

JAPAN -- MAJOR SOURCE OF CONCEPTUAL SHOCKS

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Assumptions held by Western economists, policy makers, and commentators about the nature of the world's second largest industrial power are so much at variance with observable reality there, that they ought to disturb our peace of mind. The realization that the discrepancy results from conceptual filters with which reality is normally apprehended, ought to have far-reaching consequences for those ready to rethink what is to be done about the world's international economic order.

CREDIT ORDERING

A quick look at Japan's commercial banks affords an immediate glimpse of routine misinterpretation. In the eyes of Western governments and businessmen these are profit seeking institutions, operating in a private realm under the supervision of the Ministry of Finance (MOF). This would lead one to expect that they are regulated under civil law. But civil law and the commercial code do not at all control the activities of Japanese banks. Administrative law does, and in Japan this is entirely a tool in the hands of ministry bureaucrats. The Banking Law has a mere 66 clauses, leaving the operational details for the banks to be settled by the ministry officials in informal instructions (*tsutatsu*) that they present to banks and other financial institutions. Japanese bureaucrats draft almost all laws to begin with, and make sure to keep them extremely vague, providing maximum room for changing interpretations in keeping with what they think they need for different occasions. They can fix the rules, to give one example, in such a way that depositors are forced to buy government bonds. The Bank of Japan is a fundamentally different institution compared to Central Banks elsewhere in the industrialized world; it is not a referee. There are no impartial regulators scrutinizing important transactions; wrong-doing in this realm is not subject to legal process.

A couple of striking characteristics among major Japanese lenders and among major borrowers ought to awaken the world to their actual place in the Japanese political economy: The first are poorly trained in calculating credit risk, and hardly interested in the subject, while the latter appear to have a disdain for cost-of-capital considerations.

We should right away be prepared to accept that the Anglo-American legacy of market-centered economic thought does not readily provide the type of questions to

make the Japanese political economy intelligible. At the same time, if we come to the Japanese economy with questions prompted by its own peculiarities, we may discern exciting but as yet hardly employed new ways of looking at the political economies of the world in general.

A crucial institution is one that has no recognized name as yet, but which economic guardians have brought to a high level of sophistication, and which can explain much of Japan's recent economic vicissitudes. We could call it credit ordering. It entails highly coordinated credit creation, preferential credit allocation, and systematic credit denial. Because it does not rest on intellectual underpinnings formulated by Japanese theorists or businessmen, it has remained well-nigh invisible as an institution in orthodox perspectives. Credit ordering ensures the hierarchical order necessary for the survival of Japanese industrial organization. The post-1945 version of it was shaped to a large extent by wartime financing methods and wartime restrictions on entrepreneurship. It has evolved for the purpose of building productive capacity, has helped provide entire industrial sectors with the wherewithal to engage in massive expansion unrelated to demand or profitability, as well as in campaigns for expanding international market share. And it has almost entirely socialized credit risk.

What makes credit ordering work is its embeddedness in an industrial structure whose major relationships and transactions are in the final analysis by and large not based on economic considerations of profit-making, but rather on political considerations of mutual protection and long-range expansionary goals.

Two huge intersecting organizational structures ensure order among Japan's large corporations: the set of horizontal keiretsu and the web of federations in every branch of industry. They perform powerful complementary functions that are extralegal and frequently at odds with official regulations (such as the anti-trust legislation that is supposed to be enforced by Japan's Fair Trade Commission). The keiretsu that tie companies in different industries together, and form huge corporate safety nets, have become relatively well-known since 1989. But the many federations that tie companies in the same industry together, ensuring relative stability, order and hierarchy among firms in the same field, have remained largely unexamined. There are no all-powerful keiretsu centers that exist to dictate corporate policies to members. But the assertive tendencies of each firm are strongly curtailed by the informal commands of group integration, mistakenly represented in Japanese parlance as loyalty (they have no choice). A few very powerful companies (Toyota, for example) need not worry much about fellow keiretsu members. Keiretsu companies own each other.

Power is diffuse to a point where accountability is practically non-existent. The fact that no one is ultimately in charge of the keiretsu clusters, and that no one person or company is ultimately responsible for them, makes them sufficiently amorphous to permit industry-wide bureaucratic guidance. For purposes of industrial policy-making the government bureaucracy and business bureaucracy are completely entangled. Guidance does not emanate directly from government ministries, but is channeled

mostly through the intersecting organizational structure of industrial federations. Sometimes dominated by one or a couple of giant corporations, these federations monitor and control all industrial sectors, coordinate production plans in specific sectors, help with collective technology acquisition, and give direction to Japanese industrial development at the highest levels. They can block projects of huge companies for all manner of non-economic reasons. What they decide on behalf of groups of companies has the force of law. Their high officials are usually retired bureaucrats from government agencies in whose bailiwick the association plays a role. Since Japan does not have an independent judiciary, and denial or refusal of membership means virtual exclusion from the economic mainstream, all Japanese companies fall under the extra-legal jurisdiction of these associations. It is therefore not surprising that becoming the chief of an industrial federation is the highest goal nurtured by many presidents of prominent companies.

