

**JAPAN AS A PLAN RATIONAL AND DEVELOPMENTAL STATE: THE
GOVERNMENT'S ROLE IN HIGH SPEED GROWTH OF ECONOMY IN THE
POSTWAR PERIOD**

MUJTAHID SUBAGYO *
mujtahid@uny.ac.id

ABSTRACT

Japanese high speed economic growth, which many of them called it as a miracle or in Japanese term as *jukagaku kogyoka*, is affected by many factors. Many economists tried to find out the rationale behind this high speed growth. Some of their analysis can be categorized as national character/factor of culture analysis, no-miracle-occurred analysis, unique structural feature analysis, and free ride analysis. To explain the concept of plan rational, it needs to compare to such other concept as the market rational system. Basically the difference between these two concepts is on the function of state in the macro and micro economic policies. On the other hand, the countries which experienced the late industrialization process, the state played the significant role as the driver of the process itself. Thus it has the role of developmental functions. These two different approaches used by two types of countries (Japan and USA) caused the different effect in the states and private sector's relationship. The differences between these two types of states are focused on the trade regulations, efficiency and effectiveness, structure of domestic industry, and, the institution of decision making.

Keywords : Government Role, Economic Growth, Japan

A. Japan's miracle

Many economists maintained the Japanese high speed economic growth, which many of them called it as a miracle, began from 1962 when the production was a third of what it would be by 1975. However, the term of miracle itself first introduced by Professor Arisawa Hiromi, one of prominent Japanese economist in prewar time, to describe the high speed economic growth in this country in the period between 1931 until 1934. In that period of time the increasing in total output industrial sector was 81.5%.¹

* Staf pengajar Jurusan Pendidikan Akuntansi, sedang menempuh Master Degree di Japan.

The economic growth that started in 1962 was characterized by the intersectoral shift from textile industry to machinery and finished products. This phenomenon was called in Japanese term as *jukagaku kogyoka*. Many economists tried to find out the rationale behind this high speed growth. Some of their analysis can be categorized as follows:

1. National character/factor of culture analysis

This argument that the high economic growth in Japan was because of the factor of culture was presented mainly by humanist in general and the anthropologically oriented in particular. This analysis argues that the economic miracle occurred because the Japanese possess a unique, culturally derived capacity to cooperate with each other. This capacity to cooperate reveals itself in many ways: lower crime rates than the other, less homogeneous societies, subordination of the individual to the group, intense group loyalties and patriotism; and economic performance.² Some of the terms invented to refer to this cultural capability of Japanese are “rolling consensus”³, private collectivism⁴, inbred collectivism⁵, spiderless cobweb⁶, and Japan, Inc.⁷

However from the study conducted by Johnson it was revealed that the sense of cooperation in the economic field is not something derived from the culture rather it induced by the government through several industrial policies.⁸ Moreover by pointing out at the culture as the exclusive factor of Japan’s economic miracle means ones have neglected the same or even better achievement of economic growth in some other Asian countries like The Republic of Korea, Taiwan, Hongkong, and Singapura. In short, as the emerging of impressive economic growth in many other Asian countries, the argument of exclusive culture as the factor of Japan’s miracle has lost its momentum.

2. No-miracle-occurred analysis

This analysis was presented by the economists. It is said that what happened in Japan was not miraculous but a normal outgrowth of market forces. As Hugh Patrick argues, “I am of the school which interprets Japanese economic performance as due primarily to the actions and the efforts of private individual and enterprises

responding to the opportunities provided in quite free markets for commodities and labor. While the government has been supportive and indeed has done much to create the environment for growth, its role has often been exaggerated.”⁹

However this analysis seemed to overlook some efforts that have been done by government with its industrial policy. As Johnson maintained in his research, “the government’s industrial policy made the difference in the rate of investment in certain economically strategic industries, for instance in developing the production and successful marketing of petrochemicals or automobiles.”¹⁰

The fact that government provided more than the environment for economic growth, as contrary to Patrick’s view, can be seen from the argument of Sahashi Shigeru, former vice-minister of Ministry of International Trade and Industry (MITI). He said that it is an utterly self –centered [businessmen’s] point of view to think that the government should be concern with providing only a favorable environment for industry without telling them what to do.¹¹ To put in another way, the role of government might not be exaggerated if we look at the statistic during the years of 1962 until 1975, when the machinery industry, which was driven by government (through MITI), had increased its output by 78.6%. It’s much higher compared to ‘old’ industry such as textiles that only contributed the increase of 49.5% in total output.

