FOREIGN CAPITAL IN ECONOMIC DEVELOPMENT: A CASE-STUDY OF JAPAN

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THE role of foreign capital in economic development is much discussed nowadays but remarkably little analyzed. The President's "Point Four" proposal in January, 1949, galvanized old hopes and new ambitions; it has attracted widespread endorsement, but also has provoked a variety of denunciations. Even among those who give general endorsement, there is an evident lack of agreement on how to implement the policy. There is at one extreme a demand that the United States simply donate the necessary capital, goods and services, as a clear gift; at another extreme is an insistence that private investors will do the job, if only all the risks of risk-taking are guaranteed away!

Foreign capital is sometimes presented as the "hero of modernization," sometimes as the "villain of the piece," and sometimes simply as the "prop-man." Even a role of the "victim" has been alleged by some parties in the advanced countries, citing the difficulties and disappointments of past foreign investing, as well as the stringent regulations often imposed nowadays.

Obviously interpretations of history vary. But it should be evident that the conditions of foreign investing have changed in many ways from the pattern that was common in the nineteenth century.[2] Some of the current controversies may be traced to a kind of psychic lag, in the form of concepts and doctrines no longer appropriate to conditions today.

There is perhaps little question of the potential technical

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[2] Where foreign development formerly "complemented" the advanced economies, nowadays it tends to be more and more "competitive." Furthermore, available funds and exportable real resources are heavily concentrated in the United States, where the values of caution and security are perhaps preponderant today. In addition, the expanded role of government, both in this country and abroad, has apparently tended—for the time being, at any rate—to constrict the channels of foreign lending, and to divert to governmental channels the demands for funds and assurances against risk.

contribution of foreign capital, as regards the productivity increases that come with modern equipment and successful organization. This is the technologic, or engineering, side. The difficulties and problems, however, lie in the broader economic and social aspects. It is my hope to shed a little light in this field by exploring the role of foreign capital in some actual historical cases, principally in the development of Japan, with some contrasting perspectives on China and India. In this way, the relevance of the historical experience to present problems may perhaps be made explicit.

The Japanese case is particularly interesting to us for several reasons. In the first place, Japan is an exemplar of the rather special and generally unfavorable conditions which prevail in many of the countries now seeking economic development. These conditions, which define what may be called an "economy of Oriental type," include : (a) an already dense population, which tends to multiply dangerously during the modernization process; (b) scarcity of resources and/or low productivity per capita; (c) a relatively late start in the world-wide sequence of industrialization; (d) an ancient culture, whose deeply-rooted values and mores offer serious opposition to efforts at modernization. Such an economy in India, China, Indonesia may be contrasted with the case of the new countries, population-empty and resource-rich, such as Canada and Australia in recent decades, and the United States in the past, and today perhaps Africa, Brazil, and others. The development process in such new countries differed considerably from efforts at modernization in countries of Oriental type. Theories and experience cannot be transferred in any facile way from the former to the "Oriental" case.

Despite the difficult "Oriental" conditions that faced Japan, she succeeded in carrying out a continuous, cumulative development. This process was only in part a planned, Government-sponsored effort; Japan did not rely upon foreign capital to take all the steps and foot all the bills; and it escaped foreign imperialist domination.

Certain features of the Japanese case were of course peculiar to that country, but many others are adaptable to the countries now seeking deevlopment. The advantages and dangers of such adaptation are part of my theme.

I. Foreign Capital in Japan

It is widely assumed that the initial stimulus to development must came from foreign capital, which is frequently expected also to support the early stages of progress—until domestic capital resources can begin to take over.[3] The poorer the resources of a country, the heavier the population pressure, the stronger the cultural resistance, and the faster the desired tempo of progress, the greater is said to be the need for external aid. But the fact is that Japan did not use a great deal of outside funds in her modernization. This is in marked contrast to such cases of successful development as Canada, Australia, and the United States, and also contrasts with such Oriental countries as India and China where advancement has been very limited.[4] The outstanding parallel to the Japanese case is found in the USSR, which obtained very little foreign capital assistance.[5]

A. In the early period of her modern career, from the Meiji

[3] Several lines of need for foreign capital during economic development may be distinguished. One of these is relief of pressure on the balance of payments, arising in the absence (or insufficiency) of a foreign exchange surplus from ordinary trade, and in the presence of importation of capital goods for expansion of productive facilities plus importation of consumer goods to meet demands newly generated by the developmental process itself; an additional pressure may arise from the service of earlier foreign obligations. Quite another line of need for foreign capital is the stimulation of enterprise even when native capital accumulations exist, if these are in the hands of persons reluctant to change old ways and take new risks. Still another demand for foreign funds may arise from the fiscal difficulties of governments operating under imperfectly integrated financial systems.

