Publisher's Note

Balance of Communication

By Naohiro Amaya

If China were the sun, Japan would be the earth—neither too close nor too far to sustain independent life warmed by the cultural fires. Too close to China, the Korean Peninsula and Vietnam were frequently overrun by the Chinese influence. Too far, Hawaii was deprived of the influence of Chinese culture. Neither too far nor too near, Japan was able to observe Chinese civilization at its leisure and then to adopt those portions that had appeal and application for Japanese culture.

Because China was a great power, the Japanese influence on Chinese culture was negligible in comparison to the Chinese influence on Japanese culture. In cultural relations between China and Japan, Japan was always on the receiving end and seldom a transmitter of culture. Because this relationship persisted for 2,000 years, Japanese have become quite adept at incorporating foreign cultures but have yet to develop more than an infant ability to convey their own culture to other peoples.

It was such a Japan that Commodore Perry's Black Ships visited in 1853. Later, from 1945 to 1952, the United States occupied Japan. Faced with both of these traumatic events, the Japanese people have made a determined effort to learn from the best of Euro-American culture and to incorporate the best of the West into Japan. Because Japan had a long tradition of introducing and Japanizing Chinese culture, it was able to adopt and adapt Western cultural traditions fairly efficiently. This was especially true of modern manufacturing techniques, which were not only adopted in great profusion but often improved and made better than their Western models.

As a result of its unexpected industrial success, Japan now has a current account surplus in excess of 4% of GNP and the yen has appreciated sharply since late 1985. It is imperative that Japan stimulate domestic demand and move some of its export production overseas if it is to reduce this near-dangerous current account surplus. Thus it is that Japan has now embarked upon an unprecedented overseas investment binge.

Obviously, this massive direct overseas investment will necessarily entail a massive effort to explain Japanese culture and thinking to other peoples. Previously cultural communication receivers, Japanese are having to become transmitters as well, learning how to express themselves in words and to convey information to people from other cultural backgrounds.

Japanese tend to prefer communicating in intimate and informal settings. Thus intracorporate communication tends to go quite smoothly when the overseas company is small and has no more than 500 or so employees. Yet as the number of overseas Japanese companies increases, there is bound to be increasing tension, and hence a heightened need for effective communication, between the Japanese companies and the local communities. Likewise, as the company grows larger, communication problems are also likely to occur both within the company and in the company's dealings with the rest of society.

Even with all of the advances in computer technology, it is still people who have to do interpersonal communication. Difficult though it will be, the Japanese today need to rectify the striking imbalance between their ability to understand and their ability to be understood.

Letters

Information's Impact

Your "information society" cover story (May/June *Journal*) gave the reader a good overview of *how* the proliferation of microprocessors and microcomputers is impacting our daily lives at home and at work.

You should have included the profound impact the computer is having on *where* we work. More and more people are now able to do all or part of their work without having to leave home. As we approach the 21st century, it will be technically feasible for many of us to do our work without "going to work" as we know it today. Society has to find solutions to the socioeconomic and legal problems resulting from such changes.

Russell G. Adamian
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Liberalize Rice Imports

Iwao Yamaguchi ("Maintaining Japan's Self-sufficiency in Rice," March/April *Journal*) fails to understand that the second-biggest economy in the world needs to exercise greater global economic responsibility. Japan enjoys great economic benefits from participation in international trade, yet appears unwilling to increase its imports of agricultural and industrial products.

Japan's huge balance of payments surpluses with the United States and the EC are damaging political relations and jeopardizing trade relations with these countries, and engendering strong political pressures for protectionist tariffs and other trade restrictions aimed at Japan.

Japan must show its trade partners that it means business regarding lowering its trade barriers and increasing its imports, including rice imports. The liberalization of rice imports would benefit Japanese consumers by leading to lower rice prices and taxpayers by reducing government subsidies for rice.

Michael Kain
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Depression Still Possible

In "Crying Wolf over the Great Depression" (May/June *Journal*), Nobuyoshi Namiki details the structural changes that have altered the world economy over the last half-century which, together with self-adjusting mechanisms and institutional safeguards, make a worldwide economic collapse along 1929's lines unlikely. Many of the most dramatic developments, however, have come about in the last decade, and these changes may have introduced new and as-yet-unforeseen vulnerabilities into the system.

