12

The Conquest and Collapse

Japan lost the war but won the peace. What she failed to do with battleships she did with her factories: capturing the world with competitively-priced high-quality goods. Western entrepreneurs marvelled at the diligence of the Japanese workforce. They worked hard, made reasonable demands for wages and they cooperated with innovative managements in a constructive way. The capitalists did not demand inflated rates of return on their investments; they could not do so, because they wanted to compete in the market place against all comers.

And so it was that the mighty Japanese industrial machine conquered. No-one could smite down the giant — except the home-grown land speculators. Yet if we were to believe conventional economic analysis, we would have to exonerate land speculators from any responsibility for the great crash that originated in Japan in 1973.

Edward Denison and William Chung, while recognising that land values rose dramatically, conclude:

> Availability and ownership of land obviously condition the composition and distribution of output. But in the absence of changes in the quantity of land available for use in production, the contribution of land to the growth rate of total output is necessarily zero. This is the case in all countries.[1]

As they estimated that the quantity of land available for use in Japan had not changed,[2] they arrived at the view that the slight negative influence of land on the growth of the economy was due to the increase in the population (which meant less land *per capita*).[3] No allowance is made for the effects of land monopolists who can manipulate the supply of land to their advantage: this influence is assumed not to exist — or at any rate, not to have a causally significant impact on growth trends.

Two other leading experts on the Japanese economy, Ohkawa and Rosovsky, have noted the 'great inflation in land prices', which they characterised as 'another stumbling block' obstructing the achievement of goals such as the provision of better homes and roads. But they, too, do not consider the performance of the land market to be of fundamental importance.[4]

Does this mean, then, that the hypothesis which explains the slumps in the US and British economies does not apply to the Japanese system? If the answer is in the affirmative, then the theory does not enjoy general significance. And if this *is* the case, do the postwar land reforms instituted in Japan provide a model to be safely emulated by developing countries?

In confronting these two questions, the first problem is to establish the starting date for any long-run economic cycle that might have operated. Economists generally agree that it took about a decade for Japan to restructure her war-devastated economy and recommence normal economic growth.[5] Ohkawa and Rosovsky, in their exhaustive study of Japanese business cycles over a period of 100 years, conclude that the period of rehabilitation came to an end in 1952-54.[6] This accords with the official view that 1955 was the year 'when the Japanese economy was about to begin its high postwar growth'.[7]

The year 1955 also fits neatly with events in the agricultural sector; the conditions were recreated for growth in the real value of land. Although rent controls still existed, these were circumvented by the black market. Tenants who acquired ownership of land under the reforms forced through by General MacArthur, the Allied Supreme Commander, were pleased with the £54m. in subsidies and grants-in-aid earmarked for agriculture. Rural incomes recovered their pre-war levels. In addition, the system under which farmers were compelled to supply a quota of their rice output to the government at controlled prices was terminated, giving farmers a freer hand to sell their produce on the black market. The government provided credit to farmers to buy land,[8] which established a buoyancy in the market for sales.

The former tenants were not slow to cash-in on the need for development land. It was in 1955, at a congress of dispossessed landowners, that the complaint was heard that

> land which was taken from them 'for the price of a sparrow's tears' was now being sold as building land at 500 times the purchase price by tenant beneficiaries in growing urban areas.[9]

And in 1955-1956 the few remaining landlords, who had suffered psychological as well as economic distress during the previous decade, disclosed 'signs of a renewed offensive . . . to get back their land',[10] the turning point in attitudes which was to prove significant in the land market.

The test of the fundamental importance of a theory or set of empirical observations is whether useful predictions can be derived. What do Ohkawa and Rosovsky tell us? They completed their study in 1972. After taking into account considerations such as the rate at which Japan was assimilating imported technology, changing attitudes of workers and the threat of protectionism against Japanese exports, Ohkawa and Rosovsky predicted a slowdown in the rate of growth of Japan's national product toward the end of the 1970s.[11] In fact, the economy was going into a nose-dive in 1973, the very year in which their book was published. And 1973, of course, is 18 years after the beginning of the postwar cycle in land values. Before seeking to establish the causal connection between land values and the performance of the economy in the downturn of the business cycle, it is necessary to trace the movements in values over the cycle.

