. This followed on the heels of the U.S. occupation's suppression (in cooperation with the Japanese ruling class and its state functionaries) of the postwar radical-democratic, production-control, and industrial union struggles of Japanese workers. Together with the more general "reverse course" in U.S. policy toward Japanese reconstruction, the Korean War boom and repression of the working class enabled Japan's governing elite to reconstruct the basic institutions of Japanese capitalism—the *zaibatsu*, bureaucratic planning, and labor control systems. The accumulation model that emerged after the Korean War was built around large-scale investments in heavy industry supported by rapid growth of light manufactured exports. Export growth was crucial because it helped fill the widening effective demand gap opened by rising rates of exploitation (real wages that increased more slowly than labor productivity).

Export-Led Growth and Heavy Industry

Prior to the Korean War, the U.S. occupation had pushed Japan to pursue an export-led growth strategy based on light manufactures. However, Japan's governing elite understood the importance of building up capital- and chemical-intensive industries to lessen external dependence and ensure future growth. After gaining formal independence from the United States in 1952, the Japanese government immediately began to encourage and direct the expansion of heavy and chemical industries—especially steel, aluminum, electric power, petrochemicals, cement, and shipbuilding. The result was "a huge network of industrial complexes which [were] among the most advanced and most productive facilities in the capitalist world" (Sweezy, 1980, p. 4). To cite just one example, by 1971 Japan's Nippon Steel had overtaken U.S. Steel to become the world's largest steel company (Halliday, 1978, p. 279). Indeed, "as far back as 1965 the share of heavy industry in Japan's industrial output was higher than in any other industrial country" (Halliday and McCormack, 1973, p. 166). "Metals, chemicals, and engineering already represented about 60 per cent by value of the country's gross factory production in 1960, compared with only 30 per cent in 1930" (Beasley, 1995, p. 247).[1]

Even though Japan's post-Korean War growth was largely keyed to investment in heavy industry, exports were a driving force behind the expansion. As Robert Brenner explains:

> Between 1952 and 1960, Japanese exports as a share of GDP rose by 14 percent. But this aggregate figure does more to obscure than illuminate the central place of export growth in postwar Japanese development, because it distracts attention from the fundamental role of exports in underwriting the pivotal, and extraordinarily dynamic, Japanese manufacturing sector. By 1960, the share of manufacturing exports in manufacturing output had grown to 28 percent, and contributed significantly to the increase of the share of Japanese manufacturing output in total output from 19.5 percent to 26.4 percent and of the manufacturing labor force in the total labor force from about 15 percent to 22 percent during the previous decade. (1998, p. 89)

Two kinds of manufactured exports were important during this initial phase of the Japanese "miracle." First, heavy and chemical industry exports helped the *zaibatsu* to profitably utilize excess productive capacity in these sectors. "By about 1965 production of the major heavy and chemical industries far exceeded the level of domestic demand"; hence exports were a crucial means of "solving crises of overproduction" (Halliday, 1978, pp. 279-280).[2] However, until the mid-1960s a second type of manufactured export was of far greater quantitative importance to the Japanese economy, namely, light-industrial products such as textiles, toys, and simple electrical appliances. Textiles were the leading export during the 1950s but were replaced by transistor radios by the early 1960s (Tsuru, 1993, pp. 77-84).

Unlike the heavy and chemical industries, with their predominantly male labor forces, the light-manufacturing sector employed many women

workers. Indeed, its labor-intensive operations were internationally competitive in large part because the wages of Japanese women workers were comparable to those of women in other Asian countries even though Japanese male wages were higher. Labor-intensive manufactured goods made up 65.0 percent of all Japanese exports in 1955, and by 1965 they still accounted for 52.8 percent despite the intervening expansion of the heavy and chemical industries (Krause and Sekiguchi, 1976, p. 409). Given Japan's dependence on imported raw materials, fuels, and technologies, the growth of light-manufactured exports was clearly an essential ingredient in the launching of the growth "miracle."

The results of the dual strategy of heavy industrialization and light-manufactured exportation were indeed impressive. From 1950 to 1960, Japan's real GNP grew at an average annual rate of 10.0 percent, while manufacturing output growth averaged 16.7 percent. This growth was driven by a massive investment boom: private investment in plant and equipment rose at an average annual rate of 15.6 percent over the entire decade, and at 22.6 percent from 1955 to 1960. Capital investment in manufacturing averaged a stunning 33 percent annual growth between 1954 and 1961 (Brenner, 1998, p. 79). By the early 1960s, the Japanese economy was already being extolled as an unprecedented success in "creative defeat" (Tsuru, 1993, Chapter 3).

Industrial Restructuring and the Working Class

Japan's postwar growth "take-off" was anything but smooth, however. The country's high-investment, high-export strategy immediately began to generate and confront barriers, and it was largely in response to these barriers that the economic strategy evolved. The most important difficulty—one present throughout the period from the mid-1950s through the 1980s—was that "Japan's rapid economic growth, which involved tremendous increases in export potential and import needs, caused difficulties for other countries through market disruption. . . . The higher the rate of Japanese economic growth, the greater the strain in foreign markets imposed by Japanese export expansion" (Krause and Sekiguchi, 1976, p. 406). As Japan increased its share of the world manufactured export market, her export success began to occur at the expense of other capitalist countries. By 1959, Japan's share in the manufactured exports of the 12 leading capitalist nations was already 6.6 percent, up from 3.3 percent in 1950. Japan's share rose still further, to 7.6 percent, by 1963 (Brenner, 1998, p. 90). Not surprisingly, the governments of the United States and other capitalist countries responded with import restrictions aimed at Japan plus demands that Japan liberalize its own imports.

Initially, these external trade-related pressures largely focussed on the light-manufacturing sector—the main source of Japan's manufactured exports through the early 1960s. A considerable share of Japan's light manufactures was directed at the U.S. market, so much so that U.S. light-manufacturing firms and trade unions began complaining about the flood of "dollar blouses" and transistor radios from Japan in the late 1950s and TVs in the early 1960s. Responding to such complaints, the U.S. government demanded that Japan place limits on its light-manufactured exports, especially of cotton textile products (Tsuru, 1993, p. 198).[3] Then, hoping to use trade negotiations as a lever to open up the Japanese economy to U.S. and European corporations, the U.S. and European governments began pressing Japan hard to speed up its own trade liberalization. By 1963, such pressures were being exerted not only in bilateral trade negotiations but also through multilateral organizations including the IMF, OECD, and GATT. The following year Japan agreed to phase out both foreign-exchange rationing (an import-control device) and export-subsidies (pp. 112-113; Krause and Sekiguchi, 1976, p. 414).

Meanwhile, on the domestic scene, rapid growth of output and employment was generating higher wages even for women workers. By the mid-1960s, these rising wages were making it increasingly difficult for Japan's light-manufactured exports to remain internationally competitive.[4] This internal development, along with the growing external trade frictions described above, made the light-manufacturing sector an unviable basis for continued export growth. The Japanese bureaucracy therefore began encouraging the movement of light-manufacturing plants out of the country. Production of cotton textiles was moved to East Asia (mainly to South Korea, Taiwan, and the ASEAN countries) beginning in the mid-1960s, followed shortly by synthetic textiles (Steven, 1983, pp. 237-240; 1990, p. 70). Not long after came the relocation of labor-intensive consumer electronics production, including radios, TVs, and tape recorders—again primarily to countries in East Asia (Tsuru, 1993, pp. 197-198).

The outward migration of light-manufacturing production was part of a larger process of scrap-and-build. As light manufacturing was being run down and relocated, the Japanese government focused on shifting the main core of manufactured export growth toward the heavy and chemical industries—especially iron and steel, ships, chemicals, and petroleum products (Steven, 1990, p. 9).[5] These industries, which processed large amounts of imported raw materials, had previously grown largely through domestic-

market sales; but now they became increasingly export-oriented. For example, the share of steel products that were exported rose from 11.4 percent of total output in 1960, to 20.8 percent in 1970, and to 30.2 percent in 1974 (Tsuru, 1993, p. 83). For steel vessels, the share of output exported rose from 53.1 percent in 1960, to 76.7 percent in 1970, to 88.9 percent in 1974 (p. 84). The shift of Japan's exporting core from light manufacturing to heavy and chemical industries was reflected in the respective shares of labor-intensive and capital-intensive goods in Japan's total exports. According to Krause and Sekiguchi (1976), the share of labor-intensive exports fell from 52.8 percent in 1965 to 43.5 percent in 1973, while the capital-intensive export share rose from 37.5 to 46.6 percent in the same period (p. 409).[6]

The success of this transformation is shown by the continued rapid growth of the Japanese economy. From 1965 to 1970, real GNP rose at an average annual rate of 14 percent while manufacturing output growth averaged 15.8 percent. Private investment in new plants and equipment showed an annual average increase of 21.1 percent in the same period, almost matching the growth rate achieved during the years 1955-61 (Brenner, 1998, p. 112). The new growth surge undoubtedly generated great benefits for the male Japanese workforce employed by the core, heavy industrial enterprises. As Rob Steven observes: "Domestically, these years represented the high point in the development of heavy industry, which symbolized the 'Japanese miracle' and brought unheard of wages and conditions to the male labor aristocracy" (1990, p. 14).

The growth of male earnings in heavy industry was a crucial source of effective demand for the output of relatively new consumer-goods industries such as automobiles and advanced electronics products. The big core production units in these newer industries also mainly employed male labor (especially in their permanent workforces). Hence, it was once again the minority male labor aristocracy that benefited most directly from the late 1960s rapid growth of industrialized consumer-goods production. Of course, the flip side of the whole scrap-and-build dynamic was that many women lost jobs as the production of textiles and simple electronics was relocated abroad. Many of these women workers were forced into the low-wage service and household sectors. Others found jobs, as did many men who could not find core employment, in the growing network of subcontractors that developed to support the new consumer-goods industries. There was also "a massive influx into temporary and part-time jobs by mainly married women" (Steven, 1990, p. 14).