In any actual situation, these needs will be variously inter-related, so that a particular action, such as foreign borrowing by government, may serve them all.

[4] Foreign capital invested in Canada by 1900 exceeded that in Japan in 1913; and the Canadian figure for 1913 was three times that of Japan in 1929. While Canada's area vastly exceeded Japan's, her population was relatively trivial. Viner, Jacob: CANADA'S BALANCE OF INTERNATIONAL INDEBTEDNESS, 1900–1913. Cambridge, Harvard University Press, 1924, p. 299.

China, in comparison with Japan, shows two and one-half times as much foreigner's investments as of 1929. Remer, C. F.: FOREIGN INVESTMENTS IN CHINA. New York, The Macmillan Company, 1933, pp. 58–60.

[5] Baykov, Alexander: THE DEVELOPMENT OF THE SOVIET ECONOMIC SYSTEM. New York, The Macmillan Company, 1948, p. 87, p. 154.

Restoration of 1868 to the close of the Sino-Japanese War in 1895, Japan floated abroad only two moderate-sized long-term loans. These loans were issued at the very outset of this period of nearly thirty years, and totaled only 3.4 million £ sterling. In addition, during this same period Japan received considerable short-term credits and a small amount of direct investments (largely the working capital of commercial firms). The short-term credits and the long-term loans were soon repaid, so that by 1896 Japan had virtually no foreign capital obligations.

During what may be called the middle period of her development, from 1896 to 1914, Japan made much greater use of foreign capital. Bonds were sold abroad in nearly every year, chiefly National Government issues, supplemented with a small but growing amount of municipal and corporation issues. In addition there was a relatively minor inflow of direct investments by foreigners. The total amount of foreign capital entering Japan during this period was small relative to the whole increase in the national wealth, but equalled a major share of the increment in real productive facilities; and, from the viewpoint of the international balance of payments, the capital inflow permitted a 17 per cent average excess in imports of goods and services over the total exports.

The third period of this record covers the years of the First World War, when Japan obtained virtually no new inflows of capital. Indeed she carried out a substantial reduction in her foreign obligations and built up very large foreign credits through the huge export surpluses in her trade with the Allies and with her Asiatic neighbors. (The substantial parallel to India's role during the recent war is noteworthy.)

During the Twenties, Japan's chronic excess of imports reasserted itself. This was met by virtual draining of the wartime-accumulated foreign credits, plus a resumption of new foreign borrowing. The new capital inflow was marked by the appearance, for the first time, of a preponderance of business investments over Government loans, but the total inflow was still small relative to the volume of domestic investments, and was partly offset by the sizable outflow of Japanese investments into Asia and elsewhere.

During the Thirties, it may be noted, the foreign flotation of Japanese long-term loans entirely ceased, while the amount of foreigners' direct investments in that country was quite limited.

B. Taken as a whole, this is a remarkable, even a startling, record. Japan was a poor country which achieved economic development without relying on foreign capital to, so to speak, "donate" the bulk of her real capital formation. How did she do it? What were the gains and losses in not obtaining larger amounts of foreign assistance?

It should be clear that the tempo of development in Japan was not slow. The rise of national income per capita was faster than was the case for almost any other country during an equally long time-span.[6]

Nor is it true that Japan chose to forego all "non-productive" expenditures, particularly armaments.

Her ability to dispense with vast sums of foreign capital can hardly be explained by her endowment in natural resources, which was poor indeed.[7]

Nor did Japan possess at the outset of her modernization much of those fabled hoards of gold and jewels sometimes ascribed to Oriental countries. A modest "commercial revolution" had taken place within secluded Japan during late Toku-

[6] *Cf.* Clark, Colin: THE CONDITIONS OF ECONOMIC PROGRESS. London, Macmillan, 1940, chart facing page 147, which indicates that the rate of advance in Japan was surpassed elsewhere only during very short periods and under extraordinary conditions (e.g., the USSR during the 1920's). The national income estimates for Japan are confirmed by the figures on the growth of her productive facilities and the output of her various industries.

