Asian Studies Center

Backgrounder

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INDUSTRIAL POLICY: THE SUPER MYTH OF JAPAN'S SUPER SUCCESS

INTRODUCTION

Japan's economic successes mesmerize Americans. To explain the Japanese industrial and commercial triumphs, a number of American economists and policy makers have been creating a super myth. It is called national industrial policy and now is quite the vogue in Washington. Writes the National Journal, the perception is that "the Japanese government, working closely with the private sector, sets a specific goal for a particular industry and then initiates a series of government and private sector actions designed to help achieve it."[1] The lesson being drawn from this is that the U.S. government must adopt a similar role in directing the American economy to that of Japan's Ministry of International Trade and Industry (MITI)--in other words, formulate an industrial policy. The trouble with the super myth about Japan's success is the trouble with all myths. They do not survive scrutiny. Before American businessmen and policy makers draw hasty conclusions about the link between government industrial policies and Japan's economic growth, there must be solid evidence that Tokyo has played the major--not simply a contributory--role in the success of various Japanese industries. For this, a number of questions must be considered:

1) What is the scale of Japanese government expenditures and do they dominate the economy?

2) What is the effect of government capital formation on the total capital formation in the nation?

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1 "High Technology: Public Policies for the 1980s," A National Journal Issues Book, p. 11.

3) Have the loans provided by government financial institutions been a major portion of the total of all funds loaned in Japan?

4) Do research and development (R&D) expenditures by government comprise a large share of the nation's total R&D expenditures?

5) Have Japan's most successful companies flourished only because of government help?

6) Have all the targeted industries been successful?

7) Have the hundreds of thousands of private entrepreneurs, with many different business interests, invested their capital, hired employees, and selected new technologies and marketing strategies only after consulting government officials?

An analysis of the Japanese record indicates that advocates of an American industrial policy are highly selective in choosing their examples. As a result, they paint a misleading picture of the role of the Japanese government. Industries touted as compelling examples of targeted financial assistance, such as automobiles, in fact have received only a tiny fraction of their investment capital from the government--and this help has been very small compared with support given to other industries. The major recipients of special loans, on the other hand, have been such industries as shipping and petrochemicals, which are far from roaring successes. Those industries that have prospered from import controls, such as automobiles, were not even targeted. They happened to gain from a general import strategy, while petrochemicals (a beneficiary of special financial assistance) and others have suffered from the same policy.

Not only is it difficult to discern a coherent, targeted and effective industrial policy in Japan, but it is clear that many observers of Japan have committed the classic fallacy of elementary logic--cum hoc ergo propter hoc (false association). Since Japan has something those observers choose to call an industrial policy, and since the country's industrial capacity has been growing dramatically, they conclude that there must be a causal relationship between the two. Yet other concurrent factors just as easily could be selected to explain Japan's successes. There is, for example, Japan's generous tax treatment of investment income--similar to supply-side economics. There is Japan's determination to improve quality control. And there is, of course, the "uncorking" of Japanese entrepreneurship due to the explosion of political and social freedom after 1945. Strangely, these factors are ignored by advocates of an American industrial policy. Instead, they choose to explain almost everything as resulting from the divine guidance of Japan's central planning bureaucrats.

THE ROLE OF GOVERNMENT SPENDING

One way of measuring just how deeply government has become involved in the economy is to compare the public sector's share of Gross Domestic Product (GDP) with that of other industrialized nations. In 1980, Japan's public expenditures were 33 percent of GDP, far smaller than any European industrial country. For the same year, they were 46 percent in France, 47 percent in West Germany, and 45 percent in the United Kingdom. In the U.S., by comparison, government spending at all levels amounted to 33 percent of GDP.[2]

Table I shows that between 1955 and 1978 the private sector comprised the dominant share of total capital formation in Japan. During the period of most rapid expansion (1961-1970), the share of private investment in machinery and equipment amounted to nearly 75 percent of the total. Nearly 90 percent of outstanding loans in Japan during the last twenty-five years have been handled by private financial institutions, largely by city and regional banks;[3] only 10 percent of the loans have been provided by government financial institutions.

