

'Revisionists' miss the boat on Japan's economic success

Part 1, by Kathy Wolfe

The "revisionist" economists, lead by Clyde Prestowitz, president of the Economic Strategy Institute (ESI) in Washington, have made headlines recently with sharp attacks on Adam Smith's free trade theory. They also attack "Japan, Inc.'s juggernaut," as Prestowitz dubs it in his book *Trading Places*, which charges that Japan has "targeted" the U.S. economy for domination. America's only recourse, they say, is to junk free trade, in favor of a "more Japanese paradigm."

Revisionist James Fallows, a former Carter official now writing for *Atlantic Monthly*, told an ESI seminar entitled "U.S.-Japan Relations: What Now?" on May 8: "Free trade is not an axiomatically true economic principle, and I predict that there is going to be a debate soon in the United States, on whether or not it is even a good idea, just as there was in the 19th century."

Fallows reported that Vice President Dan Quayle sharply attacked revisionism in an April 27 speech on Japan to the New York Council on Foreign Relations. The speech, he said, indicated that the group is "coming up in the world," although as he pointed out, someone at a much higher level than Quayle likely was the author.

The attacks by ESI on Adam Smith's Anglo-American myth of the "invisible hand" are welcome and deserved. So are ESI's promotion of the writings of America's first treasury secretary, Alexander Hamilton, and of Hamilton's German disciple Friedrich List.

Fallows began his talk on May 8 with a glowing recommendation of List's *National System of Political Economy*, although it was strange to hear him insist that List has been blacked out of American literature for over 40 years. *EIR's* Jan. 3, 1992 issue, entitled "200 Years Since Hamilton's 'Report on Manufactures,'" reported in depth how Hamilton and List demolished the pack of lies in Smith's *Wealth of Nations*. It was never free trade, but the system of "national economy" created by Hamilton, List, Mathew Carey, and his son Henry Carey, which industrialized the United States, Germany, and Japan.

The question is, whether the revisionists understand the real Japanese system of political economy—or the actual philosophy of Hamilton, the Careys, and List upon which Japan and the United States were built. Any economist who does understand those writings would know, that it is *Britain*,

and pro-British economists in Washington, which have been responsible for the postwar decline of the U.S. industrial base—not Japan.

Revisionists and oligopoly

Japanologist Chalmers Johnson defined revisionism in his March 11 luncheon speech to a two-day ESI conference on "America's Goals for the 21st Century." We seek to revise the standard free trade theories, Johnson said, such as those of Francis Fukuyama, who believes that Japan "was reborn in the image of the United States during the Allied Occupation." Fukuyama's book *The End of History* claims that history is over because there are only two types of economies: the Adam Smith free trade system (including Japan), and communism, now defunct.

Revisionists and most Japanese, however, believe that Japan operates in a third way, which is certainly true. "Japan does not fit this schema," Johnson said. "Peter Ennis recently defined 'revisionism' as the 'view that Japan's economy and society are not organized around classical notions of free markets, in which the direction of the economy is determined by the independent actions of consumers and corporations. . . . This challenges the conventional wisdom among American policymakers, hence 'revisionism,' that Japan is fundamentally similar to the United States and other western capitalist democracies.'"

Johnson, his student Clyde Prestowitz, and cothinkers write that Japan's "way" is a *command economy*, a form of "oligopoly," as a recent ESI report put it, which has enabled Japan to economically bury the United States. The revisionists' repeated theme, is that the United States must move closer to such a "new paradigm" to survive.

Fallows's May 8 discussion of Friedrich List described List as a theoretician for oligopoly, laying the basis for German industrialization, and for the command economies of Bismarck and the Nazis. List did this, Fallows claimed, by restricting the interests of the individual in favor of the interests of the command state.

"List's most important concept is," he said, "that where Adam Smith went wrong, was to assume, that there is a natural equation between the welfare of the individual, and the welfare of nations. There is, says List, no such equation.

List pointed out that you can have a nation full of individuals maximizing their own best welfare, and have a bankrupt nation.

“List developed instead a system to suppress the impulse of the welfare of the individual, in order to assure the welfare of the state. Frequently, the consumption and some rights of the individual are suppressed, to facilitate the accumulation of capital by corporations, as part of a corporate state.”