[7] Silk, coal, and a few other exportable commodities played a relatively important role in the early stages of Japan's modernization, but later were overshadowed by exports of fabricated goods. The totality of Japan's natural resources left her far worse off than most advanced countries and even many backward lands.

Japan was more fortunate in enjoying a temperate climate plentiful water-power, easy access to the sea, and the linguistic, ethnic, and cultural homogeneity of her population. But these are primarily "raw materials" for economic development: they are not exportable as such, and require "processing" before they can make a contribution.

gawa days, and this provided a nucleus for a few of the family fortunes of the later "Zaibatsu."

Some significance for our purpose may be imputed to certain "favorable historical accidents" in Japan's evolution. Especially notable is the timing of the First World War (which benefitted Japan so greatly, as already indicated). A similar factor is the general timing of Japan's industrialization, in an era when the adjacent Asiatic lands had not yet developed their own industries, while a long series of "innovations," both technologic and commercial, was available to Japan from the West. On the other hand, Japan's ability to profit from the World War I opportunities must be attributed to the development she had already achieved. Furthermore, there were offsetting *unfortunate* accidents, particularly the disastrous earthquake of 1923.[8]

Japan's small reliance on foreign capital might perhaps be traced to an inability to attract larger sums. Of course, this is impossible to prove or disprove. However, it seems unlikely in the Japanese case, in view of the large international flows of capital that went on throughout the world during those years, the excellent Japanese record of no defaults on interest or principal, the ease with which actual flotations were taken up and the entirely normal interest rates and bankers' commissions that were charged.

There does appear to have been a certain reluctance among the Japanese to borrow more heavily abroad. Contemporary statements at various times in her development reveal a fear of extensive foreign indebtedness—sometimes a fear of political or economic subordination (admonished by the example of China), sometimes a dread of inability to service a heavier debt.

This leads us to inquire whether the Japanese had no real need of additional amounts of foreign capital. From the viewpoint of the deficit in the balance of international payments, the need appears to have been serious indeed. With the exception of brief periods, the Japanese economy was constantly pressed

[8] Necessitating a vast reconstruction program to which must be ascribed much of the foreign borrowing of the 1920's.

to find foreign exchange to maintain necessary imports and to meet the service on existing foreign obligations.[9] On the other hand, we must reckon the "capacity to absorb" additional foreign capital. The process of economic development does not appear to be "free," in the sense that simply unlimited sums can successfully be put to work. Limitations appear in the form of technical sequence (for example, goods cannot be exported until transportation has been provided); development also requires institutional and psychological transformation of the old order, involving much time and experience; and still another limitation is the threat of inflation when a given amount of foreign capital investment induces a great deal of domestic investment in producer goods (instead of consumer goods). Foreigners' investments must thus be geared to the internal process of development, and must be geared especially to domestic savings and investment, as I shall try to show in a moment.

The basic reasons why Japan was able to develop with so little foreign capital assistance, appear to be: first, that she made careful and effective use of such foreign capital as was obtained; and second, that she made careful, effective and *exhaustive* use of domestic capital potentialities. The entire process of development depended upon these two measures, and its success promoted and sustained these measures. In countries where these steps are not taken, the developmental effort, including the so-called "stimulus" of foreign capital injection, tends to dwindle away to nothing. The case of China, contrasting with the record of Japan, illustrates this principle in painful detail.

C. We come therefore to the measures of the effective use of foreign capital in economic development. The most important of these measures relate to the balance of international payments, the importation of capital goods, and the character of the foreign capital inflow.

[9] This pressure is attested by the ominous drain of specie holdings, from 1905 to 1913, and from 1920 to 1929.

As regards the international accounts, long-term foreign capital may be expected to close a trade gap which is due to the strains of a long-run development effort. The success of that effort will provide service of the transferred capital, and is indeed the best guarantee of safety for the investment; conversely, if long-term capital is used for current consumption without development of production, service of the obligation becomes progressively more difficult, default is very likely, and further investment inflow will cease.