First, agricultural land. Between 1960 and 1971, the national average price of middle-grade paddy land increased sixfold, at a compound annual rate of increase of 18.1%. The increase was on an accelerating trend, reaching an annual rate of over 20% after 1967. A study by the Food and Agricultural Organisation recorded the effect:

> Such a rise in the price of land, which has surpassed by far the rate of increase in prices of agricultural products or in the cost of living, has hindered transactions in farm land. Farmers tend increasingly to retain their land as valuable property rather than as a factor of production.[12]

As a result, there was under-use of both farm labour and capital equipment.[13] High land values also altered the pattern of output on the farm, deterring, for example, the production of beef-type cattle, and so inhibiting the full liberalisation of international trade in products such as beef.[14] The explosive rise in rents and land values, however, was not paralleled by a similar rise in the wages of farm labour. In the absence of an adequate fiscal penalty on under-used land, it paid farmers to turn into part-time urban wage-workers, sitting on their land in the expectation of future capital gains. Genuine full-time farmers received the lowest average income *per capita.*[15]

Now, urban land. Under the influence of roaring inflation, the price of land rocketed by a factor of 26 between 1945 and 1950. This, however, represented a loss in real value. During the same period, wholesale commodity prices rose by as much as 82 times. The adjustment in relative values occurred between 1951 and 1955. Land prices maintained their upward trends, while wholesale commodity prices stabilized. In September 1955 the price increase ratios of wholesale commodities and land were 326 and 325 respectively, when compared with those of 1936. The market had returned to a state of pre-war normality, and so 1955 has been used as the basic year for comparing urban land price movements.[16]

Between 1955 and 1975, income levels increased by six times.[17] Land prices, however multiplied 30 times: an enormous gap appeared between the wealth and purchasing power of landowners and the rest of the community.

The cycle of urban land prices peaked in 1973, when prices leapt 34.7% in 12 months. They then levelled off and slumped (for the first time) by 9% in 1974. The 18-year cycle terminated in a frantic bout of speculation during 1972-73: in those two years, property companies and individuals poured ¥5 to ¥10 trillion (US $25-50bn.) into speculative land purchases.

A survey by the Real Estate Companies Association of Japan showed that the supply of residential building land peaked in 1971 (2,210 hectares), then started a downward course.[18] People preferred to hold land idle in the expectation of even greater capital gains in the future.

The burden of the land market on individual households can be seen with reference to the problem of providing decent homes. Despite its phenomenal material achievements, Japan has one of the worst housed populations in the industrialised world. People live in wooden structures, cramped for want of space, and most lack basic amenities such as sewage. The Government slogan of 'one house, one family' was not achieved by the late 1960s because of the soaring price of land.[19] According to the Japan Real Estate Research Institute, the average price of urban land increased by 2,200 per cent between 1955 and the first half of 1973.[20]

Another cost to the welfare of Japanese society has been the ecological damage of the postwar years. This has generally been blamed on economic growth *per se.*[21] The distinctive contribution of land speculators has been overlooked by scholarly investigators; the link, however, has been made by journalists, and the problem can be viewed by examining a particular aspect of the land boom associated with Kakuei Tanaka.

Tanaka had enjoyed a successful career as a land developer by the time that he assumed the reins of power as head of the Liberal Democratic Government in July 1972. His big dream was to remodel the archipelago, shifting people and jobs away from the areas of high concentration and intense pollution to the more remote, less densely populated regions of the countryside. In June 1972, Tanaka published a book, *Building a New Japan*, which unfolded his plan. It was instrumental in boosting him into the Prime Minister's office. The cost of the plan was estimated at US$1 trillion, and the target date for completion was 1985. This was the signal for renewed efforts by the speculators:

> Many companies, seeking quick profits from the national remodeling, have invested so heavily in real estate as to pose a threat to the plan itself. The land-buying spree began right after publication of Tanaka's book, and it has pushed prices up by as much as fifty percent in some places. The government anticipated a twelve percent increase in land values in the fiscal year ending March 31, but prices shot up an average of twenty percent in the first half. Hideo Edo, president of Mitsui Real Estate Development Co., says with great dismay: 'In the past, increases were

> mostly in a few big cities. Now they extend from one part of the country to another.' Much of the speculation involves land earmarked for new towns and factory sites, but astronomical land prices could sabotage many remodeling projects. The land grabbing has stirred public controversy over the Tanaka Plan. During recent parliamentary elections, opponents accused the premier of personally profiting from land deals.[22]

It was all for nothing. The speculators were buying land at the top end of the 18-year cycle. They were to be denied the big profits that they sought at double-quick time, but in the process they caused ecological havoc. They chopped down forests, which dislocated water-tables and thereby reduced the level of water in the wells; and they slapped down asphalt, but weeds rather than houses sprouted.[23]

The speculative binge had spawned *tochi narikin* (the *nouveaux riches* peasants who made fortunes by selling pieces of their land). But the people who according to the Tanaka Plan were to quadruple industrial output — the families seeking larger homes in healthier environments, the retailers and entrepreneurs seeking modern, spacious shops and factories — could not fit the rents and the price of buying land into their budgets. The land stood idle.

