

# ARTICLES.

## MANUFACTURING DISASTER

### The Great Japan Debate

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For a generation, unresolved trade, defense and foreign policy conflicts have been storing dynamite beneath the surface of U.S.-Japanese relations. In the late 1950s, the first flood of Japanese steel and other exports pouring into the West Coast provoked outraged cries from American producers and labor unions, and military agreements between the two governments triggered widespread rioting in Japan. Tensions mounted steadily during the boom years of the 1960s, as the U.S. market absorbed an ever-widening array of Japanese manufacturing and consumer goods. They became dramatically visible in the early 1970s after the Nixon Administration's surprise opening to mainland China and its famously protectionist New Economic Program. Nixon's actions stunned the Japanese, precipitating a crisis in U.S.-Japanese relations whose containment required an unprecedented mobilization of multinational elites in both countries. Since the two great Nixon *shokku*, however, most of the forces driving a wedge between the United States and Japan have grown stronger. Now, as planeloads of increasingly grim-faced businessmen, journalists and government officials from both countries crisscross the Pacific, warning about the consequences of rapidly worsening relations, it is clear that an explosive day of reckoning for the United States and Japan may finally be at hand.

In the United States, these accumulating pressures have set off a torrent of discussion. While no simple summary of the emerging "Japan debate" can exhaust its complexity,

most analysts agree on the major issues. Virtually everyone, for example, acknowledges that Japanese manufacturing strength is overwhelming many important industrial sectors in the United States; the only disagreements are over the extent of the carnage and the seriousness of the threat to particular industries. And almost everyone agrees that Japan's nontariff barriers to trade with the United States are high, although there is dispute over which plays a greater role—cumbersome customs and inspection procedures or the more formal restrictive practices. There is also virtually unanimous agreement that Japan spends a disproportionately small percentage of its gross national product on defense, in effect enjoying a free national-security ride at American expense. And many think that Japanese expenditures on nonmilitary foreign assistance are inadequate.

But while most American observers are of one mind about the major sources of friction between the two powers, there is much less agreement on what to do about them.

Some policy initiatives are relatively uncontroversial. While they may not have thought through the long-term consequences of encouraging the Japanese to rearm, all significant segments of elite American opinion, from Senator Jesse Helms to Secretary of Defense Caspar Weinberger, agree that the Japanese should be pressured to spend more on defense, thus taking some of the international security burden off the United States and weakening Japan's economy. And while this sentiment is often accompanied by the fear (only rarely expressed) that Japan's enhanced regional role might complicate our relations with the People's Republic of China, the Soviet Union and the rest of Asia, a consensus is forming that Japan should be pressed to contribute more nonmilitary assistance to South Korea, Thailand and other nations in the area. It is clear, too, that scarcely any American interest objects to the Administration's unheralded attempt to mobilize the Organization for Economic Cooperation and Development (O.E.C.D.) to limit Japanese subsidies to its growing

high-technology industries. Nor will objections be raised to future attempts to shoehorn more American exports into Japan.

But on the crucial issue of American imports from Japan, U.S. opinion is sharply divided. Both the shape of ultimately desirable policy and amount of pressure to be applied to the Japanese are in dispute. Once again, the business community's response to a major policy issue is split between those firms and industrial sectors that can compete in a global economy and those that cannot.

#### The Protection Controversy

As has been the case for more than a generation, the top priority of American commercial bankers, multinational firms, grain companies and most (though perhaps no longer all) investment bankers, along with the elite media, the big foundations and parts of the Reagan Administration, is the protection and expansion of a liberally structured world economic system. Although the mounting trade imbalances between the United States and Japan are thinning their ranks and driving many to endorse "temporary" trade restrictions (in the hope of heading off deeper and permanent constraints), these groups still hew as closely as possible to the path of international cooperation and free trade. They are perfectly willing to pressure the Japanese to open their product and capital markets, to facilitate the selling of American services (like banking services) to Japan and to sell that nation more coal and Alaskan oil (which, if the relevant restrictions in the Export Administration Act of 1979 were rescinded, would immediately reduce the U.S. trade deficit by several billion dollars, as well as provide huge profits for Exxon, Sohio and Arco).