The government's role in funding research and development has also been very limited in Japan, compared with Western industrialized nations. By the late 1970s, the government share was over 50 percent in the U.S., for instance, and over 40 percent in West Germany. In Japan, it was below 30 percent.[4]

Table I
Capital Formation as Percentages of Gross National Expenditure

Annual Averages	Private Sector: Machinery & equipment	Private Sector: Stocks	Private Sector: Housing	Government capital expenditure	Total
1955-60	15.1	3.8	3.4	7.3	29.6
1961-64	19.6	4.2	4.6	8.8	37.2
1965-70	20.0	2.3	6.1	8.9	37.3
1971-75	18.0	1.5	7.2	9.2	35.9
1976-78	14.2	0.4	7.0	9.5	31.1

Source: G. C. Allen, The Japanese Economy (New York: St. Martin's Press, 1981), p. 99.

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2 Economic Outlook #32 (Paris: Organization for Economic Cooperation and Development (OECD), December 1982), p. 161.

3 Jimmy W. Wheeler, Merit E. Janow and Thomas Pepper, Japanese Industrial Development Policies in the 1980's (New York: Hudson Institute, 1982), p. 45.

4 Journal of Japanese Trade and Industry No. 3, 1983; OECD "International Year Book 1977"; Statistics Bureau of the Prime Minister's Office, "Report on Survey and Scientific and Technological Research."

In addition, only 5 percent of the government's R&D spending went into private industrial research. In the U.S., on the other hand, 50 percent of government R&D outlays fund private research, and in West Germany the figure is approximately 27 percent.[5] In short, private industries in the U.S. and West Germany use a far larger portion of government funds for R&D expenditure than does Japan.

Japanese government involvement in financing activities has been extremely limited, especially during the 1950s and 1960s--the period of most rapid economic growth. The lesson of this: Japan's policy of small and balanced government budgets provided favorable conditions for the nation's business sector, and allowed private companies to make first claim on investible resources.

During the 1970s, however, the Japanese government began abandoning its policy of balanced budgets. Government aggregate bonds outstanding reached $420 billion by 1982, and interest on the accumulated deficit now consumes 14.3 percent of the annual government budget (compared with 12 percent in the U.S.). This growth in deficits and public spending, especially for social welfare programs, coincides with Japan's much lower economic growth rate over the last ten years.[6]

GOVERNMENT TARGETING

Financial Assistance

Relatively small government budgets, combined with the heavy infighting among ministries, regional political leaders, and interest groups, has made it impossible for Japanese manufacturing to secure the lion's share of available government assistance. Following World War II, the government's main priority was agricultural production, and Japanese farmers have continued to be the most powerful lobby for government subsidies. In 1979, for instance, farmers received about $10 billion in direct financial support--about the same as defense outlays. In the industrial sector, basic infrastructure and state owned industries, such as the national railway system, ports, roads, and airports, have benefited most from public spending. The deficit of the Japan National Railway (JNR) accounts for a huge 18 percent of the government's annual budget.[7]

Manufacturing has been one of the least powerful political lobbies. The assistance received by manufacturing has generally

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5 Ibid.

6 Kazuo Nukazawa, "Now Japan Frets about Taxes and the Deficit," The Wall Street Journal, May 9, 1983.

7 Peter F. Drucker, "Clouds Forming Across the Japanese Sun," The Wall Street Journal, July 13, 1982.

been indirect. The primary instrument has been the Fiscal Investment and Loan Program (FILP), which was devised for investing in both government enterprises and selected private industries. About 80 percent of FILP's funds are provided by the government's postal savings and postal insurance systems (where the government acts, in effect, simply as a clearinghouse for private savings), other government insurance activities making up the balance. FILP assistance goes to local government (about 20 percent), public investment (about 30 percent), and "policy implementation financing" (about 50 percent).

Table II shows how the policy implementation financing has been allocated. Nearly 75 percent of the funds are for small business loans, housing loans, agricultural and forestry loans, overseas economic cooperation funds, and other uses. The only loans even remotely related to industrial policy are the funds disbursed to the Export-Import Bank and the Japan Development Bank (JDB). Together they receive only one-fourth of the total policy implementation financing funds. Moreover, in the 1980s, new loans made by the JDB and the Export-Import Bank amounted to only $10 billion or so each year--hardly enough to steer a trillion dollar economy.

No doubt Japan's Ex-Im bank, by financing export promotion, has helped some manufacturing industries, particularly those with heavy industrial products such as merchant shipping. Yet the amount of money involved has been insignificant. Japan's Ex-Im bank, moreover, is far from unique. Practically every industrial nation subsidizes export finance, many to a much greater degree than Japan.