Citing the 1973–74 energy crisis as proof of the world's economic structure's strength and stability, Namiki states that "primary commodity prices remained stable (in the decade following) thanks to price supports and other factors." In fact, by early 1986 raw material prices had fallen to their lowest levels ever in relation to manufactured goods and services.

As Namiki notes, the Depression of 1929–32 was brought about by a confluence of factors—many of them absent from the current economic scene. More ominously, other factors are not without parallel today. The spread of protectionism generally, and the adoption of the much-vilified Smoot-Hawley Act in particular, exacerbated the contraction in world trade. Now that world trade levels are only slowly recovering after several years of decline, will the current surge of protectionist rumblings give rise to the next Depression's Smoot-Hawley?

A world economic leader both able and willing to bear the costs of maintaining the financial regime is as conspicuously absent today as 60 years ago. Yet Namiki takes heart in the better system of international cooperation that he sees today. While a consensus around exchange rate realignment is haltingly emerging, broader orchestration of macroeconomic policies is proving far more elusive. Instead, we see increasing politization in the international economy as governments seek to avoid tackling tough domestic problems.

Peter Drucker recently identified three fundamental changes that have altered the world economic structure in the past decade: the uncoupling of the primary products economy from the industrial economy, the delinkage of production from employment within the industrial economy itself, and the emergence of capital movements rather than trade as the driving force in the world economy.

While the first change explains why industrial depression has not followed the prolonged drop in raw material prices, it is the third change that may have the most far-reaching and potentially destabilizing impact.

Capital transactions now account for 25 times the total volume of world trade in goods and services. This explosion of transnational money flows is not yet entirely understood. Moreover, the magnitude of Eurodollar and exchange markets ensures the transmission of destabilizing economic policies or external shocks to all parts of the system far faster than even a generation ago.

Predictions that industrial depression has merely been postponed may be derided as alarmist, but the performance of the world economy 15 years after the first oil crisis is dubious ground on which to argue its invulnerability to new and more traumatic disturbances.

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The *Journal* welcomes letters of opinion or comment from its readers. Letters, including the writer's name and address, should be sent to: the Editor, Japan Economic Foundation, 11th Floor, Fukoku Seimei Bldg., 2-2 Uchisaiwai-cho 2-chome, Chiyoda-ku, Tokyo, 100 Japan. Letters may be edited for reasons of space and clarity.

TOPICS

New Maekawa Report Published

A government task force has worked out specific recommendations for making the Japanese economy more dependent on domestic demand. If implemented, the measures could reduce exports, cutting Japan's massive trade surplus and alleviating friction between Japan and its trading partners.

The new report was announced April 23 by the Special Committee on Economic Restructuring, headed by former Bank of Japan Governor Haruo Maekawa. The committee is a panel of the Economic Council, an advisory body to the prime minister. The report was formally approved by the full council May 14 and submitted to Prime Minister Yasuhiro Nakasone for approval. Nakasone said he would fully respect and implement the recommendations.

The new Maekawa Report is a follow-up to an earlier set of general recommendations by the Advisory Group on Economic Restructuring for International Harmony, a private advisory panel to the prime minister. That group, also led by Maekawa, advocated restructuring Japan's economy in a report published in April 1986.

The latest report stresses that improving the quality of the national life will boost domestic demand and spur economic restructuring. It assigns top priority to the qualitative improvement of housing through special budgetary allocations. Noting that the limited supply and sky-high price of land hamper improvements in the housing situation, the report urges taxing farmland at rates "more closely approximate to the taxation of residential land" to accelerate the conversion of agricultural land to residential use in urban areas.

The report recommends shorter working hours, which it says will enhance living standards, stimulate consumption and maintain employment levels. It proposes that working hours be reduced to 1,800 hours by the mid-1990s from the present 2,100 hours, the longest among all the major industrial democracies.

There is growing concern in Japan that promotion of industrial restructuring may result in "hollowization," or deindustrialization, with jobs being lost as factories relocate overseas. The new Maekawa Report, however, warns that industrial restructuring should not be delayed. It urges using deregulation and other measures to raise efficiency and productivity in such industries as distribution, banking, agriculture and transportation.

Singling out agriculture as a special problem area, the report argues the need to reduce price differentials between domestic and overseas farm produce. While conceding the importance of self-sufficiency in rice, Japan's staple food, it recommends greater competition in distribution. For other farm produce, the report urges minimizing tariffs and import restrictions.

