

# New 'revisionist' economic school is only half-right about Japan

Part II of a series by Kathy Wolfe

The Economic Strategy Institute (ESI) in Washington, the new "revisionist" school of economists, has correctly warned in a series of recent meetings that U.S.-Japan relations might be "headed for a crackup," as James Fallows put it on May 8. The former Carter administration official, now writing for *Atlantic Monthly*, made his comments at the ESI seminar "U.S.-Japan Relations: What Now?"

University of California professor Chalmers Johnson, dean of American "Japanologists" and mentor of the revisionists, more bluntly told an earlier ESI meeting that the U.S.-Japan alliance "continues only through inertia, without any foundation in grand strategy. Japan and the United States are today, as Nakanishi Terumasa puts it, merely 'paper allies' . . . it is reasonable to conclude that during the 1990s, Japan and the United States are on a collision course," Johnson told the March 10-11 ESI conference entitled "America's Goals for the 21st Century."

ESI president Clyde Prestowitz and the revisionists were so labeled because they want to "revise" America's addiction to Adam Smith's free trade theory. That is certainly a good idea. They also say the Bush crowd's delusion that the free market deserves credit for Japan's "miracle," also needs revision—another great idea. But at the same time, they blame "Japan, Inc.'s juggernaut," as Prestowitz dubs it in his book *Trading Places*, for the industrial decline of the United States—a completely wrong idea.

## 'The coming war with Japan'

Revisionists say the reason we face a disaster in U.S.-Japanese relations is that the Japanese economic system is fundamentally different from the Adam Smith free trade model. This has truth to it.

"Recently, Sony chairman Akio Morita and many other Japanese writers have openly admitted to being revisionists," Fallows told his ESI seminar May 8. "Morita's recent article in *Bungei Shunju* [an elite Japanese magazine] made waves, because he admitted Japan has a totally different economic structure from that of the United States, a structure which accumulates more capital and can invest more, by keeping down the share of the money which goes to labor and consumption.

"That's why the book *The Coming War with Japan* was so popular in Japan, and not here," he continued ominously.

The 1991 "Jap-bashing" book by Fairleigh Dickinson University professors George Friedman and Meredith Lebard featured a threatening cover photo of Japanese gunboats.

"Don't delude yourselves that the Japanese just like to masochistically read about Jap bashing," Fallows warned. "That would be a mistake. The book was popular because its fundamental logic is, that there is a built-in contradiction between the U.S. economy and society, and the Japanese economy and society. And therefore the logic that the U.S.-Japan alliance can not endure, is simply much more believable to the Japanese. It implies Japanese should make a long-term, very cold reassessment of whether they want the whole relationship with the United States."

Asked "What Now?" which was the title of his speech, Fallows hedged a bit. "I am hoping that we can keep the alliance together," he said, "but at present, I don't see America has the political will to reject free trade."

The best that will happen is that the United States will end up like the British Empire, he said. "All I can hope is that, just as Britain in the 1940s had to accept that it would have to pass the torch to the United States, which then became the dominant power, we will have to accept a long-term passing of the torch to Japan. But the Japanese are not really set up to receive the torch.

"So it is also very plausible, if we do not turn our economy around as I have suggested, that we will have a crack-up of relations between the two countries, as detailed in *The Coming War with Japan*," he concluded.

## Japanese labor policy

Certainly, a confrontation is coming if something is not done. The problem with revisionist analysis, as mentioned in Part I of this series (see *EIR*, May 29), is that it places first blame on what it calls the cartelized and predatory nature of Japan's "dumping" in the United States. This implies that free trade is only a problem because it has allowed the Japanese to take advantage of an open America.

That is like saying that having AIDS is only a problem if your neighbor catches cold and sneezes on you. Yet revisionists say that Japan is the problem, because it oppresses its work force and can dump cheap goods here "by keeping down the share of the money which goes to labor and consumption," as Fallows said on May 8. Now the United States,

they say, must dump free trade and do likewise.

Prestowitz's book *Trading Places*, the founding revisionist document, is subtitled "How We are Giving Our Future to Japan." Japan's Ministry of International Trade and Industry (MITI), he writes, runs Japan, the way John D. Rockefeller, Sr. ran the cutthroat Standard Oil cartel in the 1920s: "Standard Oil, which having gained a monopoly position in one market, would raise prices and use the profits thus generated to slash prices in new markets, in an attempt to drive competitors out of business."

