

23: CONTEMPORARY JAPAN: AN EMERGING GREAT POWER?¹

a. How do Japan's international role and domestic politics differ during the contemporary period from what they were during the postwar period? In what ways and why are they almost the same now as then?

b. What and how strong are the signs that Japan's economy is entering the hypoindustrial stage? What signs are there that Japan is also entering the crisis of the second stage of high civilization?

A. Contemporary Japan: Its International Role

I use the term “contemporary” as a chronological label for the period following the “postwar” period, which I end during 1971-1973. No doubt in another decade or so, when we notice another major trend beginning, we will rename the contemporary period. If I had to do so now, I would label it the final subperiod of the age of modernizing revolutions, and end it during 1989-1991. But since I am not a political scientist, I need not commit myself yet, and will continue to call it the “contemporary period” for a few more years.

1. International economics

a. power and market

Japan's contemporary international role may be analyzed into its economic and political aspects. However, while a nation's politics assume a larger role the more interventionist its government becomes, its economy always constrains a nation's politics, including its political behavior abroad.

Very nearly the opposite was true for the totalitarian socialist states. They used political and military power abroad to try to get some of the same results that economic exchange gives to a market society. Mao Zedong said that political power at home grows out of the barrel of a gun. For

a great capitalist market society, like Japan, guns grow out of (i.e. are paid for by) the manufactured goods it produces for itself and for the world. Japan can decide to buy guns, or not, depending on its place in the balance of power and the form into which its vision of Heaven has evolved.

The economic basis for political power began to shift out of American hands during the early 1970s. General perception of this shift marks the end of the postwar economic and international political order. After a dozen years of increasing instability, the Bretton Woods system's hierarchy of world moneys formally broke down in 1971 when President Nixon and his Treasury Secretary, John Connally, decoupled the dollar from gold.

b. the post-Bretton Woods system

Thereafter the market exchange rate of the dollar for gold would vary tremendously. Other currencies also began to vary in unpredictable ways against the dollar, each other, and against gold. Drastic and frequent exchange-rate swings became the norm during the 1970s and '80s. Even small-town American newspapers began to carry daily exchange rate tables. Exporters and importers had to anticipate these changes when setting contractual prices lest an unexpected rise or fall wipe out their entire profit.

Logically, exchange rates should tend to respond, at least ultimately, to changes in the purchasing powers of the various nations' moneys at home. But protectionism has always kept this economically rational tendency from kicking in unambiguously. Also, consumption patterns differ sufficiently so that even when people in two nations consume the same good, they may well value it differently. A Big Mac is junk food in the U.S., but was an exotic treat in many small towns in Japan, at least until recent years.

c. clean and dirty floats

In principle, increases in one nation's quantity of money should depress its exchange rate with other countries' moneys. However, this tendency can be masked for a time by what financial journalists (who now handle the language almost as exuberantly as sports writers used to do) soon came to call “dirty floats.”

A central bank could let the value of its nation's currency float most of the time, but over the short run, it might “dirty up”—change in a direction the central

bank favors—the exchange rates. The new exchange rate would differ from a “clean” float—one reflecting actual market forces. The central bank can do this by buying up or selling off supplies of its currency in the international currency markets, buying its money if it wants to raise the money's value, selling its money to drive down its value.

But this can only be done over the short run. For example, the Japanese central bank must, if it does not have enough foreign money, usually dollars, to move the market, borrow from other central banks the foreign currencies it will then use to make big purchases of yen to raise the yen's value. Sooner or later it must pay back those loans in dollars. That requires it to throw those yen back into the market to pay for the dollars, thereby undoing the good done by buying up the yen in the first place.

Moreover, even a coalition of central banks cannot mobilize more than a dozen billion dollars over a very few days to carry out such an intervention. That is a drop in the bucket. About a thousand billion dollars is normally exchanged on an average day in the money exchange markets.

The moral of the story is that dirty floaters must eventually clean up their act, i.e. allow the value of their money to float cleanly—to where market forces originally wanted it to be.

Even if all central banks inflate together, the day of reckoning can only be postponed. Eventually, some or all of the countries will suffer from a high enough inflation rate so that their central banks must stop inflating their currency. At that point there is no longer enough money to pay the increased prices resulting from previous rounds of money creation. Some goods go unsold, and a downward spiraling bust spreads from country to country, its severity proportioned to the length and degree of the previous interventions that postponed it. This bust can be either inflationary or deflationary, depending on what the central banks do to the money supplies just before and during the bust. It can be acute or dragged out over decades, depending on the stage of industrialization a particular economy has reached.

All such interventions by central banks always lead to busts sooner or later. The bust in Southeast Asia that began in the summer of 1997 is merely the latest such event. While economists cannot predict

¹ 1st draft, 11/87; 7th rev., 9/99, by Edward Kaplan.

the onset of or do more than guess as to the length and severity of each bust, studying the history of busts can at least keep us from flinching when the next one hits.

By the early 1960s, as the U.S. pulled out of the bust of 1958, the American economy also began to visibly show signs of hypoindustrialization. Its economic decline was, however, still slow and perceivable more relative to the performance of other nations, like Japan (still in its postmaturation decades), than in absolute terms.

d. consequences of America's visible hypoindustrialization

All during the postwar period, America played the role of the world's central banks' central banker. Since the other central banks wanted dollars for their own reserves (which they could then use to back their own money supplies' increase), the American central bankers could create dollars more or less as needed by their many foreign central banker clients. Kiting up the supply of dollars also suited their own convenience as the Keynesian managers *manqué* of the U.S. economy.

The greater wealth of the American economy relative to the war-torn economies of the other market societies guaranteed a willingness on the part of banks and people elsewhere to hold large dollar balances, seemingly indefinitely, since these represented claims to part of this superabundant American wealth.

Eventually, however, the other industrial economies recovered, and some of them (Germany, then Japan) reached industrial maturation. American goods became relatively less attractive on the markets of these mature industrial economies. Even if exports from these now mature economies had continued to increase, neither America nor its client foreign central banks could indefinitely count on foreigners' willingness to hold the ever larger quantities of dollars supplied to the foreigners directly by American purchasers of foreign goods, and indirectly by the Fed which created those dollars by buying up federal securities held by the banks and paying for them with the newly created money. The banks then lent some multiple of this sum to businessmen making goods to sell to the foreigners.