Credit ordering is the main agent of cohesion in this system, and of course helps determine the nature of the Japanese consumer economy. Rigid sluices in the financial system have ensured that the comparatively large pool of household savings is available for large-scale industrial investment. Prices in the Japanese consumer economy are almost wholly fixed, and allow for a very heavy de-facto tax with which Japanese households help subsidize export industries and those known as "strategic." Consumer credit remained virtually unknown until the 1970s, and continues to be restrained and rigged by customary practice in favor of sellers.

The main organizations animating Japan's economy frequently behave with utter disregard for conventional market considerations, and have repeatedly demonstrated that profit-making is not their primary concern. Hence, imperfections of the market, to use orthodox terminology, are so plentiful and omnipresent in Japan that markets can only perform a subsidiary function, forcing the conclusion that sound economic theory with a claim to universality cannot accept the market as the pivotal institution of economies.

In the currently dominant Western perspective, the Japanese political economy is badly weighed down by collusion, interference in markets, and meddling bureaucrats. Triumphalist voices, having ascertained a grand victory for true "capitalism" in the final decade of the twentieth century, now tend to point at current Japanese problems as definitive evidence that operating an economy in a deviant market-disdaining manner is bound to fail. This conclusion ignores half a century of industrial development that transformed a war-devastated industrial base into one which within a mere 20 years became the second most powerful in the world; a process which received emphatic applause from the rest of the world, for longer than any other country has enjoyed.

The problems of Japan's financial system are of course real. But what should have gained special attention of the world's economists is the extraordinary story of

the survival of this system. Japan's financial mandarins, financiers and top industrialists together have so much informal control over the economy that first they could insulate a horrendous inflation in capital assets from the consumer economy, then prevent economic collapse when the stockmarket lost about 40% of its value in half a year, and continued to avoid the calamity that would almost certainly be the result in a Western setting of a banking system that is by and large technically bankrupt, saddled as it is with the equivalent of perhaps a trillion dollars or more in problem loans (no one knows exactly).

"CREDIT RIGHTS"

Historically informed economists will observe reflections of German, French, and other continental European financial structures in the Japanese case. And one can point at evidence of German inspiration for relations between banks and industry before the 1940s, which helped Japanese authorities formalize an earlier variant of the, then as yet un-named, keiretsu system. But the Japanese political setting has allowed for an intertwining of economic interests, and an institutionalization of informal symbiotic relations, so much farther developed than anything to be found in Europe, that we do well to consider the Japanese case as a qualitatively different system.

The common metaphor among Japanese analysts for the guarantees that important financial institutions will not go under, is a "convoy" of merchant ships guided by the warship of the MOF. But this falls short of conveying the complexity, ubiquity and effectiveness, of credit ordering, and its interaction with the intersecting webs of industrial organizations and industrial bureaucracies. Also the terms "network capitalism" or "alliance capitalism", which sometimes have been used to describe the Japanese political economy, fail to do justice to reality, as theories thus labelled still implicitly presuppose the existence of separate private and public sectors. A clear view of how things work in Japan can only be had if one gives up that assumption.

Where in this Japanese system could one conceivably draw a line between private and public sectors? The umbrella organizations placed above the industrial federations, such as Keidanren, Keizai Doyukai, and Nikkeiren, are also in Japan commonly referred to as "private sector" institutions, and the first two are known, occasionally, to take bureaucrats to task for shortsightedness or questionable priorities. Conflict is fairly widespread throughout the system, but it does not pit alliances of entrepreneurs and business bureaucrats against ministry bureaucrats. The alliances that do exist consist of government officials and economic organizations within their bailiwicks.

The notions of "private" and "public" are not analytically meaningful in the Japanese context. Neither sector ever emerged over the centuries of Japanese political evolution.

In that perspective it can be more easily understood how keiretsu companies

have, for all practical purposes, long considered their access to financing, regardless of their profitability, as a matter of course. It is appropriate to speak of "credit rights" enforced by the MOF. And, significantly, the legitimacy of the MOF in the eyes of Japanese industry directly depends on the continued ability of its officials to keep the political economy going in predictable ways by guaranteeing these "rights". Since Japanese officialdom operates almost entirely beyond the political control of elected parliamentarians and cabinet, these "democratic" institutions cannot be a source of legitimacy.