Johnson adds, in promotional comments on the jacket of *Trading Places*: "The failure of America to comprehend the Japanese economic challenge . . . is the greatest national scandal since the end of World War II . . . [which] allowed Japan to destroy many of America's high-tech industries."

The idea that Japan's *labor policy* is the problem with America, however, must be dismissed once and for all. In fact, the average Japanese family over the past 30 years has doubled the size of its housing space, increased its diet from under five grams a day of meat and dairy protein to one of the healthiest in the world, and has as many or more consumer goods as the average American family. Recent reports from the U.N. and U.S. Bureau of Labor Statistics that Japan's average industrial hourly wage now outstrips that in the United States, have made frequent headlines over the past few years.

Certainly, Japanese do not live nearly as well as the American middle class used to live in the 1960s and 1970s, but it is the vector of progress which must be examined. It is the American standard of living which has come crashing down in the 30 years since the 1963 assassination of President Kennedy.

Japanese officials laugh at American complaints about labor policy. "If you want to straighten out your economy, the first thing you must learn is that one does not lay off people!" one official told *EIR* recently. "It is people, human labor, which must come first. If you have a recession, the way to cut expenses is to cut executive salaries, dividends, and other financial costs, and to use whatever funds you have to prioritize capital investment.

"It is outrageous that in the United States, the first thing to be cut, is labor, that in the United States, the most expendable thing is labor. That policy is brutal. In Japan, labor is simply not expendable. During the Structural Impediment Initiative trade talks between Washington and Tokyo, the U.S. side has raised the idea of getting rid of Japan's lifetime employment policy. To which Japan has raised the idea, that the United States better get rid of its own 'disposable labor' approach! But the U.S. side says they can't do that, because that would go against the philosophy of the free market."

## The Versailles system

What, exactly, is crippling the economy? The real problem is Britain's Versailles system, begun with the founding

of the supranational Bank for International Settlements at the 1918 Treaty of Versailles. Versailles institutions—bodies such as the International Monetary Fund (IMF), the U.N., and the General Agreement on Tariffs and Trade, along with the Bank for International Settlements, all controlled by British free trade economists—dictate free trade to mere nation-states.

The Federal Reserve system, for example, founded in 1913 as a Versailles institution, is doing far more to keep America from reindustrializing than any imported Toyota. The Fed channels all credit in the U.S. economy away from production and investment, and into speculative activities. This is because the Fed is run not by the government, but by a cartel of Wall Street banks such as Salomon Brothers, which make big bucks speculating on the national debt. These shenanigans helped give America our \$4 trillion U.S. national debt, which costs taxpayers \$300 billion a year in interest payments.

Any American who seriously considers the fact that the Japanese government has run budget surpluses for the last 20 years, while the United States has run up a cumulative \$4 trillion in deficits, can see the "big picture" of the problem. Without discussing why Japan's national bank works and ours doesn't, you can't address the cause of America's bankruptcy.

Again, the false idea that Japanese labor is cheap won't explain away the Fed's errors in the budget mess.

Saying that American workers are taxed less, and Japanese workers are taxed more, and so we've got the big deficits, is a common theme on Wall Street. Economists here are quick to blame U.S. labor unions for what they call low "net taxes." This is supposed to mean that the American work force is "over-consuming" so much in unemployment, social security, health care, and other "entitlements" that, despite high income taxes, net taxes on the work force are much smaller than it looks.

Any sane American who knows that his standard of living has been collapsing while his wife, kids, and dog have gone to work to make ends meet, however, knows that his "net taxes" are killing his family.

In Japan, the fact is that income taxes on families are very low, relative to the percentage of the national income which is generated by corporate income tax. Japan's supposed "fat cat" corporations are actually footing the bill for most of the national budget.

Don't blame the U.S. military, either. During the Kennedy years, every \$1 the United States spent for high-technology programs such as the Apollo program generated at least \$10 in other economic activity. The budget deficit difference between the United States and Japan is not that the United States has a military bill and Japan doesn't. The difference is that we spend the money on low-technology meatgrinder wars, while the Japanese government puts equivalent amounts each year into general scientific research.