

# MITI defends Japanese policy against post-industrialist attacks

by Richard Katz

The right and duty of a nation's government to promote industry—a policy enshrined in the U.S. Constitution's mandate to Congress "to promote the progress of science and the useful arts"—has now become the subject of an open battle between the governments of the United States and Japan.

At issue is the claim that Japan's "industrial policy" is unfair, a threat to the survival of some U.S. industries, a rival to American supremacy in the high-technology area, and, by some accounts, a national security threat to boot. Such varied sources as the Commerce Department, the Semiconductor Industry Association, the National Machine Tool Manufacturers Association, and the Labor-Industry Coalition for International Trade (LICIT) have all recently issued reports charging Tokyo with sponsoring "illegal cartels," "unfair research subsidies," "unfair low interest rates," and so forth in order to "target" industries for build-up. As one Washington lawyer put it, "The way this word 'targeting' is tossed around, you almost get the image of the Japanese MITI Minister sitting with a map of America on his wall, sticking pins in items labeled computers, machine tools, aircraft, et cetera."

Commerce Department Undersecretary Lionel Olmer—who is part of the Kissinger coterie inside the Reagan administration—charged in a March 30 speech, "Today our firms must compete with a complex system of support that foreign governments have woven for their domestic industries. I am talking here about industrial targeting—a process by which a government can apply a relatively small subsidy in research and development, along with other types of support, and thereby catapult an emerging industry beyond its competitors in other nations. The Japanese and Europeans have targeted computers, aircraft, telecommunications, biotechnology, machine tools, industrial robotics, and other 'cutting-edge' high-technology sectors for special assistance."

Last year, Olmer publicly demanded that the Japanese make "fundamental structural shifts" in their economic system to dismantle industrial policy. This year, he is threatening restriction of their exports if they don't comply. "We are also looking at whether basic changes [in the trade laws] should be made to accommodate industrial targeting," Olmer stated in his March 30 speech. "For example, if a firm can prove that Japan subsidized the development of a new product, probably the best the U.S. company can hope for is to have a countervailing duty applied against subsequent im-

ports. But in most cases, a duty that matched the size of the original seed grant would be woefully inadequate to compensate for the damage already done to U.S. firms."

One of Olmer's own associates, Commerce Deputy Assistant Secretary for Import Administration Gary Horlick, told *EIR*, however, that applying countervailing duties greater than the original subsidies would violate international agreements adhered to by the United States. He added that U.S. law already provides remedies for research, credit, and other subsidies proven to be unfair and/or injurious to U.S. industry, and that such duties have been applied in a number of cases. Horlick suggested that any changes in the law would most likely stress making it easier and less expensive for medium-sized or small firms to bring cases to the government, and perhaps adding to the "injury clause" damage to U.S. firms' export positions in third-country markets. Presently, the House International Trade Subcommittee chaired by Rep. Sam Gibbons (D-Fla.) is holding a series of hearings on this entire issue.

## 'The functions of the state'

For the first time, Japan's government has issued a direct attack on the opponents of industrial policy, moving beyond the usual defensive denials that "there is no Japan, Inc." In an April 18 address, published in full in *Kyodo News's Japan Economic Daily*, MITI Minister Sadanori Yamanaka insisted that every responsible government, including that of the United States, carries out a form of industrial policy, some more successfully than others:

One of the most important functions of the state is to facilitate economic development and to enhance the popular welfare. Since industrial activity is the cornerstone of national economic development, all states practice a wide variety of industrial policies. . . . I would simply point out the nationalized industries in many European countries, the enormous sum spent by the EC [European Community] to subsidize high-technology companies, and Europe's national industrial adjustment policies centering upon industrial restructuring. In the United States, the National Aeronautics and Space Administration (NASA) and other government agencies funnel vast sums into technological research and development with major spinoff benefits

for private industries.

Yamanaka is not the first to point out that NASA and the Pentagon promote industry in America as MITI does in Japan. The transistor which so revolutionized all aspects of modern life is a direct spinoff of the NASA space program. The current generation of commercial jets are basically redesigns of B-52s and later military transports. Currently, the Defense Department has allocated more than \$400 million to subsidizing R&D for Very High Speed Integrated Circuits, including both basic research in semiconductors, and refinement of manufacturing methods, all of which will aid semiconductor and computer manufacturers. The Pentagon is seeking a \$50 million allocation in fiscal 1984 alone for R&D on "super-computer" development; though the computer is motivated for guidance systems in beam weapons development, it is equally necessary for fusion power and weather monitoring. This parallels MITI's spending of a similar amount over each of the next 10 years to aid Japan's "fifth-generation" computer effort.

The Pentagon and NASA spend a lot more on R&D subsidy than MITI. Indeed, the U.S. government provides the majority of all R&D spending in the U.S., compared to only 25 percent in Japan. Even without counting the defense portion of U.S. R&D, the government ratio of total R&D funding at 37 percent is still higher in the U.S. than in Japan.

Thus, a victory by the opponents of industrial policy would have disastrous consequences for both countries, as Yamanaka points out:

If criticism of other countries' research and development policies is allowed to have an inhibiting effect upon any country's ambitions in basic research and development *this could bring world economic development and human progress to a grinding halt*. President Reagan was quite right in his San Francisco speech to emphasize expanded research and development budgets "to enhance the competitiveness of U.S. industry in the world economy," and *such efforts should be promoted in all countries in order to push back the frontiers of global economic development* [emphasis added].