3. Unique structural feature analysis

It asserts that Japan obtained a special economic advantage because of the “three sacred treasures”: the “lifetime” employment system, the seniority (*nenko*) wage system, and enterprise unionism. Amaya Naohiro of MITI cites these three institutions as the essence of what he terms Japan’s *uchiwa* (all in the family) economic system; and in reporting to the Organization for Economic Cooperation and Development’s Industry Committee during 1970, the former MITI vice-minister, Ojimi Yoshihisa, maintained that the phenomena of three sacred treasures were “typically Japanese phenomena” that had helped Japan to obtain its high-speed growth.¹² Because of these institution, he argued, Japan obtains greater labor commitment, loses fewer days to strikes, can innovate more easily, has better quality

control, and in general produces more of the right things sooner than its international competitors.

This argument, although to some extent agreed by many observers, is rather simplistic. According to Johnson they are certainly not the most sacred. Others include the personal savings system, the distribution system, the “descent from heaven” (amakudari) of retired bureaucrats from the ministries into senior management positions in private enterprises, the structure of industrial groupings (keiretsu, or the oligopolistic organization of each industries by conglomerates), the tax system, the extremely low degree of influence exercised over companies by shareholders, the hundred-odd “public policy companies”, and perhaps most important of all, the government-controlled financial institutions, particularly the Japan Development Bank and the investment budget (the Fiscal Investment and Loan Plan).¹³

All of these “unique institution” were carried out together with those three sacred treasures to produce the high economic speed growth in Japan. This fact was neglected by many observers and businessmen in western countries. The partial analysis of unique institutions confined to the three sacred treasures would only result in misleading explanation. This was the case of an American businessman who really attempted to institute “lifetime” employment without the backing of the other institutions of the Japanese system. He finally soon found himself bankrupt.

4. Free ride analysis

This analysis argues that Japan gained its advantages in economic growth because of the alliances with the United States. There are 3 explanations on this: (1) the low spending on defense, (2) the easy access to the export market; and (3) the low cost in technology transfer.

The arguments of low spending in defense will be irrelevant to maintain when we look at the figure of capital formation which was more than 30% of GNP during high speed growth period. The case of South Korea and Taiwan can be the basis of comparison. In those two countries, which duplicated the same strategies as Japan in high investment policy, the high expenditure on defense had a little or even no effect on the economic growth.

In the case of export market, it was not absolutely true that Japan highly depended on it. In fact this country was more depend on its domestic market. According to Eleanor Hadley, the Japan's economic in the early of 1960s was 3 times higher than in 1934-1936, and export as a proportion of GNP were only about two-third what they had been in the mid of 1930's.¹⁴ By the late of 1960's Japan's export were only 9.6% of GNP, compared for example with Canada's 19.8%.¹⁵

Home demands lead Japan's growth for 20 years after 1955. This is partly because of the program of ministry of finance in Ishibasi government, Ikeda Hayato, that launched the policy of positive finance. Under the slogan "a hundred billion yen tax cut is a hundred billion yen of aid" as the basis for the fiscal 1957 budget, Ikeda opened up domestic demand.¹⁶

As for the transfer of technology, as a matter of fact it's not absolutely free, even tough there's a significant difference of price if it measured by the current price. However, the phenomena of technology transfer will lead us to find out the real factor that affect significantly the Japan's economic growth.