In fact, underwriting Japan's rapid growth and industrial transformation was a labor system based on the oppression of women, the use of temporary workers, and subcontracting. While women made up only 32.4 percent of all employed workers in 1972, they accounted for 57.5 percent of all factory workers and 46.8 percent of all office workers (Halliday, 1978, p. 224). This is important, since women were paid approximately half of what men earned, generally excluded from "lifetime employment," and forced to retire by the age of 30 if not earlier because of marriage. Japanese firms, even core industrial firms, made great use of largely female temporary workforces. These same core firms derived significant additional cost savings from their use of subcontractors. Some two-thirds of all manufacturing workers were employed by small- and medium-sized firms, many of which operated within networks controlled by the larger and more powerful industrial leaders (pp. 225-226).

The anti-labor bias of Japan's growing industrial system is perhaps best illustrated by the trend in labor's share of gross value added. "Labor's share in Japan fell from 39.6 per cent in 1953 to 33.8 per cent in 1966, and an estimated 33.7 in 1970. This compares with figures [consistently] over 50 per cent for Canada, Sweden, Holland and the United Kingdom" (Halliday, 1978, p. 222). Japanese workers also suffered from the longest average work week of any advanced capitalist country. In 1970, for example, the work week averaged 43.1 hours in Japan compared with 39.1 in West Germany and 37.5 in the United States (p. 222).

With its ability to routinely keep real wage increases well below productivity gains, it is not surprising that Japanese industry enjoyed a considerable cost advantage over its international rivals and thus rapid growth and export success (Brenner, 1998, pp. 77-90). Indeed, as industrial capacity grew far beyond domestic wage-based demand, the Japanese system became, out of necessity, increasingly export-oriented. This is reflected in the shift of the economy's main exporting center from the old light-manufacturing sector to the more capitalized and technologically advanced heavy and chemical industries, indicating that export dependence was increasingly penetrating the dynamic core of the Japanese system.

More "Creative Destruction": From Heavy Industry to Machinery Exports

Despite the initial success of the scrap-and-build strategy, Japan's economic expansion continued to generate contradictions. Domestically, the growth of the heavy and chemical industries created serious pollution problems (Broadbent, 1998, pp. 12-19). Beginning around 1970, "citizens' organizations concerned with mounting evidence of the multiform dangers to the environment . . . mushroomed throughout the country" and pollution became "a central political issue" (Halliday and McCormack, 1973, p. 193). To the alarm of Japanese capitalists and their state functionaries, this "environmental concern gradually became a matter, less of cost-benefit calculation than of human rights" (Tsuru, 1993, p. 137; cf. Broadbent, 1998, *passim*). Along with the environmental movement, increasing land costs also threatened the further expansion of the country's heavy and chemical industries. Indeed, the land-cost problem became more worrisome to capital insofar as environmentalists pushed successfully for regulations on industrial land use.

Internationally, Japan's growing exports continued to create tensions as they invaded the domestic markets of, and constrained the export opportunities available to, other developed capitalist countries—especially the United States. From 1963 to 1971, Japan's share of manufactured exports by the 12 leading capitalist countries rose from 7.6 to 13.0 percent. Between 1964 and 1971, Japanese exports to the United States quadrupled in value, and the share of Japan's total exports destined for the United States rose from 27.6 to 31.2 percent (Brenner, 1998, pp. 113-114).

The United States responded to its growing trade problems in August 1971 by ending gold-dollar convertibility (effectively terminating the Bretton Woods system of fixed exchange rates) and putting a ten percent surcharge on all imports. This led to the December 1971 Smithsonian Agreement, which included a commitment by the Japanese government to raise the value of the yen by 17 percent. Japan had long resisted U.S. demands to revalue its currency, keeping it at the 1949 level of 360 yen per dollar. Unfortunately for Japan, widening U.S. balance-of-payments deficits pushed the yen's $U.S. value up another 12 percent in 1973 (Tsuru, 1993, pp. 179-180; Brenner, 1998, pp. 122-123).

Close on the heels of the yen's revaluation, the Japanese economy took another serious hit with the sharp rise of oil prices beginning in late 1973, followed by price increases for most other primary commodities. The combined impact of these developments was especially severe for Japan's heavy and chemical industries. Since these industries processed large amounts of imported oil and other materials into exports, their profitability and competitiveness was undermined by the exchange-rate and oil-price shocks. The response of Japanese planners was to launch a new round of scrap-and-build.

Even before 1973, Japanese bureaucrats had responded to domestic environmental and land-cost problems by developing plans for the rundown and relocation of the heavy and chemical industries.[7] At the same time, government planners had begun nurturing the accelerated development of several newer industries, including automobiles and advanced consumer electronics. In 1971, the Industrial Structure Council, operating under MITI direction, publicly called for the creation of a new manufacturing core centered in the electronics and machine industries. Singled out for special attention were those industries producing machines controlled by integrated circuits, including computers, office and communications machinery, and robots. By 1973, a new Machinery and Information Industries Bureau had been created that consolidated planning for electronics, computers, automobiles, and general machinery under one administration—enabling the government to more effectively coordinate and integrate their development.

With this administrative infrastructure in place, the Japanese government quickly responded to the external shocks of the early 1970s by initiating the large-scale relocation of the heavy and chemical industries to South Korea and other East Asian countries where governments and local elites were desperate for industrial development even at a high environmental cost. This process was given further momentum by the decade's second oil-price increase, in 1979-80. "Among the largest undertakings were the Asahan Aluminum smelter in Indonesia, the Kawasaki steel sintering plant in the Philippines, and the Sumitomo petrochemical complex in Singapore"—all huge industrial projects built by Japanese capital during the period from 1974 to 1981 (Steven, 1997, p. 202). At the same time, the Japanese government stepped up its domestic promotion of the targeted machinery industries, in particular, general machinery (including office machines), electrical machinery (including TV and radio receivers, tape recorders, and semiconductors), transport machinery (including motor vehicles), and precision machinery. Brenner sums up the outcome of this scrap-and-build phase:

> Over the years 1973-80, output in the advanced electrical machinery and precision instruments industries and in other "processing" industries (including other machinery, transport equipment, and metal products) grew at average annual rates of 15 percent and 6.2 percent, respectively, compared to just 4.6 percent in the "heavy" chemical, petroleum, and metal industries and 3.6 percent in the labor-intensive textile and food industries. (1998, p. 169)

This shift from heavy and chemical industries to machine industries took place, as did the previous scrap-and-build phase, in concert with a restructuring of labor relations. According to Steven,

> The onslaught on the domestic working class in this second period included an expansion of the part-time labor force (women, day laborers, contract workers, temporaries) a reduction in the number of regular jobs in government and in large companies, a rationalization of the labor process through new technologies, an extension of the system of subcontracting, and a freeze on the living standards of the less secure two-thirds of the working class. (1997, p. 202)

Thanks to its flexible system of labor relations, Japan was the only major capitalist country that was able to keep unit wage costs from rising during the 1975-80 period (Steven, 1990, p. 15).[8]

However, the use of an expanding web of labor-repressing institutions to ensure the profitable expansion of a new industrial core did little to solve the problem of Japan's growing reliance on exports. The new core industries, such as the automobile industry, had initially been domestically oriented, supported largely by the rising income levels of workers in the heavy and chemical industries. The latter industries were now being scrapped and relocated. The growth of domestic wage-based demand was also constrained by the very system of temporary and subcontracting relations that promoted the competitive success of the new core machinery industries. Indeed, insofar as labor-market and management systems kept real wage growth well below productivity growth, they ensured that the workforce would not have sufficient purchasing power to support the rising level of production.

As a result, the new core industries—and the Japanese economy as a whole—became even more export dependent during this second scrap-and-build phase. Between 1973 and 1980, exports as a ratio to GDP rose from 9.9 to 13.7 percent, while manufacturing exports as a share of manufacturing output jumped from 27.1 to 45.7 percent (Brenner, 1998, p. 170). The growing dominance of the newer machinery industries in this dynamic is shown by the respective shares of general machinery, electrical machinery, and transport equipment in total Japanese exports: these increased by factors of one-half, one-fourth, and one-fifth over the years 1971-81. During the same period, the export shares of chemicals and primary metal products decreased by factors of 30 percent and 25 percent, respectively (p. 170). By 1980, exports of machinery and equipment accounted for 62.8 percent of Japan's total merchandise exports, and their share then rose still further, to 71.8 percent, in 1985 (Steven, 1990, p. 17).

The "High Yen Crisis" and Further Restructuring

Japan's second round of scrap-and-build eventually proved just as problematic as the first. More than 40 percent of all Japanese machinery exports during the 1985-87 period were sold in North America, mostly in the United States; this included over 60 percent of Japan's motor vehicle exports (Steven, 1990, p. 21). Japan's export success in such key, high value-added products was seen by many U.S. analysts as the main factor behind growing U.S. trade deficits and the deindustrialization of the U.S. economy. Views such as this fueled a major escalation of trade tensions between the United States and Japan, forcing Japan to take part in the international negotiations that culminated in the September 1985 Plaza Accord. The Accord tried to use exchange rate adjustments to bring about more balance in trade, and this led to an appreciation of the yen by more than 46 percent against the dollar during the 1985-88 period (UNCTAD, 1993, p. 130). The resulting erosion of Japan's export competitiveness, and the threat this posed to a continuation of Japan's growth "miracle," became known as the "high yen crisis" (*endaka fukyo*) (Steven, 1988b).

