

Hard Decisions Time

By Haruo Shimada

There are a number of areas where the standard perception (read "stereotype") of Japan overseas differs markedly from the way we perceive ourselves. Not long ago, for example, I was at an international conference where the participants were debating the strategic intent of Japan's policy of promoting exports, keeping its own markets closed to imports, and investing the resulting trade surplus overseas so as to enhance its international presence. It was all very interesting in the abstract, but there were three major points of divergence from ordinary Japanese perceptions.

First is the idea that Japan is making great profits on its exports. That may be true in the aggregate, but people have been putting in a lot of overtime at the companies that are doing well in overseas markets, and the feeling even among these people is not so much that they are making a killing in trade as that this trade is going to kill them.

Second is the idea that the Japanese market is closed to imports. About the only industries where the market can reasonably be said to be closed are agriculture and distribution, and paradoxically both farmers and distributors are having a hard time of it now. There is certainly no feeling of making great profits from closed markets.

And third is the idea that Japanese money is going on a global investment binge. For most people, their main investment memory of the past several years has been the fact that real estate prices have gone out of sight and that housing is one investment that they cannot make.

Herein lies the irony of Japan's success. What are its causes? The first cause is to be found in the fact that our institutions have been unable to keep up with the rapid flow of history. Having implemented agrarian land reform and tax reforms in support of the effort for postwar recovery, Japan found that it was quite successful in protecting the livelihoods of farmers and other ordinary people. Yet the very

systems and institutions that were so successful in the war on poverty have become counterproductive now that Japan is no longer poor.

The law governing real estate rental sought to protect poor people who were renting by guaranteeing their rights for 50 years. Yet that law now works to impede the availability of property for sale, to restrict supply in the face of burgeoning demand, and hence to drive real estate prices up—having the perverse effect of working against the interests of the very people it is intended to protect.

The second cause is to be found in Japanese industrial relations. During the postwar recovery, labor cooperated with management to ensure that the company was competitive with technological and other advances and that this competition was a major source of productive energy. Yet as Japanese firms have gone global, this fierce competition has gone overseas and is seen as posing a dangerous threat to competitors in other lands.

Third is security. Under Cold War arrangements, it was possible for Japan to find protection under the U.S. nuclear umbrella and to concentrate on achieving economic gains. This was supported by the United States on the assumption that having an obviously successful capitalist economy in Asia would help to demonstrate the market's superiority over Soviet state planning. Yet this was a pattern premised on Cold War conditions and was no longer valid once the Cold War ended, and the legacy has been a Japan that is an economic threat to the United States and a Japanese population unable to think clearly about security issues.

All is not lost, however, for there are a number of things that can be done to deliver Japan from the ironies of history. First is to reexamine the business-government relationship. While it is common in the developing countries for the government to look after business and to promote business growth, Japan is no longer a developing country. Govern-

ment and business need to be at arm's length.

Responding to the recent scandals in the securities industry, the Ministry of Finance has spoken of beefing up its audits. But what we really need is a securities and exchange commission that is independent of the ministry, that operates according to clearly defined rules, and that is open to input from a wider range of sources.

The second thing that should be done is for Japan to take responsibility for its own security. Until very recently, there was a tacit understanding that security issues were somehow taboo, and they just did not get discussed in the schools, in industry or anywhere else. It is essential that national security be incorporated into the curriculum and that people get used to thinking about it.

And third is that Japan should be willing to take more initiatives as an industrial power. There is a considerable hue and cry about the current labor shortage, but industry is still using workers as though Japan were a low-wage country. For example, foreign or guest workers are widely accepted almost everywhere in the rest of the world, but there are only about 80,000 aliens with work permits in Japan. The other hundreds of thousands are undocumented illegal aliens. This is not the way the system should work.

There are a lot of problems that need to be addressed if Japan is to win an honored place in the international community, and it is imperative that we take an unvarnished look at the options and make the hard decisions that need to be made for the years ahead. ■

Haruo Shimada is a professor specializing in labor policy with the Department of Economics at Keio University.