The technology importation is one of Japan's main industrial policies in the postwar period. Prior to the capital liberation era in the late of 60's and during 70's, there's no technology entered the country without government's provision. And the primary agency for this matter and other industrial policies was MITI. Hence, the role of government, via MITI, was very significant in explaining the Japan's miracle that occurred in the postwar period. This fact, as Johnson argued, that made this country categorized as a plan rational and developmental state.¹⁷

B. Plan Rational and Developmental State

To explain the concept of plan rational, it needs to compare to such other concept as the market rational system. Basically the difference between these two concepts is on the function of state in the macro and micro economic policies. In the countries which had experienced the revolution of industry earlier, the state itself had a little interference in the economic affair. However in the late of 19th century, those countries took a role on regulation function for several reasons such as keeping the competition fair, protecting the consumers, preserving the clean environment, protecting the employees' rights, etc.

As Henry Jacob maintained, “once capitalism transformed the traditional way of life, factors such as effectiveness of competition, freedom of movement, and the absence of any system of social security compelled to the state to assume responsibility for the protection and welfare of the individual. Because each man responsible for himself, and because that individualism became a social principle, the state remained as almost the only regulatory authority.”¹⁸

On the other hand, the countries which experienced the late industrialization process, the state played the significant role as the driver of the process itself. Thus it has the role of developmental functions. These two different approaches used by two types of countries caused the different effect in the states and private sector’s relationship. The United States is the example of the country that has a regulatory or market rational function whereas Japan is the good example of plan rational and developmental state. The following will describe the differences between these two types of states.

1. The United States government has many rules on antitrust implication of the size of firms. Yet it didn’t concern with the matter of which type of industry that should be developed and prioritized and which type should be eliminated (due to decreasing demand in market). On the other hand, Japan as a plan rational and developmental state has a dominant position in arranging the setting of such substantive social and economic goals.
2. From the perspective of economic policy priority, in the plan rational state the government concerns to the structure of domestic industry that will enhance the national competitiveness in the international level. Whereas in the market rational states, they don’t have such industrial policy, rather just stress on the procedures and rules that have no specific industry goals such as price stability and full employment.
3. From the perspective of trade off between efficiency and effectiveness these two types of states also can be distinguished. In the states that have a market rational approach, they stress on the efficiency, where as the plan rational states give emphasis on the effectiveness. The case of the bureaucracy is a good example to explain this fact. In United States, it is widely known that bureaucracy means something inefficient to the people. The different case is take place in Japan, where it uses the different measurement, i.e. effectiveness, to evaluate the bureaucracy performance.

The inefficiency of bureaucracy is tolerated, including in the agriculture structure because of its effectiveness in achieving the goal: the domestic sufficiency, i.e. the food does not have to be imported. However because of its character that only emphasize on the result, rather the process, the plan rational system has more difficulties in handling the external effect of national goals. The example of this is when Japan faced the serious problems of environment as the effect of their industrial movements. But when the national goal was shifted into restoration of environment, the result was more effective than one that produced in the system of market rational. This fact can be seen in the comparison between Japanese and American handling of pollution in the 1970s.

4. The other difference is on the institution of decision making in both systems. In the plan rational system, the institution of decision making is centered in the elite bureaucracy, whereas the system of market rational is on the parliamentary assembly. In Japan, the changes in every policy will be marked by internal bureaucratic disputes, factional fighting and conflict among ministries. Americans often confused with the some Japanese economic policy because they were too focus on the Japanese politicians statements instead of its bureaucrats.

Even though in the plan rational system the role of state is very dominant but it is important here to make a distinction with the system of communist which is a plan ideological. The difference between these two systems will be clearer if we look at the Japan's case of shifting strategy. After a decade and a half of experimentation with direct state operation of economic enterprises beginning from the era of Meiji, this country change its strategy to the collaboration with the private sector. The changing strategy was due to some pitfalls of the state entrepreneurship strategy such as corruption, bureaucratism, and ineffective monopoly.¹⁹ From this collaboration with private sectors, some big business, zaibatsu, were emerged in this prewar period.