The economy turned down in 1973, before the oil crisis struck in the dying months of that year. The speculators were caught in the classic squeeze, of having to finance the large loans which they had taken out to buy land. The bubble of inflated land prices burst. The biggest corporation to crash in Japan's history, the Kohjin Co. Ltd., had built its empire on textiles. Then it moved into land speculation in the early 1970s, and by 1975, with land valued at ¥54bn., it crashed under the weight of interest payments on its borrowings.

As for Tanaka, the popularity of his Cabinet had slumped to 20% according to opinion polls taken in April 1973. People gave the price of land as one of the reasons for their dissatisfaction with their political leaders.[24] The Prime Minister, seizing on the oil crisis which struck in November-December 1973, announced a national state of emergency. Two laws were passed to freeze commodity prices and the distribution of petroleum; the land market, however, was not blamed for the country's ills.

Tanaka, however, was to be called to account for his part in the big land boom. Earlier allegations about his involvement in shady land deals crystallised in October 1974 when a respected literary magazine, *Bungei Shunju,* published the results of its investigations. One of its disclosures was that Tanaka, on reaching the top office of the Liberal Democratic Party, had released public land as a reward to his friends, who were able to buy huge tracts at bargain prices. Another allegation was that Tanaka, a multi-millionaire, had speculated in land, which he had then re-sold to the

Government at high prices.[25] He resigned on November 26, 1974, in public disgrace.[26]

The so-called 'miracle' economy was unable to avoid the distress of the late 1970s, which was officially attributed to the OPEC oil price explosion. Economic trends are today measured in terms of the 'pre-oil crisis' and the 'post-oil crisis'.[27] The autumn of 1973 is regarded as the dividing line. Although the government's Economic Planning Agency characterises the oil price rise as 'a turning point', it fails to grant sufficient causal significance to other factors. For example, it does not come to terms with the temporal problem. If the oil price rises *were* to be of primary importance, then we must ascribe (and explain) a remarkable facility for foresight to Japanese households and entrepreneurs. They started unwinding vital parts of the economy a full nine months before the oil price rises — and well over a year before those prices started filtering through the economy in higher factor and consumer goods prices.

Yet the Economic Planning Agency's reports faithfully document all the facts to support the theory that land speculation is the primary cause of industrial slumps.

To start with, the rate of return on capital investments in Japan's leading enterprises, high in 1955, started a long-term downward trend and reached its nadir in 1972 and 1973, at which point the interest rate had become unsupportably high 'due to excessive borrowings (for such purposes as speculation in land)'.[28] In noting that 'land prices are already extraordinarily high in big cities', the agency correctly predicts that 'a rise in land prices makes it difficult for people to own detached houses' — which was linked to the fact that Tokyo, where people could not afford to buy building land at the asking prices, suffered a slump in construction of private dwellings.[29]

The cost of buying a home rose beyond the reach of family budgets in 1972-73,[30] with the result that there was a downturn in the building industry in the first quarter of 1973.[31] The government's economists were aware of the macro-economic consequences: 'Expansion of housing investment is necessary to provide demand for stable economic growth'.[32] So with the slump in construction a full 12 months before the oil price rises, the Japanese economy was destined for a recession of severe proportions whatever the decisions taken by the oil sheikhs.

Output fell more heavily in Japan than other economies. Domestic consumption showed a marked downturn in 1972, and the rate of increase in bankruptcies of firms accelerated throughout 1973 (and actually *declined* as oil prices fed through the system in 1974). Investment in plant and equipment peaked in mid-1973, while inventories accumulated throughout the year for want of effective purchasing power, when people were forced to spend more on land and housing.[33]

Thus Japan, the envy of the rest of the world, fell victim to the land tenure and fiscal system. We have seen that there was a measurable contraction in the supply of land to the families who needed homes, and to the entrepreneurs who wanted to invest their capital, and that the curtailment in activity satisfactorily explains the onset of the recession. Yet modern critics of Henry George nonetheless maintain (despite the available quantitative evidence) that such a contraction does not occur. They therefore erroneously conclude that George's theoretical system is fatally defective, and that his policy prescription 'has been justly relegated to the museum of colourful but untried ideas'.[34]

The policy of land value taxation had, in fact, been well tried in Japan in the early decades of the Meiji Restoration, and it is to this that we can ascribe the 'miracle' of the Japanese economy. For the institutions that originated in this period determined the shape and pace of the Japanese economy in the 20th century. But it is also true that land taxation did not figure in the land reform programme after the Second World War, and we now know the results of that omission.

