3 Continuity and Discontinuity

3.1 THE MEANING AND MEASUREMENT OF STRUCTURAL BREAKS

Upon Japan’s unconditional surrender and acceptance of the terms of the Potsdam Declaration in August of 1945, Imperial Nationalism perished. With its demize, the linkage of expansion in the heavy industrial sector to the buildup of military hardware crumbled as well. Her capital stock decimated, her major cities mercilessly bombed into rubble, Japan’s capacity for once again achieving sustained economic growth, her capacity to even struggle back to the prewar peak of per-capita income of the late 1930s, was questioned in many quarters both American and Japanese. Yet between 1952 (when the American Occupation was formally concluded and Japan’s political independence and security were guaranteed under the framework of the US-Japan Security Treaty) and 1970, Japan’s economy grew at hitherto unheard of rates. By 1955 she had regained her prewar peak per capita income level; and between 1955 and 1970 her income grew at annual rates which on average exceeded 10 per cent. The key to this growth was the efficient and rapid importation and adaptation of foreign, mainly American, technology. Having largely attained technological parity with the West by 1970, Japanese firms could no longer dip into a huge pool of untried foreign techniques and methods of production. Growth in labour productivity and total factor productivity flagged. Hence Japanese real income growth dropped down to a new slower trend-rate-of-growth plateau: annual average growth rates tended to fall short of 5 per cent but to be substantially above the 1 to 2 per cent range characteristic of most of the rest of the highly industrial world. Within the context of this broadly painted description of postwar reconstruction (1945–55), rapid catching up with the West (1955–70), and readjustment to slower growth potential after 1970 two brief phases stand out as marking turning points, structural breaks, periods of discontinuity: the American Occupation period from August 1945 until May of 1952, particularly the initial phase from 1945 until 1950; and the period 1971–75, the era of transition to slower growth, when the capacity to draw from a vast supply of foreign techniques was exhausted, and the potential long-run stability of the economy under conditions of slower growth was called into question by the Nixon policy.
shock of 1971 (in particular the floating of the dollar on international money markets) and the sharp increase in costs of imported energy precipitated by the OPEC oil embargo. How was the extent of segmentation on the supply and demand sides of the labour market affected by the restructuring of social and political institutions and the remoulding of expectations about market output and labour market performance during these periods? Was there sharp discontinuity in terms of the social and institutional constraints on market outcomes for the distinct sub-markets of the labour market (e.g. on the efficacy of signalling; the relative returns to effort in firms of various types) after World War II and later on in the early 1970s? In short, how continuous or discontinuous has been the evolution of the set of constraints which shape the operation and interaction of the various sub-markets of the postwar Japanese labour market?

In short, how continuous or discontinuous has been the evolution of the set of constraints which shape the operation and interaction of the various sub-markets of the postwar Japanese labour market?

In thinking about these issues it is useful to distinguish between exogenously induced and endogenously induced changes. While easy to make in theory, the distinction is often difficult to make in practice. For instance while the impetus for the Land Reform, the remoulding of the educational system, the dissolution of the zaibatsu, the passage of a strong Trade Union Law, and so forth lay in the stream of directives emanating from the General Headquarters of the Supreme Commander of the Allied Powers (GH SCAP), the details of the legislation were largely worked out by the Japanese themselves. How much of the resulting legislation can be accurately described as exogenously derived? However difficult it may be to distinguish between internal and external influences in practice, the question of exogenous influence is important because it is likely that exogenously induced change is more discontinuous than endogenously induced change. Coming from outside the economic and social environment of a country, the agenda being written by foreign hands as it were, exogenously induced change is less indebted to the domestic political and social environment and hence is more likely to force legislation down untried paths. That the Americans established the general framework for Japanese legislative and policy reform during the 1945–50 era, and foreign actions induced the upward movements in the yen and oil prices, is prima facie evidence in support of the view that these two periods mark periods of structural break.

Now how do we measure the degree of discontinuity, how do we gauge its relative importance? Granted discontinuity exists, how telling is it? It is the burden of this chapter that the case for discontinuity is far weaker than is commonly believed. I will not marshall all my arguments in support of the continuity thesis within the confines of this chapter. But I will suggest in this chapter that (a) the capacity of the United States to remould Japan