At home, they are happy to join calls to build up America's export capacity and international competitiveness through enhanced productivity, increased savings and greater investment in research and development. But they are strongly opposed to slamming the trade door shut. (Representative of this business faction were the so-called "Wise Men" of the recent Japan-United States Economic Relations Group, an association that brought together American businessmen and

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academics with close ties to Japan and their Japanese counterparts. Members included such luminaries of the multinational community as Edson Spencer, the chief executive of Honeywell, a firm with several Japanese subsidiaries, Akio Morita, the chairman of Sony, and, until his elevation to the presidency of the World Bank, Bank of America president A. W. Clausen.)

By contrast, businessmen and workers in weak sectors of the economy like the automobile industry find the theoretical benefits of free trade outweighed by the urgent need to block the foreign competition that is displacing them. For them, in the end neither increased exports nor the union give-backs and other labor concessions now being generated by the pressure to compete with the Japanese will be enough. They want protection, and they want it now.

Following a Cabinet shuffle, the Japanese government has recently promised to raise defense spending, encourage imports from the United States and investigate more "orderly marketing agreements" to govern trade with America. If implemented, such proposals would alleviate some of the pressures on U.S.-Japanese relations, but there are reasons to doubt that they will ever be fully executed. Domestic pressures may force the Liberal Democratic Party government to drag its heels

on increasing defense spending. Promises to boost imports may be worth little more than the year-old agreement on Nippon Telephone & Telegraph's closed-bidding practices, which after all the hubbub yielded only minuscule contracts for American suppliers. The orderly marketing agreements may end up like the recent automobile agreement, which posed limits on the number of Japanese cars to be sold in the United States, but not on the prices of those cars. Since the agreement, Japanese manufacturers have upgraded the automobiles sold here, thus avoiding much of their prospective loss by merchandizing higher-priced models, while the collapsing U.S. car market permitted an increase in Japanese market share over that envisioned at the time of the agreement.

If future agreements turn out as badly, the Reagan Administration will be forced to act, and the Japan debate will reach fever pitch. It will be urgent at that time to understand how that debate, while not entirely irrelevant, has systematically failed to identify those issues in U.S.-Japanese relations most critical to public welfare here. It will be important to recognize that rather than posing a threat in itself, the Rising Sun mercilessly illuminates major problems in American social structure and political process. Only then will it become clear that at the crux of the

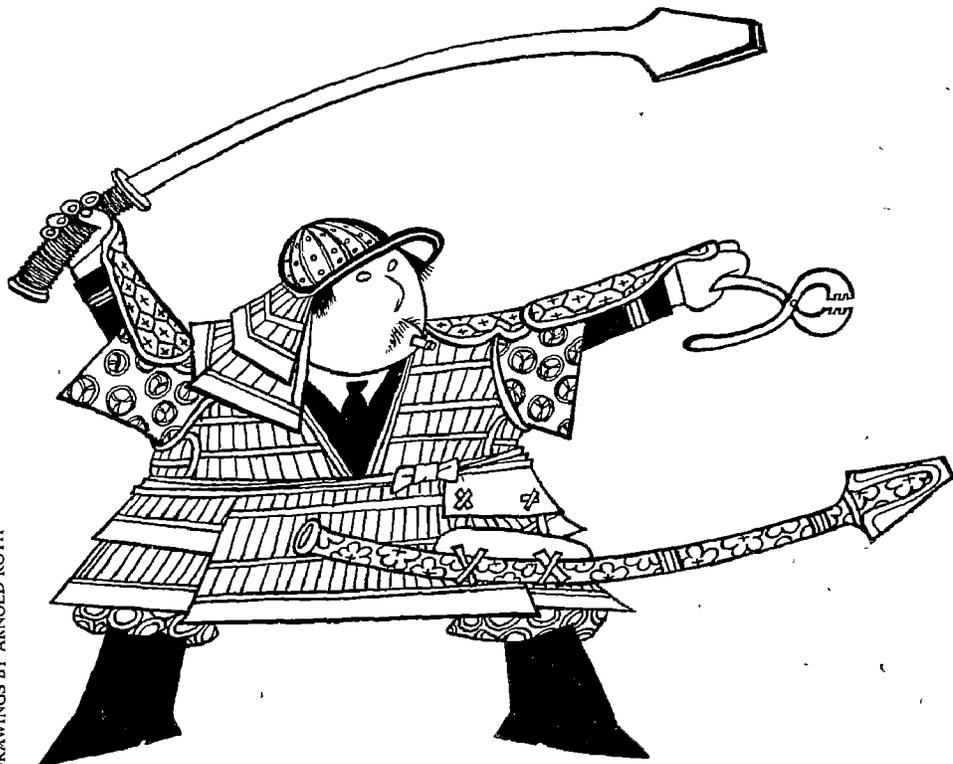
"Japan problem" lies the controlling paradox of U.S. domestic politics in the 1980s: growing misery for the working population amid considerable overall economic strength. Understanding this paradox, however, requires a more nuanced view of America's position in the world economy than that popularized by the Japan debate.

