

ECONOMIC PLANNING IN JAPAN

by MASAO SAKISAKA

Introduction

The recovery and growth of the Japanese economy after the destruction of World War II have been remarkable. The volume of industrial production, which had been reduced to only one-third of prewar level, regained the 1934-36 level as early as in 1951, and in 1962 it was five times as high. Today the Japanese economy is approaching the level of some of the West European countries, both in scale of production and in the living standard of the people. Japan is now the fifth biggest industrial producer in the world, following the U.S., U.S.S.R., U.K., and West Germany. In respect to several industries, such as shipbuilding, transistors, T.V. sets, and camera manufacturing, she is the biggest producer in the world. National income per head of population in 1961 was just over \$ 400, only twenty per cent lower than that of Italy, although it is a long way to reach the level of the U.K. or West Germany where it is around \$ 1,000.

With such growth of production and improvements in living, Japan is now accepted as one of the advanced nations in the international community. In the summer of 1963, she joined the Organization for Economic Cooperation and Development. This is the first time a country outside North America and Western Europe was admitted to membership in the organization of advanced nations. It was already decided that Japan would be transferred to the Article 8 status in the IMF Agreement. In August 1963, her ratio of import liberalization reached 92 per cent, which is comparable with most West European countries.

Needless to say, a number of factors have been responsible for the remarkable achievements of the Japanese economy. Since these factors have been already analysed by competent economists, I shall confine myself here to mentioning only two features pertinent to the subject of this paper.¹

One of them is the very positive attitude of Japanese business firms under the competitive market system. They are confident of the future growth of the national economy, eager to adopt the latest techniques, and enthusiastic to expand their own business activities in spite of severe competition at home and abroad. For instance, Japanese businessmen imported and utilized advanced foreign technology to the fullest extent possible. Tremendous amounts of resources have been invested in the most modern equipment, with a resultant rapid rise in productivity and increased competitiveness in

¹ See: Ministry of Foreign Affairs, Japan, *Factors in Japan's Economic Growth*, Tokyo 1962; p. 28. Economic Deliberation Council, *Factors in the Growth of the Postwar Japanese Economy* (Mimeographed Translation for the Indian Statistical Institute, Translation Series No. 15).

the world market. Hence the unprecedented growth of the economy led by private investments for plant and equipment, and the highest rate of export expansion in the world.

On the other hand, economic policies of the Government have played no small part in fostering the growth of the economy, mainly by providing a favourable climate for business, and in some cases, by creating necessary specific conditions. Land reform and labour legislation enacted immediately after the war, under the Occupation Forces' directives, have markedly broadened the consumption base of the economy, while anti-monopoly laws kept domestic competition strong. For several years after the war, efforts were concentrated on the rehabilitation of basic industries, and a large amount of government funds, together with the U.S. aid counterpart fund, were used for this purpose. Specific measures, including rationing, were taken to secure availability of raw materials to key industries.

Even after the economy has recovered its prewar level, the Government continued to facilitate the growth of basic industries by channelling large government funds into such fields through the loan and investment programme of the Government, and through government-owned financial institutions. In licensing the introduction of foreign capital and technology, care was taken that most of them would be directly conducive to rationalization of basic industries. Various tax measures were also adopted to encourage investments in the latest equipment and in important industries. Measures to promote export have been pursued throughout the postwar years, by giving favourable tax treatment, supplying low-interest fund, and by a multitude of administrative steps.

In this way, the remarkable accomplishment of the economy has been a joint product of private business and government policy, though the real initiative might have been in the hands of the former. However, government policies are apt to be influenced by year-to-year changes in political circumstances as well as changes in the business situations, which effect the magnitude of budget revenues. For instance, the construction of roads, though deemed necessary from a long-run viewpoint, might be postponed simply because budget revenues for one particular year are insufficient. Therefore, the Government should have some definite long-term policies, or at least principles of policies, to be really effective in promoting economic welfare in the longer run. In this sense, the numerous long-range economic plans formulated since 1946 have played a significant role in providing a proper long-run perspective to policy makers, although some of the plans, especially the earliest ones, were far from being complete from a technical viewpoint.

In the following pages, the nature and significance of long-range economic planning in Japan shall be considered. Chapter I takes up the characteristics of planning in a mixed type of economy, with special reference to that of postwar Japan. Also the changes in the nature of various plans corresponding to the changes in the economic situation will be briefly described. Chapter II analyses the significance of economic planning in Japan,

with an emphasis on the different significance in the private and public sectors of the economy. Chapter III briefly describes the planning procedures, followed by certain problems encountered in the process of formulation and implementation of economic plans.