The sharp appreciation of the yen hit Japanese producers hard, but the resulting recession did not last long; production resumed its upward trend in 1987. This quick recovery was possible for two reasons. First, Japanese producers were remarkably successful in holding down the U.S. dollar prices of their exports, with less than proportional declines in profits. This was due in part to the cheapening of oil and raw material imports by the higher yen; but it also reflected the relative weakness of Japanese labor that enabled capitalists to "adjust" wages and work conditions. As Steven observes, "instantly effective cost-reduction, wage rises below increases in productivity and docile trade unions are all manifestations of the 'miraculous' power of Japanese capital" (1996, p. 56). However, given the tensions arising from Japan's trade surplus with the United States, such "success" could not lead to long-term stability.

The second force driving Japan's quick recovery was the now infamous "bubble economy," an investment and construction boom driven by an escalating upward spiral of stock-share, land, and housing prices (Ziemba, 1991; Oizumi, 1994). The bubble economy also fueled a consumption boom among Japanese who owned significant amounts of real estate and financial assets. Monetary policy was accommodative, as the government kept interest rates low for the bigger *keiretsu* corporations and other well-connected borrowers.

While the bubble economy picked up steam, Japanese big business and government planners were busy with another major industrial restructuring.[9] Large portions of the motor vehicle and consumer electronics industries were now "hollowed out" and relocated abroad. However, in spite of the domestic economic recovery—and in sharp contrast to the strategy employed during each of the two previous postwar rounds of scrap-and-build—technological limitations and profit concerns blocked any serious attempt to build up a new industrial core (Steven, 1990, p. 40). Compared to U.S. corporations, Japanese corporations did engage in high levels of capital investment in the half decade following the Plaza Accord (Fallows, 1994, p. 260; Brenner, 1998, p. 216). But this investment was partly a figment of the speculative construction and consumption binges generated by the bubble economy. The domestic manufacturing component of corporate investment, driven largely by the need for cost-cutting upgrades of plant and equipment to offset the higher yen, once again lacked a solid basis in domestic working-class consumption demand (Steven, 1997, p. 204). The emphasis on capital upgrading did encourage a major push to modernize facilities for manufacturing producer goods, in particular machinery and advanced components—and here the intended market was other enterprises or subsidiaries (often located overseas), not the ultimate consumers (especially domestic workers). But this orientation toward investment demand and away from domestic wage-based consumption demand only displaced overproduction problems in space and time; it hardly resolved them (see below).

Moreover, the late 1980s investment boom was not confined to Japan. Japanese foreign direct investment, totaling some $47 billion during the period 1981-85, grew to over $170 billion over the following four years (Steven, 1996, p. 73).[10] This boom of outward FDI was driven largely by the Japanese strategy of relocating production of the goods most vulnerable to both the high yen and trade tensions with the United States, although foreign expansion in the areas of finance, real estate, and commercial activities also played a major role (Magdoff, 1992, p. 15; Sheridan, 1995, p. 478).

More specifically, the post–1985 wave of manufacturing FDI involved a two-part overseas investment program by Japanese capital. There was a major push to locate production of advanced consumer products such as automobiles to the other developed countries serving as their target markets. This mainly meant increased direct investment in the United States; but Japanese investments in new European production facilities increased significantly as well (Mason, 1992, pp. 463-466). There was also a major new flow of manufacturing investment into Asia designed to relocate the production of mass consumer electronics goods and less advanced industrial components to lower-wage countries.

Within this two-pronged strategy, the majority of new foreign investment went to other core countries. Nonetheless, Japanese FDI in the third world—especially Asia—rose significantly after 1985. For example, total Japanese direct investment in South Korea, Taiwan, and Hong Kong during the years 1986-91 was (in dollar terms) over 70 percent of the amount that took place in the entire 1951-91 period. Roughly three-fourths of Japanese FDI in Malaysia over the years 1951-91 occurred in 1986-91, while for Thailand the ratio exceeded 86 percent. For Asia as a whole, the ratio was 63 percent (Yue, 1993, pp. 82-83). This post–1985 wave of Japanese investment in Asia was weighted toward manufacturing. From 1986 to 1990, manufacturing subsidiaries made up over half of all new Japanese corporate subsidiaries established in East Asia (outside Japan), compared to only 30 percent in North America and 21 percent in Europe (Hitoshi, 1993). "Japan's investment in manufacturing in other Asian countries in the years 1986-89 exceeded the *cumulative* total for the whole of the 1951-85 period" (Bernard and Ravenhill, 1995, p. 182; emphasis in original). While Japanese manufacturing FDI in Asia was 31 percent of the amount that went to North America over the years 1986-89, it rose to 45 percent in 1990, and 88 percent in 1993 (Steven, 1996, pp. 78-79).

As noted above, electrical machinery was a leading sector in Japan's new Asian investments. This was especially true of Japanese manufacturing FDI in the ASEAN countries—particularly Malaysia and Thailand:

> From 1986 to 1990, this industry was single-handedly responsible for 30% of all manufacturing sector investment in Asia, and research by the Japan Export-Import Bank shows that during that period 55% of all projects went to Malaysia and Thailand. As for the domestic electrical appliance industry (civilian electronic and electrical machinery) the pattern is even more marked: Malaysia and Thailand got 62% of all projects, ASEAN as a whole got 80% (Hitoshi, 1993, pp. 24-25).

During the years 1987-89, "fully one-third of all Japanese manufacturing investment in ASEAN countries was in electrical machinery production, another 11 percent was in general machinery production, while textiles accounted for less than 5 percent" (Bernard and Ravenhill, 1995, p. 182). "By 1990, Toshiba, Matsushita, Minebea, and similar Japanese firms had built some 340 fully owned plants in Southeast Asia. The great majority, including all the plants in Thailand, Malaysia, and the Philippines, had not been there in 1985" (Fallows, 1994, p. 265).

With the third round of scrap-and-build, Japan's manufacturing sector increasingly focused on production of only the most technologically advanced consumer and capital goods and components. The consumer goods were mostly high-end electronics and automobiles, for both domestic consumption and export. The capital goods and components were sold primarily to Japanese-owned production facilities in the other core countries and in Japan's Asian periphery. Japan's new production facilities in the United States and Europe mainly served their host markets (in some cases operating as platforms for exports back to Japan). Meanwhile, Japan's offshore East Asian factories exported mass consumer goods and less advanced components to the United States and Europe. In the past, Japanese corporations would have supported domestic production of machinery products with parts and components produced by domestic subcontractors; now the parts and components largely came from the new lower-cost subcontracting operations being established elsewhere in East Asia alongside the *keiretsu*'s larger-scale offshore facilities (Bello, 1992, p. 91; Steven, 1997, pp. 203-204).

Hence, even though no new large-scale domestic industrial core was established, the third phase of scrap-and-build did not make the Japanese economy less export dependent. It merely made this export dependence less domestically based and more indirect. Henceforth, Japan's continued export growth would mainly hinge on sales of the most advanced components and technologies to Japanese capital's offshore facilities. The sales to the offshore *Asian* facilities would derive largely from these facilities' exports to the United States and other developed country markets. This dynamic was reflected in the changing international composition of Japan's overall trade surplus: In 1985, just 3.2 percent of the total Japanese trade surplus was accounted for by Japan's trade surplus with East Asia; as of 1993, this share had risen to 57.2 percent.[11] As noted by Fallows, much of Japan's growing surplus with East Asia "consisted either of capital goods—equipment for new Japanese-owned factories throughout the rest of the region—or industrial components. These components were, in turn, used in Mitsubishi, Matsushita, Toyota, and similar factories in Southeast Asia to make products destined for the United States" (1994, p. 248; cf. UNCTAD, 1993, p. 137).

The combination of Japan's ongoing export dependence and the regional and global production strategy used to maintain Japanese capital's export competitiveness bore adverse consequences for Japan viewed as a national economy, and for the Japanese working class in particular. This became clearer with the end of the bubble economy in late 1989, when the Japanese government finally took action to bring inflation and asset prices under control. The government's monetary policy of managed deflation pushed Japan into a recession, one which lasted with fitful starts toward recovery throughout the 1990s. In response, Japanese enterprises worked to cut production costs—holding the threat of foreign production and domestic deindustrialization over workers' heads to gain acceptance of austerity.

Unfortunately, by pursuing a strategy of "shifting production abroad and cost-cutting at home" (Sender, 1995, p. 48), Japanese capital intensified Japan's economic problems. For example, anytime Japan's trade surplus grew, as it did in the early 1990s under the combined influence of recessionary import reductions and increased exports of advanced products, the yen was forced up again. This, in turn, touched off new demands on workers for wage cuts and longer, intensified work times, as well as new rounds of domestic downsizing and outward FDI by Japanese firms both large and small. While austerity for workers made the economy ever more export dependent by eroding wage-based demand, the downsizing and FDI made the domestic productive structure continually less capable of generating a strong export-led and high-investment recovery. Repeated rounds of this process left "Japan's once-mighty export machine . . . still sputtering, partly because major manufacturers [had] shifted production overseas" (Hamilton, 1996b, p. A1).[12] Meanwhile, Japanese firms operating in other Asian countries were beginning to take advantage of their low unit wage costs to reexport Asian production back to Japan. By 1996, Japan's imports of color TVs were greater than its exports and covered one-half of the domestic market. The same trend existed with VCRs, personal computers, and even ships, cars, and car parts (Kanabayashi, 1996a; Reitman, 1996a; Steven, 1996, p. 194). Terutomo Ozawa aptly refers to the whole sequential dynamic of cost-cutting, increased exports, higher yen, outward FDI and domestic hollowing-out as a "treadmill," and to the resulting end of the growth "miracle" as the "Japanese disease" (1996, p. 486).