It is true that MITI has targeted certain industries with these modest JDB funds--but usually not those industries assumed by U.S. businessmen. Table III shows that, until the early 1970s, the bulk of JDB's low-interest loans (about 70 percent of the total during 1956-1960) went to the development of ocean shipping (including shipbuilding), resources and energy related industries, and regional development projects. In the last ten years, the JDB has emphasized investment for environmental quality control and urban development, in addition to energy and regional development. These loans could not be responsible for the high growth of Japan's manufacturing companies.

Table IV shows that there is no evidence that manufacturing industries in general, or any particular sector, have been critically assisted by the JDB. Industries such as iron and steel, often cited as examples of successful government assistance efforts in the early post-war period, received less than 1 percent of the loans of JDB from 1951 to 1972. This is about half that received by the hotel business during the same period.[8]

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[8] Hugh Patrick and Henry Rosovsky, editors, Asia's New Giant (Washington, D.C.: The Brookings Institution, 1976), p. 796.

Table II
Shares of Total Funds Disbursed by Policy Implementation Financing Institutions

	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981
Development loans	11.5%	10.2%	9.6%	9.9%	9.9%
The Japan Development Bank	9.9	8.8	8.2	8.5	8.6
Hokkaido and Tohoku Development Corp.	1.6	1.4	1.4	1.4	1.3
Export-import and overseas investing loans	17.7	16.4	15.4	12.4	12.0
The Export-Import Bank of Japan	14.7	13.5	12.3	8.9	8.2
The Overseas Economic Cooperative Fund	3.0	2.9	3.1	3.5	3.8
Small business loans[1]	41.4	40.4	39.4	41.2	42.3
Housing loans[2]	18.7	22.6	25.5	26.6	26.2
Agriculture and forestry loans[3]	6.0	5.7	5.5	5.5	5.5
Others[4]	4.7	4.7	4.5	4.4	4.1
Total	100.0	100.0	100.0	100.0	100.0
Total (¥ billions)	¥8,717.6	¥10,397.3	¥11,756.1	¥12,107.7	¥12,564.3[5]

[1]Small business loans = Small Business Finance Corp., The People's Finance Corp. and Shoko Chukin Bank.
[2]Housing Loans - Housing Loan Corp.
[3]Agriculture and forestry loans - Norinchukin Bank
[4]Others = Medical Care Facilities Financing Corp., Environmental Sanitation Business Finance Corp. and Okinawa Development Finance Corp. Excluding loans by various public corporations.
[5]Equivalent to U.S. $50 billion (assuming 250 ¥ = $1).

Source: Japan Development Bank, Facts and Figures About the Japan Development Bank, 1981, p. 42.

Table III
Project Area Shares of New Loans by the Japan Development Bank

Fiscal year	1951-1955	1956-1960	1961-1965	1966-1970	1971-1975	1976-1980	Outstanding at March 31, 1981
Resources and energy	42.8%	39.0%	16.8%	11.5%	10.6%	25.6%	25.5%
Development of technology	0.4	4.5	8.4	11.0	11.5	11.2	7.8
Ocean shipping	23.4	27.3	30.0	35.4	17.7	7.2	10.5
Urban development	0.6	1.8	4.1	11.0	17.2	16.7	20.0
Regional development	--	3.4	18.1	15.9	15.3	14.8	12.7
Improvement of quality of life	0.3	0.2	0.5	1.3	21.7	19.7	18.7
Other development loans	32.5	23.8	22.1	13.9	6.0	4.8	4.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total (¥ billions)	¥274.4	¥302.7	¥672.6	¥1,363.2	¥2,827.5	¥4,348.7	¥5,392.6[1]

[1]Equivalent of U.S. $22 billion (at ¥250 = $1).

NOTES: (1) Loans in past years were classified in different ways, but they are reclassified as precisely as possible in accordance with the present way of classification.

(2) Outstanding loans at March 31, 1981 include outstanding investment of 8 billion yen, but exclude outstanding foreign currency loans of 5.5 billion yen.

Source: Japan Development Bank, Facts and Figures, p. 10.