COSTLESS CAPITAL

In administering the banks as money pumps for rebuilding a war-devastated industry, and for gaining huge international industrial power, Japan's authorities have not been held back by theory, as they faced the challenge of overcoming what elsewhere would be considered as insurmountable economic limitations. In applying their credit ordering institution they have done what worked in practice. Extraordinary industrial organization and interdependence, which have effectively eliminated possible dissenting independent voices about what constitutes economic reality, have helped the financial mandarins accomplish feats that Westerners would not have dared believe possible.

In the second half of the 1980s (during the so-called bubble economy) Japan's large corporations were supplied with close to costless capital by a doubling, tripling and even quadrupling of real estate values, with very few major transactions actually taking place. High land prices appeared to justify the rise to astronomical levels of Japanese equities, and vice versa. The common assumption among Western commentators, governments and businessmen that all this was due to waves of wild speculation by independent investors vividly illustrates the systematic misinterpretation of Japanese economic reality in the West. The point of this exercise was to enable industry to offset the dire effects of the dramatically risen value of the yen, as it launched the largest wave of plant and equipment investments in history. Speculators were exploiting the situation, to be sure, but they were marginal and many were ruined.

Costless capital did of course not come from altogether nowhere. Credit ordering operations during the bubble simply accelerated the steady transfer of wealth from the household sector to the industrial sector, which had been the earlier condition for "miraculous" industrial growth. The bubble was fed by household savings that found their way to the stockmarket through insurance companies and trust banks. Japanese corporations still have the assets that these investments financed. But after the mandarins decided on a guided deflation, and the market "collapsed," Japanese households and the financial intermediaries saw trillions of yen wiped out.

The politically determined overcapacity of Japanese industry, further expanded through the bubble economy, has reached a point where major adjustments are neces-

sary to draw the Japanese economy out of the doldrums.

But while the "convoy system" has recently been somewhat reconfigured, as the officials have had to allow a small number of second-tier Japanese financial institutions to be declared bankrupt, it continues to support a large number of institutions that, measured by conventional Western standards, would be considered altogether unviable. The spectacular mergers that have taken place in the late 1990s among large Japanese banks (beginning with the creation of the Sakura bank out of the old Mitsui and Taiyo Kobe banks and continuing through the recent IBJ-Fuji-DKB merger) must be seen in this light. This process in Japan is different from that which drives the big bank mergers in other countries, in that it primarily serves a political rather than an economic purpose -- that of preserving the credit ordering system. Official declarations that a more market-oriented approach has become desirable do not herald fundamental structural change. Abolishing the system under MOF control is not conceivable. It would risk industrial collapse.

Systematic credit denial is as significant to Japanese economic order keeping as credit creation and allocation. Outside the main bank-supported and systemically coordinated industrial machine there is little opportunity for a solitary entrepreneur, dependent on long-term domestic investment, to flourish. Small companies in service sector areas considered marginal, such as hair-dressers, fashion businesses and retailers have access to more expensive funding, but will find it difficult (depending on the sector) to expand significantly without linking up in some way with a keiretsu or smaller cluster. Small retailers are for a large part either wholly or partly ensconced in so-called distribution-keiretsu: dealer associations with which manufacturers (especially in the consumer electronics sector) control their domestic market shares. Manufacturer members of horizontal keiretsu are themselves often stellar centers of huge planetary systems of sometimes a hundred or more subcontractors; structures known as vertical keiretsu.

Since a capital market comparable to those of the Western industrialized countries does not exist, few medium-sized and small companies can establish a market niche allowing them the freedom to make their own decisions. The relations that these smaller companies have with their "mother" firms is the sole determinant of their credit worthiness. The upper tier of well-known names of Japanese industry rests on a thick pile of shock-absorbing layers of anonymous factories and sweatshops, which go bankrupt in large numbers and reappear for different part-making requirements in times of economic downturn and shifts in manufacturing focus. Trading companies within the keiretsu, rather than the banks, tend to mediate for, or directly supply credit to, this category. These organizations, for which "business brokers" would be a more accurate label, are huge industrial information centers capable of calculating risk in nearly every area of economic pursuit and they further strengthen centralized control over credit allocation.

Could those subcontractors, without access to easy credit, be seen as forming a fledgling private sector? If so, it is subjected permanently to the politically well-connected firms, and is likely to be permanently deprived of a political voice.

THE MISSING PRIVATE \ PUBLIC DIVIDE

Nations are not naturally endowed with private and public sectors. For these notions to correspond to significant categories in a political economy, a country must have undergone a legal evolution that cannot be taken for granted. The rise of the bourgeoisie that ended the feudal order in Europe was crucial to this development. In Japan no bourgeoisie ever emerged, even though its urban centers were huge, and the sites of highly sophisticated culture. Edo (later Tokyo) in the 18th century was probably 8 times as large as the largest European cities. But Japanese cities were created by warlords for their own strategic and financial reasons.