The End of the Growth "Miracle": Basic Implications

Our historical analysis has come full circle, to the current structural crisis of the Japanese economy and its implications for capitalism and socialism (see Chapter 5). One now sees this structural crisis in a different light. The breakdown of export-led growth was hardly the outcome of "socialist" elements in the Japanese system (state-based equity and protection of the

weak rather than market-based efficiency and rewarding of the strong). It was, rather, the culminating historical dynamic of an extremely exploitative, hierarchical, undemocratic, and expansionist form of capitalism. Far from socialist, Japan's export-oriented scrap-and-build accumulation was a highly competitive variant of capitalistic creative destruction. But the same scrap-and-build process, by creating more regionally and globally structured systems of production in East Asia (as well as in North America and Europe), has led to a hollowing out of the Japanese economy's growth potential and intensified competitive pressures on Japanese workers. As Morris-Suzuki (1996) observes, this structural crisis cries out for a more critical attitude toward the system that generated prior growth "successes":

> Japanese society is now at a crucial turning point. The forces that propelled the rapid economic growth of the postwar decades have exhausted themselves. . . . To understand Japan's present problems and future prospects, it is now important more than ever to go beyond a search for the *lessons of growth* and to pose new questions about the structure of the Japanese system and its relationship to the world economic order. (pp. 289-290; emphasis in original)

Neoliberalism offers a simple solution to this challenge: in order to transform itself into a successful mature capitalist political economy, Japan must give market forces freer rein over both resource allocation (the employment of land, labor, and capital) and the distribution of income and wealth. It must therefore abandon its outmoded "socialistic" institutions, including state planning, government controls over finance and trade, and the "lifetime employment" system. In short, Japan must become economically more like the United States (while maintaining and even enhancing its support for U.S. military and diplomatic leadership internationally). Meanwhile, the progressives who had supported the Japanese model as a superior alternative to U.S.-style "free-market" capitalism no longer have a coherent or politically viable answer to this standard neoliberal solution. They can only reassert the superiority of statist capitalism over free-market capitalism by ignoring the deep-rooted nature of Japan's systemic crisis and downplaying the essentially exploitative, undemocratic, and imperialistic nature of prior Japanese economic "successes." By eschewing a fundamental critique of capitalistic creative destruction, state-capitalist progressivism joins with neoliberalism in limiting the development debate to questions of means rather than ends. In the interest of moving beyond this technocratic and politically sterile debate, the next chapter considers the dilemmas of mature Japanese capitalism more closely.

Chapter 10

Dilemmas of Mature Japanese Capitalism

Japan's postwar economic development was only socialist insofar as one includes under "socialism" all forms of state intervention in the economy. In Japan, state economic activism was designed to enhance the economic power and international competitiveness of capitalist enterprise, not to fulfill the needs of workers and their communities. Its purpose was capitalist development, not human development. Neoliberalism distorts this reality when it blames Japan's current structural crisis on socialist or egalitarian values supposedly embedded in Japanese capitalism. However, it is not enough to expose the flaws in the neoliberal interpretation. One must also provide an alternative account of the basic dilemmas underlying Japan's contemporary crisis—an account that illuminates elements of Japanese reality that are neglected or distorted by neoliberalism.

From a Marxist perspective, the historical limits of any regime of capital accumulation are rooted in the contradiction between production for profit and production for human needs (Burkett, 1999, Chapter 12). This contradiction is constantly reproduced by capitalism's alienation of workers from control over necessary material and social conditions of production. Under capitalism, the means of production (and the producers themselves) are treated as mere instruments of value accumulation rather than as conditions of a sustainable human development. Moreover, as production driven by capital accumulation becomes increasingly socialized and reliant on an ever more broad and deep appropriation of natural resources, human needs and capabilities themselves become more social and ecological; yet capitalism remains a system of private appropriation. In this way, capitalist development intensifies the contradiction between human needs and production for profit.[1] One form this worsening tension takes is the growing difficulty capitalism has in finding profitable and productive investment outlets for the tremendous surplus product it is capable of generating anywhere near full employment. This difficulty underpins not only periodic recessions and prolonged periods of economic stagnation, but also the massive waste of resources on socially unproductive and even destructive pursuits (finance, advertising, artificial product obsolescence, the permanent military-industrial complex, etc.) characteristic of mature capitalism (Baran and Sweezy, 1966; Sweezy and Magdoff, 1988).

Applying the above framework, this chapter shows that Japan's current crisis is rooted in the dilemmas common to all mature capitalist economies; but it also shows how the various forms of the crisis have been conditioned by the specific responses of Japanese capital and its state to capitalist maturity. Driven mainly by the demands of competitiveness and private profitability, these responses have hastened the exhaustion of Japan's cultural, ecological, and even industrial fabric—thereby accentuating the crisis of mature capitalist reproduction while eroding the viability of the institutional mechanisms that have enabled Japan's governing elite to control the Japanese working class. The crisis thus contains the potential for a revival of working-class militancy and a movement for socialism from below. This potential sheds new light on both the dangers of defending the Japanese model and the need to push beyond its limitations which are really the human-developmental limits of capitalism itself.

In what follows, the historical crisis of Japanese capitalism is demonstrated through an overview of industrial hollowing-out as well as sectoral developments in agriculture, finance, the so-called leisure industry, and the military. Makoto Itoh's (1994) contention that the Japanese economy is suffering from a "distortion of its structure by exhausted and weakened working people" (p. 29) is then corroborated and placed within the broader dynamic of Japanese capital's national, regional, and global operations.[2] Before getting into the specifics of Japan's structural crisis, however, it is necessary to establish in a preliminary way that capitalist maturity problems are relevant to the postwar Japanese experience.

Maturation and Overaccumulation in Postwar Japanese Capitalism

Japan's postwar growth "miracle" was driven by high rates of capital investment supported by manufactured exports. But as the economy's plant and equipment were built up, it gradually became more difficult to find productive investment outlets for the growing surplus the system could generate near full-employment and full-capacity production levels. This difficulty was accentuated by the unwillingness of other developed capitalist countries (especially the United States) to accept ever-expanding manufactured imports from Japan. Such trade tensions prevented Japan from using increased exports as a permanent solution to its long-run surplus-capacity problems. The projection made two decades ago by Paul Sweezy thus proved correct:

> History teaches us, I believe, that every big capital-expansion boom sooner or later peters out. The build-up of Department I [plant and equipment production], especially if it is pretty much from scratch as was the case in postwar Japan, is a process that feeds on itself, sometimes for long periods. But when it comes to an end, as it always does, it precipitates a downturn for the system as a whole; and unless some powerful new factor, such as a war or a major innovation, enters the picture the downturn tends to level off onto a plateau of stagnation. (1980, p. 13)

There are at least two strong indications that the Japanese economy experienced a mounting overaccumulation of capital relative to profitable and productive investment opportunities as the growth miracle approached its end. First, Japanese corporations began to accumulate more internal funds than they could profitably invest in Japan. Tsuru (1993) charts the internal funds of Japanese manufacturing corporations (retained profits plus depreciation funds) as a ratio to their gross investments. During the years 1956-60, this ratio averaged 59 percent, but over 1971-75 it averaged 75 percent, and by 1976-80 it was averaging 109 percent. The same internal funds to gross investment ratio averaged more than 100 percent over the entire decade of the 1980s (p. 188). The rate of accumulation of surplus capital was even more rapid in certain key industries of the "miracle" period. Over the years 1960-70, the internal funds to gross investment ratio for construction firms rose from 58 to 146 percent, and for cement manufacturing it jumped from 47 to 107 percent. In the same period, the ratio grew from 34 to 154 percent for the precision machinery industry and from 29 to 109 percent for electrical machinery firms (p. 189).[3]

The second striking indicator of surplus capital relative to *productive* investment opportunities is the growing share of total employment taken up by "tertiary" industries (jobs outside the extractive, manufacturing, and construction industries). Indeed, even during the postwar recovery and growth-miracle periods, tertiary employment grew at least as rapidly as employment in manufacturing and construction. While the share of the employed labor force working in manufacturing and construction rose from 22.3 to 43.3 percent over the years 1947 through 1974, the tertiary employment share increased from 24.3 to 46.7 percent (Tsuru, 1993, p. 88). Although a significant portion of this tertiary job growth involved socially useful government employment (especially at the municipal and prefectural levels), it was mainly "fueled by an explosion of employment in commerce, finance, and services" (Sweezy, 1980, p. 5). The growth of such unproductive activity (the necessity of which stems solely from the capitalist organization of production and exchange rather than from human needs) "is far from unique to Japan"; what is unique is the sheer magnitude and "speed of the process" in the Japanese case (p. 5).[4]

It might be asked why Japan, having successfully built up an industrial base during the "miracle" period, could not move on to a new path of economic development featuring lower manufacturing investment, less reliance on unproductive activities to employ surplus productive capacity, and higher consumption—especially working-class consumption of useful public *and* private goods and services. Although such a transition would inevitably entail some slowdown of total output growth, it would promise broad improvements in living conditions, particularly if the increased working-class "consumption" were to include large-scale reductions in work time. Using a two-department scheme in which Departments I and II represent production of means of production and consumption goods, respectively, Sweezy explains why such a path was not followed:

> Of course theoretically [overaccumulation] can be counteracted by shifting resources out of Department I (those which had been employed in expanding Department I) to Department II where they can be used to increase the output of private and collective consumption goods. A planned socialist society should be able to effect such a transfer without too much difficulty: apart from purely technical problems, what is involved is an overall reduction in the rate of accumulation and a compensating increase in the rate of private-plus-public consumption. . . . But under capitalism the transfer in question would require a basic shift in the class distribution of income from those whose objective is the accumulation of capital (the endless expansion of exchange value) to those whose basic interest and concern are in the quantity and quality of use value. (1980, pp. 13-14)

Sweezy did not think "such a shift in income from the accumulators to the consumers" (and accompanying reorientation from exchange value to use value) was "at all likely" as long as Japan maintained its stature as "the strongest and least challenged dictatorship of the big bourgeoisie in the whole capitalist world" (p. 14). This prediction is corroborated by the analysis in Chapter 9. There it was shown that when the Japanese economy experienced growing surplus-capacity problems beginning in the 1970s, the response of Japanese capital and its state planners was not to attempt a transition to a less investment-intensive and less export-led growth path. Instead, they tried to out-muscle the dilemmas of capitalist maturity by engineering repeated rounds of scrap-and-build, that is, by using the system's abundant surplus funds for outward FDI and for the build-up of newer export-oriented industries on the home front (Tsuru, 1993, pp. 192-195). Here again, such "creative destruction" is hardly unique to Japan. But the relatively great power of capital over labor in Japan, and the resulting "flexibility" of the Japanese labor force, did allow Japanese capital to pursue industrial restructuring and manufactured-export growth more forcefully and on a larger scale than was possible for the ruling classes of other developed capitalist countries (Steven, 1997, pp. 201-204). As a result, despite the growing accumulation of surplus capital—and with due allowance for short-term instabilities—Japan experienced internationally high rates of investment and economic growth up until the late 1980s, when the scrap-and-build strategy was finally exhausted and the "bubble economy" deflated.

