

THE RISE AND FALL OF JAPAN INC.*

Roger Mottini

Part 1: 1945–1990

1945 marked zero hour for Japan as a modern nation—the first modernisation had very obviously and catastrophically failed, even by the standards of the Meiji-era elites whose aim it had been not only to preserve Japan’s independence but to make her into a great regional power (see: Mottini, OAG Notizen 12/2010 pp.22–39). By now the country was under military occupation, its reputation in tatters, its population decimated, starving and exhausted—not to mention the suffering and destruction wrought upon other nations by Japan’s dream of military conquest and domination. The situation in 1945 bore no resemblance to the rosy vision of *fukoku* (rich, blossoming country) which inspired previous generations in their quest to have their country enter world history and make history as a modern and civilised nation-state; the second part of that vision—*kyōhei* (strong forces)—was by then wholly out of fashion—from now on, nothing less than being East Asia’s Switzerland was the new dream. (Japanese ambitions apparently did not suffer after all).

However, the power to decide Japan’s postwar future then lay with the occupation forces under US general Douglas MacArthur (1880–1964) whose nearly boundless authority owed much to the weakness of his own president. General MacArthur’s interest in and knowledge of the country under his control was rather limited, to put it mildly. However, as a soldier he had come to know first hand and in a painful way what the Japanese war machine was capable of. Thus, to make sure that Japanese militarism (one might as well call it Tennofascism) would not rise again became his first priority and all measures taken had to serve this overriding purpose.

Some of these fundamental decisions by the Americans have had long-term side effects in shaping—and troubling—Japan’s new found identity up to the present. In accordance with Washington, MacArthur’s decision to keep the war Tennō (emperor) on his throne (despite the fact that the militarists waged their unholy war in his name as a “holy war of liberation from the White Man’s rule”) was dictated by considerations of *Realpolitik* but morally unacceptable.¹ Talking to the Swiss ambassador in Tokyo, Camille Gorgé (1893–1955), in the autumn of 1945 (Switzerland represented the interests of the warring countries in the last stages of the Pacific War) MacArthur and his deputy, General Charles A. Willoughby (1892–1972) justified this

*First published in German (January 2014) by the German East Asiatic Society in Tokyo (OAG), see: <http://www.oag.jp/publikationen/notizen/>

¹The japanophile former US ambassador to Japan, Joseph C. Grew, was instrumental in American perception of the Japanese Emperor depicting him as a victim or a powerless pawn in the hands of the militarists (Krebs 2010, pp.403–407).

step in order to keep the Japanese people pliant and co-operative towards the occupation authorities (Federal Archives in Berne, Telegram no. 655 dated 24.10.1945). American readiness to strike a deal with some of the most notorious Japanese war criminals (unit 731) was yet another step to undermine the moral credibility of the United States with the Japanese after the war. I think that the political opportunism of those early days is a major reason why Japan's establishment and parts of its population still have difficulties differentiating clearly between victims and war criminals, as the tiresome, interminable and fruitless discussions regarding the status of the Yasukuni shrine bear witness (on this topic: Coulmas 2009, p.19).² However, even Japan's left apparently had problems extricating itself from the long shadow of the Tennō-ideology right after the war, despite the fiery rhetoric of class struggle. Sanzō NOSAKA (1892–1993) the charismatic leader of the Communist Party, back from exile, publicly suggested during one of his fierce speeches denouncing corruption and mismanagement in 1946 a petition to the emperor urging him to stand up for the interests of the starving population. His listeners apparently welcomed this suggestion with thunderous applause and cheering rather than whistling and booing (Dower, pp.263). The Japanese Emperor as patron saint and advocate of the workers and small scale tenant farmers? A rather absurd idea, but not for the conservative elites, as they perceived the strengthening of the Japanese left in the wake of the newly decreed freedoms of speech and assembly by the occupation authorities as a mortal threat to their traditional political pre-eminence (Bix, p.523, Krebs, p.303).

More striking, at least in the short and middle term, however, were the structural changes after the demolition of the military-industrial complex of Japan. According to the Americans, the huge industrial and financial conglomerates (*zaibatsu*) which formed the material base of Japan's militarism should give way to an economic structure dominated by small and medium-sized enterprises (SMEs). Since the Meiji era (1868–1912) the Japanese economy had been ruled by three power groups: the military, the state bureaucracy, and those family clans who profited directly and handsomely from Japan's expansionist and imperialistic policy.