However Japan remained plan rational and it had no ideological commitment to state ownership of the economy even tough the role of state was still dominant in affecting the private sector. This role still continued in the postwar period as it induced the modernization of zaibatsu's structure of organization and released them from the family domination. This reform also enabled some new enterprises to emerge and the

movement of the labors' rights. The important thing to note here is that government didn't give the direct instruction to the private sectors, rather it gave the signals that had to be understood well by those businessmen to get the advantages of them. Those signals included the easy access to capital, tax breaks, and approval of their plans to import foreign technology or to establish joint ventures.

From this point of view, we can see here that politic had a big influence in raising the economic field in Japan. This fact was unnoticed by many observers when they interpreted the phenomena of Japan's economic growth as an exclusively the work of business sector and called the Japanese as the "economic animal". Henderson was fully aware of this fact and maintained there was no doubt that Japan's center of gravity is in the polity not the economy – a source of puzzlement for Japan's numerous economic determinists of various Marxist strip in academia and opposition politics.²⁰ Johnson also commented on this that in the developmental state economic interests are explicitly subordinated to political objectives. The very idea of the developmental state originated in the situational nationalism of the late industrializers, and the goals of the developmental state were invariably derived from comparisons with external reference economies.²¹ The political motives of developmental state also supported by Daniel Bell that there would be little stimulus to increase production above necessities or needs if people were ruled by economic motives alone.²²

The other way to describe the political nuance in the plan rationality is by noticing at the background of study of the MITI bureaucrats. Even tough it is an economic institution but it was not dominated by economists rather by nationalistic political officials. Until the 1970's there were only two Ph.D's in economics among the higher career official of the ministry. This factor caused the economic policy in Japan had a strong element of nationalism which often illogical to the general economic theorist. This phenomenon suggested that Japan has its own version of economic theory which was maintained by Amaya as a "science of the Japanese economy," as distinct from "economics generally."²³

MITI as the government agency that has a strategic position in Japan's economic, had played significant role in setting the arrangement of industrial sector. According to Asahi, MITI is without doubt the greatest concentration of brain power in Japan.²⁴ From

many of its role, the most important, and also controversial was its role in industrial policy (*sangyo seisaku*).

C. Industrial Policy by MITI

The industrial policy by MITI was a new practice in the field of both macro and micro economics' matter. As pointed out by Robert Ozaki: "it (industrial policy) is an indigenous Japanese term not to be found in the lexicon of Western economic terminology. A reading through the literature suggest a definition, however, it refers to a complex of those policies concerning protection of domestic industries, development of strategic industries, and adjustment of the economic structure in response to or in anticipation of internal and external changes which are formulated and pursued by MITI in the cause of the national interest, as term 'national interest' is understood by MITI officials."²⁵

From that statement, Ozaki makes one important point clear: industrial policy is a reflection of economic nationalism, with nationalism understood to mean giving priority to the interest of one's own nation but not necessarily involving protectionism, trade controls, or economic warfare.²⁶

As for industrial policy, it consists of two policies: industrial rationalization policy (*sangyo gorika seisaku*) and industrial structure policy (*sangyo kozo seisaku*). According to MITI's Industrial Rationalization Whitepaper (1957), industrial rationalization means: (1) the rationalization of enterprises, that is, the adoption of new techniques of production, investment in new equipment and facilities, quality control, cost reduction, adoption of new management techniques, and the perfection of managerial control; (2) the rationalization of the environment of enterprises including land and water transportation and industrial location; (3) the rationalization of whole industries, meaning the creation of a framework for all enterprises in an industry in which each can compete fairly or in which they can cooperate in a cartel-like arrangement of mutual assistance; and (4) the rationalization of the industrial structure itself in order to meet international competitive standards.²⁷

Nawa Taro maintained that in its simplest terms industrial rationalization is the attempt by the state to discover what it is individual enterprises are already doing to

produce the greatest benefits for the least cost, and then, in the interest of the nation as a whole, to cause all the enterprises of an industry to adopt these preferred procedures and techniques.²⁸

Whereas the industrial structure policy, according to Johnson, is more radical and more controversial. It concerns the proportions of agriculture, mining, manufacturing, and services in nation's total production; and within manufacturing it concerns the percentages of light and heavy and of labor intensive and knowledge-intensive industries.²⁹