It appears that the Japanese trade deficits did not result from an indulgent policy on consumer goods imports (such as we have seen recently dissipating the wartime credit accumulations of several South American countries). Indeed, the Japanese restrictions on improvement in mass welfare were very severe—so much so as commonly to be labeled "exploitation." Nowadays, however, we dignify much the same procedure with the title of "austerity," in the planning for rehabilitation of post-war Britain as well as occupied Japan.[10] It appears, in fact, that Japan's persistent international deficits resulted from the requirements of industrialization itself, whose reach must always exceed its grasp—at least until considerable economic maturity is attained.

Among the factors contributing to the import pressure, the element of capital goods imports deserves closer attention. Imports of such goods (comprising both equipment and construction materials imports) ran between 12 and 16 per cent of the total imports; but the real relative magnitude of capital goods imports bulked still larger, when measured against "retained imports"—since the total importation was so greatly inflated by raw materials for fabrication and subsequent export.

The character and timing of Japan's capital goods importation reveal how skillful management can reduce the burden and enlarge the net contribution. It would take us too far afield to specify this in full detail, but it may be stated briefly that

[10] Some qualifications of this analogy must be entered, as regards the differences between a short-run and a long-run program, and as regards the care for the incidence of the "austerity."

the burden of capital goods imports was minimized in Japan: (a) by avoiding heavy capital-intensiveness where possible, through technologic substitution in some industries[11] and through simply avoiding or deferring other industries;[12] (b) by emphasizing industries of relatively short "maturation"[13] and further hastening maturation by Government pioneering; (c) by stressing export-industries. On the other hand, the Japanese accepted dependence upon imported capital goods; they did not attempt (as proposed in the Bombay Plan for India, for example) to eliminate all reliance upon foreign equipment in the earliest stages of development through the creation of a costly, possibly inefficient, and probably premature domestic capital goods industry. Furthermore, the Japanese accepted the necessities of developmental sequence, notably the need to undertake transport expansion quite early, despite the heavy capital-costs and slow progress of railroads, shipping, and harbor-improvement.

The foregoing discussion of industrial emphasis has ignored so far the channeling of the foreign capital and the different effects which correspond to the various channels. The fact is that the Japanese sought their foreign capital in the main, (at least until the 1920's), through the intermediary of the Government, and in the form of bonds sold to foreign private investors. This pattern contrasts with the entrepreneurial investments which have predominated in China and Southeast Asia.

Even the Japanese private business flotations abroad were mostly associated with Government, and these too were predominantly loan rather than equity investments. Direct investments in Japan were not particularly discouraged, by any specific obstacles such as are imposed nowadays by the corporation laws and foreign-exchange regulations of many countries (requiring participation of native capital and personnel, or

[11] E.g., the use of electric power from small hydroelectric installations, in place of individual steam-power plants which must be large for technical efficiency and are subject to chronic excess capacity. A related example is the adaptation of small-scale industry to modern processes through the putting-out system.

[12] E.g., modern residential construction.

[13] Notably the textile industry.

restricting transfer of profits and principal). Nor can the Japanese Government's subsidization policy be blamed for the lack of foreign entrepreneurial investment in a number of fields. During the 1920's both private rentier and private entrepreneurial investments in Japan, responding to the greater foreign knowledge of Japan and confidence in her future, did increase markedly, to the point of exceeding the Government's new borrowings. Up until that era, foreign entrepreneurs simply showed little interest in the kinds of opportunities available in Japan.

As a result of this pattern, at least in the earlier years, the Government was free to utilize the available foreign capital in accordance with the dominant Japanese ideas on national development. These called for concentration on industrialization, on food production, and on sources of invisible income. It is true that political considerations also dictated some investment in fields which were slow to yield returns, if not actually "un-economic"; some examples—which are not beyond debate—are the iron-and-steel industry, the State arsenals, and the sugar-growing industry of Formosa. But this was perhaps a small economic price to pay for the freedom to devote the bulk of the foreign capital to uses of the highest marginal productivity—judged not merely for specific enterprises at a given time but also in terms of the economy as a whole over the long pull. In particular, there was great success with the technique of Government industrial pioneering, including the importation of equipment and technicians for constructing pilot plants which afterward were turned over to private interests at very attractive terms. This technique served not only to circumvent the reluctances or actual resistance of older vested interests, but also spread the risk of failure over the entire State, attracted the more venturesome elements in the public, and showed the way to other private interests who in many cases could then enter the new field on their own. In effect, these Government measures not only allocated resources directly, but also promoted the mobility necessary for transforming the private allocation of resources.