### Declining America?

Many participants in the Japan debate have correctly highlighted the importance of the diminished American position in the global economy. Often, however, these critics convey the impression that the entire competitive position of the United States is in immediate jeopardy. Nothing could be further from the truth. American positions in agriculture, many raw materials (coal, for example, exports of which will certainly grow), some manufactures (notably aircraft, although that industry is becoming increasingly competitive) and service industries like banking remain tremendously strong. While the huge amount of oil that the United States will probably import throughout the rest of the century will severely strain the balance of payments, there is no chance that America will be left with nothing to sell to the rest of the world.

Equally misleading are related assessments of declining industrial sectors and lowered productivity and manufacturing growth in the domestic economy. Especially in the context of relations with Japan, it is vital to recognize that important new industries continue to emerge in the United States. In the fields of telecommunications, information processing and biotechnology, revolutions are under way—high-technology revolutions in which America is almost certain to lead, rather than lag behind, Japan. As a consequence, while U.S. aggregate growth figures may not be spectacular in the coming years, only a financial collapse could prevent some measure of real economic growth in the 1980s.

But if the overall economic position of the United States will survive any likely challenge from Japan Inc., the same cannot be said for the American standard of living. For Japan, together with several Third World countries, which are themselves challenging Japan in some important sectors, has definitely surpassed the United States in most of the basic industries that have until now made up the core of its in-



DRAWINGS BY ARNOLD ROTH

dustrial power. It will be Japan, supplemented sometimes (as in textiles and steel) by other countries, which will henceforth produce the radios, appliances, cars and other goods that were once made in Buffalo, Detroit, Gary and other U.S. industrial centers.

### Surplus Workers

By itself, this historic shift would make for a first-class disaster in the United States, for it is apparent that most of the workers in these older industries cannot hope to find employment in the expanding high-technology sectors. Telecommunications, biotechnology and other such fields simply do not need that much labor. Indeed, a good deal of the information-processing revolution is about doing far more work with far less labor, as the growing interest in industrial robots (a Japanese specialty) shows. Nor will displaced production workers find much consolation in the mostly low-wage service and other auxiliary jobs that even a completely Japanese-dominated auto or appliance industry would require, or in the other generally low-paying service employment that might be opened up by the press of vast ranks of the unemployed on existing wage structures. In addition, the pressure on these workers will be greatly increased by the reduction of white-collar and secretarial employment attending the spread of the "office of the future," the slowdown in government employment and last, if scarcely least, the arrival of vast numbers of Mexican immigrants.

Disastrous as they are, these trends in the domestic economy will be exacerbated by the Reagan Administration's bundle of tax, fiscal, monetary, defense and regulatory policies. As Japanese imports eliminate more and more manufacturing jobs in this country, Reagan's cuts in spending for Federal programs will leave workers with no place to turn for long-term assistance. The high interest rates that are the inevitable accompaniment to the Federal Reserve System's tight-money policies will accelerate the decline of America's industrial base by making expenditures for modernizing plants prohibitive. The shift to more defense spending will bid away labor and other resources from firms trying to compete with the Japanese and generally bleed the civilian economy, opening production gaps that will be filled by yet more imports.

Nor will the celebrated supply-side

tax cuts help. Coupled with the choking effect that high interest rates have on investment, accelerated depreciation schedules and other tax write-offs will probably hasten the abandonment of the old industrial base without providing compensating rises in employment from new investment. And the expected deregulation of natural gas will send producer costs soaring throughout the Middle West and the Northeast.