After the Americans left Japan in 1951, as a result of the purges by the occupation authorities, only the bureaucrats were left in charge of re-organising the economy; most of the tycoons were forced into retirement and the military had lost out anyway.

The conservative politicians who, together with the bureaucrats, were to dominate Japan's post-war politics for the next fifty years harboured different ideas from the Americans, and not only about the economy. Their foremost ambition was to reconstruct Japan as quickly as possible and to attain a leading position worldwide—at least with regard to the second objective Japanese ambitions were undiminished. Shigeru YOSHIDA (1878–1967), the first postwar prime minister (1946–1954), wanted to turn Japan into an economic superpower in the medium to long term, and for that objective the country needed first of all two things which were closely related: technology and foreign capital. The solution for both problems after the war consisted of three letters: USA.

Foreign currency could only be earned by exports as Japan's creditworthiness was close to zero. And for this task the Japanese companies needed to be a certain

²The use of the atomic bomb was also a factor allowing the Emperor to appear morally superior and implicitly attributing the role of a victim to Japan (Bix, pp.529).

size, at least in the eyes of the bureaucracy—small and medium sized enterprises were seen to play an inferior role as mere suppliers to the big ones.

The reconstruction of the country was undertaken in the typical Japanese manner which characterised the first modernisation eighty years before, and that meant: a planned and strictly top-down approach, eclectic and systematic in its execution. The politicians, and even more so the bureaucrats, pushed this approach relentlessly. Paradoxically they could rely on organisational know-how which underpinned Japan's war efforts against China and later the Western Allies: the National Law on Mobilisation (*kokkasōdōinhō*) of 1938. This law created the structures and processes of Japan's war economy!

Yoshida's 'Japan first'-vision after the war left little space for the spontaneous development of market forces and entrepreneurship—everything had to serve Japan's strategic goal of catching up with the leading industrialised nations and eventually overtaking them, with the United States serving as the prime example and target. Education constituted an integral part of that goal and Japan's educational system was geared towards churning out an efficient and technology-savvy workforce for industry, providing it with a solid but one-dimensional knowledge based on rote-learning of facts and rules.

The international environment proved to be ideal for the success of this undertaking. The Cold War was in full swing, escalating into a hot one on the Korean peninsula (1950–1953) where the ideologically opposed powers sought to define the boundaries of their influence and interests. US foreign policy of that time followed the doctrine of “containment” in order to contain Soviet communist influence worldwide. US support of the South and Chinese-Soviet Russian backing of the North resulted in a fratricidal war in Korea while Japan's economy profited greatly from massive orders placed by the United States on behalf of their forces on the Korean Peninsula (“Korea Hausse”).

With the conclusion of the US-Japanese security pact in 1951, Japan became the main pillar in America's geopolitical strategy for East Asia. However, Prime Minister Yoshida withstood US pressure to rearm Japan in a substantial way as he feared the re-emergence of a military-industrial complex; as an excuse he could hide behind Article 9 of Japan's new constitution, drafted under MacArthur and forbidding Japan to rebuild and maintain any military forces whatsoever. However, Japan's “National Police Reserve Forces” were continually upgraded during the Cold War until they became an army in all but name (they were dubbed *jieitai*—“Self Defence Units”). Fortunately they hardly resembled their predecessors.

The absolute priority of economic development led Japan to channel its scarce resources fully into civilian production leaving the costs and worries of military defence to the United States (the undeclared upper limit of defence expenditure was 1% of GDP). The strategic importance of Japan was extremely high for the USA, and this allowed the Japanese economic bureaucracy to organize Japan's export miracle as a one way undertaking with a low risk of American critique or sanctions. Yoshida's vision for Japan survived his fall from power and remained a touchstone for his successors during the next fifty years. His successor as Prime Minister from 1960 to 1964, Hayato Ikeda (1899–1965), emphasized Japan's strategy of break-neck growth with his own vision of a doubling of people's income. However, his attempts to promote free trade and to open Japan's domestic market were thwarted by the resistance of the unions and the multinational companies who feared job losses

and foreign takeovers, respectively. Japan’s economic structure was geared towards the ‘home team;’ long-term tightly knit cross-share holdings (*keiretsu*) dominated Japan’s big corporations and it was close to impossible to break them up. Small and medium-sized enterprises were mainly meant to serve as suppliers for the big corporations and remained dependent on them. This structure enabled the large Japanese companies to exert cost pressure on their suppliers in the wake of the Yen appreciation.