Unfortunately, the "free marketeers" have succeeded in blocking a civilian industrial policy in the United States itself. Additionally, due to the anti-progress ideologies dominant in recent administrations, U.S. government R&D spending (adjusted for inflation) by 1978 had *fallen* almost 10 percent below 1964 levels, while interest rates for industry kept rising. No wonder U.S. productivity is falling.

### **What is Japan's industrial policy?**

Amidst all the heat over this issue the essence of Japan's industrial policy has been obscured. Most American commentaries have focused on the *techniques*: e.g. special gov-

ernment and private low-interest loans for productivity-enhancing new industries, or government-business leasing arrangements to help small firms buy new products thus creating a bigger market. More important is the *content*: joint private-government planning of frontier technologies whose character is to propel the entire economy forward. This creates an environment within which private industry then makes the thousands of little decisions every day that advance investment and productivity. Yamanaka stressed this point in his April 18 statement:

Frontier technologies are essential to revitalizing the global economy and expanding the scope of economic activity for people everywhere, and all of the advanced industrial countries are intent upon their promotion. The main thrust of Japanese efforts to develop such frontier technologies rests with the private sector, and the government role is restricted to those areas where, despite strong social need, the long lead times, enormous funding requirements, and high-risk nature of the work make it impossible to expect the private sector to undertake the necessary research.

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*U.S. Undersecretary of Commerce Lionel Olmer is threatening to restrict imports from nations who engage in the dastardly practice of "applying a relatively small subsidy in R&D" to "catapult an emerging industry beyond its competitors." Olmer's policy would undercut the United States as well as Japan.*

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The latest and best example of Japanese industrial policy was the cabinet decision in early April to approve a bill to create 19 new "technopolis" cities. The idea is to create new science-technology-manufacturing cities of several hundred thousand people each. Under the proposed legislation, 1) high-technology firms setting up plants in the designated centers get tax credits on their investment; 2) research institutes set up in the areas are exempt from fixed property tax, a local tax; 3) local government giving tax breaks to firms receive compensating funds from the national gov-

ernment; and 4) local governments are allowed to issue bonds on easy terms to promote infrastructure support for the technopolis.

### Who opposes industrial policy?

On March 10, the Electronic Industries Association of Japan (EIA-J) issued a refutation of the American Semiconductor Industry Association's (SIA) attack on Japan's industrial policy as applied to semiconductors. Much of the statement concentrated on factual refutation of SIA's charges, but the most striking part was EIA-J executive vice-president Toshio Takai's analysis of the motivations of American opponents of industrial policy. The statement is remarkably blunt, in contrast to normal Japanese overpoliteness and indirection:

The American perception of and strategy for high technology are quite obvious. . . . High technology is a fundamental industry on which the international competitiveness of the U.S. economy rests. It involves U.S. national prestige itself because of its close relationship with military technology. . . . Therefore [in the American view] it is both "sanctuary" and "glory" reserved for American industry, and maintaining eternal superiority over other nations is the sacred duty of the Americans. . . . The attempt by foreign countries—Japan as well as European countries—to challenge American superiority in high technology cannot be tolerated. . . . *To undermine the potential ability of foreign countries in putting forth such a challenge, the very structure of industry, or the economy, of the foreign countries capable of delivering high technology should be weakened.* . . . U.S.-Japan friction over high technology is therefore indeed industrial friction. It is a very different kind of friction than the bilateral trade frictions of the 1970s, which involved specific products.

American economic philosophy is antithetical to industrial policy, which implies some form of government intrusion into the private sector that distorts the free market process. However, the fact that some American business and government leaders are biased against industrial policy does not, in and of itself, render industrial policy unfair per se. . . . [In the 19th century] the United States successfully achieved its pinnacle in national industrial and technological development by resorting to a pervasive system of tariffs and government intervention and subvention to protect basic industries [emphasis added].

Takai's description of American opponents of industrial policy paraphrases almost exactly what Lionel Olmer himself said to *EIR* in a 1982 interview published in *EIR*'s Special Report, "Outlook for U.S.-Japan Takai overlooks, however, is that industrial America is as

much a victim as Japan of Olmer and his backers, since these people stridently oppose any industrial policy for the U.S. itself. Olmer—along with Paul Volcker and Olmer's previous boss, Henry Kissinger—is part of a faction in Washington which argues that a "post-industrial era" must be imposed upon the United States as much as on other countries. Olmer began his March 30 speech by saying that, upon reviewing all the issues he has faced in the last two years, "a single theme colors much of this disparate array: *the evolution of the post-industrial society* [emphasis added]." This faction, which owned the Carter administration, was exactly what Ronald Reagan campaigned to remove from Washington leadership. However, using Kissinger's hangers-on, the post-industrialists reinserted themselves into the new administration. Olmer himself was a career intelligence man, having spent most of his early career in U.S. Naval Intelligence (a wing of American intelligence suffering from overdoses of the "British disease"). He became the director of Henry Kissinger's Foreign Intelligence Advisory Board in the Nixon administration, and later was the Washington representative of the multinational Motorola corporation, a major semiconductor producer.

When Olmer and Kissinger refer to American political influence, they mean the ability of an Anglo-American multinational elite to use America as a "dumb giant" power base to impose their policies. Hence their concern that a country committed to industrial instead of post-industrial policy has become a growing power.

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