Capitalist Maturity and Hollowing-Out

The flying geese approach to development suggests that Japan needed repeated rounds of scrap-and-build to maintain its industrial strength (see Chapter 2). The reality, however, is that the industrial strength of Japan (or of any other individual country) is not the primary concern of Japanese capital. Since the mid-1980s, Japanese capital's overarching strategy has been to create regional operating zones in North America, Europe, and Asia—with production, finance, and trade increasingly integrated over the core and periphery within and across these three zones (Steven, 1996). Although East Asia appears to play a dominant role in this global strategy, especially in manufacturing (see Chapters 11 and 12), this does not preclude a further hollowing-out of Japanese industry. Indeed, Steven suggests that insofar as Japanese capital's "Asia-zone strategy" combines "the quest for lower costs with the quest for secure and growing markets," it is "finally beginning to hollow-out *(kudoka)* Japanese industry on a scale comparable to the United States and the United Kingdom" (1997, pp. 205-206).

This hollowing-out of Japanese industry—largely through the substitution of outward FDI for domestic investments in manufacturing—has often been denied.[5] But there is considerable evidence to support it. According to estimates by the Japan Machinery Exporters' Association, as of 1994 the value of manufacturing production by Japanese companies in Asia was already about one-fourth as high as the value of manufacturing production in Japan (Steven, 1996, p. 76). Takatoshi Ito (1996) provides further details on this migration of production and employment from Japan to offshore manufacturing zones:

> The Asian and North American subsidiaries of the Japanese firms, especially in the automobile and electronics industries, have been expanding rapidly in terms of both employment and sales. From 1990 to 1994, the number of employees in the Asian subsidiaries increased from about 500,000 to 1 million; while in the North American subsidiaries, the number increased from 370,000 to 523,000 during the same period. The sales of these subsidiaries . . . have expanded by 20 to 30 percent in the currencies of their host countries. As key manufacturing firms expand their overseas operations, they cut back production in Japan. Japanese manufacturing employment fell from 15.7 million employees in 1992 to 14.6 million in 1995. (p. 220)

By 1995, offshore production of cars by Japanese corporations had surpassed car exports from Japan. In the same year, Japanese auto companies exported 167,000 cars from their U.S. and Canadian plants—exceeding the 163,000 exported by the "Big Three" U.S. car companies. More than half of the exports from the North American facilities of Japanese car companies were being sold in Japan as of the mid-1990s. At the same time, Honda was already the top-ranked exporter of cars from the United States, with approximately 20 percent of its U.S. production dedicated to exports. Like Toyota, Honda was now producing the majority of its cars outside Japan (Naughton and Borrus, 1996, p. 113).

To see how the offshore migration of large portions of industry has worsened Japan's economic problems, it is useful to consider the country's exchange-rate dilemma. As discussed earlier, the postwar growth miracle was supported by an undervalued yen which (together with low unit wage costs) enhanced the competitiveness of Japan's manufactured exports. Eventually, however, the United States and other developed countries demanded a revaluation of the yen, leading to the "high yen crisis" of the mid-1980s. The higher yen posed a serious quandary for the Japanese economy: while it reduced the competitiveness of domestic production by raising unit wage costs in foreign currency (especially U.S. dollar) terms, it did nothing to increase domestic wage-based demand and thus nothing to reduce the economy's reliance on exports. As Steven (1988b) observed at the time:

> What has become unique to Japan is the combination of two features of Japanese wages which are further consolidating export-oriented accumulation. First, at current exchange rates, Japanese money wages are higher than American wages, bringing to an end the era of Japan as a cheap production place and spurring capital abroad in search of lower wages, even to such places as the US. Second, real wages *in Japan* are still at most only about 60% of real wages *in the US*, and Japanese workers have to save massively to cope with the huge proportion of their lifetime earnings which is absorbed by such things as housing, education, old age and health care. The result is that the higher money wages of Japanese than American workers translate into neither higher living standards nor into greater purchasing power for consumer goods. This is why capital also continues to look to high wages countries in North America and Europe to market consumer goods, since in spite of the higher yen, the disposable income of Japanese workers remains too low to sustain accumulation based on the domestic consumer market. Japanese workers thus face the prospect of growing unemployment and even further pressure on their living standards, since their wages are both too high and too low. Capital has less and less interest in them as either producers or consumers. (p. 77; emphases added)[6]

The combination of a stronger yen and weak domestic wage-based demand thus encouraged outward FDI and partial domestic deindustrialization, which in turn worsened Japan's long-run exchange-rate dilemma. From now on the stimulative effects of any yen depreciations would be much weaker given domestic hollowing-out.[7] Indeed, given Japan's growing reliance on imports of both consumer goods and industrial components produced by Japanese capital's offshore operations, a depreciating yen could create as many problems as it resolved (Ozawa, 1996, p. 489). A major weakening of the yen would also raise the effective cost of growing agricultural imports while increasing the risk of capital flight and threatening elite plans to convert Tokyo into a dominant global financial center (see below). All of this helps explain why the large yen depreciation of 1995-98 failed to effectively pull the Japanese economy out of recession, and why Japan currently faces a situation where "both rising and falling currency values seem to be damaging" (Wysocki, 1999, p. A1).

At a deeper level, the dilemmas posed by the exchange rate are a function of Japan's failure to confront the problem of capitalist maturity head-on. In place of an open social discussion and debate about how Japanese society could best use the massive surplus it is capable of producing near full employment, Japanese capital and its state have imposed the priorities of profitability and international competitiveness on Japanese workers and communities. As a result, the surplus has been utilized for a costly scrap-and-build, export-oriented process that has already—within the short span of four decades—exhausted its positive contributions to Japan's economic development. Ironically, the Japanese economy "has now lost much of the productive strength which drove it in quest of foreign markets in the first place" (Steven, 1997, p. 205). In the absence of a popular upsurge that puts a more worker-community centered response to capitalist maturity on the agenda, the outlook is for Japanese capitalism to converge with the U.S. model of semi-industrial, finance-driven, culturally impoverished, ecologically disastrous, and militarized capitalism. This dark prospect becomes clear upon an overview of sectoral developments.

The Sacrifice of Traditional Japanese Agriculture

The gradual running-down of Japanese agriculture can be traced to the Cold War alliance entered into by the U.S. and Japanese governments after World War II. After all, it was "under the U.S. military and food umbrella" that "Japan's economic development jumped into high gear" (Kazuoki, 1997, p. 182). Although the U.S. occupation did respond to postwar food shortages (and popular rural unrest) by sponsoring a serious land reform and other policies to increase domestic food supplies, it did not envision agriculture as a leading sector in Japan's export-led economic revival. Quite the contrary: Japan was to be used as an outlet for the agricultural surpluses of the United States (Steven, 1988b, p. 78).

It was not terribly difficult for Japan's ruling class to accept this arrangement. Even prior to the war, "the promotion of food exports was never considered to be central to [Japan's] national development program" (Jussaume, 1998, p. 404).[8] Moreover, the occupation-sponsored land reform greatly weakened the roles of rural landed property and agriculture as underpinnings of ruling-class power. Capitalist power became more completely centered on manufacturing industry and finance, especially with the full-scale reconsolidation of the *zaibatsu* and the heavy industrialization drive after Japan regained independence in 1952. The running-down of agriculture even resonated positively with this refocusing of ruling-class strength. "By actively promoting the urbanization of the population" and "fostering the social and economic restructuring which was needed to

reinsert Japan into the new world imperialist system," it "
Japanese industrial bourgeoisie" (Halliday, 1978, p. 194
postwar land reform and ongoing agricultural subsidies c
vide a ready base of rural support to the main governin
Liberal Democratic Party) (Halliday and McCormack, 19
as Japan became more urbanized, the effective weight of
vote was maintained by the allocation of legislative (Diet
to the rural/urban population distribution as of 1950." T
because it was the LDP—together with the central gov
cracy—that maintained capital's political domination
growth-miracle period and beyond.

There are two basic ways in which Japanese agricultu
during and after the postwar high-growth era. First, con
facturing, agriculture was simply not a high-priority sect
private investment. For a time, the government encourag
tion with price supports, import barriers, and other sub
measures were not comparable to the all-out developme
to heavy industry (1950s and 1960s) and to advanced ma
tronics (1970s and 1980s). This relative deprioritizatio
combined with government promotion of labor-saving fa
(so as to free up more labor for employment in urban ind
decline in the ability of production agriculture to support
and local economies. However, because of the small siz
proximity to off-farm job opportunities, government pri
cies, and a cultural predisposition to maintain landowner
dramatic shift from full-time to part-time farming with li
tion of land into larger production units" (Jussaume, 1998,
the "stagnation of the domestic agricultural system within
controlled confines" (McCormack, 1996, p. 124).