The postwar reform sought to eliminate the despised landlords, by increasing the number of owner-occupiers (a policy orientation that can be traced back to the Hirota Cabinet of 1936). But in merely transforming tenants into owners, the 'reform' succeeded in consolidating the system of land monopoly, with the privileges enjoyed by an enlarged class. There is no such thing as a society free of landlordism, when the benefits of publicly-created land values are privately appropriated. When the fiscal system permits monopolists to exploit the land market to their advantage, society becomes the tenant of the owner-occupiers.

So it was with Japan in the postwar years. The hard work of employees and the entrepreneurial skills of managements suffered an unwarranted setback with the collapse induced by the speculative boom of 1972/73. The government, alarmed by the effects of the land market, passed a Progressive Sales Tax on land transactions in 1974 — after the proverbial horse had bolted, for land prices started coming down in that year.

The Meiji land tax had been allowed to degenerate into a system which reinforced speculation and the misallocation of land. Scarce agricultural land, for example, on which urban-based families and industries relied for expansion in that exceedingly mountainous archipelago (80% of the supply of raw land for housing development is agricultural land), was taxed at only 0.5% to 1% of the rate on residential land. The incentive, then, was for rural landowners to keep their acres ostensibly in agricultural use, while their properties appreciated inexorably in value. Then, those who mistimed their sales — having failed to off-load properties before the peak of the cycle — were encouraged to hold onto their land by the Progressive Sales Tax.[35] Why sell (if there is no fiscal inducement to do so, whatever the demands of the market) when you can postpone the transaction into the future, when the tax may be removed?[36]

The mix of tax policies and large-scale public investment in housing (designed to re-stimulate the depressed economy) ensured the premature recovery of the level of land prices, which started accelerating upwards again in 1977. The Keynesian pump priming, which began with the announcement of an extra £3bn. public sector spending in 1975, set the Japanese economy on course for a rapid return to the recession levels of 1974.

The Japanese landowners, then, like their counterparts in Britain and the USA who were rescued by governmental and central bank 'lifeboat' operations, were effectively insured against the costs of their own misdeeds. Land values were held buoyant, instead of being the most seriously depressed of all factor prices. The people of the Land of the Economic Miracle were destined to enter the 1980s in poor shape.

And so it came to pass, and the social despair could be measured in the daily Press reports of the alarming increase in the deaths of whole families. The heads of households murdered their children and then committed suicide to escape the forces which, unseen, were creating unbearable depths of anguish. The economic grief was entirely home-spun and could not be attributed to the foreign land speculators. For although some industries were opened up to foreign competition in the 1967-71 liberalization programme, real estate was designated as one of the seven 'restricted' industries. Automatic approval was granted for foreign investment only if the amount of investment per foreign investor was under 10% of the total equity of the firm, with aggregate foreign ownership of not more than 15%. The land speculation of the early '70s, then, originated as a domestic phenomenon. It was not under 1981 that Japan lifted its restrictions on the purchase of real estate by foreign investors with the introduction of Foreign Exchange & Foreign Trade Control Law.

What encouragement is this to the leaders of the poor Third World countries? If the powerful Japanese economy could not survive its 'internal contradictions', might it not be better to eschew capitalism in favour of its anti-thesis, communism? Such a conclusion is superficially attractive, but is based on a misdiagnosis of the fundamental causes of the Japanese crisis. But if the Japanese themselves, and the leading economists of the Western world, are incapable of correctly identifying the San Andreas fault in the structure of the fastest growing capitalist economy, how can we expect the political leaders of developing countries to do any better?