Gradually, ever more foreigners and foreign central banks began to bring their unwanted dollars to the "gold window" of

the American central bank to exchange them for gold at the posted price of \$35 per ounce. By the summer of 1971, America feared it would soon run out of gold. To prevent this, the American central bank "closed" its gold window. It refused to exchange dollars for gold at 35:1, and instead allowed the dollar to "float" in price against gold. Because there were so many dollars available, the dollar price of gold quickly went up, reaching c. \$800 by the end of the decade and remaining at c. \$350-\$400 during the '80s and falling to around \$300 and eventually to around \$250 during the '90s.

e. effect on Japan

As the dollar fell relative to gold, the yen would have risen relative to the dollar unless the Bank of Japan increased the volume of yen about as fast as the volume of dollars rose. Only if it could continue to keep its currency undervalued by matching increases in the volume of dollars with increases in the volume of yen, could Japan continue to encourage the export of Japanese goods to the U.S. and other countries by making these goods appear cheaper in the foreigners' own money, and discourage imports by making the prices of foreign goods higher in yen.

During the '70s, Japan managed to continue to do this by increasing the volume of yen even faster than the Americans increased the volume of dollars. It could do this without apparent high inflation because the postmaturation stage rapid increase in production and productivity of labor within Japan very nearly matched money supply growth.

However, Japan had ever more trouble doing this in the course of the 1980s. The volume of dollars increased faster than it seemed prudent to increase the supply of yen. The latter could no longer increase at the previous rate because the rate of increase in Japanese production declined after the mid-'70s as Japan progressed further into its postmaturation decades.

This relative increase in the volume of dollars by the mid to late '80s finally began to drive down the value of the dollar vis à vis the yen. Fortunately for Japan, the outside world's demand for the ever higher quality Japanese goods continued to go up anyway and the Japanese economy continued to boom during what turned out to be its last post-maturation decade.

If Japan were to follow a path even roughly parallel to that taken by America during the three decades prior to 1960 (or that taken by England still earlier), its newfound economic power should sooner or later during the contemporary period have enabled it to supplement and then largely replace American politico-military power, much as America had supplemented, then supplanted English power during the second quarter of the century.

Stating this political development in economic terms, yen diplomacy should have begun to supplement and then supplant dollar diplomacy.

For various reasons that has not yet happened. Perhaps it is becoming ever more likely that new international economic and perhaps political patterns are becoming established which will neither require nor support a single, overwhelmingly strong superpower. From Japan's perspective, that may be just as well, since it continues to show no sign of evolving into or even wanting to evolve into a great power in political-military terms.

2. The chonin state armed?

Japan has instead so far remained what some Japanese have since the '70s called a "*chonin* state"—a townsman's state—one which leaves the military and great power aspects of international life to the still well-armed if shabbily dressed daimyo in the nearby castle. That nobleman is, of course, the U.S. Though it had been in visible decline during most years since the 1960s, its only rival as great power—the Soviet Union—literally disintegrated during 1989-91, leaving the U.S. as "the world's only remaining super-power," for whatever that is worth.

As recently as the Gulf War of 1991, Japan simply paid the Americans several dozen billion dollars to protect its Persian Gulf main source of oil. This (along with big payments by the Germans and Saudis) was enough for the Americans to run a slight profit on the Gulf War (not counting capital depreciation).

Is it possible to achieve great power status by purchase? Some foolish people in the West have argued that Japan is doing just this. This position was satirized in an editorial cartoon published in the local paper just before the recession of 1990-91. The cartoon showed an American family taking a Sunday drive and being startled to hear over their car radio the

announcement “We interrupt this broadcast for a special report. Japan has just bought Pearl Harbor.”

If buying Pearl Harbor is a form of warfare, Japan has lost that conflict too. Hawaiians got excellent prices selling their real estate to Japan during the ‘80s, and got to buy a lot of it back at much cheaper prices during the ‘90s. No, if Japan is to become a superpower, it will have to do so in the old-fashioned way, by turning its economic power into military power.

Whether the Japanese will or can do this is an open question. Japan began to rearm to a significant degree in the late ‘70s and through the ‘80s. By 1987 it was spending just over 1% of GNP on its military. That was enough to raise the alarm over whether Article Nine was being violated. Recently, expenditures have fallen back to below 0.9%. Japan now possesses the world’s third most expensive military establishment. (Iraq’s used to be number four.) Japan has continued to carefully limit the range of its airplanes and warships so as not to formally violate the ban on aggressive war enshrined in Article Nine of its 1947 Constitution. Formally, therefore, it can claim it has not changed its status as an unarmed state, even if in fact it is armed since it has no nuclear weapons to use as a deterrent.

Japan has not, however, reacted to America’s weakening and the Soviet Union’s disintegration by drifting in the direction of neutralism. It has instead lived up to Lincoln’s aphorism for such situations (“When you make a bad bargain, hug it all the tighter.”). Japan has retained the Security Treaty with the United States.

A maturing Chinese full industrial economy coupled with a crisis of the first succession in an ever more unstable North Korea have helped frighten Japan into holding on all the more tightly to the American connection.

Japan soothes its ego by playing an increasingly large and nominally more independent role in diplomacy. Economic diplomacy among the major market powers (the Groups of Five and Seven, as the journalists have come to call them), provides an especially agreeable annual diplomatic show.

By the ‘70s, Japan began to invest its massive savings in the economies of South Korea, Taiwan, and in the market societies of Southeast Asia. Much to everyone’s surprise, Japan has also invested

massively in the United States, since Japanese could not or would not find enough American goods to buy with the dollars they earned selling Japanese goods to Americans. Since dollars do not buy goods in Japan (you have to exchange them for yen, thereby depressing the yen price of the dollar), the Japanese eventually had to buy or build factories and be suckered into buying overvalued real estate.

State-to-state Japanese foreign aid also increased, suggesting to some that the age of dollar diplomacy had begun to give way to an age of yen diplomacy. The rise of the yen, however, rendered foreign loans from Japan less attractive since it cost more for countries earning dollars abroad to convert those dollars into yen. The hard times at home of the ‘90s have also forced retrenchment in Japanese overseas investment.

Despite participation in the UN force attempting to enforce peace in Cambodia, no Japanese-dominated military alliances or expeditionary forces have followed the almighty yen onto foreign shores. It is still an open issue as to whether Japan will in fact take any bolder initiatives at the political-military level internationally.

3. *Escape of the market?*

It is conceivable that the international marketplace (called by some the “global market”) has become essentially autonomous. Ever larger numbers of countries, like Japan and America, that are overwhelmingly free market societies rather than statist command societies, are already participating in that market. The world market may now be too big and too diverse for any one power to manipulate. Perhaps nobody, neither the Japanese nor the International Monetary Fund, will be allowed by market forces to drift easily into reprising the not altogether rational political role of the postwar United States.

During the past couple of decades Japan has accumulated great economic wealth unaccompanied by international political power and now it may be too deep into hypindustrialization to assert political aims. Perhaps this will also be the path that the other newly developing market societies will take, no matter what military *potential* they may have.