The second main force in the running-down of Japa
was the growth of agricultural imports. These rising impo
direct result of the immediate postwar arrangement betw
and U.S. governments. Japan's post-surrender food crisis
effect" insofar as it demonstrated the country's potentia
largest and most profitable market for U.S. agricultural
corn, soybeans, etc.)" (McCormack, 1996, p. 124). But a
"miracle" kicked into high gear and Japanese manufactur
flooding the United States and other developed coun
demands for Japan to liberalize her agricultural imports
their own. "Since Japan depend[ed] on GATT for open ex

community structures and solidarity" (Jussaume, 1998, p. 409). This rural decay "is being accompanied by a national policy push to reorganize agriculture around larger production units that, it is hoped, will make Japanese agriculture more 'competitive'" (p. 409).

In other words, Japan's ruling class has no interest in any effort to recover and improve the tremendous cultural and ecological wealth bound up with traditional Japanese agriculture—if necessary by investing part of the country's considerable surplus in the renovation of traditional practices. Instead, it only sees an opportunity to "solve" the farm crisis by transforming Japanese agriculture along the ecologically and culturally disastrous lines pioneered by the U.S. agribusiness and food-processing industries. Agriculture is to become just one more source of "profit-making opportunities for firms" regardless of the social costs (Jussaume, 1998, p. 409). This is the logical endpoint of any development strategy operating within the parameters of capitalist profitability and competitiveness. The fact is that Japan's ruling class "has chosen to demolish [traditional] agriculture to ensure its own survival, a choice that also satisfies the demands of other advanced capitalist countries, especially the United States" (Kazuoki, 1997, p. 187). This illustrates how, after a certain point, capitalism exhausts any society's reproductive capabilities. To stop and reverse this exhaustion, the use of society's resources must be guided not by exchange value but by use value—by the goal of human development.

The Twisted Logic of Finance-Led Accumulation

It was in the mid-1980s—just as large chunks of Japanese industry were being shipped offshore and the Japanese people began hearing more lectures on how traditional agriculture was an economic liability—that the bubble economy took off. While treating the renewal of domestic industry and agriculture on terms friendly to workers, communities, and the ecology as an unaffordable luxury, mature Japanese capitalism utilized a rising share of its tremendous potential surplus for speculative finance and construction.

This perverse development was not due to any sudden breakdown of Japan's vaunted state-planning apparatus; quite the contrary. The bureaucracy not only accommodated but actively encouraged finance and construction as new leading sectors in Japan's planned economic growth. The government's "low interest rate policy," previously used to promote priority manufacturing industries, now ensured abundant supplies of cheap credit for construction companies and real estate firms.[11] Banks were not just allowed to increase their own real estate and construction loans to dangerously high levels (up to one-third of total bank loans, with real estate firms alone taking up one-quarter of the total). The authorities also took no action to prevent banks from lending their reserves to less-regulated financial institutions specializing in real estate and construction loans. Such "non-bank bank loans" eventually "accounted for as much as 37.8 percent of the total loans the real estate industry secured" (Ozawa, 1999, p. 356). The bubble economy was also underwritten by government subsidies and tax breaks for urban development projects. Together with the deregulation of urban land use, these measures helped accelerate the inflation of land prices while encouraging the further growth of Japan's bloated construction industry (Oizumi, 1994, pp. 201-202).[12]

Japanese business and government spokespersons applauded the bubble economy as the dawn of a "post-industrial" development "firmly grounded in a hard base of construction and civil engineering, whose technology and capital would help confer other significant long-term competitive advantages . . . to compensate for the decline of traditional industries" (McCormack, 1996, p. 30). In reality, the bubble economy signaled Japan's socially irrational movement toward a finance-led pattern of development, due to the absence of more productive *and privately profitable* outlets for the country's burgeoning economic surplus.[13] For example, as the big "non-financial" corporations began "rapidly accumulating . . . their own internal funds," they not only engaged in large-scale land and stock-share speculation on their own, but also became less dependent on bank loans (Ozawa, 1999, p. 355). "Having lost many large manufacturers as their prime borrowers, the banks had to find new customers"—and real estate dealers, construction firms, and stock market operators were obvious candidates (p. 355). In this way, "expanding surplus funds went into the stock market and land speculation" (Oizumi, 1994, p. 202).

Insofar as the bubble economy was associated with a partial loosening of government financial controls, the ultimate determining factors were still the overaccumulation of surplus and the failure of government policy to question capitalist priorities. As Japanese corporations and banks used their growing surplus funds for outward FDI and other forms of external expansion, their "successful endeavors vigorously to penetrate foreign product and financial markets generated increasing demands for reciprocity. Japanese money and capital markets had to be opened reciprocally to foreign financial institutions, or Japan would face exclusion from some of the western financial markets" (Raines and Leathers, 1995, p. 363). "The experiences of Japanese financial institutions in the more open money and capital markets of the west served," moreover, "to re-shape their attitudes toward the domestic Japanese system. These institutions became increasingly interested in exploiting new profit opportunities in Japan that would be provided by reductions in both the degree of segmentation and interest rate regulations" (p. 363).

This background helps explain why many economists continued to tout finance as a potential "growth industry" for the Japanese economy even in the post–bubble period, that is, if remaining "restrictive" regulations could be removed (Ito, 1996, p. 244). (The high savings rates of Japanese households also had foreign financial services firms licking their chops.) The prioritization of finance and its liberalization—leading to the Big Bang financial reforms of 1998—was an ironic culmination of Japan's scrap-and-build development strategy. Now the sectoral "upgrading" of the Japanese economy required a severe weakening of the same government planning apparatus that had helped engineer the country's industrialization. For Japan to become a leading international financial center, inflows and outflows of capital as well as domestic interest rates would have to be freed up. "This, in turn, required that the domestic financial system become more flexible" (Raines and Leathers, 1995, p. 363). Above all, "stockholder rights" (the single-minded pursuit of maximum short-term profit regardless of long-run economic and social costs) would have to reign basically unopposed over the Japanese economy if Tokyo hoped to compete with Wall Street.

By the spring of 1999, this finance-led upgrading was already showing definite signs of success. The Japanese stock market was rallying on the strength of rising purchases by Western investors. Global "money managers," previously "skeptical that Japan would take the painful restructuring steps economists feel are necessary," now detected "a real change . . . in government attitudes"—based on the government's apparent willingness to allow "increased corporate restructuring" and rising unemployment to proceed more or less unhindered (Lande, 1999, p. C23). As the *Wall Street Journal* reported:

> Even figures suggesting that Japan's lengthy recession is far from over have been interpreted benevolently by some investors. For example, one U.S. fund manager said that the recent Japanese unemployment data showing that the jobless rate there climbed to a postwar high of 4.6% are a sign of welcome corporate restructuring. "The unemployment rate will probably go a little higher, but that's not necessarily a bad thing," said Bin Shi, who runs U.S. Global Investors' China-Region Opportunity Fund in San Antonio. "If companies are not hiring excess labor, that's good for the bottom line." (Karmin, 1999, p. C12)

With this kind of progress, who knows? Perhaps Japan could eventually experience the same kind of financial domination over industry and labor that the U.S. ruling class had been enjoying since the early 1980s.

The Leisure Industry and Cultural-Ecological Decay

Alongside the running-down of traditional agriculture, Japan's governing elite began to push resort development as a new "growth industry" for economically depressed rural areas. In his definitive account, Gavan McCormack (1996) describes how this "resortification" movement was closely tied to the bubble economy with its "speculation and corruption" (p. 88). "As the Tokyo money spread over the countryside . . . [t]owns, villages, and prefectures throughout the country entered into such intense competition to be designated as resort areas that, as of December 1991, around 20 percent of the entire land area of Japan was designated for resort development (7.5 million hectares, as against 5.5 million for agriculture)" (pp. 88, 92). In this way, resort development "infected the whole country with the vices of speculation and inflation, exacting as heavy a price on the social and moral values of local Japanese communities as did (in many cases) the resorts themselves of the physical environment" (p. 92).

Indeed, despite official references to resortification as a "greening" of the Japanese archipelago, it did not involve the maintenance and restoration of the country's cultural and ecological heritage. Instead, it converted Japan into "a land of chemicalized golf courses, expensive marinas, toll expressways that penetrated the deepest mountains, and resorts that multiplied the ideology and aesthetics of Disneyland, where culture meant consumption" (McCormack, 1996, p. 87). Rural ecological systems now came under a double attack: while traditional farming was being displaced by the energy- and pollution-intensive technologies of transnational agribusiness, the golf courses and other resort facilities began pumping out their own massive toxic soups.[14] In short, the resortification movement testifies to the inability of mature Japanese capitalism to use its tremendous potential surplus in ways that promote a sustainable human development. As McCormack observes:

> The tide of golf courses, ski resorts, and marinas that now arises over the land is striking for its irrelevance to the needs and problems of local communities, many of whom now see the whole process as a contemporary form of enclosure movement, in which public land, forests, mountains, and beaches are enclosed by private interests for corporate profit. While corporate Japan thrives, they say, the people suffer. Hence the recently coined slogan: *fukoku*

Rubin, argued that they would "enable the U.S. and Japan to respond quickly and flexibly to any contingencies that might arise" (Kristof, 1999a, p. A5). Three months later, the Japanese government's annual defense report reinterpreted Japan's "right to defend itself" as "including the use of military strikes to prevent likely attacks" (Sakurai, 1999, p. A7).