I. Nature of Economic Planning in Japan

1. Economic Planning in a Mixed Economy

Before discussing the subject, it may be more useful to give a general description on economic planning in the type of mixed economy of which Japan is a member.

The mixed economy is neither socialistic nor purely capitalistic. In other words, a mixed economy is an economy in which both private and public decisions are expected to contribute to economic development. Such an economy operates through price or market mechanism. Different countries, however, have different socio-economic structures and are in different stages of economic development.

It is my belief that there is a great number of policy instruments at disposal even of mixed economies, depending on their stages of economic development. A country, for example, where no private initiative can be expected must have more policy instruments, whereas there must be less in a country where economic development is dominated by the private sector. That is to say, the public sector and private sector of a country have different relative importance, depending on its socio-economic structure and stage of the economic development. This discussion necessarily leads to the conclusion that there are wide differences in the nature of economic planning in mixed economies. This may imply that the relationship between targets of a plan and instruments changes corresponding to the stage of economic development. Depending on the economic structure and development stage of a country, an economic plan may only present forecasts of voluntary private activities, or it may be a plan in its strict sense because the large part of the plan is to be carried out by government leadership especially in underdeveloped countries.

There may be an opinion that the government plan has to be carried out at any cost if it deserves the name of a plan. This opinion holds especially if the economy is a centrally-planned system. As already mentioned, however, a mixed economy is substantially based on the private initiative supported by public leadership. This implies that a mixed economy has two sectors from the viewpoint of national economic policy, namely, the controllable sector and the non-controllable sector. The former is under direct supervision of the Government, while the latter is operated through the market mechanism and not completely under government control. Therefore this field should be left to the initiative of entrepreneurs. This is not to say that the government has no responsibility for this sector. The Government has some responsibility for guiding the private sector (uncontrollable sector) to the desirable direction from the viewpoint of national

economy as a whole. For this reason it is necessary to pave the way to the future on which the private sector should tread. As to the controllable sector (public sector) for which the Government has responsibility, it is desirable to have a long-term plan, because most public works cover a long-term period and, if there is no plan in the public sector, some unfavourable situations like traffic congestion may develop. In addition to these, a more important reason is that planning of the public sector helps to guide the private sector to the desirable direction indirectly because the private sector will make their own long-term plans along the line consistent with that of the Government. The government plan makes it possible for the private sector to internalize external economies. In this sense, it is necessary for a government to announce its long-term economic plan including both the projection of private sector as a whole and the plan for the public sector.

2. Nature of Economic Planning in Japan.

Japan is a country with a mixed economy and is in a relatively advanced stage of economic development. This necessarily defines the nature of economic planning in Japan as described in the previous section.

The Japanese economy has changed rapidly in the nearly two decades since the war because of land reform, development of labour unions, disarmament, equalization of income distribution and so on. Corresponding to these changes in economic and social structure more than a dozen of economic plans have been drafted. These can be classified into three categories from the viewpoint of their natures, structures, and methodologies:

1) The group of rehabilitation programmes; principal targets of which were the rehabilitation of the national economy from the war damage and stabilization of inflationary tendency. As a consequence, most attention was paid to material balances of basic commodities.

2) The group of economic self-support plans; principal target of this group of plans was economic self-support without foreign aid. This group had the nature of a transitional type of plan.

3) The group of plans for economic growth. The target of this group is to realize the maximum growth of the economy compatible with price stability. It goes without saying that each group has a close connection with the actual economic situation under which it was drafted, and its nature was also defined by the economic situation. Chronologically speaking, the first group corresponds to the period from 1946-50, the second to the period from 1951 to 1955, and the third to the period from 1956 to the present. Some understandings of the nature of economic planning in Japan and her economic development after the war may be obtained from a brief review of four national plans which are representative of the three categories.

(1) Economic Rehabilitation Plan (Published in July, 1949)

The principal targets of this plan were to regain the standard of living which prevailed in the prewar days and to make it possible to have a self-support of the economy without foreign aid. In 1949, rehabilitation from

war damages was not complete and private initiative was not as positive as it is today. The relative importance of the Government was large. The economic situation in those days was reflected in the plan. An emphasis was placed on the economic control by the public authority in order to promote activities of the key industries such as steel, coal, fertilizer, although it was considered desirable to shift to the market economy. In addition to this, the plan was characterized by the positive acceptance of foreign aid. These two characteristics of the plan are the reflection of economic difficulties confronted by the Japanese economy in those days.