As mentioned above, the implementation of that vision followed Japanese tradition and did not rely on market forces, the main difference to the German *Wirtschaftswunder* (economic miracle) which was mainly driven by the dynamic of the *Mittelstand* (small and medium enterprises) with the government’s role largely limited to providing the infrastructure and agricultural policy.

In Japan however, a powerful all-embracing economic bureaucracy was established with the task of planning and organising the technological and economic re-emergence and development of the nation from scratch. The leading ministries in this endeavour were the Finance Ministry, the Ministry of International Trade and Industry (MITI, today: METI) and the Prime Minister’s economic planning office. A hallmark of Japanese planning was the Five-Year Plans published by the government indicating the direction and objectives of national economic policy. To this author’s knowledge, Japan was the only country within the OECD to draw up such plans; however, the main difference from the Soviet-style plans consisted in the fact that the Japanese plans were not legally binding and hardly contained provisions for microeconomic interventions.

Table 1: Japanese Five-Year Plans 1955–1996

Official Name	Period (Japanese fiscal year from March 31 to April 1)	Planned Growth [Actual Growth]	Main Objectives
Economic autarky or independence (Dec. 1955)	1956–1960	4.9% [8.8%]	Autarky, full employment
New economic long-term plan (Dec. 1957)	1958–1962	6.5% [9.7%]	Maximum growth, increase of national quality of life, full employment
Income doubling plan (Dec. 1960)	1961–1970	7.8% [10%]	Doubling of national income
Middle-term economic plan (Jan. 1965)	1964–1968	8.1% [10.1%]	Correcting economic imbalances
Economic and social development plan (March 1967)	1967–1971	8.2% [9.8%]	Balanced and stable growth

New Economic and social development plan (May 1970)	1970–1975	10.6% [5.1%]	Creating a better society through balanced economic growth
Economic and social foundation plan (Feb. 1973)	1973–1977	9.4% [3.5%]	Promotion of national wealth and international cooperation
Economic plan for the 2nd half of the 1970s (May 1976)	1976–1980	6% [4.5%]	Enrichment of national life; stable economic development
New Economic and social seven-year plan (Aug. 1979)	1979–1985	5.7% [3.9%]	Stable growth path; enrichment of national life; contribute to international economic cooperation
Outlook and guidelines for the economy and society in the 1980s (Aug. 1983)	1983–1990	4% [4.5%]	Peaceful and stable international relations; dynamic and prosperous society and economy; secure and rich life.
Economic leadership in a global context (May 1988)	1988–1992	3.75%	Correction of imbalances in trade and economy; contribution to world community; balanced development of the regional economy; realization of a richer national life.
“Life-style superpower”- Five-Year plan	1992–1996	3.5%	Creation of a “life-style superpower” co-existing with world community; reduction of working time; affordable home ownership; improvement of “rush hour” situation.

Source: Kodansha 1993, vol.1, p.309

Japan’s postwar economy was strategically oriented towards fast growth and import substitution giving production priority over consumption—a feature Japanese capitalism shared with the Soviet-style planned economies. The implicit promise of Japanese politics demanding toil and frugality from the people held out the prospect of a better life for the younger generations.

Under the Foreign Currency Law of 1949 and the Foreign Investment Law of 1950, and with the creation of the “Japan Development Bank” in 1951, Japan’s economic bureaucracy controlled the allocation of foreign currency as well as foreign direct investment in Japan (Pyle 2007, pp.252). The Development Bank of Japan invested the funds accumulated in the postal savings system according to the priori-

ties of economic planning. This “Fiscal Investment and Loan Plan” (FILP) provided Japan’s industry with cheap capital thanks to interest rates on savings deposits kept artificially low by the government. This capital was made available for investments in new technologies regarded by the economic bureaucrats as holding a great potential for future development; these key technologies included electronics, cars, optics, shipbuilding and nuclear and chemical technology.

Apart from this, the economic administration organised and co-ordinated research and development cartels in order to develop technologies until they could be turned into marketable products. To get access to key technology, Japanese companies paid about US\$ 17 billion in licence and patent fees between 1951 and 1984 (Pyle p.249).