It is even possible that the yen might not be able to replace the dollar as the economically dominant international fiat

money. Perhaps by default, gold will, despite its recent lowly position, again become a full money and will replace both the exhausted dollar and the unambitious yen as the universal world currency, or at least once more become the reserve money kept by central banks.

It may also be that, even if it has the power to do so, Japan will, like Switzerland, prefer to not suffer the distortions of its economy that playing the role of world banker would inevitably impose. Gold would flow into the vacuum thereby created, just as silver displaced government fiat paper money in the early industrial markets of 15th and 16th century China.

At least, however, the Japanese will not have to become a great power so as to ward off the Soviet Union. Not so long ago that was a real problem. To show how much the world has changed, let me quote the August 1989 version of this chapter, written just three months before the fall of the Berlin Wall:

Will the Soviet Union be able to take advantage of this vacuum of power? Or will its own decline as a great power because of economic weakness prevent it from doing so? There is really no telling as yet.

During the 1970s, the Soviet Union took substantial advantage of the decline of American power to expand its sphere of control and influence into Southeast Asia, Africa, Central America and Southwest Asia. During the ‘80s, there was a very modest recovery of American power, Japan remained a chonin state, but Russian imperial power began to ebb.

Was this ebbing merely a temporary stepping back by Russia, the better to leap even further forward? Was it a temporary modest yielding to a temporary and modest resurgence of American power? Or is something more fundamental crumbling within this last of the great empires? Is Russia at last bumping into the limits of a command economy? Perhaps. But perhaps not. It all depends on whether in this particular context raw military and political power can impose itself over economic power.

How right I almost was! Raw military power has lost out, at least for now.

B. Contemporary Japan: Domestic Politics

1. *The “greening” of the LDP*

When we shift our attention to Japanese domestic politics we find something rather puzzling. Up through 1988 at least,

post-postwar—i.e. contemporary domestic politics—did not, after all, in spite of many threats to do so, actually change all that much from the politics of the postwar period. The Liberal Democratic Party (LDP), as during the postwar period, remained the dominant party. The Japan Socialist Party (JSP) continued for a time to be the gradually fading minority party.

As of August, 1989, the pattern looked to be finally changing, but I hesitated to say so then because that was not the first time the postwar political pattern had seemed to be crumbling. The LDP also seemed to be on the ropes during the 1970s. The LDP factions, looking over their shoulders at what was happening in contemporary West Germany, feared following the example of the Christian Democrats in Germany. They feared losing self confidence as the postwar leaders faded from the scene, and first having to go into a “Grand Coalition” with the Socialist JSP, and then having to cede power outright to the JSP.

The ‘70s LDP did not want to follow that path, but to avoid doing so it made what at the time seemed only some slight adjustments. Surprisingly, these slight adjustments worked.

The LDP reapportioned the seats for the lower house of the parliament to some degree. It tried to shift itself from a rural and small town power base to a suburban and big city base at the expense of the JSP and the other minority parties.

The LDP also “greened” itself, to employ the verb used by the “clean hippies” of the West during the 1970s for the urge to worry about the “quality of life” rather than the quantity of goods. It greened itself to appeal to a maturing, meritized, urbanized (i.e. yuppy) Japan. This was a Japan beginning to worry with much justification about pollution, the absence of parks, a Japan full of maturing yuppies that (despite continued massive private savings) even became nervous over the absence of public pensions.

By and large the LDP succeeded in preserving itself in power during the 1970s through such moves. The JSP initially enjoyed some success at the end of the ‘60s and beginning of the ‘70s at the prefectural level. It took over a number of suburban and urban municipal governments, including for a time Tokyo itself, but it proved unable to hold on to such positions, much less to be able to extend success to the national level. It was hob-

bled by overly close associations with increasingly irrelevant industrial trade unions and links to the more politically radical of post-postwar Japanese intellectuals who made even the JCP seem conservative.

2. The LDP recovers

Eventually, thanks to both the failure of the JSP and the revivifying LDP’s new look, by the end of the ‘70s, the percentage of the total vote of the LDP stopped dropping. Thanks to remaining malapportionment, the party never lost its safe majority of seats in the Diet, even though at its nadir it fell well below 50% of the total popular vote. This slippage stopped during the late ‘70s, and the LDP’s percentage of the vote began to fitfully increase again. Thoughtful observers by the beginning of the ‘80s guessed that the LDP had preserved its dominance after all.

The LDP even got an American-style prime minister in the person of Mr. Nakasone during the early and middle 1980s. Nakasone pursued a much more overtly activist foreign policy, though his colleagues kept him from fully embracing an Anglo-American style foreign policy.

By the end of 1987 the LDP factions had, indeed, lapsed back toward selecting the normal postwar type of consensus-making LDP manipulator of internal factions with their choice as Nakasone’s successor, of Takeshita, a dry-as-dust former English teacher and LDP spoilsman. Mr. Nakasone, like all his postwar successors in the tradition of Yoshida Shigeru, had seemingly only made a temporary rhetorical difference in Japanese domestic and international politics.

Even the “greening” of the LDP during the ‘70s became institutionalized during the ‘80s to the point of banality. Defense of the environment became just one more factional interest to be balanced out by the LDP leadership against the agricultural interest, the suburban builders’ interest, the domestic and exporting industrial interests. I suppose that Japan was no different in this respect from what had by then become the norm in American party politics.

It may be that “interest group politics” is the form that the runaway factionalism characteristic of the politics of the crisis of the second stage of high civilization is now taking in both East and West.

So far so good, or at least that is how I ended my discussion of contemporary Japanese politics in the November 1988 revision of this chapter. Between then and August 1989, however, Japan seemingly crossed a new political watershed.

In January 1989 the old Emperor Hirohito of the Showa year period finally died after a long illness. His son ascended the throne, inaugurating the Heisei era.

By April 1989, Mr. Takeshita left office because of a corruption scandal. He and most of the senior leaders of the LDP were caught taking cheap stock options from a rather tawdry new real estate conglomerate. His successor, Mr. Uno almost immediately became ensnared in, of all things, a sex scandal. Japanese politicians are normally permitted far more exuberant sex lives than are American politicians. Uno, however, had conferred an inadequate pension on a superannuated mistress, for which she publicly disparaged him. Uno lost the Upper House elections in July 1989, and resigned immediately.

Uno’s successor, Kaifu Toshiki, was the third premier in half a year. He was from one of the smallest of the LDP factions, and was widely considered to be little more than a chairwarmer for some more influential LDP factional leader not quite ready for prime time. He was also somewhat compromised (or at least rendered vulnerable to JSP attack) by his earlier association while serving as Education Minister with Japan’s “new nationalism.” The new nationalists tried to whitewash Japan of guilt for its behavior during World War II by rewriting the secondary school history textbooks.