(2) Five-Year Plan for Economic Self-Support (Published in Jan., 1955)

The Korean War in 1950 gave a chance for the Japanese economy to take off from the economic chaos after the war through external stimuli such as special procurement by the U.S. Armed Forces in Japan. It may be said that the greatest interest in economic policy in the period from 1950 to 1955 was whether it was possible to have a self-supported economy without foreign aid and special procurement. During this period, the Japanese economy had developed to a considerable extent and had attained the prewar levels in both G N P and standard of living. The private initiative was taking an increasingly positive role in the economy. On the other hand, the new political powers came in the cabinet in lieu of the long-lasting Yoshida Cabinet. The newly-born Hatoyama Cabinet preferred a mixed type of economy to the purely capitalistic economy the predecessor favoured for. These economic and political changes led to drafting an economic plan in 1955 which was called the Five-Year Plan for Economic Self-Support. The main change from its predecessors was that more emphasis was placed upon fiscal and monetary policies than on economic control by the Government since the economy had regained functions of price mechanism. In this period, government agencies and public corporations established in order to control the economy were dissolved. More attention, however, should be paid to this plan in the sense that it was the first attempt to use fiscal and monetary measures as the principal instruments of a long-term economic policy, though planning techniques applied to this plan were not skilful and the relationship between targets and instruments was not clear. This implies that the rehabilitation process of the Japanese economy was over around 1955 and the Japanese economy entered a new shore of economic development.

(3) The New Long-Range Economic Plan 1958-62 (announced in Dec., 1957)

The main objectives of this plan were to improve peoples' living standard and to promote full employment through sustaining as high a growth rate of the economy as possible under conditions of price stability. In this plan, emphasis was placed on the importance of private initiative and on avoidance of direct control of the economy by the Government whenever possible. The Japanese economy after 1955 has not needed foreign support. This fact was reflected in this plan which paved the way for a Western-type welfare state. Until 1955 greater importance had been attached to the public sector in planning, although its relative importance in the economy had been declin-

ing. This plan, however, had explicitly stated that private initiative should play an important role in development of our economy and that the public sector should serve to promote private initiative to the maximum extent. From the context of the above statement the nature of the plan is quite clear. Planning techniques were improved and the new method of planning was elaborated. In this plan, although the projection for the private sector was well formulated, the quantitative relationships between policy instruments and planned objectives were not clarified because of placing more emphasis on the projection of the private sector and less on the planning of the public sector.

(4) Doubling National Income Plan (Published in Dec., 1960)

The Income Doubling Plan is substantially different in nature from the previous plan in the sense that the former incorporates some planning elements into the public sector, while the latter did not, even though the objectives and policy instruments of both plans are similar. The cumulative sums of investment in the public sectors during planned period were indicated and classified according to purposes, while the projection of production, exports and imports for the private sector were much more roughly made. It may be said that this plan is characterized by the more positive actions by the Government. The role of the Government in this plan is stressed to provide a guide-post for the private sector on which it can base its separate plan. Another feature which distinguishes the plan from previous plans is that it covers a longer period. This is because occurrence of the bottleneck of social overhead capital which develops as a result of the unexpected high rate of growth in the private sector and the expected structural changes as Japan shifts to the open economy (liberalization of trade) necessitated the Government to take a positive action to meet these problems with a longer perspective. It goes without saying that this is closely connected with the first feature mentioned in the previous paragraph. Last feature of this plan to be mentioned is that more attention was paid to human factors for economic development such as education and training, science and engineering, and social security. In other words, this plan placed an equal emphasis on the mitigation of social tensions concurrently with the realization of maximum growth rate of the economy, while the previous plan had confined itself to questions of economic growth.

As mentioned in the previous section of this chapter, the nature of economic planning in a mixed economy is defined by the structure of the economy and its development stage. In the case of Japan the above statement holds true, as shown by our four examples. The plans in Japan drafted during the early postwar years gave an important role to the public sector to promote a lead to the private sector. But emphasis is increasingly placed on the private sector as the economy has regained the functions of market mechanism and the government sector has been planned under such criteria as it may support and stimulate the private sector.

II. Significance of Economic Planning in Japan

1. Economic Planning and Economic Growth in Japan

As mentioned in the previous chapter, about a dozen national plans have been drafted in Japan since the end of the war. Each plan has a different nature and different objectives and policy instruments. Some of them were only forecasts of the economy and some were not officially announced for political reasons. Therefore it is not identifiable whether all the plans drafted after the war have played an important role in Japan's actual economic performance. As is well known, the economic growth of Japan has been remarkable and every planned target has lagged behind the actual figure except those in 1958 (see Tables 1 and 2). Though it may be dangerous to draw a conclusion from above statement that Japanese experiences in planning have been successful, a rapid growth of the economy might not have been possible without the national plans, since the jurisdictional disputes among governmental agencies which might have been an obstacle to rapid growth of the economy if they had not been co-ordinated through the over-all national plans.