While Japan’s export machine was able to profit handsomely from free access to the US market as well as from trade liberalisation in the framework of the GATT (today WTO) process, the bureaucrats in Tokyo went out of their way to prevent foreign imports to Japan. They invented scores of excuses to impede and limit access to the Japanese market without resorting to customs duties restricted or banned by international agreements. The Japanese population was led to regard foreign goods as shoddy or even harmful in a way that became an integral part of “Japanese culture” and treated more like an ideology. This exaggerated notion of Japanese uniqueness should be dubbed “Japanese cultural fascism” with its pseudo-scientific cult of *nihonjinron* (Japaneseness). Japan’s exports between 1955 and 1990 went from less than 2 trillion Yen to more than 42 trillion Yen and the trade surplus assumed a structural character from 1985 onwards; meanwhile imports of foreign goods stagnated between 30 and 34 trillion Yen during the same period (1985–1990).³ A typical expression of the non-tariff protectionism Japan’s bureaucrats applied during that period was their decision to ban the import of French skis in the 1980s as not suited for Japanese snow! So they actually claimed. However, the French reply came with a vengeance; Paris informed Tokyo that in this case it would be necessary to examine whether Japanese motorcycles could be driven on French roads! Further Japanese footdragging with regard to French exports met with stern reactions culminating in a French decree that Japanese consumer electronic goods could only enter the country through two tiny customs posts deep in rural France. That was the kind of language the bureaucracy in Tokyo came to understand eventually.⁴

However, the Japanese model of development seemed to be a raging success, vindicating its inventors; in 1968 Japan overtook Germany (West) as the second largest economy after the USA and her economy continued to grow vigorously; the oil crisis of 1973 could slow it down only temporarily (see Table 1). Japan served as a model for many other countries in Asia, particularly South Korea. Foreign managers and “management gurus” came knocking on Japan’s doors in a kind of pilgrimage. Japanese management principles and methods assumed cult-like status and for once it was Japan that had something to teach the world. The Land of the Rising Sun seemed to have found the formula for steady growth and social stability. Japan’s GDP (real) went from 50 trillion Yen in 1950 to more than 400 trillion Yen

³Management and Coordination Agency, *nihon tōkei nenkan* (yearly), 1991.

⁴Yet another story the author was told concerned the importation of Italian pasta sauce: not suitable for the intestines of the Japanese! (*Se non è vero è ben trovato.*)

in 1990.⁵ A Korean observer wrote that Japanese society seemed to work like a traditional kabuki theatre play: smooth, perfect and with a clearly defined distinct role for everybody in it, not only in the economy and in politics but also in the world of baseball (Kim 1998, pp.23).⁶

Table 2: Postwar Booms

	Boom Cycle		
	'Iwato'-Boom 1958–1961	'Izanagi'-Boom 1965–1970	'Heisei'-Boom 1986–1991
Investment	29.9%	24.9%	13.4%
Private consumption	9.6%	9.7%	4.1%
Average GDP-growth	11.5%	12.1%	5.5%
Characteristics	'3 goods:' TV, refrigerator, washing machine; steel industry, shipbuilding. PM Ikeda: income doubling plan.	3C's: car, cooler, color TV. Large infrastructure projects, oil refineries; 2nd-largest economy; trade surplus.	Sophisticated consumer goods, IT-investment. 'Japan as number one'-vision. Bubble economy.

Source: *Nihon Keizai Shinbun* 25.11.1990, morning edition

Politics were dominated by the unbroken one-party rule of the LDP (Liberal Democratic Party). The LDP created its own—and tame—opposition through splitting, and then buying off the opposition with money and perks, a system perfected by its political supremo Kakuei TANAKA (1918–1993). Japan's political left was marginalised by its own ideological rigidity. The quality of Japanese politics deteriorated in tandem with that of the politicians who thrived in this incestuous system of institutionalised corruption. As long as economic growth and rising incomes continued this didn't matter.

Table 3: Productivity comparison: Japan and German-speaking countries, GDP per capita in US\$ (calendar year), OECD-ranking

Year	Japan	Switzerland	Germany	Austria
1984	10.612 (11)	15.082 (2)	9.014 (14)	8.914 (15)
1985	11.448 (10)	15.226 (3)	9.127 (14)	9.092 (15)

⁵Bank of Japan, *kokusai hikaku tōkei* (yearly), 1992.

⁶According to him the main beneficiaries of the current system were the supporters of the "Tokyo Giants" while those critical of it tended to be fans of their main rival the "Hanshin Tigers" hailing from the Osaka region.