By early August 1989, observers were speculating about the chances for success in a possible premature election in the fall of the JSP leader, a maiden lady sociology professor named Doi. For observers of Japanese politics, the world in mid-1989 seemed ready to turn upside down, with doubts proliferating that the LDP recovery of the late ‘70s could be repeated.

This time the skeptics were finally almost right. The LDP won, but, it was surmised, only this one more time because Japan was not yet ready for a female political leader.

Japanese politics were soon further destabilized by the Soviet Empire’s non-excluding revolution of November 1989-August 1991. First, the Soviet Union’s East European empire fell apart, and then the Soviet Union itself went to pieces.

With an ideational determinist Austrian School economist in the prime ministership of the Czech Republic, and a bust of Ludwig von Mises in the corridor of the Economics Department of Warsaw University, even the very idea of socialism seemed discredited in the former Soviet sphere.

All over the free world socialist parties disintegrated and recast themselves as "Social Democratic Parties." As overt socialism crumbled, so too did anti-socialist alliances and umbrella parties whose main reason for existence had been to keep socialists and communists out of power.

In the early '90s the LDP finally lost its majority as the voters felt secure enough about the JSP to punish the LDP for its endemic corruption. Though the JSP changed its name to Social Democratic Party Japan (SDPJ), its popularity kept on crumbling and it lost half its seats in the 1993 lower house elections.

Several new parties (including one rather unimaginatively called the New Party and then the New Frontier Party; it folded at the end of 1997) formed out of the ruins of the LDP. After the 1993 election, the LDP held on, but with only a minority government.

During 1994, the once unthinkable occurred: The SDPJ formed a coalition with the rump of the LDP. The SDPJ leader, Mr. Maruyama, became prime minister in 1994, and retained that office for over a year, despite a mediocre performance by his SDPJ in the summer 1995 upper house elections. The other members of the ruling coalition, including the LDP rump, did little better.

The head of the hard-line faction of the LDP, the Minister of International Trade and Industry (MITI), Hashimoto Ryutaro, parlayed his humiliation of Mickey Kantor, his American opposite number in negotiations over auto exports into winning the intraparty election for the leadership of the LDP and early in 1996 took over the prime ministership of the coalition government from Maruyama. In the October 1996 lower house elections, Hashimoto led the LDP to a gain of 28 seats. All the other parties lost seats, except for the Communists, who went from 15 to 26 seats, perhaps taking some of the radical voters from the SDPJ, which fell from 30 to 15 seats.

Hashimoto pushed through a big increase in the sales tax which was widely

blamed for another sharp downturn in the Japanese economy during the first half of 1997, barely a year after an abortive recovery from the extended decline of 1991-95. Nevertheless Hashimoto's position in a reunified LDP seemed secure, the LDP having once more defied predictions of collapse and permanent fission into two or more new parties. "Elvis" as Hashimoto was called because of his long sideburns, seemed to be turning into the Nakasone of the '90s.

Then came the bust of the summer of 1997 in Southeast Asia, which then spread to South Korea. Hashimoto seemed to be ignoring this neighboring bust. He insisted on keeping the sales tax increase. Even in general economic policy, Hashimoto professed he would maintain the trend of gradually decreasing protectionism that got under way in 1986.

Much to Hashimoto's surprise, the LDP was decimated in the upper house elections early in the summer of 1998, and Hashimoto resigned, his cabinet replaced by a cabinet of elderly nobodies. By late October, however, the nobodies came up with a plan (stolen from George Bush's method for saving the American savings and loan banks in the late '80s) to bail out and when necessary to close down Japan's ailing banks, which had been suckered into too many loans, bad and good by government policy during the late '80s. Only a few banks suffered closure.

3. MITI, the Ministry of Finance and the Bank of Japan: the Wizard Of Oz unveiled

The great triumph of postwar government economic policy was supposedly the work of the Ministry of International Trade and Industry (MITI). MITI was thought by many American academic consensus observers to have been (supported by the loose money policies of the Finance Ministry and Bank of Japan) the main engine of the postwar Japanese economic miracle. MITI provided the "industrial policy" and the other two provided the cash to enforce that policy. In the early '80s, just as its failures became visible, MITI began to become famous all over the world for this supposed accomplishment.

Chalmers Johnson wrote a book in

1982 called *MITI and the Japanese Miracle*. The preceding year a Japanese named Nakamura wrote *The Postwar Japanese Economy* and Ezra Vogel proclaimed *Japan As Number One*. Before long, in self-defense, faculty in American business schools began to replace Polish jokes with Japanese management jokes.

Oddly enough, Johnson's book, appearing near the end of MITI's influence, gives much evidence suggesting the weakness of MITI's interventionism. He carefully traced MITI's ancestry back to prewar and wartime bureaus designed to impose fascist corporatism on the Japanese economy. He even suggested that MITI's postwar success was really an outgrowth of World War II industrial policy rather than postwar reform and he implicitly concedes that MITI's success rate had declined since the 1960s.

MITI's postwar impulse to preserve subcontractors was a continuation of a wartime policy. The existence of many subcontractors then made possible the dispersal of industry for protection against American bombing. MITI was advising postwar manufacturers to do what poverty would have obliged them to do anyway. No capital was available either during the war or for a long time thereafter to centralize production.

The shift pushed by the Occupation from family-centered to bank centered groups of firms had also really begun, Johnson suggests, during and in some respects before the war, and was an early sign of economic maturation. During the war, these bank-centered groups of firms were actually encouraged by MITI's predecessor agency, because it was easier for the corporatist, quasi-fascist state of that time to manipulate firms through their salaryman-run banks than to take on prestigious old plutocrat owners of *ie*. These old fashioned *chonin* plutocrat families proved much more resistant to such manipulation.

MITI's and other postwar bureaus' encouragement of labor to be loyal to the firm was also merely an extension of their wartime bureaucratic prototypes' urging of workers to labor hard for their firms because they were thereby really working hard for the country.

Loyalty to the community was further encouraged during the war by basing wages more on seniority via extension of the prewar tenure system (originally used by firms to retain the minority of laborers

with scarce skills) rather than on the marginal contribution to production of a particular laborer or particular classes of labor. It was supposedly the larger community constituting the extended family of the entire population of the Emperor's realm that ratified such seniority rights, and it was this nation-community that was rewarded by the higher overall productivity by workers comforted by the community's grant to them of security.