The implementation of these both kinds of industrial policies in Japan's world of industry included, on the protective side: discriminatory tariffs, preferential commodity taxes on national products, import restrictions based on foreign currency allocations and foreign currency controls. On the developmental side: the supply of low interest funds to targeted industries through governmental financial organs, subsidies, special amortization benefits, exclusion from import duties of designated critical equipment, licensing of imported foreign technology, providing industrial parks and transportation facilities for private business through public investment, and "administrative guidance" by MITI.³⁰ However, the mix implementation of these two kinds of policy changes through different periods depends on the changing in economy and the structure of MITI. Many observers concerned that the deep influence of MITI in industrial policy and they're worried about that.

Regarding this implementation, Takashima Setsuo, deputy director of MITI's Enterprises Bureau, said that there are three basic ways to implement industrial policy: bureaucratic control (*kanryo tosei*), civilian self-coordination (*jishu chosei*), and administration through inducement (*yudo gyosei*).³¹ Between 1925 until 1975, Japan's government had implemented those three ways with different results. Yet each time a particular policy would be implemented the debate always took place about the proper way to implement it.

The controversy also occurred in the case of the effect of industrial policies by MITI. Ueno Hiroya argued that it is very difficult to do cost-benefit analysis of the effect of industrial policy, not least because some of the unintended effects may include bureaucratic red tape, oligopoly, a politically dangerous blurring of what is public and

what is private, and corruption.³² However, Chalmers Johnson maintained that the effect of the policy can be traced through the differences between the course of development of a particular policy without governmental policies (its imaginary or “policy off” trajectory) and its course of development with the aid of governmental policies (its real or “policy-on” trajectory).³³

However, apart from the controversy above, eventually all Japanese analysts, including those deeply hostile to MITI, believe that the government was the inspiration and the cause of the movement to heavy and chemical industries that took place during the 1950's. Ohkawa and Rosovsky provided the measurement on this achievement of MITI: “In the first half of the 1950's, approximately 30 % of exports still consisted of fibers and textiles, and another 20% was classified as sundries. Only 14% was in the category of machinery. By the first half of the 1960's, after the great investment spurt, major changes in composition had taken place. Fibres and textiles were down to 8% and sundries to 14%, and machinery with 39% had assumed its position of leading component, followed by metals and metal product (26%).”³⁴

This shift of industrial structure, which was driven by MITI, definitely contributed to the Japan's economic miracle in the postwar period. This argument is also supported by Boltho: “Three of the countries with which Japan can most profitably be compared (France, Germany, and Italy) shared some or all of Japan's initial advantages- e.g., flexible labor supplies, a very favorable international environment, the possibility of rebuilding an industrial structure using the most advanced techniques. Yet other conditions were very dissimilar. The most crucial difference was perhaps in the field of economic policies. Japan's government exercised a much greater degree of both intervention and protection than did any of its Western European counterparts; and this brings Japan closer to the experience of another set of countries –the centrally planned economies.”³⁵

D. Conclusion

Many observers try to find out the factors of the high speed economic growth in Japan during the post war period, that started from 1962. Some analyses have been presented based on their observations. Those analyses pointed out the factors such as

national character/culture, ordinary economic phenomena, three sacred institutions, and free-ride analysis as the rationale of the high speed economic growth in Japan. However, the most convincing analysis is the one that provided by Chalmers Johnson. In short, he maintained that it is the role of government, through the Ministry of International Trade and Industry (MITI) that made such growth took place in the country.

The strong influences of the government made Japan to be called as a plan rational and developmental state. This fact that made the country differs from the other developed countries, such as United States and Germany, which are market rational and regulatory states. The government's influences were manifested in industrial policies that gave certain signals to the private sectors. The businessmen should notice and follow the signals if they want to take advantages for their companies. Those signals included included the easy access to capital, tax breaks, and approval of their plans to import foreign technology or to establish joint ventures. The industrial policy by government has played significant role in shifting Japan's industry from textile industry to machinery industry in 1950's. The result from this movement was the high speed economic growth that started from 1962.

