Interview: Masaki Shiratori

Free market theory 'not practical' in Third World

Masaki Shiratori, Japan's executive director for the World Bank, has launched a campaign against monetarism and the "free market" theory of development at the World Bank in Washington. Shiratori, former deputy head of international finance at Japan's Ministry of Finance, has gotten the World Bank to begin several studies on the more successful Japanese and Asian industrial development models.

Although no one in Japan has pointed this out yet, that "Japanese model" consists precisely of the types of government intervention and "directed credit" first proposed by U.S. Treasury Secretary Alexander Hamilton in his 1791 *Report on Manufactures* and his 1790 *Report on a National Bank,* which built the United States.

"The problem is that the economists at the World Bank," Mr. Shiratori notes, "seem to be forcing the classical Adam Smith Anglo-Saxon free market policies upon developing nations, which is quite often not practical in many Third World countries."

In many cases there is no such thing as a free market, Mr. Shiratori explains. "What do the monetarists mean by 'market rates?' " he asks. "If the economists at the World Bank tell a government not to give government-subsidized credits to small farmers, and to small industries . . . then no bank will *ever* lend to them. . . . It's not profitable. To say: 'Let them borrow on the free market' is just to say: 'Let them starve.' "

Shiratori points out that International Monetary Fund (IMF) and World Bank insistence upon "instant" decontrol of existing government policies, known as "shock therapy" in many countries, is "not economically viable. *And it's not only not economically viable, but also not politically viable.* The population cannot tolerate many of these measures."

Within the Versailles system

Unfortunately, however, the current Japanese plan, so far, is only aimed at reform of the World Bank and, implicitly, of the IMF, but not at a break with those institutions. Mr. Shiratori was very careful to note that Japan is not proposing any break with the World Bank, but rather a "step by step" process of studies of the Japanese alternative. *EIR* believes, however, that unless the "Versailles system" of economic control represented by the World Bank and IMF are broken up, it will be not be possible to stop the current slide into genocide in the Third World and eastern Europe.

World Bank Staff Vice President for Financial Policy Johannes Linn, who attended a conference held by the Japanese government's Overseas Economic Cooperation Fund in Tokyo in early March on Japan's proposals, outlined March 12 the details of "a number of specific studies under way within the World Bank on Japan's request," including:

- World Bank Chief Economist Lawrence Summers and Senior Adviser John Page are reviewing all the Japanese and other Asian economies, with "particular attention to the role of government," in a study entitled "Strategies for Rapid Growth: Public Policy and the Asian Miracle."
- The World Bank Economic Development Institute under Adviser Hyung-Ki Kim is doing two studies. The first is on the Japanese "Main Banks," in which a particular bank finances and fosters a Japanese industrial combine. The second is on the Japanese civil service, and how Japan successfully adapted the best civil service traditions from Europe and the United States to its own development.
- The World Bank Country Economics Department Financial Policy Division under economists Dmitri Vittas and Yoon-Je Cho is planning a study on the *directed credit* system in Japan, the particularly effective Hamiltonian policy of the Finance Ministry, under which credit is channeled to particular industries, titled "The Effectiveness of Credit Policies in East Asia."
- The World Bank Country Economics Department Private Sector Development Division under Brian Levy is doing a study entitled "The Role of Government in Support Systems for Small and Medium-scale Enterprises," on Japan's experience in granted subsidized credits, import protection, and other help to middle-sized industry.—*Kathy Wolfe*

A 'Japanese model' of intervention

The interview which follows was conducted by Kathy Wolfe on March 16 in Washington, D.C.

EIR: Why is Japan asking the World Bank to shift toward a "Japanese model" of government intervention?

Shiratori: We are proposing that the World Bank study the very successful industrial development experiences of Japan and East Asia because the bank has a lesson to learn from this. The Japanese Ministry of Finance is willing to provide the funds for the studies.

The problem is that the economists at the World Bank don't know anything about the Japanese and Asian development experience. World Bank economists seem to be forcing the classical Adam Smith Anglo-Saxon free market policies upon developing nations, which is quite often not practical in many Third World countries.