If MITI made the postwar miracle, Johnson seems to be arguing, it was because it continued World War II fascist corporatism rather than because the postwar Japanese spontaneously reverted to at least some of the practices of the free trade era prior to the 1930s or of Meiji times, as I have argued.²

Such interpretations of MITI's ancestry are not applicable only to Japan. They parallel what some German historians have written. They characterize the Hitler regime as Germany's first, albeit pathological, version of a mature fully modern state. There is something to be said for such analyses, except when they imply that the resulting corporatist regime of economic intervention is more efficient than more purely market arrangements or can be sustained for any length of time.

Johnson's arguments are also not too different from the arguments favoring a kind of wartime socialism in the United States during World War I used by Bernard Baruch and his followers, and during World War II by left wing New Dealers. Such people often complained that the U.S. would only embrace collective action during wars, but not thereafter.

It is not so surprising after all that by the early '80s similar arguments for MITI's supposed decisive role in Japan's success were being applied to America by the same sorts of people. It is merely a bit embarrassing for both American and Japanese interventionists of the Democratic and "country club" Republican and LDP types when people like me remind them of MITI's fascist roots. Of course if Johnson's praise for MITI had turned out

to be correct, it would have been equally embarrassing to people like me who assert the free market's superiority to nationalistic socialism.

Fortunately for me, the portrait of MITI painted by Johnson and his epigoni turns out to be a picture of the Wizard of Oz. As David Friedman's *Japan's Misunderstood Miracle* has brilliantly shown, the Japanese government's economic policy makers have proved to be just a bunch of old geezer Tokyo University political science majors hiding behind an increasingly shabby bureaucratic facade, pulling strings to put on a show designed as much to convince themselves as to overawe others.

I have already mentioned that the Wizards of MITI (and their friends in other ministries) underestimated Japan's ability to develop a world class automobile industry and a transistor-based electronics industry, and that during the 1960s and '70s, MITI encouraged misallocation of resources to the steel and shipbuilding industries because it, like all the world's central planners missed the fact that the third generation of the full industrial revolution was shifting its leading sectors from steel to aluminum and plastics, and even very hard and elastic ceramics, and required far fewer (though larger) steel ships than before.

Friedman shows how the numerically controlled machine tool industry of Japan took over dominance of the world machine tool market by mating personal computers programmed in BASIC with machine tools, and then ignoring the orders of MITI to not keep changing and improving their designs so often.³

MITI also, as pointed out previously, sponsored massive protectionist legislation. But it did so only after the early 1960s, when Japan could finally afford the high domestic prices caused by such protectionism and by the deliberate and chronic undervaluation of the yen.

Rather than boosting Japan's post-maturation economic growth, MITI actually boosted the number of parasitical

businesses and helped to push Japan into the sickly hypointustrial stage sooner.

C. Hypointustrialization Approaches

1. The 1970s

Still, in the '70s, MITI did help Japan cope with the oil crisis by recommending production of highly fuel-efficient vehicles. Presumably, though, if the economy had been left alone it might well have coped with this pseudo-crisis in much the same fashion anyway. After all, MITI merely told the Japanese the obvious thing—that it was important to economize on energy use. Instead of giving up automobiles or rationing gasoline, the Japanese simply kept their already high petroleum excise taxes at the same level and began to manufacture highly gas efficient and magnificently engineered cars of consistently high quality using the quality-assurance methods of the American production engineer Edwards Deming.

They used the new quality-assuring production techniques to both start an enormous export boom in automobiles, and (much to MITI's surprise and disapproval) increase domestic sales of cars. Japan's electronics manufacturers evolved from wide use of transistors into ubiquitous use of microchip circuits licensed from the Americans, which used even less electricity. They then launched an export boom in consumer electronics as well.

Domestic car sales tended to make Japanese cities more crowded, and some neighborhoods even less livable than before. But despite advice and even action by the Transport Ministry, backed by MITI, to encourage railroad building, people increasingly preferred to drive their cars. During the 1960s they began to demand and since the 1970s finally got intercity trunk roads akin to the American interstate highway system.

Simultaneously, MITI and like-minded agencies were perversely encouraging what turned out to be an unrealistic over-expansion of highly uneconomic public railroad lines run by the state-owned Japan National Railway. When the government privatized JNR during the '80s, it closed some of these branches.

Housing has improved since the '70s. Japanese houses and apartments were still what American writers disparaged as

² I find it amusing that left-wing Democrats in the U.S., like President Clinton's first Labor Secretary, Robert Reich, still wish to establish a similar "industrial policy" for this country. I would happily call them "crypto-fascists," except that I have already alerted you to the dangers of unlimited definitions of fascism. Much as I would like to conflate fascism with corporatism, I must concede that while all fascists are corporatists, not all corporatists are fascists. Therefore, American academic industrial policy advocates are not fascists. They are just silly twits.

³ See also the essays in Hugh Patrick (ed.), *Japan's High Technology Industries: Lessons and Limitations of Industrial Policy* (Seattle: University of Washington Press, 1987) and most recently, Scott Callon, *Divided Sun: MITI and the Breakdown of Japanese High-Tech Industrial Policy, 1975-1993* (Stanford, 1995) for enough additional horror stories of the mistakes of industrial policy to reduce even former Labor Secretary Robert Reich to incoherence, if he could only be induced to read them.

“rabbit hutches,” but they became very well built and clean and efficient rabbit hutches, and many more of them were built. Most Japanese, like their ancestors, remain quite comfortable in small quarters. Even the residual discomforts of modern urban architecture are welcomed by most Japanese “salarymen” (the common contemporary Japlish (i.e. Anglo-Japanese) synonym for the early modern term *chonin* as ways to scratch the vestigial Buddhist Puritan itch that still plagues most Japanese over forty.

The Japanese also began to demand and got from government more suburban and exurban parks, and concert halls inside the towns. Tokyo, for example, boasts eight symphony orchestras. Public museums have increased in number and size, and so too have private museums. Most private museums are located in big city department stores or corporate headquarters buildings, and are owned and financed by the firms that house them.

Air and water pollution began to be substantially remedied through new rules and public expenditures. Its great wealth allowed Japan to afford consumption of a cleaner environment as well as a better lifestyle, including foreign travel.

Were all these public expenditures early signs of hypoindustrialization? Not quite. Not yet, until the end of the 1980s.

Japan during the ‘70s had accumulated such a large foreign trade surplus in other nations’ moneys that it would either have to start importing more or start investing abroad, even in the already industrialized countries. In the August 1980 taped version of the lecture that evolved into this chapter I predicted that one or both of these would have to occur.

