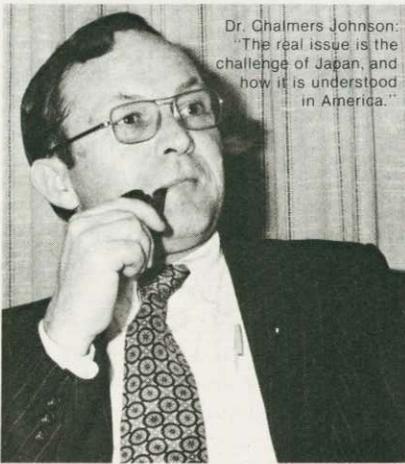
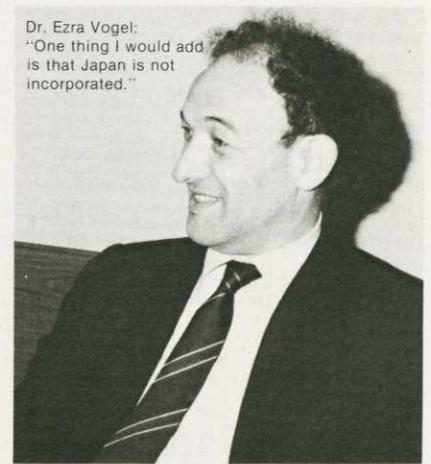


Noted American Japanologists Dr. Ezra Vogel (professor of sociology and chairman of the Council on East Asia Studies, Harvard University) and Dr. Chalmers Johnson (professor of political science, University of California, Berkeley) met recently in Tokyo to discuss the problems and prospects that confront Japanese and American industries both from within (structurally) and without (vis-a-vis government and competition).

Although both men have written widely on Japan—Vogel in *Japan's New Middle Class* (1971), *Modern Japanese Organization and Decision Making* (1975), and most recently *Japan as Number One* (1979) and Johnson in *Conspiracy at Matsukawa* (1972) and *MITI and the Japanese Miracle* (1982)—the *JOURNAL* sponsored this meeting of minds in order to provide readers with a look at where and how these two well-known scholars agree and disagree on the important issues that affect the present and future of industrial progress in Japan, America, and the world.



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"The real issue is the challenge of Japan, and how it is understood in America."



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The Meaning Of the Japanese Experience

Dr. Chalmers Johnson: The real issue is the challenge of Japan, and how it is understood in America. This challenge re-opens a whole series of questions, understandings, and subtle procedures in capitalist economies that the Americans have tended to believe were sacrosanct. Japan has some different arrangements, and in my view, these are critical to Japan's very genuine success.

I believe that this success is not temporary, not based upon a set of passing or fragile conditions that have served Japan. One of the first questions that always comes up is "Is Japan's success really due to various forms of 'free ride?'"—on the American market, on defense, or on a set of international trade institutions that Japan had no great part in creating, e.g. GATT, the

IMF, fixed exchange rates until 1971, and so on. I think it is clear that Japan's success was based not on any free ride but rather upon what is commonly called "industrial policy."

It is not essentially a matter of the government being in or out of the economy—the government is in all economies. The issue is how it is in, how it is understood, how it is defined. Perhaps the greatest danger in looking at Japanese industrial policy is to believe that the government is all-powerful here. It's not all-powerful. Japan is not a controlled economy.

In Japan it is recognized that the state explicitly has a function to attempt to influence these structural changes, and that it may use market-conforming methods, incentives and dis-incentives, to this end. Japan certainly does not have an unblemished record in this sphere, but they have worked at it longer and harder than almost any other advanced industrial society.

Dr. Ezra Vogel: Japan has a very intelligent modern mercantilist policy that is mixed with a healthy form of capitalism which has indeed succeeded for the reasons you mentioned, and a relevant aspect of that policy has been the promotion of a healthy domestic economy. During Japan's immediate postwar period, there was a severe exchange problem, partly because of the need to get as much technology into Japan with a minimum of foreign hardware. A historical pattern emerged: Japan would buy one single model of a particular type of machinery with its technology, and would thereafter try to produce it all domestically. Or technology would be licensed; a foreign brand would be allowed to get established in Japan on the understanding that a lot of the technology would be passed over.