1986	16.775 (7)	21.695 (1)	13.033 (12)	12.973 (13)
1987	20.171 (7)	26.980 (1)	16.165 (11)	16.250 (10)
1988	24.270 (3)	28.958 (1)	17.358 (14)	17.422 (13)
1989	24.153 (3)	27.745 (1)	17.208 (14)	17.312 (13)
1990	24.971 (8)	35.051 (1)	21.602 (10)	21.471 (11)
1991	28.203 (4)	35.029 (2)	22.612 (10)	22.200 (11)
1992	30.567 (4)	36.148 (2)	25.588 (8)	24.627 (9)
1993	34.987 (2)	34.925 (3)	24.691 (7)	23.816 (8)
2009	39.530 (16)	63.075 (3)	40.672 (14)	45.568 (8)
2010 (April)	39.731 (17)	67.560 (4)	40.875 (16)	45.989 (12)

Source: OECD Annual National Accounts Database; Japan: *Keizai shakai sōgō kenkyūjo*

The shock which eventually shook the system came again from the outside, but the conditions for its failure were homegrown.

Part 2: The Apex and the Breakdown

1986 marked the beginning of the end for “Japan Inc.” but at that time nobody could have known it. In Moscow the newly appointed General Secretary of the Communist Party of the Soviet Union (CPSU, Mikhail Gorbachew, tried his best to reform and modernise the huge country with his policy of “Perestroika” (reconstruction). In his foreign policy, he ushered in the definitive end of the cold war with wide-ranging and comprehensive disarmament proposals, primarily to free up resources for his civil economy. The ending of the loss-making war which the Red army was waging in Afghanistan served the same purpose and was a top priority for the new strong man in Moscow.

At that point Japan’s trade surplus with the rest of the world (except Switzerland) had become structural. The surplus with the United States alone was about US\$ 60 billion in 1987. However, with the disappearance of the Soviet threat, Japan lost its strategic importance to American geopolitical policy in East Asia, and the USA was no longer willing to tolerate the unbalanced trade and investment structure. “Japan bashing” became increasingly acceptable in Washington’s political circles, and, to a lesser extent, in European capitals too. Tokyo was charged, above all, with currency manipulation; in other words, the Yen was kept artificially low in order to keep Japanese exports competitive. (The same accusation is levelled at China nowadays.) In September 1985, under enormous pressure from the USA and Europe, Japan had to sign the Plaza Agreement and significantly raise its exchange rate (from 260 to 180 Yen/US\$). This drastic revaluation had a number of unforeseen and serious consequences. It forced Japanese industry into a massive transfer of production to the low-wage countries of Asia, and into cost-cutting at home, which took place mainly at the expense of the suppliers. The shock of revaluation was thereby successfully compensated for, and the Japanese export surplus did not

significantly decrease. The Western trading partners' hopes for improved terms of trade had not been fulfilled.

In Japan itself an ominous process began: the Japanese currency significantly overshot the newly fixed rate in the currency markets and the Yen began to soar. Japan's Central Bank attempted to stop this with a drastic reduction of interest rates but was unsuccessful (see Table 4). This extremely relaxed monetary policy between 1987 and 1989 (in the same period interest rates in the United States rose from 5.5% to 7%, and in Germany from 3.5% to 6%), in combination with a continuing rise in the Yen, triggered a massive wave of speculation which would later go down in economic history as the "bubble keizai" (bubble economy). The demographic aspect was also a decisive factor; the Japanese babyboomers (born between 1945 and 1965) were making their presence felt, and the "mass generation" (born between 1945 and 1950), in particular, entered their house building phase in the mid 1980s, pushing demand sky high. An explosive mix was concocted. Low interest rates coincided with a boom in demand for housing. The bubble was inflated above all by exploding real estate prices, of which it was believed that they could only move upwards, on the assumption that land in a densely populated country with a growing population will become ever scarcer and more expensive. The unusually low interest rates made investments possible which would have been rated as too risky or even as completely senseless under normal conditions, and fostered an unprecedented credit boom which infected the stock market and drove the Nikkei index to a record level of almost 39,000 points at the end of 1989. (At the beginning of 2012, it fell below 10,000.)

Table 4: Economic indicators during the "bubble"

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
Y/\$10 *	237.61	238.05	168.03	144.52	128.20	138.11	144.88	134.95	126.62	111.18
Nikkei **	(1983: 9,893)	13,113	18,820	21,564	30,159	38,915	23,915	22,983	16,924	17,417
	11,542									

* Average exchange rate JPY/USD. Until 1992, average of workdays; thereafter, average at the end of each month. **Source:** *Asahi nenkan* 2006, p.125.