Table IV
Japan Development Bank: New Loans by Industry
(in billions of yen)

	FY 1980	Cumulative FY 1976-80	Cumulative Distribution
Non-manufacturing			
Agriculture and fisheries	¥4.0	¥19.3	0.44%
Mining	9.8	31.6	0.73
Construction	2.6	20.7	0.48
Wholesale and retail trade	9.9	84.6	1.95
Real estate	30.7	287.5	6.62
Transport and communication	216.8	803.3	18.51
Electricity, gas, thermal supplies and water supplies	419.7	1,511.9	34.83
Services and other non-manufacturing	72.9	364.0	8.39
Subtotal	766.4	3,122.9	71.95
Manufacturing			
Foodstuffs and beverages	6.9	58.0	1.34
Textile products	7.8	39.3	0.91
Pulp, paper, and related products	7.5	47.7	1.10
Chemical products	29.0	271.1	5.00
Petroleum refining	47.0	220.6	5.08
Ceramic, stone, clay, glass, and related products	29.8	87.3	2.01
Iron and steel	33.7	258.0	5.94
Non-ferrous metals	10.4	61.0	1.40
Fabricated metal products	6.7	26.3	0.61
General machinery and apparatus	3.8	15.8	0.36
Electrical machinery and apparatus	14.7	42.6	0.98
Transportation machinery and equipment	4.2	68.7	1.58
Other manufacturing	5.5	75.4	1.74
Subtotal	207.0	1,217.8	28.05
Total	¥973.4	¥4,340.7	100.00%

Source: Japan Development Bank, Facts and Figures, p. 18.

TAX POLICY

If Japanese manufacturing firms received no major financial support directly from their government, neither did they receive special tax breaks. Thanks to its tight lid on government spending, Japan boasts the lowest ratio of taxes (national and local) to national income of any member of the Organization of Economic Cooperation and Development (OECD). Figures for 1980 show Japan with a ratio of 23 percent, the U.S. with 28 percent, West Germany and France both with 32 percent, and the United Kingdom with 41 percent.[9] Japan's light burden of taxation helped create an economic

[9] Nukazawa, *op. cit.*

environment very favorable to private enterprise. Furthermore, the government has reduced taxes almost every year, giving the manufacturing sector an incentive to invest in new plant and equipment.

This sensible tax policy seems to have been at least partly responsible for a very high level of individual savings. Up to $12,000 (¥3 million) of interest earned on individual accounts in postal savings institutions, and virtually all capital gains income from stock sales, are exempt from income tax. This has helped to produce enough savings to meet the extremely heavy need for both government and private investment capital.

Japanese tax policy aims at economic growth. Some might see this as indirectly targeting industrial development. Certainly some tax measures were passed in the early 1950s to help specific industries. These were not in force for long, however, mainly because firms not benefiting from them invariably demanded similar breaks. Consequently, the government was forced to expand some tax benefits to all industries, and to end others.

One tax measure that probably has had a significant impact on Japanese industrial development in recent years is the tax credit for extra R&D expenses. A company is allowed to deduct nearly 20 percent of its R&D expenditures above a base amount. Even here, however, this R&D tax credit is not for selected companies or targeted industries. It is available to all.

IMPORT PROTECTION

In addition to government loans and special tax measures for targeted industries, the other government action most often alleged responsible for Japan's growth has been import restrictions. During the 1950s and early 1960s, the Japanese government did strictly control Japan's international trade and currency exchange. But this was common during the period. Western Europe and the United States also imposed quantitative restrictions on many items, sometimes even discriminating against Japanese manufacturers. There is no clear evidence, moreover, that favoring certain manufacturing industries was a major objective of Japanese trade and exchange policy, especially during the 1950s and most of the 1960s. The main objective was preserving the value of the yen.

Many economists believe that Japan might have enjoyed an even faster rate of economic growth during the 1950s and 1960s, were it not for these controls. Protectionist policies on imports, while of great benefit to some industries, probably were not a positive factor in Japan's overall economic and industrial development.[10]

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[10] Patrick and Rosovsky, op. cit., p. 171.

TARGETED INDUSTRIES

Despite the mythology surrounding Japanese industrial policy, the fact is that only a tiny fraction of the government's special assistance and guidance has gone to automobiles, computers, and other lead industries. In the case of automobiles, the companies strongly and successfully resisted MITI's efforts to restructure the industry in its postwar infancy. The overwhelming proportion of government assistance has been for agriculture and heavy industries. Here the results of government intervention have been as dismal as in other countries.

For Japan's economic "winners," in short, government support has been insignificant. Where government has been a major investor, the beneficiaries have been "losers." Their plight is quietly overlooked by American advocates of industrial policy.

Automobiles and Hi-Tech

The computer industry is often cited as the industry with "the most extensive government involvement."[11] Yet Tokyo has not played a very important role in terms of special financial allocations. The machine and information industries (which include computers) received only 2.5 percent of their total investment from government special loans during 1961-1965. And this share declined to 0.8 percent during 1976-1979.[12]

Automobile and consumer electronics, two of Japan's most visible and successful industries, enjoyed practically no special treatment or government favors.[13] They did benefit, of course, from the general tax treatment of Japanese corporations, and from the general import restriction on consumer goods for balance-of-payments considerations, but this help was not targeted.