### Possible Countermeasures

Were the Japan debate addressed to meeting the needs of the whole population, any number of useful measures might be contemplated to alleviate or even to surmount the Japanese threat to the American industrial and employment base. The tax system, for example, could be redesigned to encourage exports, even within the limits of the international agreements to which the United States is already party. The government could begin applying some of the same standards to multinational enterprises that many Third World countries do, driving harder bargains and retaining a bigger share of such benefits as exist for the United States. Formalizing through legislation what it is already doing informally with Japanese car companies, the government could insist that sellers in the American market set up factories here or otherwise act to preserve the value added to the goods they make by American production processes. Similarly, the United States could manage its public oil and mineral holdings with the same concern with which OPEC nations superintend the exploitation of their oil reserves.

Even more important, the Japan problem could be attacked at its source. The demand-restriction policies pursued by most postwar American administrations could be replaced by policies that explicitly sought full employment and economic growth as part of a coordinated national economic strategy. Under such an approach, imports would simply mean lower prices, not the ruin of entire regions of the country.

Public policy debate does not proceed in a vacuum, however. Given the current structure of American politics and power, we need no Metternich or Machiavelli to discern the improbability of such responses or discussion. A high-salience debate over employment and national economic policy, for example, is the last thing desired by multina-

tionists in either the United States or Japan. Whatever effect higher employment would have in reducing pressure against imports, such a debate would inevitably linger over the critical role that the unrestricted mobility of capital across regional and national boundaries plays in the U.S. economy. Public examination of this first principle of multinationalism would be anathema to the business and other elites that interlock on the boards of organizations like the Trilateral Commission, the Japan Society, the U.S.-Japan Foundation, the Japan-U.S. Friendship Commission and Washington, D.C.'s Japan-U.S. Culture Center, as well as to the American consultants and lobbyists for the Japanese, a list of whose names takes up forty pages in the attorney general's 1980 report on administration of the Foreign Agents Registration Act.

For these successful multinationalists, who profit from the lower inflation rates produced by American demand restriction and who enjoy the increased purchasing power afforded by Japanese imports, the preferred solution to the Japan problem will remain the same: the familiar calls for cooperation on defense and energy policy, a continued lowering of barriers to the free flow of capital and goods, increased productivity at home and steady pressure on those wage earners in the United States who are employed in industries competing with the Japanese to expect less and less. (The artistic and cultural exchanges between the two countries lavishly promoted in recent years will presumably continue.)

But if those who would benefit from a continuation of present policies toward Japan can hardly be expected to bite the hand that so generously feeds them, what can be expected of the losers, the workers and businessmen who will be squeezed out?

For workers, the situation is truly grim. The increasingly desperate state of organized labor is obvious, as is the fact that labor is best organized in those industries that are most threatened by Japanese competition. Indeed, as the trend toward Japanese manufacturing superiority plays itself out, if labor fails, as it has thus far, to make compensating gains among service and other workers, organized labor will virtually disappear as a force in American public life. Equally obvious, however, are all the limits on the willingness and the ability of unions to act effectively on the Japan

issue. A few important labor leaders, like International Ladies Garment Workers president Sol (Chick) Chaiken, are themselves part of the multi-nationally-dominated U.S.-Japan network. (Chaiken, who reportedly harbored hopes of being named U.S. ambassador to Japan upon the re-election of Jimmy Carter, serves on both the Trilateral Commission and on the advisory board of the U.S.-Japan Foundation.) Little help can be expected from labor leaders. Another obstacle is the incremental nature of the Japanese threat. New imports do not flow into the United States in one giant, undifferentiated flood; they come in separate streams that imperil one or a few industries at a time. Such "salami tactics" make it easy to pick off unions one by one, especially when they are coupled with carefully nourished illusions that the problems of severely decayed U.S. industrial sectors are only temporary—that, for example, the auto industry will "come back" in full force in a few years' time.