The new guidelines were the culmination of a long-standing U.S.-Japanese elite campaign to weaken the significance of Article 9 and to bring the Japanese military and Japanese society back into step with international "political realities" as defined by the needs of global capitalism with the United States at its head (Itsunori, 1994, pp. 8-9; Gerson, 1996, pp. 42-44). Previous years had already seen a gradual rebuilding of Japan's military capabilities, and by 1997 the country's annual military budget was the highest in East Asia at $40.9 billion (compared to China's $36.6 billion) (*Economist*, 1999a, p. 24). Beginning in the late 1980s, all three (land, sea, and air) components of Japan's SDF had been reorganized and modernized for operations abroad (Itsunori, 1994, p. 7). The Japanese military is now top-heavy with officers and weapons-production capacity; it would thus be easy for Japan to rapidly expand its military in terms of fully-equipped personnel. Moreover, Japan's "technological infrastructure has been . . . integrated into the U.S. military-industrial complex through joint research on a number of weapons systems, including the FSX fighter and theater missile defenses" (Gerson, 1996, p. 42).[20]

The success of the elite campaign to remilitarize Japan is also evident on the ideological front. Shortly after Japan participated in the 1992 United Nations peacekeeping operation in Kampuchea (in direct violation of Article 9), the traditionally anti-militarist Japan Socialist Party "abandoned its longstanding claim that Japan's military forces are unconstitutional . . . [and] pledged to uphold the U.S.-Japan military alliance, which the party once violently opposed" (Associated Press, 1994). In the spring of 1999 (immediately after the Diet's passage of the new Guidelines for U.S.-Japan Defense Cooperation), the Japanese Cabinet "approved a proposal to make the rising sun flag and a song of praise to the emperor the official national flag and anthem," and the government was hoping that the Diet would approve this rehabilitation of two "emblems of World War II militarism" in its current session (Kristof, 1999b, p. A5). More broadly, the absence of open mass opposition to Japan's growing military cooperation with the United States—the main arms supplier to governments throughout East Asia[21]—demonstrates how successful the U.S.-Japan elite alliance has been in removing all alternatives to the permanent militarization of international relations from the political agenda.

Some observers on the left have argued that the remilitarization of Japan is due to a lack of courage on the part of Japan's governing elite in the face of U.S. power. Walden Bello, for example, criticizes "the timidity of Japanese officialdom" towards the United States, and complains that "Japan does not have the nerve to downgrade the U.S.-Japan security alliance and to decisively lead the region in forging a new multilateral system of peace and security" (1996d, p. 19). However, one may question whether it would be in the interests of Japanese capital and its state functionaries to attempt to forge their own regional alternative to global-capitalist diplomacy, U.S.-style. After all, the postwar recovery of Japanese economic power in East Asia occurred, and is still maintained, under the U.S. military umbrella. And there is something surreal about the image of Japan (the same Japan that profited handsomely from the Korean and Vietnam Wars) pursuing some kind of peaceful Asian way of capitalism together with the same governments that have eagerly armed themselves to the teeth with U.S. weaponry. When one adds Japan's massive trade and financial relations with the United States (not to mention Japanese capital's large-scale North American production facilities), it becomes clear that more than "timidity" or "lack of nerve" underlies the U.S.-Japanese elite alliance.

The real problem here is the contradiction between the conditions of world peace and the conditions of both capital accumulation and the maintenance of ruling-class power. World peace requires an economic system that puts its surplus to use for human development on national, regional, and global levels—and this is not something that capitalism (either U.S. or Japanese) is capable of doing. Instead, capitalism invests its surplus in ways that accentuate the uneven development of countries and regions, and then fuels the resulting international (and inter-ethnic) antagonisms with armaments. Capitalism erodes the conditions of human development and then, when workers and communities rebel, it uses its tremendous resources to forcibly "stabilize" the system on privately profitable terms. The Japanese ruling class and its state functionaries (and the other subordinate ruling classes in East Asia) are part of this system; they could only "opt out" of it by opting out of capitalism itself. Stated differently, Japan's remilitarization merely demonstrates that class suicide is not something that a capitalist class typically does.

Exhaustion of Human Resources

Having intensively exploited its human and nonhuman resources over four decades of industrial creative destruction, Japan should now use its huge productive capabilities to renew and reinvigorate these resources and to create a system of sustainable human development. But the capitalistic disempowerment of Japanese workers and their communities prevents them from carrying out the needed transformation. The scrap-and-build pattern of industrial development has alienated the system of production vis-à-vis the needs and capabilities of Japanese workers. This system expends an increasing amount of resources on wasteful and destructive activities (factory-farming, financial speculation, the leisure industry, and remilitarization). Meanwhile, with industrial hollowing-out, rising unemployment, and financial deregulation, the competitive pressures on Japanese workers show no sign of abating and may in fact be worsening. For example, the record official unemployment rate of 4.9 percent in June 1999 translated into a 6.4 percent decline of nominal wages and earnings compared to one year earlier. Homeless workers living on the street are now a visible feature of Japanese cities—and the problem is no longer limited to ghettos of foreign workers (*Economist*, 1999g, p. 80 and 1999b, p. 53).

Makoto Itoh has even argued that the Japanese economy now faces a long-run crisis of "exhausted and weakened working people," that is, a situation where "the very success of Japanese capitalist firms in getting their employees to work harder is destroying their social foundation in terms of the necessity to reproduce a healthy labour force" (1994, pp. 29, 46). His argument is based not only on the long daily average work times of Japanese workers (see below) but also on the growing evidence of work-related exhaustion and tensions (e.g., the estimated 23,000 Japanese workers between 30 and 60 years of age who die suddenly each year) (p. 46).[22] And Itoh is not the only observer to detect a worsening human-resource crisis in Japan. A decade ago, Keisuke Aoki noted that the "perennial use of overtime, long work hours, and work intensification are not consistent with the model of Japanese-style management that depends heavily on the 'human factor'" (1991, p. 62).

Itoh's dark picture of human-resource exhaustion clashes with the popular image of Japan as an egalitarian, nurturing society unwilling to abide by capitalism's "survival of the fittest" rules. As previous chapters have shown, however, the popular image is more myth than reality. Japanese economic growth has always been fueled by intensive exploitation of labor, and the post–World War II era was no exception. The most obvious indicator of this exploitation is work time. Indeed, the Japanese Marxist economist Koji Morioka refers to "the combination of a technologically advanced position and long working hours" as one of "the most striking characteristics of the Japanese economy" (1991, p. 12).

According to the Japanese Ministry of Labor, the average annual work

time in Japan was 2,168 hours per worker in 1988, which translated into an average work week of 43.2 hours compared to 38.5 hours in the United States and 35.9 hours in West Germany (Kates, et al., 1992, pp. J3, J5). However, as pointed out by Gavan McCormack, these official figures greatly understate the relative length of Japanese work time insofar as they exclude a large amount of what is euphemistically called "voluntary overtime" in Japan. He cites estimates that when such unpaid overtime is included, the measured annual average work time of Japanese workers (as of 1991) may have been "as high as 2,617 hours for men and 2,409 hours for women" (McCormack, 1996, p. 80).[23] Not surprisingly, "fewer than 20 percent of Japanese workers enjoy a two-day weekend" (p. 80). To these extended work times must be added the extremely long commutes suffered by many Japanese workers, partly due to the inflation of land and housing prices at locations nearer to workplaces. Workers' average commuting time is "about two hours round trip in the metropolitan areas" (Morioka, 1991, p. 24), and "over 20 percent of the Tokyo workforce commutes for more than three hours per day" (McCormack, 1996, p. 105). In short, "many of Japan's 'corporate soldiers'" live a life mainly composed of "leaving for work at seven in the morning, quitting around nine at night, and getting home at ten or eleven" (Morioka, 1991, p. 24). No wonder that in "a recent survey of Tokyo families, 10% of parents said they did not talk to their spouse at all, and another 51% said they spent 30 minutes or less in conversation with each other each day" (*Economist*, 1999d, p. 48).

Japan's egalitarian image also clashes with the reality of real wage growth lagging far behind the growth of hourly production per worker. Every major expansion of the Japanese economy since the late nineteenth century has featured a widening gap between labor productivity and real wages (see Chapters 6 and 9). In the last two decades this tendency has, if anything, become more extreme. "For instance, in Japanese manufacturing labour productivity increased 2.17 times from 1975 to 1985, almost as fast as in the period of high economic growth, whereas real wages increased only by 5.9 per cent in the same 10 years. Even in the phase of expansion in 1986–90, the disparity was wide between the 33.9 per cent increase in labour productivity and the 8.7 per cent increase in real wages" (Itoh, 1994, p. 45).

Japan's egalitarian reputation is even more puzzling in light of comparative international statistics on the distribution of household income. Carefully surveying the available evidence, Bauer and Mason (1992) conclude that "the overall distribution of income in Japan is probably less equal than often claimed and similar to the distribution in other OECD countries," even though "Japan's lowest income groups are relatively better off than those in many other industrialized countries" (p. 407). The latter finding may partly reflect the undercounting of foreign "guest" workers in the official Japanese statistics. Bauer and Mason also note that income equality "did not increase during the economic boom of the late 1980s, despite the upsurge in business activity." The reason? "Increased income from interest, dividends, and capital gains generated by rising stock prices . . . offset further wage gains" (p. 408). An earlier study by Ishizaki (1985-86), based on data for the late 1960s and early 1970s, found that "the income distribution is somewhat less equal in Japan than the average of the OECD countries," partly because of Japan's larger wage differentials by firm size and worker age,[24] and partly because "the concentration of property income in the high-income group is much greater in Japan than in the [other] major OECD countries" (pp. 41, 44). Ishizaki also found that "in Japan, the proportion of property income in personal income is considerably larger than in the [other] major OECD countries" (p. 44). Considering further that "wealth in Japan as in other countries, is much less equally distributed than income," and that the "rapid appreciation of the stock market and land prices during the late 1980s led to greater inequality in the distribution of wealth" (Bauer and Mason, 1992, pp. 415, 403), one really has to wonder where Japan's egalitarian reputation came from.

