

# Brock: 'Japan must hike interest rates'

by Richard Katz

U.S. Trade Representative William Brock told *EIR* June 9 that he was launching a campaign to pressure Japan to raise its interest rates. Speaking to this correspondent after his speech to the Electronics Industries Association of Japan (EIAJ), Brock said that fair trade requires an "equalization" of the American and Japanese rates.

*EIR* asked Brock why the rates couldn't be equalized at 5 percent rather than at 15 percent—in other words, why America couldn't lower its rates instead of pressuring the Japanese to raise theirs. "There is nothing we can do to lower our rates," Brock replied, "until we cut the budget deficit."

Japanese government officials labeled Brock's demand "irresponsible," telling *EIR* that, "The U.S. should lower its rates. High interest rates threaten not just world recession, but world depression."

Brock had made the first public salvo in his campaign on June 8 in a speech to the National Association of Manufacturers (NAM). He charged that "actions of the Japanese government to allocate credit and to control access to the credit process have in effect maintained a lower rate of interest than would otherwise be the case . . . and, frankly, a lower valuation of the yen." As he later told *EIR*: if Japan allowed "free movement of capital," its rates would rise; therefore, low interest rates are direct evidence of illicit government "management" of credit.

Speculative money flows seeking higher American interest rates have already lowered the value of the yen to 251 to the dollar, the lowest rate since mid-1980. The cheap yen makes Japan exports more competitive, but it also damages the domestic economy by forcing importers to pay inflated prices for oil and other raw materials. Brock objects to Japan's attempt to limit hot-money flows by means of "administrative guidance," which hinders speculation and directs money into productive investment. He wants Japan instead to raise rates to the industry-killing levels seen in the United States.

Beyond the currency-market effects of low rates, Brock objects to the entire system by which Japanese government and business leadership use directed credit, research, and tax incentives to promote productivity-enhancing frontier industries. One of Brock's aides told

*EIR* that the ability of Japanese firms to borrow at 7-8 percent, rather than 16-18 percent as in the United States, constituted an "unfair" advantage, since the rates were "artificially" low.

Brock himself declared at the EIAJ speech, "We need to keep in check the anti-competitive byproducts of other government policies, notably those that we would label industrial policy. . . . The apparent miracle that brought Japan from the ashes . . . was a sustained *national policy of allocating scarce resources to strategically important industries*, and coordinating the implementation of that policy in concert with private industry. . . . The Japanese government has long sponsored and subsidized . . . a wide range of cooperative research and development projects. . . . The explicit reason for their existence is to permit Japan to 'catch up' with the U.S. and Western Europe [emphasis added]."

A chief way to "allocate scarce resources" is through the credit system. One of the first persons to publicly accuse Japan of "artificially" low rates, Penelope Hartlund-Thunberg of the Center for Strategic International Studies (CSIS) at Georgetown University, complained to *EIR*, "In the United States and Western Europe, credit is allocated by the price of money, i.e., the interest rate. Whoever can pay the rate can borrow. But in Japan, informal controls by the monetary authorities direct funds at prevailing low rates to whatever are considered the growth industries, for example, computers and electronics, these days."

In Japan, the Finance Ministry, the Ministry of International Trade and Industry (MITI), bankers, and industrialists cooperate to nurture industries and technologies that augment the productivity and skill levels of the overall economy. America's high rates and integration into the speculative Eurocurrency market have a great deal to do with the fact that U.S. steelmakers these days invest in real estate or corporate takeovers rather than in plant and equipment.

Brock and Hartlund-Thunberg demand that Japan end its insulation from the international speculative flows. If Japanese firms sent their money out of the country to seek higher interest, or foreigners could borrow without restrictions in Japan's domestic low-interest yen market, then Tokyo would be forced to raise interest rates to defend the yen, they argue. They are well aware that, as another advocate of high Japanese rates, Boston Consulting Group analyst James Abegglen, told the *New York Times* June 1, if Japan complied, then "Japan would inherit our problems." *EIR* asked Brock why America couldn't preserve its leadership and at the same time restore world economic growth by applying Japanese-style credit, tax, and research policies to promote our own industry. He answered, "I don't think our political processes with their emphasis on free enterprise would allow it."