More critically, unions are not structured like broad-based political parties but are concentrated in specific parts of the American industrial machine. Accordingly, the natural response of powerful unions (weak ones simply disappear) is to seek piecemeal protection for themselves, a strategy whose consequences are almost invariably disastrous both for the public welfare and, eventually, for the labor movement itself. The "protection" thus afforded shields only a small percentage of the work force (mainly those with seniority), along with the union leadership, since such unions rapidly become the objects of deep resentment as the protected industry inevitably shrinks and the underlying sources of its weakness remain untouched. Everyone else is thrown to the wolves, or urged to move to Texas. Such unions rapidly become the objects of deep resentment, as the costs of "protection" are shifted haphazardly onto consumers (that is, other workers), who end up paying higher prices for inferior products, and onto successful businesses that lose resources inefficiently deployed in the failing industry. (The conjunction of the piecemeal character of this effort and its haphazardness should be emphasized. Were protection embraced as part of an explicit national economic policy to promote employment and growth, the government could compensate those whose jobs or businesses were

eliminated and prevent enterprises past all hope of revitalization from forever wasting resources. In the absence of such a concerted effort, piecemeal protection is probably the worst of all possible trade policies.)

Demand restriction's depressing effect on employment also undermines the identification of organized labor and the poor. In his recent *Witness to Power*, John Ehrlichman provides illuminating details on the way George Schultz (then Secretary of Labor, now a high official of Bechtel, a director of the Council on Foreign Relations and prominent adviser to Reagan) played off black groups against construction unions during the Nixon Administration. High unemployment insures that blacks, women and other notoriously underpaid portions of the work force spend their time fighting for shares of a limited job pool, rather than mobilizing to secure work for all. Mounting unemployment will also probably inspire fiercer labor resistance to automation. Where successful, such efforts will affect the general welfare in much the same way that piecemeal protection does.

### The Politics of Protectionism

But if most American workers are unlikely to mount effective resistance to current trends in U.S.-Japanese relations, the same cannot be said of the other big losers under those policies: the American businessmen whose markets are melting in the heat of the Rising Sun. Ever since the early 1960s, when Republicans wrote an import-restriction clause into the G.O.P. national platform, foreign economic policy has figured importantly in American politics. Its pivotal role is particularly evident during Republican Presidential primaries, which regularly feature nationalist protectionist candidates slugging it out with more reserved figures from the free-trading "liberal wing" of the party.

Ronald Reagan, of course, emerged from just such a fight, and as we have observed in these pages and elsewhere, his Administration is sorely divided over trade policy. Since coming to power, it has often preached free trade and has taken several measures to facilitate imports, but it has also sought to protect select industries. In the always troublesome case of the steel industry, for example, the Administration first raised the trigger prices on imported steel and then, after failing to

dissuade domestic producers from filing antidumping suits against their European competitors with the International Trade Commission, supported their right to sue in that venue, rather than litigating within the machinery of the General Agreement on Tariffs and Trade, the Europeans' preferred forum. In the automobile industry, the Reagan Administration negotiated an import-restriction agreement with Japanese car manufacturers (albeit a modest one), something that Jimmy Carter had refused to do for Detroit even in the face of an oncoming election. The Reagan Administration also supported a new restrictive multifiber agreement, and reportedly decided in December to toughen its stance against the Japanese.

While recent moves such as U.S. Steel's purchase of Marathon Oil may slacken some firms' interest in trade limitation, business leaders in the declining industrial sectors remain highly mobilized to fight for it. Consider, for example, the elevation of John Connally, the American political figure most prominently identified with a hard line on Japanese imports, to the board of directors of Ford.

More ominously, protectionist opposition to Japan Inc. is also likely soon to find common voice with military and national-security elites. Historically, national protectionism and expansionist militarism have often come as parts of one terrible package, but elective affinities aside, it is clear that the decay of the U.S. industrial base will eventually affect American security. In a country already overly fascinated with the god Mars, the protectionists' appeal to such concerns is likely to have wide resonance, however vital the importation of electronic components from the Far East will remain for the weaponry itself.

It is in this general context of protectionist versus free-trading business elites that the current Japan debate is joined. And, as pressures mount in the coming months for some solution to the Japan problem, these will be the major forces doing battle, as they have so often during the last several decades, to decide the future course of U.S. public policy. Notably absent from the debate are the poor and the working class, whose fate will also be decided. For them, the drastic decay of mass participation in American politics, the atrophy of democratic institutions amid pervasive antistatist rhetoric and the failure to forge themselves an adequate political instrument all virtually insure a denial

of their interests. Despite widespread hopes to the contrary, they will not be saved by Jesus, or Ronald Reagan, or supply-side economics, or the opening of refugee camps in Houston.

