

# Do the 'revisionists' really understand Japan?

Part 3, by Kathy Wolfe

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## Trading Places: How We Are Giving Our Future to Japan

by Clyde V. Prestowitz, Jr.  
Basic Books, Inc., New York, 1990  
353 pages, paperbound, \$12.95

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Since the first edition of *Trading Places* in 1988, former Reagan trade adviser Clyde Prestowitz has spoken frequently in favor of Japanese criticisms of the rotted U.S. economy. After President Bush's January trip to Japan, he strongly attacked free trade ideology as a major problem in the United States, which it is. Now Prestowitz and his fellow "revisionist" economists, as they dub themselves, can't understand why they are called "Japan bashers." They say they only want to revise the misconception in Washington that Japan is just another free market economy.

Vice President Dan Quayle told the Council on Foreign Relations (CFR) on April 27 that a major "source of negative rhetoric about U.S.-Japan relations is the revisionist school. Its popularity has provided an intellectual framework for stereotyping Japan as a predatory economic juggernaut which must be stopped, before it buys up America. The Japan of the revisionists is a monolithic economic animal . . . incapable of change, and unforthcoming in negotiations."

That Quayle is an idiot can hardly be denied, but notice the result of his statement. Quayle was immediately hailed by Tokyo as "Japan's favorite American." As a Japanese Foreign Ministry spokesman told the press on May 11, "No one has gone as far as he in defending Japan-U.S. relations." Yet with friends like Quayle, Japan doesn't need enemies.

What is going on here? A reading of Prestowitz's book, which founded revisionism, sheds some light. In fact, it is very harsh on Japan; to be precise, much of what it says about Japan is not true. *Trading Places* is presented as an economic history of the United States in the 1980s, which allegedly proves that Japan's use of free trade helped destroy the U.S. economy.

But without discussing *British* monetarist policy for the United States and the role of Paul Volcker, the Federal Reserve, and their Anglophile followers in the Reagan adminis-

tration, any economic history of the United States is absurd. Prestowitz was in both Reagan administrations and knows what Volcker and the Fed did. Where's the exposé on British or CFR policy for the United States in the 1980s?

And why drive Japan into the arms of free traders from the CFR such as George Bush and Dan Quayle? Later articles will address these issues. Here, let the reader judge revisionism by its own words.

## The end of the 'American Century'

Part I of *Trading Places*, entitled "The End of the American Century," justifiably locates the New York Stock market crash of October 1987 as the end of the United States as a world power. Prestowitz reports that between the time he joined the Reagan Commerce Department as an aide to Undersecretary Lionel Olmer in 1981, and the end of 1987, the United States lost its consumer electronics, auto, semiconductor, and other industries to Japan, and became the world's largest debtor; all too true.

How did this happen? Here, his argument becomes problematic. Washington allowed Japan to "target" major U.S. industries for destruction, Prestowitz writes. "Japan, Inc.," he says, is one huge cartel, with which no free economy can compete. Japan's Ministry of International Trade and Industry (MITI) runs Japan as a cartel, he states, modeled on John D. Rockefeller's "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."

To hit its targets, Japan "dumped" on U.S. and all foreign markets, Prestowitz writes. "The Japanese had lower capital and personnel costs. While locking foreign interests out of their home market, they drove aggressively into foreign markets, making whatever bids were necessary to get the business without regard to short-term profit."

In Chapter 2, "Losing the Chips," given as a case study, Prestowitz presents 40 pages of industrial horror stories about Japanese dumping on the U.S. semiconductor industry. Japan began this, he writes, in 1957, when MITI established "an Electronics Industry Deliberation Council . . . to select products and projects in R&D for special promotion, to set production, quantity, and costs targets" using "the creation of cartels deemed useful by MITI. . . . Obsessed by the

fear of foreign domination, the new Deliberation Council declared Japan's top priority must be to build a world-class computer industry, and IBM became the target. . . . The decision to target IBM was thus seen as a matter of national security. The result was an effort that can be compared to the U.S. Apollo program."

U.S. firms were forbidden to sell in Japan. "One high-ranking MITI official was well known for throwing import license applications into the wastebasket.