Government borrowing also served other purposes of a more familiar kind. It permitted borrowing at a time when foreign capital was very dubious about direct investments in Japan. It provided for the concentration of loans at times of greatest need, which are not necessarily the times of the greatest interest by private foreign investors—indeed the reverse is often true. It facilitated expansion in important fields like health, education, and subsistence agriculture, where private profit is either not feasible at all, or is not large enough to attract direct foreign investments. While governmental borrowing incurred a fixed burden of interest and amortization charges, it avoided the high rate of return exacted by some foreigners in their direct investments in China, India, the Netherlands Indies, and the like.

All this is not to deny the great worth of private entrepreneurial investments in certain lines. Such investments bring with them the close and sustained interest, ability, and supplementary resources of the foreign management. This factor is of greatest importance to the under-developed countries for enterprises which are intricate and subtle in either the technical or the commercial sense.

However, in those parts of the Far East where entrepreneurial investments have predominated over portfolio investments, the record to date is not encouraging in general, and is particularly discouraging as regards its influence upon domestic savings and investment. China provides virtually a classic case. Total foreign investments in that country were three times as great in dollar amount as in Japan (although only half as great on a per capita basis), and were chiefly business investments. Yet economic development in China lagged badly. Part of the explanation must be found in the character of those business investments. They were largely, although not wholly, in the fields of international banking and commerce, fields which contributed little to the improvement of productive capacity.[14] The remittance of profits on the average exceeded the inflow of new

[14] Indeed the destructive effect on traditional handicrafts was ruinous in many areas.

capital.[15] Modernization was concentrated in the coastal cities; few benefits reached the hinterland, while dislocative effects were transmitted powerfully. More broadly still, the foreigners had little interest in promoting native savings and investment, or any competing native enterprises. On the other side of the ledger, we must enter such benefits to China as the examples of modern enterprise, the training of a class of Chinese business-men (through the comprador system), and the establishment of islands of peace and security for business property in the concession cities.

This comparison of the Japanese and Chinese records suggests that when the native government is feeble or inert, foreign entrepreneurial investment may be the preferable means, indeed the chief hope, of modernization. But this kind of investment will lead to a general economic development only if many other factors are favorably disposed. Conversely, if the native government is dynamic, it may seek a freer hand through resort to Government borrowing abroad. If this can be done successfully, foreigners' direct investments may be welcomed only on stipulated conditions or in limited fields. In this perspective, problems such as fixed interest charges or the rate of profit remittances appear to be subordinate to the paramount issue of resource allocation for economic development.

II. Domestic Capital Formation in Japan

We come finally to the question of the total dependence upon foreign funds, and how this was minimized in the Japanese case, by substantial domestic capital formation.

The possibility of increased national savings arises from increases in the national product. This is only to say that a successful industrialization, once initiated, is potentially *capable* of rising by its own bootstraps. In Japan, the increments in national product were not wholly consumed. In the terminology of economics, "the marginal propensity to consume" was held down, so that the rate of national savings was substantial.

[15] Remer, *op. cit.*, pp. 170–171.

The institutions which fostered this process provide some useful suggestions and also some strong warnings for the future.

Not all the national saving was compulsory. Voluntary saving was promoted by the peace and security which prevailed within Japan, by indoctrination in the virtues of thrift, by provision of attractive facilities for small as well as for large savers, by the high rate of return offered in deposit institutions and the even higher returns extended to stockholders, by the inheritance system of primogeniture which prevented dissipating large fortunes, and in general by the encouraging influence of the very economic expansion itself. The "Protestant ethic" which Max Weber pointed out in the West, may here be observed in Shintoist Japan.

The procedures of forced saving were somewhat more devious. A foremost factor is the low wages associated with the massive increase in population which took place in Japan during her modernization.