We must condense a complex story, and it is perhaps most instructive to compare the political function of European and Japanese guilds. The European guilds that kept social order, gave status to its members, and regulated economic activity, became the basis for new oligarchic power, a power that existed in opposition to, or at least mostly independent of, the older landed aristocracy outside the cities. Economic development in Tokugawa Japan brought forth a large number of merchant houses, which organized themselves in guilds that were self-regulating to a high degree, became very rich and indirectly powerful. But they were never protected by laws and could never extricate themselves from the power hierarchy to become a potential hotbed of political opposition. The bakufu (military government) authorities recognized their right to exist, and allowed them certain privileges, which frequently grew into monopolies. In return for extra-legal protection, the groups of merchants made sure that economic activity remained controllable and could be checked at any time by the authorities. The effect of these arrangements was that the merchants ended up helping to prevent commercialism from spreading to areas of Japanese life where the bakufu authorities did not want it to go.

The burgeoning civic institutions within the fortified cities of medieval Europe gradually helped establish a legal order in which property rights could be enforced, and the accumulation of wealth could be safeguarded. In Japan, by contrast, the judiciary had been entirely in the hands of the military authorities, and did not evolve civil law notions of ownership, private property and contract. No contractual thinking developed to provide a political grip separate from the structure of powerholders. In the absence of an institutional background for the emergence of notions of a separation of the powers of government and private wealth (along with notions of individual and citizenship rights), the Meiji Period authorities did not create a division of public and private sectors as they systematically built up Japanese industry. No functioning legal system would have supported such a division.

To give more depth to this perspective, it is necessary to understand that the Tokugawa rule makers had, by a stroke of political genius, seen to it that society itself became, as much as was possible, a part of the political system. Japanese households, or "ie", were consciously turned into political units by incorporating them as special legal entities. The closer to the center of bakufu power, the more that was the case. With that, the bosses who unified Japan four centuries ago prevented a division between a potentially recalcitrant society and the governing system. On the level of the individual person, Japanese of samurai status could not own significant property, like land or tools. The "ie" owned things. Individuals could not be said to have much of an identity except as members of an ie. Europeans owned their businesses, whereas the households of their Japanese counterparts were themselves the business -- the ie was a corporation. The head of the ie, who had almost unlimited legal power over all its members, was also responsible for their conduct. And the head was automatically part of the political system through a bond of obedience with his superior. At first this political control of society through the ie system covered mainly samurai households. But this kind of highly effective social control was later also applied to well-to-do village households, and city households engaged in business.

The reformist Meiji authorities made samurai style organization the norm for all of society. There was hardly an alternative. Lacking the institutions which in Europe had evolved to form a genuine private realm, the worker in a city, the artisan or the merchant was only ever aware of power emanating from his own superior or guild in the ruling system. If urban Japanese had any sense of the possibility of an alternative political organization, they might imagine a group of rebels, perhaps a rebel army. The Japanese individual could, however, not bring to mind any example of an alternative political organization that could become a "state". The state, as it evolved in Europe, with its political arrangements that treated individuals as citizens whose conduct could be judged in the light of universal legal ideas, was simply unimaginable.

This inherited political structure that blocked the emergence of a bourgeoisie along with conceptions of citizenship and a public sector, was fortified by a powerful ideology. The politically incorporated household was portrayed as something with overarching mystic qualities; as a blessing emanating from a long line of ancestors and endowed upon the persons currently inhabiting it. And the ie was believed to last indefinitely into the future. The political bosses of the Meiji Period were of course not ready to jettison this marvelous tool for maintaining order in exchange for a more European approach to the nature of families. Whatever they imported in the way of modern ideas, it did not include anything that might politically have emancipated Japanese households. And it is not surprising that the Meiji oligarchy extended the legal ie organization to all layers of the population. Until 1945 the ie was obliged by law to produce moral subjects.

The Meiji authorities blended something even more powerful into the mix of ie mystique. They came up with the notion of the state as a gigantic family grouped

around a benevolent emperor. Militaristic propaganda in the twentieth century spoke of "one hundred million hearts beating as one heart".

In short, whereas in 17th and 18th century Europe the authority structure headed by kings was robbed of its sacredness, in Japan, almost simultaneously, the opposite happened; anyone with the temerity ever to think of the authority structure as less than sacred became prevented from doing so by having been made part of the sacredness himself. Contemporary Japanese law has dropped the formal concept of *ie* altogether. But the ideology of large business organizations, their "constitutions" and philosophy of founders, and whatever else they hold up for new employees to study and take to heart, tend to be replete with notions directly descended from *ie* ideology.