It may be said that planners might have underestimated the potentiality of the Japanese economy because of unskilled planning techniques and lack of knowledge of the economic movements. Moreover, the most troublesome phenomenon in evaluating effectiveness of economic planning in Japan is that the Economic Planning Agency, which has responsibility for planning, has little power to carry out economic policies incorporated in a long-term national plan. Most of economic policies are carried out by other executive branches of the Government through the fiscal budget. This leads necessarily to discrepancies between actual policies and planned policies. Therefore any definite conclusion cannot be drawn on the effectiveness of long-term planning for the economic growth. Recently, however, the opinion is increasingly prevailing among political leaders, businessmen and others that even current economic policies should be implemented on the basis of long-term plans. Furthermore, it must not be overlooked that fifteen years' experiences of planning in Japan have had a tremendous influence on the Japanese people in their understanding of economic problems. In the following pages, more concrete statements on significance of economic planning will be made to the public sector and private sector respectively, referring mainly to the recent experiences of economic planning.

2. Public Sector

As mentioned before, the principles of economic planning and policy in Japan is characterized by (1) over-all direct controls by the Government in the early postwar period and (2) its shifting to indirect controls after 1955. The destruction of the productive capital by the war (one-third of the total) and the shortage of raw materials brought about few stimuli towards growth on the private sector. It was natural under these circumstances that the public sector played a leading role in rehabilitating her economy from war damages

until the functions of market mechanism could be restored and the private sector could contribute to the economic development. After 1955 the relative importance of the private sector in the plan has increased. Accordingly, both the Five-Year Plan for Economic Self-Support (1955) and the New Long-Range Economic Plan (1958) gave more emphasis to the projection of the private sector, although both plans, of course, paid appropriate attention to the public sector. The role of the public sector in these plans was not so much a leader of the private sector as its supporter. The treatment of the public sector, however, in the Income Doubling Plan was essentially different from that of the previous two plans. In this plan the public sector was treated as a planned sector, and economic policies covering a decade were expressed in quantitative terms which had not been done in the previous plans. On the other hand, the private sector was treated as purely forecasting problems. This plan expected that both sectors should go in double harness.

In a mixed economy there may be some cases where private interest and public welfare conflict. Japan also has examples where private interest has been an obstacle in achieving some national policy. A typical example of such a conflict can be found in the case of road construction. The biggest obstacle to road construction in Japan is the scarcity of land available and thus its high price. When a road construction project is announced, price of land where the road is expected to be constructed rises tremendously by which the project is hindered. Recently, however, the Diet passed a law which makes it possible for the public authority to purchase the land at reasonable price. In other words, it may be said that fifteen years' experiences of planning in Japan, especially recent experiences, have made it possible to place more priority on public welfare than on the private interest. The Income Doubling Plan which incorporates some planning elements into the plan for public sectors strengthened especially this tendency.

A series of five-year plans in the area of social-overhead capital has been developed in recent years. (They will be described briefly in Chapter IV). It is hoped that this planned expansion in public investment will eliminate some of the major bottlenecks. This is an epoch-making phenomenon in Japan. A deliberate management of the public sector will contribute significantly to the development of the whole Japanese economy.

3. Private Sector

During the early postwar period the main objective of economic policy was the rapid rehabilitation from war damage and stabilization of inflationary tendencies. In order to realize these objectives extensive direct controls by the Government had been applied, especially to production of basic commodities such as rice, coal, electric power, steel, transportation facilities, etc. The position of the private sector in those days was quite weak. Even under these circumstances, it was still significant for the private sector to have a national plan whereby entrepreneurs could obtain some information about

government intentions in the future as well as the present. After 1955 the Japanese economy had regained the functions of a market mechanism and now the private sector plays a leading role in economic development. It may, therefore, be natural to raise a question whether or not it is significant to make a national economic plan under the present situation. A negative answer is certainly given if the business circles would behave as if they were in a *laissez-faire* State of the 19th century.

Recently in Japan the private firms have increasingly recognized the necessity of having their own long-term management and production plans, which are largely based on the national plan announced by the Government. For example, in 1961, 87% of 200 representative private firms in Japan had constructed long-term plans, 83% of which had utilized the government plan as a basis of their projections. This illustrates the fact that the national plans in Japan have been serving as a guide-post for private industry.