Indeed, the interaction of domestic elite struggle and democratic decline with the changing shape of the global economy is what the Japan problem is really about. What the puzzle denotes is the process by which, in the context of the world economy, limited Japanese sectoral supremacy will destructively interact with American domestic politics to send a tidal wave of misery to these shores. That this process has not been highlighted by the current Japan debate

is wholly unsurprising, for that discussion has thus far been typical of other American ventures into Pacific mythology. As many of the finest writings on the American experience in the Far East remind us, U.S. policies toward that region, while always advertised as rational expressions of "national interest" in the face of encroaching foreign powers, commonly have more to do with satisfying powerful demands within the domestic system. Now, once again, such dynamics are at work in the shaping of Far Eastern economic policy. And once again, the search for an Asian villain only distracts from the pile-up of victims at home. □

of the cold war in Asia; but at the same time, it has been an extremely effective means of keeping the Japanese government subservient to American aims. Such a government cannot serve the long-range interests of the Japanese or of peoples in Asian countries now economically dependent on Japanese oligopoly. This article is concerned with the little-understood political processes by which this state of affairs has come to pass:

#### Postwar Reforms and the Reverse Course

When Japan surrendered in August 1945, Gen. Douglas MacArthur, nominally Supreme Commander of the Allied Powers, made it clear that the Occupation would be an American show. President Harry Truman's orders for the treatment of defeated Japan were broadly consistent with the war aims of the United States and its allies. They called for stern but just measures against those held responsible for the war, total disarmament and the democratization of Japanese society, including the economy. A major plank in this platform for a new Japan was the breakup of the *zaibatsu*.

The reform program implemented by vestigial "New Dealers" on MacArthur's staff was supported by a group of experts on Asia in the State Department known as the "China crowd." But democratization was anathema to the pro-Chiang Kai-shek "Japan crowd" in the State Department, and that clique had powerful patrons in multinational business, the military, Congress and the media. Early in the Occupation, as the cold war engulfed American politics, these bellicose elements coalesced in the so-called "Japan lobby," whose aim was to reverse the reforms already in force and restore power to the conservatives.

The explicit objectives of this "reverse course" (as revealed in official documents and correspondence) were to preserve the Emperor system, halt the fragmentation of the *zaibatsu*, purge radicals from labor and public life, arrange for the unilateral signing of a peace treaty with Japan and rearm the defeated nation promptly. An implicit aim, and surely a compelling one, was to give American investment capital a degree of control over key industries. This would insure economic (hence political) leverage, not to mention gratifying profits from Japan's anticipated economic upsurge as "the workshop of Asia" and a "bulwark against Com-

## STATE OF CORRUPTION

# America and the Making of Japan Inc.

JOHN G. ROBERTS

**M**uch of the recent outpouring of information and opinion about Japan sheds light on contemporary issues, but serious thinkers are still too dependent on platitudes and too timid about challenging dogmas or misconceptions implanted by the mandarins of postwar Japanology.

Seldom do orthodox scholars address such matters as Japan's steady retreat from the principles of peace, neutrality and democracy. Can they tell us why, after thirty years of independence, Tokyo's foreign policy must follow every hairpin turn of Washington's? By what justification is Japan still occupied by American forces—tens of thousands of personnel on some 150 bases dotting the Japanese islands? And why is it necessary for the sovereign Japanese government to lie to its own people about the nuclear weapons brought secretly to those bases? Why was political corruption encouraged by the

U.S. authorities after World War II, and why has it become an inseparable part of the parliamentary system? How has a clique of conservatives managed to monopolize political power since the end of the war, and to what extent are they responsive to foreign pressure?

Several if not all of these questions are organically related to the more fundamental one of why, how and to what effect the dissolution of the *zaibatsu*—the prewar family-owned oligopolies—by the American Occupation was negated or ignored. This question must be answered, because the swift rise of successor oligopolies is the fountainhead of the problems that now beset Japan and its trade partners.

Readily available material demonstrates that the hidden cash nexus between politics and business is an essential factor in the close ties binding the Japanese and the American elites as well as their respective governments. This is a matter of more than passing significance, because the *zaibatsu* not only survived the "dissolution" but, with assistance from their American counterparts, grew much larger than their predecessors. As of 1978, the six major enterprise groups (four of which are descended from the *zaibatsu*) have larger revenues than any other private business organizations in the world.

I believe that the rebuilding of these mammoth groups under American patronage was one of the major successes

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