Prior to 1980, development theory generally held that development was to be undertaken by governments, and the World Bank had supported projects by governments. Unfortunately this did not have the expected results and caused a lot of frustration among World Bank economists.

Meanwhile, the *monetarists* became more influential in Washington and London and the two factors combined to completely swing development theory in the opposite extreme, so that now the World Bank promotes the "free market," complete *laissez-faire* approach. Now the economists say that everything has to be done only by "market forces" and governments must totally refrain from any intervention.

Recently the World Bank's *World Development Report 1991* proposed a "market-friendly" approach, in which governments would intervene to promote infrastructure, education, and other areas which do not attract private investment. Unfortunately, however, this does not seem to be widely supported by World Bank economists.

EIR: Who started this initiative, and when?

Shiratori: I started it when I came to the World Bank in 1989, from the International Finance Bureau of the Ministry of Finance. My colleagues and I at the ministry were reacting to the developments here. Then-Governor Mieno of the Bank of Japan, in the absence of then-Minister of Finance Mr. Hashimoto, mentioned the issue in his speech to the IMF and World Bank annual meeting last fall. We've just had a conference on the idea in Tokyo at the government's Overseas Economic Cooperation Fund (OECF), with economists from the bank and several countries as well as Japan, at the beginning of March.

EIR: And the problem at the World Bank and the IMF is the monetarist philosophy?

Shiratori: Well, monetarist or Keynesian, they're all talking the same now. Most of the bank staff are saying the same thing, that everything should be liberalized, that all Third World countries must remove price controls immediately. They say that there should be no government-subsidized credit for agriculture—so the farmers will go bankrupt and the people will have nothing to eat. That there should be total de-control of import tariffs, of government regulations. This is simply not practical in many countries.

What do the monetarists mean by "market rates"? What is a "market rate"? If the economists at the World Bank tell a Third World government not to give government-subsidized credits to small farmers, and to small industries, and that they can only have credit at a "market rate," then no bank will *ever* lend to them. Why should a bank lend to them, it's too big a risk for the bank and not profitable. To say: "Let them borrow on the free market" is just to say: "Let them starve."

Until 1966, Japan was *the* largest borrower from the World Bank. The money was borrowed by the Japan Development Bank (JDB). It was used to assist the targeting of basic industries. We call it "directed credit" or "two-step credit," where step one is from the World Bank to the JDB, and step two is from the JDB to the Japanese industries. The JDB would make very long term, low-interest loans to industries, at interest rates just slightly higher than the JDB had to pay to the World Bank. These rates were much lower than market rates, they were government-subsidized rates.

Despite the fact that this has been proven to be such a success—the World Bank has turned *against* such targeted, subsidized loans. The World Bank now asks countries to completely reject this form of loan, which was a major mainstay of Japan's economic development.

EIR: We're told by the World Bank staff that the Japanese proposals are only in the "study" stage. Have any of your proposals been implemented?

Shiratori: No implementation yet. But I am encouraged that the bank has initiated some studies. We have just started the discussion.

Another big problem is, that the World Bank has no industrial policy! In Japan, we pick out industries to develop, as part of our industrial policy, and we give it various government subsidies: subsidized credit, tax incentives, export promotions, import protection restrictions, etc.

EIR: You know, those measures are quite "all-American" too, because all those ideas are found in the writings of our first Treasury Secretary, Alexander Hamilton.

Shiratori: Now the World Bank seems to be against this policy. There is another problem. Now, about 25% of World Bank loans are the so-called "structural adjustment" loans. And the bank tends to ask, as conditions for the loan, that the Third World governments liberalize imports "instantly," or stop agricultural price supports, etc. And everything has to be liberalized "instantly."

EIR: The so-called "shock therapy"?

Shiratori: Yes, and it's simply too drastic—it's too harsh, too painful, in many cases. It's not economically viable. *And it's not only not economically viable, but also not politically viable*. The political factor must also be taken into account. The population cannot tolerate many of these measures.