Samurai were often broke, and gradually began marrying their daughters to the sons of merchants. But as a result of this intermarrying, the factual Japanese aristocracy did not disappear when the samurai status was officially abolished. By the time the formal status structure disappeared, Japanese aristocracy had already blended in with a hierarchy of economic power. With the adoption of institutions inspired by the examples from the West, private and public sectors were established in theory, but were not allowed to shape the political economy. The "private" and the "public" were perhaps separable entities in the minds of some Japanese thinkers, as they theorized about things, but they did not become living political concepts.

Japanese *zaibatsu* became powerful organizations, which frequently showed that they wanted to serve different purposes than those in the minds of central government authorities. At the same time, however, they benefited from the always present readiness of government authorities to encourage oligarchic economic power.

What is officially termed the private sector in Japan today can more profitably be viewed as a collectivity of guilds. Or, in another, similar, way of looking at it: corporations function as if they have franchises from the government to do what they are doing.

Japanese authorities still enter into relationships with pressure groups through which, ultimately, they can continue to control situations. In exchange the central authorities give the pressure groups subsidies and special privileges. A spectacular continuation of the kind of relationship that existed between the official government authorities and the guilds in Tokugawa and Meiji Japan, is the mutually beneficial relationship enjoyed today between police and *yakuza* (gangsters). The gangsters are given an informal monopoly on certain activities that are on the edge of legality or just inside the illegal zone, and in exchange for that they serve the police by controlling crime. More organized crime means less unpredictable crime.

Foreign observers of the Japanese economy continue to focus on signs of change in the way that bureaucrats interact with companies. The imagery that has informed the discussion about Japanese reform has been largely about a meddling

government sector interfering with a private sector. And the Japanese press dutifully reports on things like the number of retired bureaucrats given cushy jobs by corporations each year. This is a very misleading topic, as it solidifies an erroneous impression that nosy bureaucrats cannot leave hardworking entrepreneurs alone. The often mentioned phenomena that symbolize the "cozy relationships" between bureaucracy and business (amakudari, tsutatsu and gyosei seido) essentially regulate internal communication within a structure that in actual fact forms an almost seamless whole, even while it may be shot through with (mostly unacknowledged) conflict.

MALFUNCTIONING

The fact that in Japan no bourgeoisie emerged, no sense of citizenship evolved, and that the political economy never in practice differentiated between public and private sectors has had dire consequences. The notion of the "public good" is not meaningful to the power clusters within the political economy.

Few doubt that in recent years the Japanese political economy has been malfunctioning. This is widely understood also among the Japanese political elite, but it is accepted fatalistically. Considering the fact that the politically determined overcapacity is no longer useful for establishing international market share, the fact that the world cannot absorb huge increases in Japanese productive output, and considering the weight of a financial sector much of which is technically bankrupt, a major shift from the producer-centered policies that are now set in stone to policies benefiting consumers would be an obvious task for any Japanese government.

With the quadrupling of the exchange value of the yen against the dollar over the last 25 years, Japan's exporters have seen their foreign profit-margins dwindle severely, necessitating systematic subsidizing of Japanese industry by the keiretsu banks. (Until 1990 these banks showed positive results on their books only because of the inflationary real estate and stockmarkets). But the implicit national priority of unlimited expansion of industrial power has remained the national priority. No debate invoking the public good is sorting out possible priorities for Japan's future.

There is probably no other advanced industrial country in which for the past ten years so much has been said and written and promised on the subject of fundamental economic and political reform as Japan, and announcements from within government and business bureaucracies about a necessary drastic overhaul go back at least another decade. There has been a corresponding number of accounts about frustrated efforts and false starts. Adjustments are not forthcoming because there is not one political entity that functions as a true government, one capable of identifying new priorities.

The absence of a center of political accountability allows for economic mismanagement on a huge scale, made visible in the gradual destruction of the Japanese coun-

tryside, its rivers and coastline through the indiscriminate pouring of concrete. The Japanese construction mafia -- construction bureaucrats, politicians and about half a million related companies -- is a most tragic example of a Japanese interest group that has become so powerful that it systematically undermines the public good.

Policies and government spending in the context of a housing policy (an obvious choice in a country with substandard housing) that would not be destroying the countryside, that would still bring employment, and that would have brought truly useful improvements in local infrastructure, have been considered, but there is no effective government to design and implement them.

INADEQUATE TERMINOLOGY

The case of Japan is highly instructive for those who are serious about rethinking the question of what is to be done about international systems relevant to economic activity.