Some of these measures require action over the medium and long terms. But given mounting criticism of Japan abroad, the report calls for concentrated policy efforts during the next two to three years on seven themes, including deregulation, expansionary fiscal policy, housing and land policies and increased imports of manufactured products.

The report does not, however, set any target for reducing Japan's current account surplus. It declares simply that "Japan should seek to reduce its current account surplus as a percentage of GNP as quickly as possible" in the context of international policy coordination. In this connection, it also calls on the United States to reduce its budget deficit and improve its industrial competitiveness.

Labor Crushed by High Yen

The 1987 round of spring labor-management wage negotiations ended in a complete rout for labor. The wage hikes agreed on during the annual parleys were the thinnest ever, reflecting the deteriorating exports and dwindling financial resources of Japanese industry—both factors attributable to the rapid upswing in the yen. Extremely stable prices resulting from lower crude oil prices and stable import prices also contributed to labor's failure. According to the 1987 Wage Struggle Liaison Committee, organized by the General Council of Trade Unions of Japan (Sohyo) and other labor bodies, wage hikes agreed to during the annual negotiations averaged ¥7,984 (about $57 at the rate of ¥140/$), up only 3.57%, or a full percentage point less than in the previous year.

Similar reports of puny wage increases came from management. The Japan Federation of Employers' Associations (Nikkeiren) said that wage increases at 200 leading corporations averaged ¥8,046, or an increase of 3.51%. That was down ¥2,072, or 1.05 percentage points, from last year's level, and was well below

Japan's workers gained the thinnest raises ever in the 1987 spring labor offensive.

the previous record low of 4.36% registered in 1983.

The steel industry, which in the past has set the pace for industry as a whole, this year did not even discuss increases in the basic pay scale, agreeing on just a 1.55% periodical wage increase. Steel has been hit hardest by the strong yen.

Wage boosts in the export-reliant electric appliance and auto industries were a low 3.58% and 3.39%, respectively, both more than one percentage point below 1986 levels. Electric power industry workers also resigned themselves to a meager 3.94% raise.

Amid the generally poor performance of labor, private railway unions scored surprisingly well. Early in negotiations, the private railway companies actually seemed ready to pay more than last year, but eventually shied away from doing so. In the end, the increases settled at ¥10,800, or an increase of 4.62%, slightly less than in 1986. Even this offer was conditional, however: The unions had to promise not to go on strike.

Unions in the tourist and advertising industries also did relatively well. Growing demand for information, meanwhile, favored the union of the recently privatized Nippon Telegraph & Telephone Corp. (NTT), which won the fattest increase of the year at 4.78%. Says a union spokesman: "That's because we were underpaid before NTT went private."

Four government enterprise unions in particular—posts and telecommunications, forestry, printing and minting—could not have presented a sharper contrast. The government flatly refused to give them any raises at all. This was the first time since 1964 that government enterprise workers had failed to win any wage raise in the annual spring bargaining.

Record Exodus during Golden Week

Golden Week: For Japanese, the phrase evokes images of a welcome week of vacation, lasting from the Emperor's

Birthday on April 29 through Children's Day on May 5. But for tour operators and hoteliers in Hawaii and other sightseeing meccas, Golden Week may soon be synonymous with an influx of Japanese guests. This year, with one in three of all Japanese hitting the road during the annual spring holidays, a record 198,000 passed through the boarding gates at Narita's New Tokyo International Airport for destinations abroad. The long lines of heavily laden airport luggage carts at customs counters on their return testified to the purchasing power of the robust yen abroad.

According to the National Police Agency, special events and resorts and entertainment districts drawing 10,000 or more guests during the week-long holiday numbered 949 nationwide. Total visitors added up to a staggering 47.2 million people, in a nation with a population of a little more than 120 million.

Yet the figures, although up a million over the 1986 Golden Week, are still the third lowest for domestic travel in the past 10 years. The low turnout last year was largely a fluke. With the 1986 Economic Summit of major industrialized countries held in Tokyo early last May, many companies shifted their scheduled vacation days to avoid the heavy police security and traffic restrictions imposed during the summit session. The result was the lowest Golden Week domestic tourist figures in a decade.

This year's low total, however, apparently reflected changing lifestyles. In recent years, Japanese have shown a greater inclination to relax at nearby parks or visit parents back in the old hometown rather than rush to the usual overcrowded vacation spots. The shift has had at least one unfortunate side effect. There has been a sharp increase in traffic accidents involving families en route to and from the countryside:Fatalities reached 171 nationwide during this year's Golden Week.