E. Notes

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- ² Johnson, Chalmers. *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925-1975*. Stanford, Calif.: Stanford University Press, 1982, p.7
- ³ Halloran, Richard, *Japan: Images and Realities*. New York: Knopf, 1970, p.72
- ⁴ Hadley, Eleanor M. *Antitrust in Japan*. Princetown:N.J.: Princetown University Press, 1970, p. 87.
- ⁵ *Consider Japan*. Comp. by staff of the Economist. London: Duskworth, 1963, p. 16
- ⁶ Haitani Kanji. *The Japanese Economic System: An Institutional Overview*. Lexington, Mass.: D.C. Heath, 1976, p.181
- ⁷ Kaplan, Eugene J. *Japan: The Government-Business Relationship*. Washington, D.C.: U.S. Department of Commerce, 1972, p. 14.
- ⁸ Johnson, 1982, p. 8.
- ⁹ Patrick, Hugh and Rosovsky, Henry, eds. *Asia's New Giant: How the Japanese Economy Works*. Washington , D.C.: Brooklyn Institution, 1977, p.239.
- ¹⁰ Johnson, 1982, p. 9.

- ¹¹ Sahashi Shigeru. *Nihon e no shokugen (Straight talk to Japan)*. Tokyo: Mainichi Shinbun Sha, 1972, p.190.
- ¹² Amaya, Naohiro. *Hyoru-suru Nihon keizai, shin sangyo seisaku no bijon. (The Japanese economy adrift: a vision of the new industrial policy)*. Tokyo: Mainichi Shinbun Sha, 1975, p.18
- ¹³ Johnson, 1982, p.11.
- ¹⁴ Hadley, 1970, p.393.
- ¹⁵ Kaplan, 1972, p.3.
- ¹⁶ Yasuhara Kazuo. *Okura-sho (The Ministry of Finance)*. Tokyo: Kyoiku Sha, 1974, p. 200-201.
- ¹⁷ Johnson, 1982, p. 17.
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- ²⁰ Henderson, Dan Fenno. *Foreign Enterprises in Japan: Laws and Policies*. Tokyo: Tuttle, 1975, p. 40.
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- ²² Bell, Daniel. *The Cultural Contradictions of Capitalism*. New York: Basic Books, Princetown University Press, 1977, p. 22.
- ²³ Amaya, 1975, p.1.
- ²⁴ Kakuma Takashi. *Dokumento Tsusan-sho, I, "shinkanryo" no jidai (Documentary on MITI,I:the era of the "new bureaucrats")*. Kyoto: P.H.P. Kenkyu-jo, 1979, p.58.
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- ²⁶ Johnson,1982, p. 26.
- ²⁷ MITI. *Sangyo gorika hakusho (Industrial rationalization whitepaper)*. Tokyo: Nikkan Kogyo Shinbun Sha, 1957, p. 3-4.
- ²⁸ Nawa Taro. *Tsusan-sho (MITI)*. Tokyo: Kyoiku Sha, 1974, p. 22.
- ²⁹ Johnson, 1982, p. 28.
- ³⁰ Ueno Hiroya. *Nihon no keizai seido (The economic system of Japan)*. Tokyo: Nihon Keizai Shinun Sha, 1978, p. 27.
- ³¹ Takashima Setsuo. *Nihon no sangyo gyosei to kyochō hoshiki (Japan's industrial administration and the cooperation formula)*. Keizai hyoron, 1963, p. 30.
- ³² Ueno, 1978, p.14.
- ³³ Johnson, 1982, p. 30.
- ³⁴ Ohkawa Kazushi and Rosovsky, Henry. *Japanese Economic Growth: Trend Acceleration in the 20th Century*. Stanford, Calif.: Stanford University Press, 1973, p.182.
- ³⁵ Boltho, Andrea. *Japan: An Economic Survey, 1953-1973*. London: Oxford University Press, 1975, p. 188-89.

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