To begin with, it poignantly illustrates the utter inadequacy of generally accepted terminology and its underlying assumptions with which economists, policy makers and general commentators attempt to make economic issues intelligible to one another. Japan provides a huge warning against the widespread application of familiar economic conceptual categories to unfamiliar phenomena, unexamined political circumstances, and unanticipated cause and effect chains, which has been the hallmark of the globalization discussions. The reality of the world's second largest industrial power does not remotely resemble the mental imagery evoked by argumentation of mainstream economics and the standard defense of globalization as a political mission. Japanese experience thus supports the conclusion some have drawn from events of recent years that the widely applied conventional frame of reference for understanding world-wide economic developments does not lead to adequate understanding of these developments.

The ubiquitous accounts of a "changing Japan" in popular media as well as academic literature tend to take for granted that change means convergence. Almost all non-Japanese commentators, negotiators and policy makers tend to believe that convergence of Japanese practices with general practices in Western capitalist market economies is desirable; and quite a few start from the premise that it is inevitable. It is important that we realize the presence of such an assumption, as well as its ideological roots, because it has tended to filter the world's observations of Japanese economic and administrative developments -- giving much weight to scattered instances of change that are presented as proof of convergence. But a Japanese metamorphosis into an economic system even remotely resembling the Anglo-American model is no longer possible. Convergence would require something akin to a revolution in Japan, and the process of getting from here to there would undermine the entire global or-

der, given Japan's position as the world's number one net creditor nation, principal financier of the US trade and current account deficits, and principal investor in South-East Asia. There is no question but that Japan will remain opaque, and have an administered market, have inextricably intertwined government and business bureaucracies that are not ultimately subject to impartial legal scrutiny.

Vastly complicating any effort to come to terms with Japanese reality is the fact that notions of convergence are inadvertently encouraged by Japanese officialdom in an almost continuous effort to placate American sentiments. Washington has been nagging Tokyo to change its ways for decades, and the diplomatic response has been a plea for patience rather than an explanation that the asked-for changes are not forthcoming because they are impossible. These officials have difficulty in explaining their own political economy to each other in the absence of a shared adequate terminology.

Japanese officials and commentators know that the language they use is borrowed and does not cover reality, but they do not know exactly where boundaries of terminology and reality cease to overlap.

The true nature of the Japanese political economy is not understood at all by a majority of Japanese citizens, which suits the powerholders fine because their system would be undermined if its built-in hierarchical preferences were made official, and thereby a clear target for potential protest. Japanese political and economic explanations are never forced to be realistic by an evolving public debate on social and political desirables. Academics, media commentators and officialdom in Japan excel in forcing round pegs in square holes as they explain Japanese developments almost entirely in terms of conventional market-centered economics.

The Japanese experience is a forceful reminder that economies cannot be adequately understood if they are studied in isolation from the political circumstances that helped shape them, and as if they have no historical dimension. To the extent that the current international agenda of liberalization, deregulation, and privatization rests on ahistorical tenets held as if they were self-evident and unchallengeable, it must be critically re-examined.

More specifically, the application of methods for solving economic problems dictated by theory based on situations in Western economies, which were erroneously believed to be universally applicable (because "scientific"), must be examined for the inadvertent stagnation or severe setbacks in economic development programs they may cause. The Japanese experience teaches us that it is altogether possible for successful economies to emerge without the institutional underpinnings that are needed for the relatively safe operation of free-market capitalism. The ideological force of free-market fundamentalism has blinded otherwise sophisticated policymakers, businessmen, and current affairs analysts to the world's burden of a set of economies in which basic investor purposes and basic institutional supports are variables. In 130 years of spectacular industrial development, Japan has managed without the emer-

gence of an institution resembling the Certified Public Accountant known to Europe and the United States. We find hardly any bankruptcy law in Japan and only underdeveloped contract law.

THE ASIAN CRISIS

The Asian financial crisis looks entirely different when seen against the background of this Japanese experience than of what mainstream opinion has made of it. The latter pointed at "irresponsible" banking, "unacceptable" informal relations between the private sector and government, and the lack of transparency as having caused structural weaknesses of the financial sector. Formulas for preventing further crises have centered in large part on the elimination of what was popularly referred to as "crony capitalism", which entailed establishing improved supervisory/prudential standards. The stricken countries were by and large portrayed as having brought disaster upon themselves through their delinquency with regard to banking practices.