Even as domestic turnout slumped, an exodus of Japanese tourists set forth for distant shores. The 198,000 travelers passing through Narita during the week were up 29% from the previous year, an all-time record. Hawaii was by far the most popular destination, followed by South Korea, Taiwan and Hong Kong. Package tours to Hawaii are as much as 20% more expensive during Golden Week than at other times of the year, but according to Tatsuya Kondo, president of the Tour Winds travel agency, "Almost all our customers were people who could only take time off during Golden Week; they couldn't travel any other time of the year." Moreover, the U.S. East Coast, Europe and other more distant destinations are out of the question for most Golden Week travelers, who only have a few days of vacation time. Japanese Prime Minister Yasuhiro Nakasone can no doubt sympathize. He also stopped off in Hawaii for a brief rest after a Golden Week visit to Washington to confer with U.S. leaders.

One thing that knew no rest during Golden Week this year was the yen-dollar exchange rate. Most package tour prices are down some 10% from last year thanks to the strong yen. But even more important has been the enhanced purchasing power of Japanese tourists abroad. "Many of our customers said they were going on buying trips," says Tour Winds' Kondo. Customs lines at Narita Airport were exceptionally long this year as Japanese returning from the annual holidays waited patiently with cartloads of Golden Week goodies.

Many Japanese preferred to relax at nearby parks or visit their old hometowns during this past Golden Week, instead of becoming one of the crowd at tourist spots.

Sales Tax Plan Scrapped

A controversial sales tax bill was scrapped in the Diet session ending May 27, dashing Prime Minister Yasuhiro Nakasone's hopes for an early sweeping tax reform. The 5% sales tax was central to the Nakasone Cabinet's tax reform plan, billed as the most sweeping in the 40 years since Japan adopted its current tax system shortly after World War II. The ruling Liberal-Democratic Party (LDP) and the opposition camp clashed head-on over the sales tax proposal during the Diet session, delaying action on the fiscal 1987 budget and prompting the LDP to ram it through a House of Representatives committee. The dispute was finally brought to an end by a compromise proposal put forward by House Speaker Kenzaburo Hara, which in effect allowed the sales tax bill to die.

The compromise agreement calls for establishment of an LDP-opposition joint tax council to discuss a new tax reform package. Nakasone still hopes to hammer a reform plan into shape before his term of office as LDP president—which automatically carries with it the post of prime minister—expires in October. But there is a growing feeling among government and LDP leaders that the task of overhauling Japan's tax system will have to be left to Nakasone's successor.

Buoyed by the LDP's landslide victory in last July's Diet elections, the Nakasone government at first confidently rushed action on the tax reform program. But the complicated sales tax scheme ran into far greater public opposition than the prime minister had expected. Although Nakasone had pledged during the election campaign not to introduce a large-scale indirect tax, most experts saw the proposed sales tax as exactly that. Nakasone contended he had not betrayed his campaign promise, pointing to the extensive list of tax-exempt items and businesses in the proposal.

The voters were not impressed, and expressed their dissatisfaction in a by-election for an Upper House seat in Iwate Prefecture in March. The LDP-backed candidate suffered a crushing defeat in the traditionally conservative district, sending a shock wave through the government party. In nationwide local elections in April, many LDP candidates revolted, openly objecting to the sales tax plan and rejecting Nakasone's offers to stump on their behalf. Even so, the conservatives took a drubbing at the polls.

Despite the setback in the Diet, however, few expect that scrapping the sales tax plan will end debate on tax reform. Distortions have crept into the postwar tax system, and major new sources of government revenue are needed to cope with the demands of Japan's aging society. Even many opponents of the sales tax scheme admit the need to reduce Japan's heavy dependence on direct taxation by introducing some form of indirect tax and lowering income tax rates.

The focus of attention now shifts to the LDP-opposition tax council, inaugurated May 25. Nakasone wants at least to start the ball rolling on tax reform while still in office, and some LDP leaders have suggested that the country will gradually seek tax reform involving a more acceptable new indirect tax system after a cooling-off period. One solution might be a consumption tax with low tax rates and a minimum of exemptions; another might be a tax limited by law to funding social welfare programs.

Realists, however, point out that the Upper House faces its next election in two years, and a general election is expected around that time as well. Given that prospect, LDP lawmakers doubt whether Nakasone's successor can commit his administration to major tax reform.