III. Procedures of Economic Planning in Japan

1. Planning Procedures and the Role of the Economic Planning Agency

In the postwar period, nearly a dozen of long-range economic plans have been developed. However, the legal status of these plans have not been the same. The earliest plans were merely estimates made by the government agency as background materials in formulating economic policies, and were not formally announced to the public. On the other hand, the latest three, i.e., "Five-Year Plan for Economic Self-Support, (plan period: 1956-60), "New Long-Range Economic Plan" (for 1958-62), and "Doubling National Income Plan, 1961-1970", were formally approved by the Cabinet. Thus, these have not been any clear-cut, legally defined procedures in planning, although a tendency towards increasing formality can be observed as time passed.

It should be mentioned here that there exists no law which deals exclusively with long-range economic plans. The only legal foundation for economic planning is a stipulation in the Economic Planning Agency Establishment Law, which enumerates "formulation and implementation of long-range economic plans," among others, as responsibilities of the Agency.

It can be said, therefore, that economic planning in Japan has developed more from practice than from legislation. This makes it difficult to describe the planning procedures very accurately. In the following paragraphs I tried to give the readers a general idea about how plans are made, taking the latest experiences in the Doubling National Income Plan as an example. Discussion of planning methodology is omitted throughout, since this paper is too short to include any useful information on this highly technical subject.¹

Long-range economic plans are made by the Economic Deliberation Council, an advisory body to the Prime Minister, and the Economic Planning Agency functions as a secretariate for this Council. Before going into

¹ As for the methods of drawing up long-range plans used in Japan, see Saburō Ōkita, *Methods used in Drawing Up The Doubling National Income Plan*, Translation Series No. 36 of the Indian Statistical Institute (unpublished).

actual procedures, it will be helpful to outline briefly the character and authority of these two organizations.

(1) Planning Organs

i) Economic Planning Agency

The Economic Planning Agency (EPA) is an independent office formally attached to the Prime Minister's Office, with a Minister of State as its Director-General, who is directly responsible to the Prime Minister, and who is a member of the Cabinet Council on Economic Affairs. The major responsibilities of the Agency, as stipulated in the Establishment Law, include: a) formulation and implementation of long-range economic plans, b) formulation of fundamental economic policies and of annual economic plans, c) designing important economic policies which are under the jurisdiction of two or more administrative organs, d) co-ordination and adjustment of economic policies, and e) research and analysis of domestic and foreign economic developments. In order to discharge these responsibilities, the Agency is composed of five Bureaux and one separate Economic Research Institute, with a total staff of approximately 560, including clerical and administrative personnel.

Matters concerning long-range plans are taken care of by the Planning Bureau, which has a staff of approximately 70.

ii) Economic Deliberation Council

The Economic Deliberation Council (EDC) is an advisory body to the Prime Minister, established by a Cabinet decree in 1952. Its major duty is to study and deliberate, upon the request of the Prime Minister, on matters related to long-range economic plans. It is composed of 30 members appointed by the Prime Minister from among the "learned circle," usually businessmen, bankers, and university professors.

In addition to the regular members, the Council may have temporary members and specialized members (or experts). The Council has several committees and subcommittees, and these have also regular, temporary, and specialized committee members.