2. The 1980s

During the 1980s and ‘90s, both did occur. The fake oil dearth crisis of the ‘70s turned into a real oil glut in the ‘80s as high fuel prices stimulated exploration and production. The resulting glut drove oil’s price down to and below its pre-‘70s level, and fueled a boom in the international economy in general during the ‘80s, but the efficient Japanese manufacturing economy boomed more than most.

The Japanese began to invest large amounts abroad out of their export earnings, so much so that they began to fear what they called the “hollowing out” of their domestic industries, as Japanese cor-

porations began to produce goods abroad rather than at home. Ironically, the president of one of the first firms to be threatened by hollowing out, Mitsubishi Motors, was the son of General Tojo Hideki, whom the Americans executed as a war criminal in 1948.⁴

Still, an enormous momentum was provided to Japanese prosperity by an industrial economy moving into its third decade of maturity. The Japanese even finally began to buy more goods abroad from the mid-’80s on. Japan’s trade surplus with the U.S., present since 1965, began to fall during the late ‘80s.

In addition, The Japanese saw how other nations had gone wrong after achieving industrial maturation, and tried to correct similar errors in their own economy so as to avoid or at least postpone hypoindustrialization. The bad consequences for economic progress of shifting too much from work and saving toward leisure and consumption and too much from market to state seemed to be missing Japan during the ‘80s.

For example, the Japanese drastically privatized their overly large and inefficient public sector. The Japan National Railway, whose debt had piled up since the late 1960s to an amount greater than the GNP of most of the members of the United Nations, was during 1987 privatized into six regional companies and one national freight line. Of course, the government assumed its debt.

Private-party purchases by Japanese investors of formerly-nationalized Nippon Telephone and Telegraph (NTT) stock in September and early October of 1987 may have helped precipitate the October 19 Black Monday record-breaking fall in the American stock market by withdrawing so much money so suddenly from it.

The national tobacco monopoly was privatized in 1986. Removal of non-tariff barriers on foreign cigarettes ended the now private firm’s defacto monopoly license. As a consequence, the “Marlboro Man” for a time stalked the television screens of Japan until anti-tobacco advertising rules were passed. U.S. tobacco firms’ market share grew rapidly anyway.

Some Japanese monopolies (like the one on tobacco) had started during the first decade of this century just after Japan achieved takeoff and the “unequal” treat-

ties with the Western nations were being revised to permit protectionism. The revised treaties permitted Japan to discriminate not just against foreigners, but also against foreigners’ Japanese customers.

By driving out of the Japanese market the cheap cigarettes of the Nanyang Brothers cigarette firm (run by Overseas Chinese) as well as the brands of the more expensive but also popular BAT (British American Tobacco, which now again sells some of East Asia’s most popular brands), the Japanese government let its tobacco monopoly overcharge Japanese smokers for more than three quarters of a century.

Now this old injustice was at last redressed, letting Japanese smokers get lung cancer more cheaply and tastily than before. (Unless it is true, as many Japanese sincerely believe, that drinking lots of green tea neutralizes tobacco’s bad effects.)

Still, much protectionism remains, particularly in the agricultural sector. Agriculture was (not coincidentally) the first major sector of the Japanese economy to display most of the signs of hypoindustrialization. Farmers voted heavily against the LDP for the first time in the 1989 Upper House elections to punish the LDP for even beginning to think about removing subsidies from rice production.

3. Japan’s hypoindustrial future has likely arrived

Japan is probably now in the first, invisible, substage of hypoindustrialization. The 1990s recession, is the longest Japan has suffered since the war. It began in 1991, bottomed out in 1994-95, but achieved only partial recovery during 1995-96, and one mostly confined to the big export industries. Industrial production fell 7% by 1995. Japan was hit much harder and its downturn lasted longer than other industrial economies. (America’s 1990 recession bottomed out in less than a year.) Recession returned during the first two quarters of 1997, when GDP fell at an 11 percent rate and deepened during 1998. This represented the worst performance for Japan’s GNP since Japanese GNP figures began to be compiled in 1955.

The Japanese stock market, which never really recovered from the early ‘90s fall, fell further during 1997. Bankruptcies and pressures on the banks, heavily burdened by bad loans secured by real estate the price of which had fallen several fold,

⁴ Does the *karma* of the Tojo family doom them to destruction via one form or another of expansion abroad?

increased. Japanese investment abroad stagnated, slowing European growth and perhaps stimulating the 1997 financial meltdown in Southeast Asia. The accelerated fall in the yen encouraged exports, especially to the U.S., raising protests among American businessmen and bureaucrats, who did not notice that U.S. exports of services continued to balance off more than 40 percent of the temporarily growing goods trade deficit. (On the good side, plans for freeing the Japanese financial system remained on schedule.)

This parallels the earlier American experience of the beginning of hypoinustrialization. The Great Depression of 1930-33, and the bust of 1937-40 hit the U.S. harder and lasted longer than the declines in the other industrial economies. As was the case with Great Depression America, Japanese banks have proved to be especially vulnerable during the '90s. Bank loans amounting to between \$200 billion and \$800 billion and perhaps of more than one trillion dollars appear to be unbacked by viable assets due to the sharp depreciation (down by half and more; by 75% in the six biggest cities) of land values since 1991. Whole sectors of the banking industry holding paper backed by this now much less valuable real estate may have to be liquidated, with taxes (and central bank money creation) funding payment of depositors.

According to Jeffrey M. Herbener,⁵ in 1993 "Japan had the largest eight banks in the world, ranked by assets. Now [1998], Japanese banks have the same share of the world market as they did in the early 1980s," and their stocks have fallen in value from 30% of all Japanese stocks to 12%.

Banks are not the only candidates for liquidation, Herbener notes. Even mighty Toyota's debt was downgraded by Moody's from triple-A to double-A-1. Bonds of Mitsubishi, Hitachi and Nissan were also downgraded.

The resulting deflationary depression would wreck the Japanese banking system or at least it seemed to do so as it fitfully began to clean out the dead wood liquidating failed investments by the banks. Over the short run this liquidation would deprive South Korea and Southeast Asian,

as well as the U.S., of enough investments to keep their economies from shrinking too. Before long, however, their own native high savings rates would encourage Southeast Asia and South Korea to resume growth. Japan would join the U.S. in displaying additional hypoinustrial traits over time, punctuated by transient partial recoveries.

Other hypoinustrial symptoms have been showing up in Japan all through the '90s..

Ever larger numbers of people in Japan talk of "investing" in "Gross National Welfare" (GNW), rather than Gross National Product (GNP). This sort of "greening" talk spread from the U.S. during the late '60s and early '70s. Its increasing popularity suggests that the Japanese may now actually be making the hypoinustrial shift from eagerness to labor to preference for much increased leisure. It may be no coincidence that increasing numbers of public schools no longer have Saturday morning classes every week or that vacation days per year per person are increasing.