It is a historical fact that at certain critical developmental stages, where Japanese industries were just getting established, Japan was in fact closed. To suddenly say that Japan is open at a time when it has the most competitive control in that sector at that moment is not the same as saying that it has always been free and open. While there has been very considerable liberalization, there are still remnants of protectionist thinking and instinctive efforts to prevent any mass purchase of foreign industrial products. There are a lot of things that Japan could do that would greatly increase American willingness to keep its market open to Japan.

“**T**he Japanese government's industrial policy is published. Any citizen can buy it at the corner newsstand.”

Johnson: There has been an enormous shift in Japanese industrial policy over the past decade. It's not just a matter of market-opening; it is recognizing that Japan is itself being overtaken in the capital-intensive indus-

tries that industrial policy pioneered in the 1950s. Hence the shift to ever higher value-added, so-called knowledge-intensive industries. The industrial sector is pretty open today. An area where there is a degree of much more subtle closure in Japan is in the area of services.

Industrial policy means a certain degree of planning and programming in the economy. On the other hand, one of the things we mean by "planning" is consistent, long-term government policies that are known and publicized, so that private sectors in the economy know what the government is going to do and can adjust to it. The Japanese government's industrial policy is published. Any citizen can buy it at the corner newsstand.

What is called the Economic Planning Agency in Japan is in fact an Economic Propaganda Agency, a hortatory body if you will. All of its plans were overfulfilled until the oil shock, and they have all been underfulfilled since. Before the oil shock, the EPA was encouraging people by their success in overfulfilling plans, and since the oil shock, they have been setting their plans a little high to try to get people to work harder. If you call Japan's industrial policy "targeting," I'd say the U.S. government has pursued an extreme form of targeting in the defense industries.

Vogel: But there is a big difference between the purpose of defense-related targeting in the U.S., which is to make the best product for a specific mission, and that of the Japanese industrial technology policy, which is to help make the most competitive industry. In Japanese technology policy, the interest of the target sectors and producers is in engineering quickly and cheaply, which is really quite different from U.S. defense policy. Japan doesn't drain people away from competitive private industry for public purposes which have only an indirect payoff.

Johnson: I think the fundamental defense issue is the differences in R&D policy. When America draws so much of its relatively scarce engineering talent into military industries, and uses its very large engineering establishment in civilian industries, I don't care how many Nobel prizes Americans win, in another decade or so, the two economies are going to divide and the danger is that the U.S. will end up producing ICBMs and soybeans, and Japan will produce everything in between.

Japan has gone an awful long way toward opening its market, and Americans have got to acknowledge that. The areas in which it remains very severely restricted are mainly agricultural. Agricultural policy is not unpolitical in any known country.

Japan is already the world's largest importer of food of any nation its size, and in fact there is more sown acreage in the U.S. to feed Japanese than there is land in Japan. I am not convinced that it would be wise for Japan to totally destroy what agriculture it has left. Instead, Japan ought to start choosing a little more carefully. Rice has been protected in some fashion since 1920, and I believe it ought to continue to be protected, but whether beef ought to be is an open question. Japanese didn't eat beef before the Meiji Restoration and they couldn't afford it before 1945. And we all know that if beef were opened up, it wouldn't serve only U.S. interests.

Vogel: There are still market-access problems remaining in Japan which go far beyond just agriculture, and it is these irritants that are going to provide the strongest fuel for protectionism in the U.S. I don't know whether Japan has the political will or clout to do something about it, but it is certainly in Japan's interest to do more than it has.

Unfortunately, in Japan, the belief is that you can solve those problems simply by explaining yourself in the U.S. I think there has now been such an erosion of confidence in what the Japanese say that until Japan demonstrates good faith by buying in areas where America is still competitive, Japan is not going to get any credibility in America.