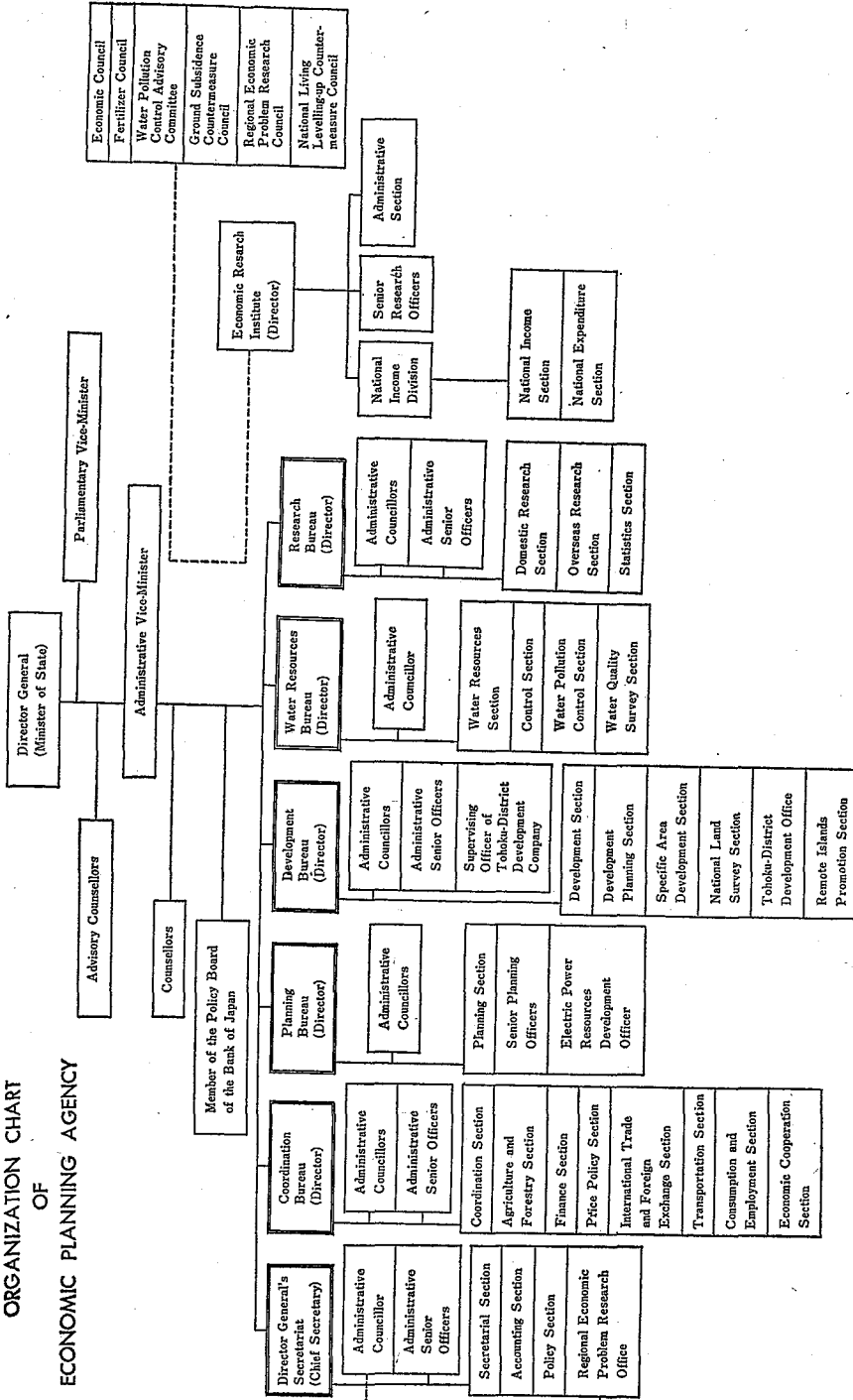
At the end of 1960, when the Doubling National Income Plan was discussed, the actual composition of the Council was as follows. The Council had four major committees, namely, the Over-all Policy, Measurement, Public Sector, and Private Sector Committees. Each of the last two had several subcommittees dealing with such specific fields, as the Industrial Structure Subcommittee and Foreign Trade Subcommittee, total number of subcommittees reaching seventeen. All in all, there were 239 Council and Committee members.

Since the Council has no permanent staff of its own, the general administrative affairs are assigned to the EPA, and the latter, specifically the Planning Bureau, functions as the secretariate of the Council.

(2) Planning Procedures

Now let us follow the actual procedures in formulating a long-range economic plan.

ORGANIZATION CHART
OF
ECONOMIC PLANNING AGENCY



First of all, an inquiry is issued by the Prime Minister to the EDC, to the effect that what a long-range economic plan for a stable development of the economy would be. In the case of the Doubling National Income Plan, the inquiry was issued in November 1959. This was the starting-point of the activities of the EDC, with the EPA as its secretariate. Two temporary subcommittees, the Methodology and the Policy Subcommittees, were set up within the EDC. The task of the former was to consider the feasibility of doubling the scale of the economy in ten years, and to make tentative estimates of economic structure in the target year. This was to be used as a "Framework" for various projections made later. The latter subcommittee tried to point out major policy issues to be solved within the plan period. Tentative conclusions of these two subcommittees were then submitted to the Over-all Policy Committee, where the general outlines of the forthcoming plan were decided upon.

As a second step, the Planning Bureau of the EPA made drafts for each sector, fully taking into account the views of the Council, and submitted them to each of the seventeen subcommittees mentioned above. Now each subcommittee studied the drafts in its respective field. In the meantime, co-ordination and adjustment of the tentative results of various subcommittees were conducted by the Measurement Committee and the Over-all Policy Committee, from the viewpoint of the national economy as a whole.

Throughout these processes, a total of 189 meetings at various levels were held, including 15 committee meetings, 133 sessions of subcommittee meetings, and 33 meetings of study groups.

When all the details had been worked out in this way, the General Assembly of the Economic Deliberation Council was convened to finalize the Draft Plan. Then the Chairman of the EDC submitted the Draft Plan to the Prime Minister. This was about eleven months after the Prime Minister's original inquiry was issued.