Agriculture

For social welfare and political reasons, the Japanese government has subsidized farmers heavily with guaranteed prices and income supports, and substantially protected agricultural products from import competition. Yet, agriculture is by far Japan's most inefficient industry.

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11 Patrick and Rosovsky, op. cit., p. 571.

12 Jimmy W. Wheeler, et al., op. cit., pp. 157-158.

13 Low interest long-term loans by the JDB and the Small Business Finance Corporation were granted to mainly automobile parts markets between 1956 and 1966, amounting to a total of $50 million, according to Ira C. Magaziner, "Japanese Industrial Policy: Source of Strength for the Automobile Industry," in Robert E. Cole (ed.), The Japanese Automobile Industry: Model and Challenge for the Future? (Ann Arbor, Michigan: Center for Japanese Studies, University of Michigan, 1981), p. 80.

Coal Mining

The government allocated relatively large amounts of low interest loans to the industry through the Japan Development Bank. Before World War II, Japan's own coal mines and hydroelectric plants supplied nearly all the power required domestically.

Despite the government support during the 1950s and 1960s, the output of domestic coal has fallen sharply, from 54 million metric tons in 1962 to 19 million metric tons in 1978. The whole industry has been gradually contracting.[14]

Petroleum Refining and Petrochemicals

Petroleum refining and petrochemical production has enjoyed favorable tax treatment, foreign exchange allotments for purchasing equipment, indirect subsidies through tariff schedules, and land at nominal prices in the early postwar period.[15] The government also induced many companies to enter the lucrative oil refining business (mainly the production of naphtha) and petrochemical production (mainly the production of ethylene). The excess capacity and international uncompetitiveness of these industries today results, at least in past, from this government "guidance."

Shipbuilding

Japan established various forms of special support in the 1950s for shipbuilding. By 1970, shipbuilding in Japan seemed to be very competitive in world markets. But the "oil shock" of 1973 betrayed the true character of the government-supported industry. Facing serious problems of excess capacity, together with the decline of world demand (particularly for oil tankers) and severe competition from developing nations, Japanese shipbuilders were forced to scale down. The industry has laid off 46,000 workers since 1977. Output has been reduced to 35 percent of total capacity and nineteen companies closed down between 1975 and 1978.[16]

Aluminum and Nonferrous Metals

These industries began to receive government development assistance after the Second World War. Like the petrochemical and oil refining industries, government support has created excess capacity, even though domestic production costs are much higher than in other countries.

Aluminum has become one of Japan's structurally depressed industries, and imports are now greater than its domestic production. One Japanese bank predicts that Japan will eventually stop

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14 Allen, op. cit., p. 106.

15 Chalmers Johnson, MITI and the Japanese Miracle (Stanford: Stanford University Press, 1982), p. 236.

16 See "How Japan Manages Declining Industries"; also Japanese Industrial Development Policies in the 1980's, pp. 165-170.

producing aluminum altogether and shift to importing all its aluminum needs.[17]

Summary

The Japanese government, like other governments, has tended to support politically powerful sectors (such as agriculture) and comparatively disadvantaged sectors (such as energy industries), without considering efficiency or competitiveness. Bureaucrats have not been able to disentangle economic and managerial issues from political factors. In Japan--even in Japan--government attempts to allocate capital resources have only created inefficiency and excess capacity in the private sector.

If the definition of a successful industry involves welfare checks to the firms, leading to ever larger government deficits, excess capacity, and an inability to adjust to changing world markets, then Japan's "industrial policy" has indeed created some very successful industries.

GOVERNMENT-BUSINESS COOPERATION

Japanese government ministries engage in an extraordinary amount of consultation, communication, and mutual discussion with business groups. But Japanese entrepreneurs are well aware that the government's knowledge about future economic changes is inferior to that of the private sector.