Johnson: There is also the danger that Japan will fall back on the old cultural argument, i.e. that Japan is unique. All cultures are by definition unique. If Japan focuses on its uniqueness, that suggests there is no common ground between Japan and the other countries, and that is as good an argument for slamming the door on Japan as it is for attempting to learn from Japan. It also fails to appreciate the genuine institutional contributions Japan has made to capitalist economics. These contributions cut across a wide range of things; institutions such as the Japan Development Bank, the Japan External Trade Organization, the Agency for Industrial Science and Technology, or the well over 100 public corporations in Japan for assisting high-risk or refractory areas. But none of this should be confusing to Americans.

“Japan is not incorporated.”

Vogel: One invention of the Japanese government that deserves more interest is the competition between bureaucracies in the economic area. The usual way of government thinking has it that it's a waste to set up two competing research centers. For a private firm to have two competing departments is acceptable, but not the government. Yet I think a lot of the dynamism in the computer field in Japan can be understood in the competition between NTT and MITI.

Johnson: Indeed, the greatest threat to a bureaucrat's security in Japan comes not from the private sector or from politicians but from other bureaucrats. And they know it. I think it's worth stressing here that Japan has a very different political and institutional structure. You have in Japan this very elite, meritocratic public service that draws the top 3% of the best law school in the country. It's a very prestige-laden, intrinsic elite. It's not easy to find talent of that sort in the U.S. government. The only one place in the government that draws that kind of talent is the antitrust division of the Attorney-General's office.

Vogel: To be fair, that kind of talent also exists in Senate aides, in certain White House staff, in the Justice Department, and in certain parts of the State Department. One thing I would add is that Japan is not incorpo-

rated. There is a difference between national policy on the one hand and the desires of the national bureaucracy and local interests on the other. This is true not only in agriculture but in the industrial sectors and in regional bureaucracies as well. If it were just the top-level bureaucrats making the decisions, the market would be opening much more easily because they know it is in the national interest to have a much more open policy. But the lower bureaucrats, who are in charge of a certain sector and are, after all, judged on that sector's performance, have the temptation to cooperate with industries by helping to prop up operations that might otherwise be ailing.

Johnson: But let's recognize that the Japanese government is offering these firms alternatives to the traditional protectionist outlook, whereas in the U.S. we desperately need to offer our trade unions some alternative to protectionism. People are losing jobs. They've got to have an answer. But the only answer they have come up with is protectionism. Too often the U.S. political and bureaucratic sectors are servicing this desire rather than arguing with them. I find it very impressive that the vice-minister of MITI said the other day that he would not favor anti-dumping suits in order to protect the so-called depressed industries in Japan such as petrochemicals and aluminum smelting. There are measures for the strategic retreat of these firms that the government has enacted, but the government has said that those who don't want to pursue them don't have to.

Vogel: The thinking that led to such great Japanese success by protecting future industries is not an idea that dies easily here just because liberalization begins to take place. Indeed, the historical pattern since the 1960s has been for Japan to open its markets only when it had to, as little and as late as possible, and for a lot of special interests to find ways to postpone and retard full liberalization.

Johnson: I agree that these psychological and political elements exist in Japan, as they do anywhere else, but protectionism against Japan will not work for the U.S. if for no other reason than the fact that our export dependency has doubled since 1970, from 4.5% to today's 8%. One in six jobs in America is now dependent on foreign sales, so we are not going to go in a protectionist direction with the obvious retaliation that this would lead to.

Vogel: The structural changes that are taking place in the U.S. economy are of a bigger scale than we had before in an equivalent time period. When textiles moved to the South or from the U.S. to other countries, there was a moderate amount of unemployment. But the combination with a loss of U.S. competitiveness and changes in international demands and industrial structure has caused the greatest structural dislocations that American heavy industries have ever experienced. The usual way to approach these things in the U.S. has been through letting the so-called "free economy" make the adjustments. Yet the scale of adjustments that are required now are such that it is not easy for individuals to handle. Our temporary solutions since the thirties have been to meet dislocation with welfare policy rather than basic, economic structural policy. However, dis-

location such as the Sun Belt shift has been so big that it simply does not make sense to handle it in the traditional ways. We need to consider the level of people's anxiety about the reality or the possibility of unemployment. Not only do we have 10% unemployed, but we also have another 20% or 30% who say that they face the possibility of being laid off in the near future. These people are calling out for some broader kind of net than just a welfare net; one that will look after the economic well-being of the nation.