It would be analytically more profitable to consider the much decried informal relations between government and business as part and parcel of a formula for success. The South Korean political economy has followed the Japanese example most closely, and both helped inspire, to varying extents, the development policies of the others. Just like Japan, the Asian tigers wanted to be industrially strong rather than rich, but unlike the Japanese authorities, who have always made sure that their economy would never be at the mercy of jittery and capricious foreign investors by closely controlling foreign investment, the authorities of Thailand, South Korea and Indonesia, followed a fundamentally different strategy of attracting capital from abroad. Most significantly, protective walls surrounding the credit systems of these countries -- which have always been kept in place as a matter of course in Japan -- were removed under pressure of Washington and international organizations.

It is not that governments of the crisis countries left serious supervision and sound rules for prudential banking too late in their economic development, but rather that they practiced structural favoritism and had a disdain for short- to medium-term market signals for the sake of gaining industrial strength in the shortest time possible. Providing entire industrial sectors with the wherewithal to expand massively has been a primary concern for these scarce capital countries, and thus their financial systems were designed to allocate capital on an insider basis for the purpose of improving productivity and growth of capacity. The rapid growth of Thai and Malaysian productive capacity would not have been possible without strategic credit allocation that comes with prevailing government favoritism for chosen private enterprises. The chaebol in Korea, like the keiretsu in Japan, would not have developed their tremendous industrial capacity if not for privileged access to credit in which questions of future profitability hardly mattered. The close connections between authorities and businessmen were essential to the allocation process. Capital allocation has taken place mainly

through a protected banking system that tolerates very high levels of debt. Costs and risks are under such conditions regarded with entirely different eyes than they are in the West.

Notions that have prevailed in the discourse on the Asian crisis, those of moral hazard and transparency, take on a different coloring when placed in the context of Japanese-style credit ordering. Japanese industrial and financial systems offer hardly anything except "moral hazard" by accepted definitions.

REVERSE CONVERGENCE?

While we may exclude the possibility of Japan changing into a European or American style political economy, there are good reasons to consider a convergence the other way round. In that context the Japanese experience ought to become highly valued because it can tell us much of what is in store for the West if present trends continue.

While the removal of obstacles to further "globalization" is presented in terms of "expanding free trade" (witness the mainstream response to the protesters in Seattle), the real agenda of globalization advocates in recent years consists of a push for international treaties aimed at a huge expansion of corporate rights. Japan constitutes a magnificent laboratory for the study of symbiosis between business empires and the political system. While Western governments have greater freedom than the putative government in Tokyo in determining their priorities, the identity of purpose between government and corporations in the United States and much of Europe is beginning to take on a Japanese coloring. The necessity for American politicians on the national level to please big business so as to cover the costs of getting elected already bears close comparison with what has determined Japanese elections since 1955.

When ever-expanding bureaucratic entities of colossal size, and unaccountable power, gradually take over the public realm it is time to rethink common metaphors. The fact that gigantic business empires and financial organizations that operate on behalf of a relatively small number of parties exercise considerable power is nowadays generally acknowledged. But its justification remains couched in terms whose connotations date from the 19th century. Continuing to portray mega-merged business empires with imagery of entrepreneurship and risk-taking is absurd. A study of Japanese business could place them in a more satisfying perspective.

Japan can furthermore provide much inspiration for political and economic thinkers who, in the post-Cold-War world, have been confronted with the sudden task of gaining perspective of the interplay between states and markets. What transnational businesses with a financial wherewithal comparable to or greater than many medium-sized countries can do to local markets deserves scrutiny with much improved conceptual tools.

Perhaps the greatest threat represented by the recently strengthened concentra-

tions of business power is their potential for diminishing the effect of true markets. Again, Japan provides us with chapter and verse of how markets can be controlled, and eliminated to a point where they no longer plague business with uncertainty.

Privatization in some European economies has blurred the line between private and public sectors significantly. Further privatization may help diminish private and public sectors as politically relevant categories. Needless to say, Japan is the place to find out what kind of world that creates. The Japanese experience ought also be a warning to those practicing political science who present interest group representation as the most likely future form of democracy. If Japan is anything to go by, such "corporatism" will, in the long run, destroy the "public good", since the various groups that make up a corporatist elite are not interested in such a thing. Constitutionally they can only be interested in their own "personal good". The claim that everyone belongs to one group or another, and that it is possible to form a political system representing everyone by incorporating all these interest groups, is fallacious, as Japanese experience strongly suggests.

WHAT IS TO BE DONE?

A thorough overhaul of the conceptual apparatus with which we regard and interpret the economic reality of our world is obviously needed. Current orthodoxy and the vision of a globalized economic order ruled by unregulated markets assumes a homogeneity of economic motivation and future economic practice that does not and cannot exist. The neoliberal imagination that takes separate private and public sectors for granted, and comes with preconceived thought about the market as a singular abstraction -- as a source of superior knowledge and of political judiciousness, as the best impartial judge we can have, and as a healer of sick economies -- must be seen for what it is: an obstacle to knowledge. We require a much better intellectual basis for a policy discourse concerning economic development, and concerning forms of economic harmonization not detrimental to the well-being of local populations among a diversity of political economies.