** End-of-year value. **Source:** *Asahi nenkan* 2000, p.125 and 2006 p.145.

As chance would have it, the author of these lines arrived in Tokyo on a scholarship at just that time, in early 1990, and experienced the spirit of the times at first hand. If one identified oneself as European in those days, one usually earned a sympathetic smile. To the Japanese, Europe looked obsolete. *Nippon ichiban* (Japan as number one) and *zaitec* (financial technology), were the ubiquitous buzzwords of that hectic period. Japan's newspapers calculated, for the benefit of an astonished public, that the market value of the imperial palace grounds (something over 10,000 m²) in central Tokyo had equalled that of the whole of California!

The Japanese money surplus was immense and triggered price rises abroad, especially in the US, as Japan's investors, banks, and companies began to buy up real estate, companies and businesses, as well as works of art worldwide, willing to

pay any price without considering the possible returns. In the European media, Japanese consumer prices in general led to people shaking their heads in disbelief, and Japan still has a reputation in the European consciousness (even in Switzerland) as a uniquely expensive country.

However, this second economic miracle was no longer based on productivity gains, but on speculative accumulation, which only fuelled inflation. The development threatened to get completely out of control and the Central Bank of Japan had to put on the emergency brakes, notwithstanding the rising currency. It intervened strongly, but too late, and brought about a collapse of the real estate bubble with a series of interest rate hikes in quick succession in 1989/90.

Table 5: Discount-rate movements in Japan

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
highest	5.00%	5.00%	3.00%	2.50%	4.25%	6.00%	6.00%	4.50%	3.25%	1.75%
lowest	5.00%	3.00%	2.50%	2.50%	2.50%	4.25%	4.50%	3.25%	1.75%	1.75%
	1995	1996	1997	1998	2000	2001	2002	2003	2004	2005
highest	1.75%	0.50%	0.50%	0.50%	0.50%	0.50%	0.10%	0.10%	0.10%	0.10%
lowest	0.50%	0.50%	0.50%	0.50%	0.50%	0.10%	0.10%	0.10%	0.10%	0.10%

Source: Bank of Japan, in: *Yano Tsuneta kinenkai* 2006, *sūji de miru nihon no hyakunen*, p.457

With hindsight, it is striking that Japan relied solely on market mechanisms to combat this economic meltdown. In other countries, unsettling developments in the real estate sector were also taking place, but without the erratic interest rate policy. In Switzerland real estate speculation reached a comparable level in the second half of the 1980s, but by means of an “urgent federal decree against real estate speculation” (*Dringlicher Bundesbeschluss gegen die Immobilienspekulation*) the federal parliament delayed the resale of real estate for several years, which effectively pulled the ground out from under the speculation without pulling the whole economy down in sympathy, which the taxpayer would have had to pay for in the end. For this author, the desperate turning of the interest rate screw by the Japanese Central Bank is a sign that the Japanese political establishment was at that point no longer able or willing to act.⁷

The side effects of the Japanese interest rate policies were certainly devastating: the astronomical land prices immediately began their free fall, which continues to this day, more than twenty years later, granted that demographic factors play a decisive role and reinforce the trend.

On the technical side, mortgages remained on the books of financial institutions, but as receivables which in the meantime had become illusory. The crisis in the financial sector spilled over into the real economy and growth collapsed dramatically,

⁷The complete failure of the LDP-government in the wake of the Kobe-earthquake in 1995 amplified this impression, but more than 10 years would pass before a change of government eventually took place.

while incomes continued to rise until the Heisei recession (1998–2003) because of a reduction in the active population (Motani 2011, pp.86).

It was not only Japan's model that had failed; Gorbatschew's ambitious policy of Perestroika in the Soviet Union hit the rocks at the end of 1989, even though this had not yet been realized in the West (Mottini 1990, pp.11), where German reunification was the top theme.

In Japan the extent of the looming economic catastrophe was noticed too late, and from 1992 the Bank of Japan tried to change course with a series of drastic interest rate cuts, but the Titanic had already hit the iceberg and by the turn of the century in 2000 people were speaking of a "lost decade." Some authors contradict this view, on the grounds that it is based too one-sidedly on overall economic growth and domestic demand, and can indicate to (among other things) continuing strong exports and balance of payments surpluses, even after the bubble burst. For them, it is a question of the chicken or the egg: is domestic demand weak because of the economic situation, or is the economy weak because of the lack of domestic demand (Motani 2011, pp.15, 29f, 42)?