Notes

1 E.F. Denison and W.K. Chung, *How Japan's Economy Grew So Fast*, Washington, DC: The Brookings Institution, 1976, p. 77.
2 *Ibid.*, p. 33, Table 4-4.
3 *Ibid.*, p. 52, Table 5-1.
4 *Op. cit.*, p. 243.
5 See, e.g. Johnston, *op. cit.*, p. 306, and W. W. Lockwood, 'Japan's "New Capitalism"', in Lockwood, *op. cit.*, p. 448.
6 *Op. cit.*, pp. 20-24.
7 Economic Planning Agency, Japanese Government, *Economic Survey of Japan 1976/1977*, Tokyo: The Japan Times, 1977, p. 84.
8 Dore, *op. cit.*, pp. 304-305.
9 *Ibid.*, p. 436. Dore, who undertook an extensive field trip into the Japanese countryside in 1955-56, confirms the complaints of the ex-landords: *Ibid.*, p. 439. In 1957 the ex-landlords decided that it would be a good idea if their former tenants were heavily taxed on the profits arising from the sale of land acquired under the land reform! *Ibid.*, p. 440.
10 *Ibid.*, p. 194. See also pp. 431-443 for an account of the development of aggressive tactics by the landlord and ex-landlord class.
11 *Op. cit.*, pp. 233 and 246.
12 FAO, 'Case Study of Japan', in *Growth and Adjustment in National Agricultures*, editor: J.P. O'Hagan, London: Macmillan, 1978, p. 38.
13 *Ibid.*, pp. 41-43.
14 *Ibid.*, pp. 27, 36.
15 *Ibid.*, p. 47, Table 1.15.
16 A. Takanashi, of the Mitsui Real Estate Development Co., Tokyo: personal communication.
17 Data in this paragraph taken from 'Japan's Land Development Policy and the Real Estate Industry: Problems and Prospects', paper presented by H. Tsuboi, to the 20th Annual Congress of FIABCI, the International Real Estate Federation, 1.6.79, Tokyo, Japan.
18 The rate of conversion of farmland for all uses, including industrial facilities, roads and railways, peaked in 1970. *Economic Survey of Japan 1976/1977, op. cit.*, p. 151, Chart II-4-8.
19 P.B. Stone, *Japan Surges Ahead*, London: Weidenfeld & Nicolson, 1969, p. 14.
20 P. Hazelhurst, 'Japan's human sacrifices at the altar of GNP', *The Times*, 8.8.73.
21 See, e.g. the FAO's 'Case Study of Japan', *op. cit.*, p. 22.
22 L. Kraar, 'Japan Sets Out to Remodel Itself', *Fortune*, March 1973.
23 R. Whymant, 'Japan's rural rides back to the land', *The Guardian*, 20.11.79.
24 'Boom time for major industrial states', *The Times*, 14.5.73.
25 Another allegation, investigated by the Government's Administrative Management Agency in 1975, was that the Construction Ministry had changed the course of a river bank in Northern Japan to increase the value of riverbed land bought earlier by a company founded by Tanaka. The investigation was terminated when officials found that they could not come to final conclusions: certain vital documents were missing from the official files. 'Documents missing', *The Guardian*, 11.9.75.
26 Tanaka was subsequently charged with receiving £1.25m. in bribes from the Lockheed Corporation. In April 1980 the government took possession of land

and a country house pending payment of Y480m. (£750,000) tax claim against the former Premier.

27 See, e.g. Economic Planning Agency, Japanese Government, *Economic Survey of Japan 1977/1978*, Tokyo: The Japan Times, 1978, Ch. IV, Sec. 1.

28 *Economic Survey of Japan 1976/77, op. cit.*, pp. 94-96.

29 *Economic Survey of Japan 1977/78, op. cit.*, p. 100.

30 As a result, with the onset of the speculative boom, people reduced savings intended for the purchase of land and/or house (*Economic Survey of Japan 1976/77, op. cit.*, p. 108), despite the strong demand for owner-occupation.

31 1977/1978 *Survey, op. cit.*, p. 99, and 1976/1977 *Survey, op. cit.*, p. 23, Chart I-1-15.

32 1977/1978 *Survey, op. cit.*, p. 96.

33 *Ibid.*, p. 90.

34 See, e.g. C. Collier, 'Henry George's system of political economy', *History of Political Economy*, Vol. 11, 1979, p. 93.

35 Tsuboi, *op. cit.*, p. 6.

36 The 1974 Progressive Sales Tax was similar to the UK's betterment levy, introduced by Harold Wilson's Labour Government in 1967; it had a similar effect, of discouraging sales by landowners who correctly anticipated that a subsequent Conservative Government would remove the tax. In the Japanese case, the tax was proportional to plot size; it therefore encouraged the sale of small plots, a fragmentation of units of land not designed to create optimum efficiency.