From a Marxist perspective, it is not surprising that Japan's distribution of income and wealth is at least as unequal as in other developed capitalist countries. Specifically, this finding reflects the successful efforts of Japanese capital and its state functionaries to stifle any militant classwide organization of the country's workers. And despite Japan's reputation for participatory corporate labor relations, this disempowerment extends into the labor processes of individual enterprises. Admirers of Japanese management often speak as if workers' control over production decisions is something that can be technocratically engineered rather than struggled for on a classwide basis. This has led them to confuse the *appearance* of greater worker autonomy and control with the *realities* of continued hierarchical management and the use of "teams" and other "cooperative" intra-enterprise techniques to obtain workers' consent "in the escalation of their own exploitation" (Hoogvelt, 1995, p. 721; cf. Dassbach, 1993; Hideo, et al., 1994). As pointed out by Tatsuo Naruse, "post-Fordist" conceptions of the management practices employed by Toyota and other large Japanese corporations tend to downplay the fact that in these systems

> improvement in labor productivity does not mean reduction of the standard input quantity of human labor per hour—the usual meaning of improvement in labor productivity on the basis of production technology—but rather increase of input; in other words, it means improvement in productivity through increased intensity of labor. . . . It is therefore not correct to regard it as a new production system with a revolutionary technology surpassing the Ford system and thereby achieving a new level of productivity. (1991, p. 45)

Naruse argues further that:

> Some writers who regard the Japanese production system as post-Fordist assert that multifunctional workers and [quality control] circle activities mean restoration of craft work, workers' autonomous control, and workers' return to the position of master over the machine system. But such assertions seem to overestimate or misunderstand the real situation. Under the present-day Japanese production system, the scope of transfer of management authority relating to production control to lower grades is very limited. It is barely possible to transfer the authority to define product design, manufacturing lot size, or manufacturing and process speed. Transfer of authority is mainly limited to factory layout for the purpose of improvement in work environment, maintenance and inspection of machinery in the manufacturing process, and activities relating to quality control. The multifunctional worker concept does not imply a skilled worker, as in the age of general machinery, before assembly-line production. (1991, pp. 45-46)

In short, "the idea that the Japanese production system is flexible and suited to human nature is based on a lack of understanding about the conditions of workers. . . . Disregard for or underestimation of the suffering that lies behind high efficiency and flexibility leads to a misunderstanding of the realities of the Japanese production system" (pp. 33-34). Perhaps the most important of these realities is that "enterprise unionism, in which membership is restricted to a firm's [permanent] employees, predominates in Japan" (Benson, 1996, p. 372). The strictly limited power of Japanese workers, both in the workplace and in wage negotiations, is largely based on the inherent weaknesses of the enterprise union form. Tsuru and Rebitzer (1995) provide a useful summary of these weaknesses:

> Enterprise unions, by their very nature, allow management and labour to reach agreements that are well suited to the particular needs of an enterprise. The identification of the union with the enterprise, however, limits the willingness of the union to seek wage gains that might hinder the competitive position of the company. Should profits come under pressure (as happened in Japan as a result of the oil shocks in the 1970s and the *heisei* recession in

> the 1990s), it is natural for enterprise unions to adopt an accommodating position. Declining wage premiums [then] reduce the incentives of non-union employees to form unions. Enterprise unions, whose membership is guaranteed by union shop clauses, will feel only limited pressure to respond to declining interest in union formation at non-union firms. (p. 482)

Given these tendencies, it is not surprising that Japanese union membership as a share of the employed Japanese labor force declined from 35.4 percent in 1970, to 28.9 percent in 1985, and to 24.2 percent in 1993 (p. 463).[25] Besides hampering domestic recruitment, enterprise unionism has weakened international solidarity between Japanese and other East Asian workers—which is again not surprising insofar as the main confederation of Japanese enterprise unions, Rengo, "is robustly corporatist . . . and resolutely rejects industrial militancy and analyses based on social class" (Hoogvelt, 1995, p. 725). Rengo and its member unions are more concerned with promoting the international competitive interests of their "parent" enterprises (e.g., assisting in the regional diffusion of Japanese management practices by "impressing upon visitors the positive and attractive aspects of the Japanese way of doing things") than with building cross-border associations that increase workers' collective regional power. Even in their relations with workers in other countries within the same firm (or the same family of keiretsu firms), the Rengo unions have been "largely unwilling to engage in any activities which might consequently disrupt relations with their parent company" (pp. 725-726). But by acting as "ambassadors for management, Japan's unions are . . . digging their own grave" by worsening the competitive pressures from "the transplantation of Japanese domestic industry abroad (especially in the East and South East Asian region)" (p. 724).[26]

Overall, Itoh's (1994) argument that Japan faces a worsening human-resource crisis due to "exhausted and weakened working people" seems quite plausible once one realizes the true extent of worker disempowerment built into the Japanese political economy and its external expansion. This human-resource crisis is also a crisis of human development—one rooted in the inability of mature capitalism to put its productive resources at the service of human needs. As such, it manifests the historical limits of production for profit as a vehicle of human production and development. Japan's popular egalitarian and anti-capitalist image is based more on the ideological evasion of these limits than on the realities of the Japanese system.

Japan and Capitalist Maturity: A Question of Priorities

The end of Japan's postwar growth "miracle" spawned an interesting debate in the West concerning the strength and effectiveness of Japanese state planning institutions. Neoliberals argued that whatever their past successes in promoting heavy industry, Japan's planning agencies (especially MITI and the Ministry of Finance) had shown themselves to be incapable of managing Japan's movement toward a more service-oriented and high-consumption economy. This task could only be handled through greater reliance on free-market forces, especially private financial markets and institutions (Bussey, 1995; *Economist*, 1998c). Another view, popularized by Karel van Wolferen, was that Japan was suffering from the absence of "any centre of accountability" in the bureaucracy and the rest of the political system (1993, p. 16). For van Wolferen, Japan's economic quandaries did not stem from planning and bureaucratic power as such, but rather from the irresponsibility, incoherence, and creeping paralysis of planning when it "is not ultimately regulated by law, or guided by leaders who are held accountable for what they do" (p. 17). Others suggested that Japan's economic problems had been overestimated and that the country's planning apparatus was still quite effective. Eamonn Fingleton (1995), for example, asserted that "the Japanese economy . . . emerged from the early 1990s stronger than ever," and that it was still "one of the most carefully and intelligently structured hierarchies in history" (pp. 70, 81).[27] Some flying geese theorists gave a regional twist to this optimistic line, arguing that with the recent expansion of outward FDI and offshore production networks controlled by Japanese corporations, the effective locus of Japanese bureaucratic planning had been broadened to incorporate other East Asian countries. Those holding this view tended to see Japan's domestic stagnation and even the East Asian crisis of 1997-98 as momentary bumps on the road toward the successful regionalization of Japan's state-capitalist regime (Terry, 1998).

What is interesting about this debate is how all its participants studiously avoided the question of the priorities to be served by Japan's future development. In focusing on the institutional mechanics of resource allocation, the debate bypassed the basic questions: planning for what and for whom?; markets for what and for whom? In comparing the economic potentials of state activism and private decision-making, the fact that Japan's development would continue to be capitalist was taken for granted. In this way, the debate ignored the true source of Japan's worsening socio-economic dilemmas: capitalism itself with its prioritization of exchange value over use value, of capital accumulation over human development. The possibility was never considered that bureaucratic planning might achieve its goals, and markets efficiently regulate private supplies and demands, *within* a system of capitalist exploitation and competition that continued to exhaust Japan's human, social, and ecological fabric. In the post–Cold War, "end of history" era, the idea that even a successful capitalism might be a failure in human-developmental terms could not be broached let alone pursued to the point of envisioning non-capitalist alternatives.

By contrast, this chapter has argued that Japan is suffering from a crisis of human development that can only be adequately understood as a crisis of economic priorities. As with all mature capitalist economies, Japanese capital and its state are unable to utilize society's tremendous potential surplus for human-developmental ends. Instead, this surplus has been wasted and utilized in ways that have actually exhausted Japan's reproductive potential as understood in economic, cultural, and ecological terms. At the same time, the foregoing critical overview detects an important kernel of truth in neoliberal thinking: as long as capitalist priorities of competitiveness and profitability are not fundamentally questioned, the Japanese government will increasingly be driven to adopt neoliberal policies of domestic deregulation, free trade, and free capital movements. In this case, the Japanese political economy will indeed become more like the United States—a cultural and ecological disaster increasingly reliant on domestic repression and external military force to support an irrational process of finance-led development.

Regardless of how Japan's future economic policies evolve—and whatever their success in terms of profits and GDP—they will not solve the country's crisis of human development as long as they remain within a capitalist framework. Such a solution can only be achieved through a struggle by workers and communities for a democratic socialization of production and its material conditions. The Japanese working class must rekindle its historical legacy of anti-capitalist struggle, especially the unrealized potential of the democracy, industrial union, and production control movements immediately after the Second World War (see Chapter 7). And now, more than ever, Japanese working people will only be able to construct a more democratic and human-developmental political economy by uniting with workers and communities in the other East Asian countries that have come under the sway of Japanese capital—countries now confronting their own development crises.

PART THREE

Contradictions of Capitalist Industrialization in East Asia

Chapter 11

State-Capitalist Development, Crisis, and Class Struggle in the NIEs

Part I of this book examined mainstream perspectives on the East Asian growth experience, including the recently popular flying geese theory of development. Drawing on aspects of neoliberalism and structural-institutionalism, the flying geese theory shares their positive view of capitalism's power to promote industrialization in a smooth, noncontradictory, and egalitarian fashion. It differs in crediting regional economic relationships and dynamics, in particular those shaped by Japanese foreign direct investment, for enabling the SEA-3 to follow Japan and the NIEs in a sequentially structured takeoff into sustained growth and development.

The popularity of the flying geese approach, as analysis and ideology, stemmed from its empirical plausibility. At first sight, it was difficult to look at the postwar economic history of Japan, then Taiwan and South Korea, and more recently, Thailand, Malaysia, and Indonesia and *not* conclude that global capitalism was working some growth magic. First one country, then another, and then another seemed to be duplicating Japan's successful model of development. The conclusion seemed to follow that global capitalism, if supported and encouraged by appropriate national economic policies, can produce a win-win situation for developed and less-developed countries.

The flying geese approach explained the process as follows: competition and state industrial policies lead firms in advanced countries to shift to higher value-added industries and, through capital mobility, help countries at lower stages of industrialization develop their own industries. Japan