For this writer, the overall view is crucial, and Japan's society today differs fundamentally in its whole atmosphere from that of 1992, when this writer left the country after a two year stay: continuing deflation (also in the demographic sense), falling wages (nominal and real), an emerging two-tier society, which already exists in the workplace, an enormous national debt and the prospect of longterm and dramatic tax increases and social burdens for a rapidly shrinking active generation. (With the imminent withdrawal of the baby boomers from the workforce it will soon be impossible for the Japanese state to raise additional loans from its own citizens.) This is clearly not a successful record for the previous economic policy, and the concept of the "lost decade" seems entirely appropriate, especially in comparison with countries such as Germany, Switzerland and Austria.

Today, ten years later, one must already speak of two such decades and it is unclear whether Japan now stands on the threshold of a third lost decade. What is certain is the existence of a lost generation, which lives with precarious working conditions and has no prospect of improvement.

This experience shows how severe, longterm, and unpredictable the effects of a burst economic bubble due to a failed policy can be. This should give us pause for thought after the US financial crisis of 2008 and the consequent serious European crisis, the effects of which are ongoing and unpredictable.

REFERENCES

Internet

Bank of Japan: www.B0J.or.jp/

Cabinet Office: www.cao.go.jp/

Financial Services Agency: www.fsa.go.jp/

JETRO: www.jetro.go.jp/

Ministry of Finance: www.mof.go.jp/

METI: www.meti.go.jp/

Unit 731: <http://www.taz.de/1/archiv/archiv/?dig=2002/08/26/a0139>

Sources

Bundesarchiv Bern (BAB): Telegramm Nr. 655 von C. Gorgé vom 24.10.1945 nach Bern (Bestand E 2300, 1000/716, Bd.466, Berichterstattung Tokio 1941–1945).

Dringlicher Bundesbeschluss gegen Immobilienspekulation (1989):
<http://www.amtsdruckschriften.bar.admin.ch/showDoc.do>

Articles

Florian **Coulmas**: Die Politik der Entschuldigung—Warum sich Japan schwertut, sich seiner historischen Altlasten zu entledigen. In: Neue Zürcher Zeitung (NZZ), Nr. 171, 27.Juli 2009, p.19.

Florian **Coulmas**: Der müde Samurai—Die Japaner sind erschöpft. Stimmungsbericht aus einem Land, wo die Menschen alt geworden sind. In: Neue Zürcher Zeitung (NZZ), Nr. 81, 9. April 2010, p.45.

Roger **Mottini**: Im Europäischen Haus ist kein Platz für ein Imperium. In: Die Weltwoche, Nr. 5/90, Zürich 1990, pp.11–12

Books

Herbert P. **Bix**: Hirohito and the Making of Modern Japan, Harper Collins, New York 2000.

John **Dower**: Embracing Defeat, Allen Lane, London 1999.

Chalmers **Johnson**: MITI and the Japanese Miracle: The Growth of Industrial Policy 1925–1975, Stanford University Press, Stanford 1998.

Kim, **Ji-Ryong**: watashi wa kankokujin demo Nihon bunka ga suki da ! (Although I am a Korean—I like Japanese Culture). Za Masada, Tokyo 1998.

Richard **Katz**: Japan The system that soured—The Rise and Fall of the Japanese Economic Miracle, East Gate, New York 1998.

Kodansha Encyclopedia of Japan, 2 vols, Tokyo 1993.

Gerhard **Krebs**: Japan im Pazifischen Krieg—Herrschaftssystem, politische Willensbildung und Friedenssuche, iudicium München, 2010 (Reihe: DIJ Monographien Bd.46).

Keisuke **Motani**: Defure no shōtai—keizai wa ‘jinkō no nami’ de ugoku (Die wahre Gestalt der Deflation—Die Wirtschaft wird von Bevölkerungswellen bewegt), Kadogawa, 7. Ausgabe, Tokio 2011.

Kenneth B. **Pyle**: Japan Rising—The Resurgence of Japanese Power and Purpose, Public Affairs, New York 2007.

Yano Tsuneta Kinenkai (Hg): sūji de miru nihon no hyakunen (100 Jahre Japan in Zahlen gesehen), 5. rev. Aufl. Tokio 2006.