

clined drastically, while funds for the reestablished textile industry shot up." Total domestic investment fell in 1950 by *one-half* from 1949's still dismal levels, while personal consumption was kept at only 70 percent of 1930s levels through 1952.

The Korean War ended the Dodge policy, and, in 1952, a peace treaty ended the Occupation. Japan once again controlled its own economic destiny.

### Hamiltonian allocation of credit

During the Occupation, "industrial policy" consisted mainly of rationing of scarce physical resources, imports, and capital. These were emergency measures in a war-devastated country. Now Japan was ready for more normal forms of industrial policy.

It must be kept in mind, however, what 1950s Japan was like: Japan did not recover even 1940 manufacturing levels until 1955; a majority of people still lived on the farm; and per capita national income as late as 1960 was no higher than Argentina's. As late as 1954, Japan could still produce only 9 million tons of steel, the level of Mexico or India or Korea

today. In many ways, despite almost 100 years of progress, Japan was still what is today called a Newly Industrializing Country. But it was ready to resume catching up with the West.

With the end of the Occupation, Tokyo revived its Hamiltonian credit system. In this system, the state creates all credit, and prioritizes, directly and/or through the private banking system, allocation of credit to those infrastructural, manufacturing, trade, and other sectors that "leverage" rapid national development. The major Hamiltonian financial institutions are the Japan Development Bank (JDB), the Fiscal Investment and Loan Plan (FILP), and the Bank of Japan's use of the "overloan" system of credit to the private banks.

The JDB replaced the RFC abolished by Dodge. In days of scarce capital, it financed Japan's transition from a textile producer and toy maker to heavy industry giant. During 1953-55, 83 percent of all JDB loans went to build up electric power, shipbuilding, coal, and steel, and JDB loans accounted for 23.1 percent of all investment in electric power, 33.5 percent in shipbuilding, 29.8 percent in coal mining, and 10.6 percent in steel.

## Depreciation laws speed technological gains

It is now notorious that some U.S. firms buy patents to prevent them from being used "prematurely," lest their existing technology be made obsolete. Some banks use lending power to slow down innovations that might force other customers stuck with outmoded methods to lower prices and profits. This is only partly because some business leaders, like U.S. Steel's Edgar Speer, deny the difference between paper profits and production; U.S. tax depreciation laws haven't helped either.

In Japan, equipment can be depreciated in 6 to 8 years on average, compared to 9 to 11 years, until 1981, in the United States. Accelerated depreciation allows 25 to 30 percent write off in the first year; special depreciations, for specified equipment in specified industries, allow another 25 to 33 percent in the first year (for a total depreciation of 125 to 133 percent of cost). At a 50 percent tax rate, this allows reclaiming 25 percent of cost in the first year. A firm scrapping a factory to build a new, more modern one can write off the entire remaining book value of the plant (minus scrap value) and stretch the tax savings up to five years. And, if a firm proves that *new technology lowered the value of its assets*, it can depreciate its assets by that amount.

All this means, even if a firm has not paid off debts on old equipment, these provisions may still lower capital expenditures enough to make it pay to scrap old machines and get new ones whose higher operating profits pays the debts on both. This is especially true in the favored sectors.

United States tax laws have only some of these features. The Reagan reforms lowered the depreciation time of almost all equipment to five years. Even before that, the United States had the scrap and build provision, but never had the even more important provision for technological depreciation. Nor does U.S. law discriminate among industries to channel investment into areas which most upgrade the economy as a whole.

The important, albeit limited, Reagan reforms have, however, been obstructed by Volcker's credit policy. None of Japan's measures, including depreciation, are isolated "supply side" gimmicks; they are part of a total financial/economic environment. American firms may agree that improved equipment will be more profitable from the standpoint of operating costs. However, the capital costs of getting rid of the old equipment, borrowing at high interest rates for the new, and, up until 1981, the fact that it took so many years to depreciate existing equipment, combine to make total costs so high as to almost preclude rapid modernization.

In Japan, finance is made to conform to the criteria of the real economy; for the United States, it is the other way around. In the end, the Japanese have newer, more productive, and more profitable factories.