"The final factor was dumping, the practice of selling below cost or below the price at home, in foreign markets. . . . Japanese production costs were higher than those of the Americans, as reflected by the high prices in the Japanese markets. Nevertheless, the Japanese came into the U.S. market with prices well below those prevailing in either country. . . . The only problem was that dumping is illegal, both under U.S. trade law and under the international rules of the GATT."

An advertisement in the October 1981 *Scientific American* placed by 17 Japanese electronics companies "quite simply declared victory," wrote Prestowitz. "The ad emphasized that any lingering doubts that Japan had surpassed the United States had been put to rest. . . .

"The government of Japan would do all in its power to ensure the industry's success. Its policies reduced risk, and lowered the cost of capital in Japan to a third of that in the United States. . . . When entering a new market, they could afford to price at whatever level was required to get the business. As a top NEC [Nippon Electric Co.] executive said to me, 'When the market is growing and you are trying to establish your position, is no time to worry about profit.'

"None of the U.S. companies had the financial resources and government backing the Japanese had. No U.S. company could slug it out with the Japanese juggernaut. . . . The prediction of the Japanese . . . was soon confirmed."

At the end of 1984, Prestowitz continued, "The U.S. semiconductor industry was staring death in the face. It reported losses of nearly \$2 billion for 1985 and 1986, while 25,000 lost their jobs. The Japanese companies lost twice as much money as the Americans in semiconductors, but as they had foreseen, in a contest of deep pockets, theirs were deeper. As U.S. companies abandoned more segments of the industry, the Japanese expanded market share. . . .

"By the summer of 1987, even mighty AT&T had stopped producing RAMs [random access memory]. . . . It was now totally dependent on the Japanese, as were most other major U.S. computer and electronics companies. . . . MITI is now the arbiter of the world semiconductor industry. By controlling Japanese production, it determines world prices and the availability of critical devices.

"In the summer of 1987 I was asked by a major American semiconductor manufacturer to use my contacts at MITI to help arrange an increase in its supply of a key chip. That one of the pioneers in the U.S. semiconductor industry was now reduced to begging MITI for chips was a measure both of

MITI's power and of how far the Americans had fallen."

## Why would Japan do this?

What monstrous nation could do this to an ally? Is Tokyo that bad? In the chapter "What Makes Japan Run," Prestowitz answers that Japanese are nice people, but Japan is a dangerous, authoritarian state, motivated by paranoia. He does not use those words; he says Japan has replaced the U.S.S.R. as the enemy image for America:

"The Japanese government views industrial performance as akin to national security and pours enormous energy into ensuring that its industry is the world leader," he writes. Thus, Japan "is by nature" obsessed with controlling the rest of the world economy:

"In 1857, the Shogun's adviser Masayoshi Hotta observed: 'Our policy should be to conclude alliances, send ships to foreign countries, conduct trade, copy the foreigners, foster our strength and complete our armaments, and so gradually subject the foreigners to our influence until, in the end, all countries of the world know the blessings of perfect tranquility, and our hegemony is acknowledged throughout the globe.'

"Hegemony. Power. These are what ultimately concern nations and determine the lives of their citizens. . . . Today the real challenge to American power is not the sinister one from the Eastern bloc, but the friendly one from the Far East. U.S. industry is not withering in the face of Soviet competition. . . . We respond to the Soviets because defending against a military threat is seen as a legitimate government role, but [we] have difficulty responding to Japan's challenge."

Prestowitz argues that Japanese society is inherently authoritarian. "At the top of Japan's close-knit homogeneous hierarchy are the great ministries of its government and the officials who run them. 'Prime ministers come and go, but we ministry officials are forever,' " Prestowitz quotes an official saying. "An official in Japan's civil service has a mission to make Japan the best in whatever area of endeavor he is engaged, a goal that derives from the view the bureaucrats hold, that they function 'not as public servants, but as public mentors.' "

MITI runs the Japanese Diet and most of the rest of the government, not the other way around, he states. Legislative proposals "are developed by MITI with the advice of MITI's Industrial Structure Council. The council reviews MITI proposals or makes ones of its own, which are discussed in sessions closed to the public. Legislation is drafted and submitted . . . to the Diet, where it is rubber stamped without significant debate. . . . It is accurate to say of Japan that the politicians reigned, while the bureaucrats ruled.

"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. Read this book," urges the promo on the jacket of *Trading Places* by Prestowitz's professor, Chalmers Johnson.

This is not Japan-bashing?