During the mid-'80s, Japanese of the older generation began to refer with alarm (and some contempt) to members of the younger generation who showed signs of enjoying leisure and consumption more than work and savings as the *shinjinrui*—the "new breed." This term might also be translated as the "new species," which makes it even more alarming.

By the early '90s everybody, including the older generation, seemed to be using credit cards and taking vacations abroad. For the first time, personal bankruptcies became numerous enough for statistics on them to be regularly given in the newspapers.

Another, straw in the wind indicating the arrival of hypoinustrialization in Japan is that tertiary employment during the late '80s passed the 60% threshold. Primary jobs involve direct production of actual goods and the raw materials to make them; secondary jobs are one remove from this, performing services directly linked to production; tertiary jobs are disproportionately governmental and involve manipulation of people via paper rather than making goods.

State-run social security (which, because it is a transfer payment, does not finance real growth through increased investment) only started in the 1960s, but is rapidly catching up with the US system

in the bad effects it is having on savings. As in the U.S. it is tilting people away from market-linked saving and toward dependence on government transfer payments.

Like the Americans, the Japanese waited until they could afford the extravagance of public pensions as transfer payments. Wilhelm Roepke, the West German Austrian School economist, wrote in the 1950s that social security began in 19th century Germany when nobody, including the state, could afford it. (The German state cheated. Most people died before reaching the official retirement age of 65.) By the time the Western states could afford state-financed pensions, so long as people kept the private savings rate up, they did not need public pensions. Japan's behavior in this matter resembles that of the U.S. It may be turning out that neither government can after all afford pensions via transfer payments over the long run.

Higher taxation rates to finance social security and other welfare measures have only recently taken full effect in Japan. The illusory promise of public pensions and the taxes levied to try to finance them are probably already affecting the savings rate, which has dropped below 15%. The rate for social security taxes is now comparable with the American rate.

Overall, Japanese tax rates have been somewhat *above* average American rates since the late '80s, and are now levied not just on incomes, but also increasingly on transactions. As a consequence, tax evasion and avoidance have become more difficult. That is only a good thing if you believe government should not have to face obstacles to increasing its exactions.

We cannot tell for sure in what direction tax and savings rates will move in the future. Savings rates depend on the vagaries of human free will in changing human preferences for present over future consumption. How much taxation a people will put up with depends as much on their ferocity of temperament and willingness to break laws as on their rulers' ambitions. Spread of a hypoinustrial mentality will tilt society toward putting up with higher taxes as the price for more and larger transfer payments.

The LDP passed a 3 percent sales tax, the first at the retail level, in April 1989 to compensate for reductions in marginal income tax rates. While this was said to have contributed significantly to the LDP

⁵ Jeffrey M. Herbener, "Boom and Bust," *The Free Market* (December 1998), 16.12, 3, 5. *The Free Market* is published by The Ludwig von Mises Institute, and is available from their web site, mises.org.

defeat in the July elections, no successor government has removed this tax. Hashimoto's LDP even increased it to 5 percent in late 1996, and this was apparently one big reason for the fall of his government in the summer of 1998.

If the goal was to limit government revenues and hence opportunities for it to make mischief, adding another source of taxation was not appropriate. If the goal was to tax people, like medical doctors and small businessmen and farmers, who still legally and illegally dodge most of their income tax burden, adding a sales tax that hits necessities lighter than non-necessities, might be justified.

However, the Japanese sales tax covers *all* transactions equally, and its burden cannot in principle be shifted except by breaking the law. Unfortunately for Japan, though fortunately for the LDP in the short run, the small businessmen and farmers, or at least their wives, who now must pay 5 instead of 3 percent tax, voted for the LDP anyway in 1997, though not in 1998 as the depression deepened again.

Pressures to raise more revenues are bound to increase. In 1985 Yukio Noguchi⁶ predicted that, led by public pensions, Japanese public spending would reach 40 percent of GNP (50 percent of NI) by 1995 and 48 percent of GNP by 2010, with social security going from 32.1 to 51.7 percent of the total. So far Noguchi's predictions are proving accurate.

Sixty-something New Yorkers like me who spent much time in Tokyo during the '80s, invariably liked the place because it reminded them of New York in the '40s and '50s. Perhaps, though, Tokyo, like New York earlier, was already displaying symptoms of the invisible initial substage of hypoinustrialization. By the 2020s will Tokyo resemble the overtly hypoinustrialized, decadent New York of the late '60s and '70s?

One hopes not, but even if that does happen, hypoinustrialization will be easier to take than before, since there are now so many maturing industrial societies. The savings of these new industrial countries can make up for the heightened time preference-induced savings deficits of the hypoinustrial societies by investing savings in them. Just as Japan cushioned America's fall (and before that America cushioned Britain's), the Over-

seas Chinese-influenced states of Southeast Asia and the worldwide Chinese diaspora and South Korea and even India may eventually cushion Japan's decline into economic senescence.⁷

There will also be periods of remission, such as were enjoyed by the U.S. under Reagan, Bush and Clinton and Great Britain under Thatcher, though growth rates under both never reached earlier peaks. Both nations seem to have shucked socialist doctrines, at least overtly, along with the rest of the world. During the current depression, Japanese employees have put up with sharp reductions in wages, in the form of reduced or eliminated semi-annual lump sum bonuses, a reduction of actual income of as much as a fourth to a third. This has cushioned unemployment rates and set the stage for a recovery once the banking crisis is taken in hand (or finessed temporarily through money supply increases). Even in hypoinustrial economies, if market forces are not too badly distorted, even the severest busts are sooner or later replaced by booms; it is just that each successive boom is less boomer than its predecessors.

D. Signs Of Crisis Of Civilization

1. An aging post-Confucian civilization

Contrary to my supposition that it represents an unwitting regression from the vigorous post-maturation decades, hypoinustrialization may turn out to just be the dull-normal long-run equilibrium state for a full industrial economy. After all, if a people becomes aware they are hypoinustrial but is happy being less intensely industrialized than before, why belittle them? However, if they really want the usufructs of ever-advancing industrialization but intend to get them via political exchange rather than the market, they are kidding themselves. (but see chapter 30

on Ludwig von Mises' proof of the impossibility of achieving stable equilibrium at any point between total intervention and total non-intervention.)

If Japan is also joining Western civilization in a crisis of civilization, that would be far more alarming. Such a crisis represents the opposite of equilibrium.

Some harbingers of the social instability that may reflect onset of crisis of civilization in contemporary Japan exist.