“If the Japanese challenge is understood correctly, it may well turn out the best thing that has ever happened to the American economy.”

Johnson: What in the U.S. is a chaotic and ad hoc occurrence called “the shift to the Sun Belt” is in Japan subject to genuine, explicit industrial relocation policies to deal with depressed areas as well as areas that are attracting industry. Tokyo is still one of the most overcrowded, polluted, and difficult places to live in, yet at least the problems have been addressed here, whereas in such American “problem cities” as Youngstown, which is suffering badly from the enormous social costs of this Sun Belt shift, they are not being addressed.

In Japan there is explicit commitment by the State to use market-conforming methods not to control the economy but to bring about the kind of structural changes that are needed to build into government policy such criteria as dynamic comparative advantages, the changing nature of the labor force, export potentialities, and environmental concerns. The kind of criteria present in American postwar economic policies have been mostly antitrust concerns oriented purely to domestic competition, the consumer price index, and full employment regardless of what kind of employment. The U.S. can change these criteria, but the dangers and obstacles in doing so are gross political manipulation, lack of coordination, and the fact that the U.S. has a federal structure. There are states with industrial policies which are trying to attract businesses with quite explicit incentives. These issues are beginning to be addressed in the U.S. today, and indeed the challenge of Japan may well benefit America if certain dangers can be avoided. These dangers are protectionism and continued focusing on what is perceived as Japanese international irresponsibility. There is a danger that Japan may be made a scapegoat for American failures. Even if Japan did everything that America demanded, the American economy would still have long-range structural problems. The real problem today is that Japan has a coherent industrial policy and the U.S. doesn't. Even if you destroy Japan's industrial

policy, that is not going to solve the long-term problems of the U.S. economy.

Instead, we need to find new ways to develop the American economy. If one looks at the problems of rapid economic development in a capital-starved country, the idea of the *keiretsu*—industrial and financial groupings—was a brilliant device for rapid economic development. This has meant that Japan's semiconductor industry, computer industry, and so on could begin to penetrate markets without being totally constrained by having to show immediate profit. While you're quite right that that will make for a very difficult competitive situation for firms that do not have these advantages, my answer is that we could rewrite the U.S. antitrust laws overnight in such a way as to produce concentrations of the sort that are needed. The American semiconductor industry is characterized by an unparalleled R&D capacity, but it is also characterized by firms that are so small and so undercapitalized, they can hardly ride out an ordinary recession. By contrast, their Japanese competition is invariably part of such large financial groupings, that they could probably ride out the Great Depression. The U.S. is perfectly capable of putting together conglomerate firms that have an industrial purpose rather than an essentially financial purpose.

Vogel: I don't think those things in Japan are limited to *keiretsu* firms. I think that large banks have relations with firms in which they are willing to make long-term investments in firms that operate in certain periods where there is not enough capital in society, and that it may have been only the large *keiretsu* and government-backed basic industries in certain priority sectors that could afford the investment. But Japan now has a very rich economy with very rich banks willing to support companies having considerable promise.

Johnson: One of the structural advantages that Japanese corporate managers have is that they get their financing from a bank, and that is different from a stockholder. And, although you might be able to talk your stockholder into carrying you a little ways down the road, you'll never convince the securities analyst, who is indeed the terror of the American businessman.

One of the most interesting complaints that one hears from the semiconductor industry in California is that the big American money-center banks won't lend to them because the banks claim they are too highly leveraged. And yet these same American banks will turn around and lend to some Japanese firms that are among the most highly leveraged on earth.

Unfortunately, the American economic paradigm has tended to believe that the long run was merely a series of successful short runs; and if you manage the economy successfully in the short run, you don't need to worry about the long run. That worked fine for the U.S. only until the mid-1960s. We now know that there are long-term structural problems that the market is not adequate to handle effectively in advanced, capital-intensive industrial economies with mammoth firms having huge capital investments and thousands of employees. If the Japanese challenge is understood correctly, it may well turn out to be the best thing that has ever happened to the American economy. ●