The marked concentration of income was a related factor promoting the propensity to save, especially because the upper-income classes deliberately limited their personal expenditures, in order to re-invest in their business enterprises. Concerning the origins of this practice, a Japanese chronicle relates that:

> . . . the principals of the six Mitsui families were made to serve as clerks in their childhood in order to learn the trade. To these six families were allowed certain fixed sums of money every year to meet the expenditure on clothing, food, and daily necessaries, and they were strictly forbidden to waste money in excess of these sums. Such being the case, even the seniors of the six families were not in a position to have all things their own way. If any of them refused to observe the family regulations, he was immediately forced into retirement and his name was struck off the list of the families.[16]

Another device of forced saving was the system of discriminatory taxation. Broadly speaking, the heaviest tax burden

[16] "The Origin of the Mitsui Family" in the YEDO KAISHI, Vol. I, No. 5; cited by Honjo, E.: The New Economic Policy in the Closing Days of the Tokugawa Shogunate. *Kyoto University Economic Review, IV:* No. 2, December, 1929, p. 62.

was placed upon the agricultural community (from which little direct achievement in real capital formation could be expected); conversely, taxes were quite light upon the industrial sectors which are expected to do their own capital formation through the reinvestment of profits.

Still another form of forced saving was the promotion of exports, which were facilitated, as already suggested, by the indirect effects of population pressure and low wages, and were deliberately aided by industry associations, by semi-Governmental banks, by Government direction and, in quite small degree, by Government subsidization. The Government also protected certain industries from foreign competition, the principal device being the system of tariff rates which were low or zero on raw material imports, moderately high on goods competing with Japanese products and very high on luxury goods even when not directly competitive. Similarly, the Government's ruthless policy of suppressing any substantial unionization movement had the incidental effect of restricting pressure for higher wages and restraining any larger domestic consumption of the national product. This in fact is only one aspect of the general Japanese policy of dictation from above, resisting any democratization steps which might have retarded the industrialization.

Parallel to this whole system of saving is the channeling of the national savings into productive investment. Indeed many of the factors which promoted saving in the first place also served to direct those sums into real capital formation. For example, the taxation structure not only restrained the consumption of the masses, but encouraged the wealthier groups to place their savings in industrial enterprise, and also provided the Government with the funds to initiate and assist productive enterprise. In addition, a number of specific investment institutions might be noted. The savings deposit institutions, which in our own country are seriously deterred from making equity investment, were in Japan closely tied into the industrial system (through Government regulation and through links to the

Zaibatsu), so that funds flowed almost inevitably into industrial expansion. Similarly, the corporations were tightly held by insider control, which generally followed a policy of moderate dividends and substantial reinvestment of profits. Where these institutional channels did not suffice, the Government stepped in directly with various forms of "forced investment," of which the *goyokin* (Government loans levied on rich merchants in the initial Restoration days) are a famous early form.

Underlying these specific arrangements was the vigorous growth of an "investment psychology," contrasting with the "trading psychology" which dominated the pre-modern period and which still dominates the economy of China as well as many other retarded regions of the world.

III. Summary and Conclusion

In conclusion, I should like to stress certain implications of the Japanese experience with regard to the dependence of economic development upon foreign capital. These generalizations rest upon the relevance of the Japanese case to other cases of development, and in particular its relevance to other economies of "Oriental type." Quantitative deductions are not precluded,[17] but the most striking implications are of the qualitative and institutional type.

Our first step is to summarize how the Japanese met the major "controlling factors"[18] which govern the developmental process. A close study of these factors in any specific case, and their movements as modernization advances, may give the key

[17] In order to demonstrate the actual quantitative relations in the Japanese case, and to apply them to other similar cases, it would be necessary to provide far more detailed data than is permitted by the space at my disposal here.

[18] A partial list of these factors includes: the desired tempo and type of development; the local pattern of resources; the requirements of sequences and complexes; the availability of and the dependence upon imported capital goods and techniques; the adjustments of optimal productive scale to the size of potential markets; the induced (indirectly-generated) pressure for consumption imports; the inflationary stimulus and threat; the availability of offsets to both international deficits and domestic inflation; the inertia of existing allocations of resources and the resistance of both vested interests and cultural conservatism; the institutional dispositions regarding the role of private enterprise, foreign enterprise, political democracy, and demands for improvement in the standard of living; the actual momentum of progress; and, last but not least, the interests and preferences of foreign investors.

to a crucial problem in developmental efforts: namely, how to measure the course, prospects, and wisdom of an on-going process. Such criteria should come from an articulated theory of development, and indeed of secular dynamics in general. Lacking such a theory as yet, it may prove fruitful to carry the factor-analysis suggested here into a wide variety of comparative cases, historical and contemporary. The present paper constitutes only a preliminary step in that direction.