One is that the Japanese population is aging even more rapidly than the American population. The Japanese are now longer-lived than Americans. Japanese also have a lower birth rate and a much higher abortion rate. (Japanese physicians rig the laws so that contraceptives cannot easily be sold to substitute for the abortions performed so profitably by themselves. Not until the early '90s was "the pill" allowed to be sold in Japan for birth control purposes.)

Japan does its best to discourage immigration, which would lower the average age considerably and at least postpone its crisis of social security payments.

All this is happening at a time when the *shinjinrui* and even some of the middle aged are beginning to take disrespectful Western-style attitudes toward the old.

Fortunately, the Japanese have not yet fully secularized into a post-Confucian and post-Buddhist civilization. And yet signs that Japan is abandoning its old vision of Heaven multiply. Strange new quasi-Buddhist sects have been popping up like mushrooms for decades. Tokyo is now as full of new religions as California. To speed up the closure of the destruction of the current incarnation of illusion during the Last Age of the Law, one of these new faiths even appears to have embarked on a course of mass murder through spreading Sarin nerve gas on the subways of Tokyo, which is eccentric behavior even by California Buddhist standards.

Women's liberation has not (until very recently) made much progress in a society still inclined to venerate or at least fear aging males. In the July 1989 upper house elections, however, the women's vote was higher than the men's and for the first time went overwhelmingly *against* the LDP, though women seem to have drifted back to the LDP ranks since the 1996 election.

The age of marriage for females has rapidly increased, and is now above twenty-five. As recently as 1986, one

⁶ In Richard Rose & Rei Shirator (eds.). *The Welfare State: East and West* (New York: Oxford University Press, 1986), p. 185.

⁷ Even I managed to ride the wave of concern over hypoinustrialization in a sixteen-part series I published in the popular economics magazine (now defunct, a victim of the '90s bust more than my prose) *Keizai Orai* during 1992-93. Aside from introducing the word "hypoinustrial" into Japanese (thanks to my friend and translator Takemoto Toru), I earned a few dozen thousand yen which until 1995 had been fitfully appreciating in value.

could hear an unmarried woman older than twenty-two disparaged as a “stale Christmas cake.” In 1991 I would not have risked even inquiring among women whether that phrase was still in use.



A non-stale actual Japanese Christmas cake.

Fortunately, most families' discretionary income is still largely in traditional-minded feminine hands, and the Japanese savings rate has remained just below 15%, though down from 25%. The aged can still, through the returns on their own savings (based on the growth in real wealth those savings have financed), provide most of their own support. By the time social security has eroded their ability to do so, however, the Buddho-Confucian ethic may also have eroded to the point where their children will be reluctant to make up the difference for their parents.

The rise in Japan of unprincipled (because purely self-interested) political factionalism in recent years echoes Ming Dynasty China's runaway factionalism as it too edged toward civilizational crisis, as well as that of the U.S. during this century.

2. The triumph of meritocracy

Just as ominous a parallel to Ming China is the clear triumph in Japan of meritocracy in both schooling and in hiring, even in the private sector.

Nearly two decades ago, Ronald Dore, the British sociologist who discovered the high literacy rate during Tokugawa times, wrote a book about the perverse effects of excessive meritization of schooling, partly inspired by his investigations of post-Tokugawa Japanese schools. It was called, ominously enough, *The Diploma Disease*.

Can India really afford, Dore asked, to

require a “failed BA” (the title actually used in India by people who have flunked the required BA exit exams) as the template of merit for a passenger train conductor? For that matter, can even the Japanese afford the irrationalities introduced by their major templates of merit?

Some Japanese worry about a lack of creativity being induced by applying templates of merit too widely in the economy. Other observers, Japanese and foreign, argue that Japan has maintained a decent balance between meritocracy and market. Primary school children are not pressured to fit a template, but face increasingly grim meritocratic struggles in the secondary schools. This is, however, followed by a four year vacation (except for science and math students) at the tertiary level. Meritocracy returns, but tempered by the needs of the marketplace, when a tertiary graduate finally goes to work.

Until recently the Japanese limited the mischief from their obsession with measuring merit by objective tests from infecting life at large by limiting the sizes of the prestigious public colleges. This also minimized regressive income transfers (i.e. income transfers from the poorer to the richer).⁸

Private colleges only get 15% of their incomes directly from public sources. The most prestigious ones, like the public colleges, also tend to blight young lives by forcing the “examination hell” upon youngsters trying to get into them from the secondary schools. The growth of less demanding private tertiary schools in recent years may merely be suckering more middle class parents into wasting their savings in buying rotten educations for their children which turn them into rotten meritocrats ruined for less exalted but more productive labor.

Still, runaway meritocracy may not cause as much mischief as I fear. Even during Tokugawa, when indigenization of Neo-Confucian anti-market values first became important, Japanese townsmen already displayed the ability to maintain a market sector capable of outright deception of bureaucrats whenever that seemed necessary or expedient to do some busi-

ness. So we should not be too pessimistic about Japan's chances to continue to be both bureaucrat-ridden and creative.

3. Comparison with the West

Even a creative culture can, however, become and remain decadent. Looking at the tone of contemporary Japanese social and cultural life, we find a culture essentially comparable to the metropolitan cultures of northwest Europe and North America. Japan displays the same signs of both whimsy and tragedy that now characterize the Euro-American Earth. It seems likely that the Earth of both has to an equal extent escaped illumination from Heaven. Men of both cultures are beginning to become bored and even sickened with themselves as a consequence.

The feeling of *aware*—the sad “ah-ness” of life—which arose amongst the Late Heian aristocrats during Japan's first crisis of high civilization, has always remained a respectable emotion to display in Japan, if only so as to demonstrate one's gentility. In literature, at least for the last two generations, *aware* has, as earlier, provided the dominant tone.

Surely, therefore, in all important respects, though in their own way, the Japanese have caught up with the Western world, and hence have joined the rest of us in moving deeper into the crisis of the second stage of the crisis of both the Eastern and Western Eurasian high civilizations.

The one comfort that I draw from this is that, if not in any other respect, Japan's economic history may foreshadow the coming into existence of a type of market vigorous enough to escape even an ambitious and decadent state and, once suitably legitimized by the next vision of Heaven, become capable of leading the way for world civilization in general into what may become a third stage of high civilization.

I prefer the example set by the modest *chonin* state and society of the postwar era in Japan, rather than the uncertainly bumptious Japan of the contemporary era when that state suffered a relapse into interventionism. Perhaps, though, the latter foreshadows the whole world's future during the new century and the new millennium.

EHK

⁸ Poor people are less likely to go to college. Massive public subsidies of tertiary education merely assure that college students from families above median income will be subsidized by taxing many more submedian income taxpayers. In Washington state, the median family income of students in state universities is considerably higher than incomes of students in private colleges.