A profile of the Japanese government managerial ability is provided by the government-owned Japan National Railway (JNR). Japan's largest employer (with over 400,000 workers) is grotesquely overstaffed, with several times as many employees per revenue mile than any other railroad system in the industrial nations. It seems incapable of handling the strike prone labor union, and its own deficit consumes 18 percent of the government's annual budget. Most private railroad systems in Japan, on the other hand, have been very well managed and profitable.[18]

For the most part, the business community has strongly opposed Tokyo's schemes for restructuring. Throughout the 1960s, for example, MITI strove to consolidate the many automobile companies into a few large firms. Only strong resistance by Mazuda (Toyo Kogyo), Honda, Mitsubishi, and others forced MITI to abandon the attempt. Government "guidance" has also tended to run afoul of deep conflicts of interest among different industries. Government officials have been caught between interests over policies such as yen revaluation (import-oriented vs. export-oriented industries), pollution control laws ("clean" vs. "polluting"

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[17] Japanese Industrial Development Policies in the 1980's, pp. 177-180.

[18] Drucker, op. cit.

industries), voluntary restriction of exports (foreign policy vs. industries), and trade liberalization (noncompetitive vs. competitive industries). In democratic societies, such clashes of interest have always been an obstacle to any national economic plan. This has been as true in Japan as anywhere else.

THE MARKET MECHANISM IN OPERATION

What is the "secret" of Japan's phenomenally high economic growth rate after World War II? Answer: A basically free market economy, functioning effectively with minimal government intervention. The collapse of Japan's traditional feudal society in the 1940s and the emergence of a more open society triggered an explosion of creative energy. Free speech, human rights, and freedom of investment and pricing changed the country's political and economic dynamics. Any Japanese--regardless of age, class, or family background--could venture into business and succeed through hard work, imagination, willingness to take risks, and luck. Many dynamic and exciting new enterprises, such as Honda, Yamaha, Sony, and Suzuki, to name but a few, sprouted in this new climate.

In short, individual entrepreneurs did not invest in capital goods and equipment because MITI officials suggested it, but because these entrepreneurs glimpsed the potential for future profits by beating the competition in both domestic and foreign markets. The market mechanism allowed Japan's industrial structure to be transformed by the 1970s, as older industries were replaced by these new manufacturing industries.

Obviously, the success of Japan's economy could not have been achieved without certain favorable international conditions, such as the existence of inexpensive raw materials (especially petroleum), stable and open world markets for Japanese goods, and readily available foreign technology. But it was not the Japanese government or MITI that created these conditions. Nor can MITI claim more than occasional credit for the successful exploitation of pre-existing conditions. Vigorous world traders, not government officials, have been the major source of Japan's economic strength in world markets and at home.

Well-trained workers also have been a key ingredient in the success of Japanese manufacturing industries. Loyal and talented workers have proved just as indispensable to companies as reliable equipment. In order to recover the maximum worth from their investment in human capital, companies generally retain workers instead of discharging them, even at times of economic distress. But even in Japan, unskilled workers are not awarded lifetime contracts. They are discharged according to the economic situation. Close labor-management cooperation cannot be explained solely by Japan's cultural traditions, and certainly not by an active government. It is a result of clearsighted economic practicality and a free labor market.

A firm commitment to quality control has been another factor in Japan's success. Ironically, American experts in statistical quality control, particularly Dr. W. Edwards Deming, had far more success with the top management of Japanese manufacturing firms than with U.S. corporate executives. In fact, for over twenty-five years, the annual "Deming Prize," given to the top companies in this area, has been one of the most prestigious and sought after industrial awards in Japan.

This commitment to quality control by both top management and labor has had deep implications. While it is difficult to determine the precise degree to which quality control has enabled the Japanese economy to grow rapidly, it is clear that Japan's most successful manufacturing companies have built an international reputation on high quality. Products branded Sony, Panasonic, Toyota, and Datsun have not necessarily been the lowest priced in their markets, but they have often been the most reliable.

CONCLUSION

The Japanese government has undoubtedly contributed to the economic success of Japan since World War II. The irony is that the contribution has been based not so much on what it did for the economy, but on how much it restrained itself from doing. Interference in the economy has been sporadic and slight--including efforts aimed at industrial development.

By maintaining a small and balanced budget, fairly low and stable interest rates, relatively low rates of taxation, stable prices, low defense and social welfare expenditures, the Japanese government helped to provide an exceptionally favorable economic environment for private enterprise.

To be sure, international factors aided Japan, but the real credit must go to those who took advantage of this favorable environment--the imaginative private entrepreneurs, in cooperation with millions of workers. They developed efficient, productive, and competitive manufacturing industries.

While Japan's economic success over the past thirty years has indeed been accompanied by activities aimed at promoting industry, it would be a very serious mistake to conclude that there must have been some critical cause-and-effect relationship. The lesson of Japan is clear: Economic success has been in spite of, not because of, government tinkering. This is a lesson that must be learned by all Americans flirting with national industrial policy.

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