At the final stage, the Draft Plan was studied by the Cabinet and the Policy Committee of the ruling party, and was officially approved by the Cabinet, with minor changes in phraseology and with an addition of a government statement emphasizing the importance of some of the policies raised in the Draft Plan. At this stage, i.e., after the Draft Plan was submitted to the Prime Minister, the EPA now functions as a government agency in taking actual care of the reviewing of the Draft.

Throughout this process, the National Diet did not come into the picture. Unlike economic plans in France, Japanese plans are not submitted to the Diet, although members of Parliament are free to interpellate the appropriateness of the plan after it has been adopted by the Government.

2. How Views of Various Circles are Reflected

In order to secure full co-operation of private firms and various governmental organizations in the implementation of a long-range plan, it is of prime importance that views of various circles be carefully taken into account

in the process of preparing the plan.

In the Japanese case, views of private circles are reflected in the plan through deliberations of the EDC and its Committees, because most of the EDC members are chosen from private circles, including influential businessmen such as the chairman of Japan Chamber of Commerce and Industry and presidents of many leading firms and banks. Also some of the members are noted university professors. In addition, the chairman of the All Japan Labor Union Conference ("Zenro") and the vice-president of the Federation of Housewives Associations participated in the discussion at various subcommittees as specialized committee members. Now about adjustment of views among the government organizations. The EPA has, of course, close contacts with every ministry and agency concerned, and tries to fully incorporate views of other ministries in preparing the drafts.

Further, there are two additional channels through which other ministries' views are voiced. First, many high-ranking officials of various ministries are nominated as Specialized Committee Members of the EDC, thereby expressing their own views at the Committee meetings. When the Doubling National Income Plan was under discussion, a total of 61 officials from 16 governmental organizations participated, most of them being bureau directors. Second, some of the staffs of the Planning Bureau are derived from other ministries. This system gives an ample opportunity to keep close, informal, and therefore free contacts between the EPA and the concerned ministries from which the personnel have been sent.

3. Problems in Preparation and Implementation

Although these procedures may seem satisfactory, in reality there still remain some problems and difficulties inherent in the Japanese system. Outstanding among them is the difficulty to bring divergent views of various ministries into an internally consistent national economic plan.

As can be seen from what has been said earlier, the Economic Planning Agency is a rather small agency without any executive power such as the Ministry of Finance or the Ministry of International Trade and Industries. Other ministries have strong administrative authority concerning their respective fields. The strength of this authority may be much stronger than that in Western countries. This independent power has been inherited from prewar years, when each ministry could decline to send its Minister to the Cabinet, thus often leading to a collapse of the Cabinet in power.

Although the independency of ministries has been considerably weakened since the end of the war, they still maintain substantial authority with regard to administrative affairs. Therefore, some ministries may be reluctant to be heavily involved in the long-range plan, for this might result in weakening their own control of the affairs concerned. Discussion of the "Administrative" investments¹ in the Doubling National Income Plan is the case in

¹ The administrative investments are public investments less government enterprises' investments.

point. Since the lack of social overhead capital was universally recognized, it was only natural that strong emphasis was placed in the plan on promoting such investments as highway construction, harbour improvement, and so forth, which were termed administrative investments. To be really effective, the plan should have definite statements regarding the amount of such investment in each year, as well as for the entire plan period. However, even a five-year programme specifying the amount of investment to be made during the period seemed too binding on some ministries. For instance, the Ministry of Finance feared that such a programme would unduly restrict its authority in preparing the annual government budget, because it meant advance commitment to expenditures. As a result, a compromise had to be worked out, with the plan showing only the cumulative sums of each type of administrative investment for the entire ten-year period.

Such difficulties in the process of preparation inevitably result in the rather weak character of the plan itself. Even in the public sector, where the plan should have strong character, implementation of the plan is largely left to each ministry concerned. Consequently, the actual tempo with which the plan is implemented is considerably influenced by the views of such ministries and by the availability of government funds in each fiscal year.

It is encouraging, however, that obstacles have been gradually alleviated. It was in fact for the first time in the history of economic planning in Japan that the amounts of administrative investments have been explicitly laid down in the plan, though only cumulative sums for the entire period.

Also, it is now required that any multi-year programme of other ministries, e.g., the five-year highway construction programme of the Ministry of Construction, should be in accordance with the design of the long-range plan. This has been achieved in the following way. When a ministry wishes to make its own programme, say, for five-years, it has to pass a law through the Diet. In such cases, an article requiring consultation with the Director-General of EPA is incorporated in the law, thereby securing that any new programme will be in accordance with the objectives of the long-range plan.

Further, in recent years more and more ministries have come to feel the necessity of long-range programmes in order to have proper perspective in formulating their own policies. Together with the procedure just described, this has resulted in the increasing influence of long-range plans.