In Japan, a rapid tempo of development was sought by virtually all Japanese groups holding power of decision—with the single major exception of certain agrarian interests. The desired type of development was Westernization of the economy—except in consumption patterns; and this meant, more narrowly, industrialization and commercialization together with self-sufficiency in food production within the Empire. Economic autarchy was recognized as impractical for a country in process of development, quite aside from the limitations of natural resources in the Japanese case. Appropriate markets, especially in nearby Asia, were explored and seized by commercial as well as military means. Dependence upon imported capital goods was accepted, but was minimized by prudent decisions. Consumption demands, generated by the developmental process itself, and portending either increased imports or domestic inflation, were severely repressed by voluntary and forced saving, including a vigorous exportation policy and a moderate degree of domestic inflation. On the other hand, some improvement in consumption did occur, to a modest degree consistent with needed incentives and the successful expansion of national output. The inertia or actual resistance of the *ancien regime* was overcome by Government pioneering, by cooperation between Government and private business, and by foreign capital (in the form of loans rather than direct investments). Dependence upon foreign capital was considered undesirable in principle, but in practice there was a moderate amount of outside borrowing—implemented by foreign equipment and techniques, the services of foreign technicians, and many Western methods of business organization. Westernization did not extend, however, to the norms of political democracy, labor organization, the worth of the individual and the maximum immediate improvement of his material welfare.

These are some of the decisions which the Japanese made, explicitly or implicitly, regarding the problems that face *any* under-developed country, especially under Oriental conditions. Many of these decisions are decidedly unpalatable; and indeed some of them may be avoided in part, if not altogether, by a larger measure of foreign assistance. But foreign assistance too has its limitations and its dangers.[19] In the present outlook, the "Point Four" program holds out great hopes for the long run, both for enlarging the scope of foreign assistance and for minimizing its drawbacks. But it would be folly to expect elimination of the basic constraints of scarcity and immobility, or the limitations involved in necessary priorities, internal social transformation, and re-integration into the world economy. These constraints and limitations confront not only the under-devel-

[19] Space permits the reformulation of only a few of the general issues to which the Japanese experience is relevant: (1) Consider the problem of basic activities like primary education or road-building, whose expansion is essential to the success of a general development program, but whose prospects for private profit are meager if not indeed zero. A program relying exclusively upon private investment of the "individual-project" type, whether internal or international, would probably be a disappointment not only to the under-developed country but even to investors in some projects that seemed to promise high direct profits. (2) A fear of imposing fixed service charges may lead to rejection of international borrowing in favor of direct investment; but there is no clear evidence that the burden of high profit remittances is any lighter than the burden of loan service, nor that profit remittances are in fact correlated with easiness in the foreign-exchange account. (3) Still another example may be taken from the dilemma of consumption-versus-inflation: the assisting country risks involvement in a difficult choice between providing a prolonged flow of consumption goods, on the one hand, or on the other, insisting on austerity despite the clamor for improvements in welfare. (4) A final illustration may be taken from the controversy over government guarantees for foreign investments: it is quite possible that there will be no great stimulus to private overseas investing in many areas, unless the guarantees virtually underwrite all risks and assure substantial profits. Where it is necessary to supplement direct private investment—as to volume, continuity, or fields of investment—a possible solution may be drawn from the Japanese example: much of the foreign borrowing being done by and through governments, while the lending may be sought largely from private sources.

Some of these dilemmas have already appeared in the administration of the Marshall Plan for Europe. They appear in still more acute form in the current discussion of "Point Four." They are not insoluble, but they must be faced. If the form of solution must be a compromise of means and ends, valuable suggestions may be found in the relevant historical experience.

oped countries but also the advanced countries which are expected to give cooperation and assistance. There is much to be learned—to adapt and to avoid—in the Japanese methods of development and, in particular, the Japanese deployment of foreign capital.