Indignation with economic systems that deviate from what international organizations and Western governments have rather recently decided as proper or healthy, and the moralistic tone that has characterized Western commentary on crisis countries, are out of place. The implication that industrial systems with endemic favoritism deviate from established standards that determine economic health begs the question of the validity of these standards. The search for causes of malfunctioning in irresponsible governmental attitudes and bad business habits, hinder the search for workable long term solutions.

Western businesses normally develop a tacit understanding of, and accommodation with, the reality of political economies in other parts of the world; they must in order to be successful and to maintain their risks from regional involvement at man-

ageable levels. This was illustrated by the fact that foreign lenders in the Asian crisis countries insisted on short-term lending, and subsequently were quick to pull out; they understood that they could not be part of local systems, and would not be protected through the advantages that these systems offer insiders.

But the continued emphasis among international organizations and Western officials on moral hazard, on transparency, and so on, prevents the policy discourse from moving in a more profitable direction.

Even if relevant local laws were passed, in political cultures lacking the institutional infrastructure to support them such laws are meaningless. The wished for transparency will require reliable indigenous ratings agencies, which now do not exist, and large numbers of registered accountants who can feel safe in the knowledge that their profession is protected. After some 120 years of industrial development Japan has not produced an institution that functions like the CPAs in the West. It is highly unlikely that such a category can be trained in the Asian crisis countries within even a couple of generations.

For the well-being of local populations it is necessary that policy makers and international organizations develop an explicit understanding of discrepancies that are part of unalterable reality. Only then can policy aims be formulated to help prevent the process of globalization to cause major economic dislocations and distortions.

There is one objective that could and should draw together the elites of "emerging markets", less developed economies, Western governments and international organizations, for formulating a practical policy discussion. That objective is the fostering of an economically strong and politically significant middle class. Without losing from sight the need for fundamental assistance to the desperately poor in countries negatively affected by globalization, economic policies aimed at lifting the recently poor and less poor into an enlarged middle class with money to spend, and with political aspirations, would seem to be the best hope for all developmental areas of the world.

Such a class, strongly motivated to help engender further development, can have a very significant psychological and moral impact as it demonstrates that all people can gradually gain an ability to help shape their destiny.

That priority makes immediate sense from an economic development point of view. The great weakness of the type of economy inspired by Japanese example, in which investments are made for industrial strength rather than profit, is that after a period of rapid growth a major liability emerges when foreign markets are no longer able to absorb what the pumped up production apparatus delivers. At the outset of the high growth periods, attractive investment opportunities exceed available capital. But when available capital increases rapidly, the economic system pioneered by Japan becomes problematic. Japan has been burdened by this for a couple of decades, but has never addressed the problem because it lacks the political mechanism to do so,

and has thus not provided any example of how the other political economies it inspired could proceed to make adjustments.

A middle class with the means to buy consumer products will make the Asian economies less dependent on exports, and therefore less vulnerable to external vicissitudes. Before its crisis, Indonesia had drawn attention because of its growing economic prosperity, and had received applause because its distribution of wealth was beginning significantly to help the growth of a lower middle-class. Aside from bringing potentially disastrous political instability, the misguided handling of the crisis there (and elsewhere) pushed tens of millions of people below the poverty line. More often than not, a policy to counter that particular outcome of the financial crisis demands Keynesian type programs, and therefore much more government spending than is believed to be responsible in current conventional thinking about the relationship of states and markets.

Support for small and medium-sized businesses would be an obvious choice in the context of such a policy. Large numbers of small entrepreneurs are most likely to provide solid employment prospects to the lower echelons of society.

Finally, a huge problem deserves everyone's attention: How to preserve a large measure of economic self-determination for newly developed countries. Globalization has so far significantly increased the dependence of economic entities in less developed countries on foreign interests. Exploitation, the potential for which comes with the greater reach of international investors, is a built-in threat for these countries.

To see this in proper perspective, one must forget arguments implying ill-intent on the part of foreign economic interest, but rather conceive of exploitation as following from the logic of international economic processes.

A substantial danger for the long term is the transformation of countries with promising economic prospects into subcontracting positions for more powerful political economies. While a subcontracting function of part of a developing industry can be conducive to growth and a limited degree of technology transfer, accompanying infrastructural developments may in the long run serve the foreign investor more than they do the domestic economy. The relationship between the SouthEast Asian economies and Japan is a telling case in point.

While acknowledging the fact of economic interdependence and its benefits, policies that ensure a high degree of self-determination are ultimately desirable.