Another problem encountered in implementation is that the influence of a long-range plan gradually lessens as time elapses after its announcement. This is partly due to the mixed nature of the Japanese economy, where actual developments may substantially deviate from the planned course of events. Under a "planned economy", this will hardly happen, for any significant deviation from the planned course should be deemed wrong and remedial actions will be taken.

Take the case of highway construction as an example. In the ten-year plan, amounts to be invested on highway construction were put at ¥4,900 billion for the ten-year period. The Five-Year Highway Construction Pro-

gramme of the Ministry of Construction, made in 1960, proposed to invest ¥ 2,100 billion during 1961-65, an amount largely in line with the plan. However, with higher economic growth rates than those expected in the Plan, and with tremendous increase in the demand for highway traffic in the past few years, the Ministry has now made a revised five-year programme with a proposed outlay amounting to ¥ 5,000 billion for the years 1963-67. Since the scale of the national economy is now larger than that implied by the Plan, and since prices have increased, the original planned figures themselves, i.e., ¥ 4,900 billion, for ten years, cannot be a really workable criterion with which the appropriateness of the new programme is to be assessed.

In order to avoid such gradual weakening of the plan's applicability, it would be desirable to revise it or make a new long-range plan at intervals of, say, two or three years. This has been practised in Japan. The Five-Year Plan for Economic Self-Support (1956-60), made in 1955, was superseded by the New Long-Range Economic Plan (1958-1962) in 1957, while the latter was, in its turn, superseded in 1960 by the Doubling National Income Plan, 1961-1970.

These procedures concerning the preparation and implementation of long-range economic plans are not precisely laid down by laws and regulations, but have gradually developed over the past two decades. Even today, they are not systematically defined. Though the authority to formulate and implement national economic plans belongs solely to the EPA in terms of legislation, actually it has not been the case as already mentioned. In the process of preparation, the co-ordination of different ministries' views posed a big problem. Regarding implementation, the EPA has been in a still weaker position, for actual execution of fiscal policies and government investment have been largely left to other ministries. As for the private sector of the economy, the plan's major function has been that of a guide-post, as described in Chapter II. The weak and loose character of economic plans is partly due to the very nature of the Japanese economy, i.e., the mixed nature. Moreover, the lack of rigidity in their implementation has its own justification. As shown in Table 1, the actual growth rates of the economy have persistently exceeded the planned rates. It would have been absurd if the growth of the economy had to be curbed year after year just in order to follow the planned course. The Japanese economy has been full of youthfulness and vitality, and it would have been almost impossible to predict precisely the future developments. In other words, it has been too buoyant to be successfully disciplined by any rigid plan.

Not that long-range plans have been of little use. On the contrary, most of the plans formulated so far have played significant roles in pointing out to the public as well as to policy-makers the desirable direction of developments and the policies required at the respective stages of economic development. The Government's announcement of the principles of policies and the desirable patterns of future economy facilitated the positive activities of business firms.

Table 1. A COMPARISON BETWEEN ACTUAL AND PLANNED LEVELS OF NATIONAL INCOME

Year	Actual	Plan I	Plan II	Plan III	Plan IV
1947	968				
1948	1,962	1,962			
1949	2,737	2,197			
1950	3,382	2,374			
1951	4,525	2,550			
1952	5,085	2,727			
1953	5,748	2,923			
1954	6,022		6,022		
1955	6,719				
1956	7,628			7,628	
1957	8,286		6,937		
1958	8,519				
1959	10,037				
1960	11,904		8,027		11,904
1961	14,118				12,995
1962				11,129	14,191

Note: Figures for actual national income are given in *National Income Report*, Economic Planning Agency, and the planned series are adjusted to a level of starting year or the base year, in order to give a comparability. See S. Ōkita, *Keizaikeikaku* (Economic Planning), Tokyo, Shiseidō, 1962, 384 p.

Table 2. A COMPARISON OF THE GROWTH RATE OF GNP IN REAL TERMS

Year	Actual	Plan I	Plan II	Plan III	Plan IV
1947					
1948	17.2				
1949	15.7	12.0			
1950	12.2	8.0			
1951	13.5	7.4			
1952	10.5	6.9			
1953	8.4	7.2			
1954	3.3				
1955	10.3		4.8		
1956	9.0		4.8		
1957	7.9		4.9	6.5	
1958	3.2		5.2	6.5	
1959	17.9		5.2	6.5	
1960	13.2		5.2	6.5	9.1
1961	14.0			6.5	9.1

Note: The series of actual rate of growth are reported in *National Income Report*, Economic Planning Agency, and the planned series are compiled from each report of the plans.