ESI president Prestowitz, who writes frequently on the subject of List’s forebear Alexander Hamilton, treats Hamilton in much the same way. At the March 11-12 ESI conference on “America’s Goals for the 21st Century,” Prestowitz released his new book, *Powernomics*, which reprints a nine-page excerpt from Hamilton’s 1791 *Report on the Subject of Manufactures*. The view given the reader of Hamilton, whose economics is left unexplained, is created by 40 other excerpts from different essays incorporated in the book, particularly those in Part IV and V, “Thinking Strategically.” The common denominators of the essays are denunciations of free trade, and advocacy of some form of command economy.

Powernomics reprints, side by side with Hamilton, excerpts from *Creative Destruction* by Joseph Schumpeter, and an article by Murray Sayle of the *New Republic* about the Japanese and German economies, entitled “Axis, Ltd.” Sayle writes: “It is no accident that Japan and West Germany stand apart from all other economies. The historic conditions that produced the Axis have never gone away, nor has the fundamental philosophic dispute between the former members of the Old Fascist Firm, and the rest of us, ever been resolved.”

Meiji Japan was a tyranny based on the Kaiser’s tyranny in Germany, Sayle goes on, which became the Axis governments of World War II. “Neither Japan nor Germany ever adopted the notion of the free citizen and the sovereign individual, or ever gave up the tribal certainty that anyone who disagreed with the group or the nation had to be wrong. . . . Tribal solidarity is a great remedy for wages inflation—if we’re all exporting together for national survival and glory. . . . The Axis powers, particularly Japan, behave like creatures from another economic world because they are from another world . . . and we must either adopt to their economics, or persuade them to take up ours.”

The problem: British economics

Japan, however, is not a “Fascist Firm” oligopoly, despite its differences with western Christian culture, and Hamilton and List were no theoreticians for such a state. Fukuyama’s *The End of History* is far more fundamentally flawed than the revisionists admit.

As Hamilton’s *The Federalist Papers* document clearly, history is a battle between republicanism and the British economics of usury. Adam Smith’s free trade, communism, and fascist command economies such as Hitler’s are all mere varieties of the British usury model.

British usury, known today as monetarism, is government by supranational bankers, such as the Bank of Amsterdam and the *fondi* of Venice who took over England at the Hanoverian succession before the American Revolution. Smith’s *Wealth of Nations* was written as an apology for the world activities of the bankers’ British East India Company, which deliberately caused the indebtedness of colonies, to prevent them from industrializing. “Free trade” means that payment of the debt comes before the development of nations, and before human life.

As the British school’s main interest is to maintain the power of this small group of financiers, it promotes cheap labor deliberately in order to keep the population backward. For that reason, and not only because it is profitable in the short term, the British school emphasizes the need for cheap labor as a primary aim. Thus, British and Venetian bankers let Lenin into Russia, and also backed Hjalmar Schacht, who set up the Nazi command economy, to foster a cheap labor policy.

The “American System” of Hamilton and List rejects that British System. American republicanism places emphasis *not* on some corporate state, but upon the Christian value of the sovereign individual mind. “To cherish and stimulate the activity of the human mind, by multiplying the objects of enterprise,” is how the “wealth of nations may be promoted,” Hamilton wrote in the *Report on Manufactures*.

Hamilton and List insisted that the development of individual *human labor power* builds the best national economy. While their Japanese followers were not all Christian, Meiji leaders Toshimichi Okubo and Shigenobu Okuma insisted, as did Hamilton, upon raising that *power of labor* of each individual, by state promotion of new technologies. List’s concept of a harmony of interests, is the cooperation of such well-developed individuals to a national purpose.

It was British monetarist philosophy, not the Japanese, which destroyed the U.S. economy. In 1980, the Paul Volcker Federal Reserve and Reagan-Bush Commerce and Treasury Departments officially adopted monetarism, stating that financial profits are more important than production and real wages. In his 1980 speech to Britain’s Royal Institute of International Affairs, Volcker stated, “A degree of controlled disintegration of the world economy is a legitimate objective for the 1980s.”

The Volcker Fed originally designed the “sunset” policy for “smokestack industries” such as steel and auto, as *EIR* reported then. Volcker’s precipitous raising of U.S. interest rates above 20% was aimed at “letting the sunset industries sink slowly into the Great Lakes,” one Wall Street Fed watcher told *EIR* as early as Sept. 23, 1980. Japan just took the rap for what the British monetarists intended all along. “We’re not going to negotiate with the Japanese to reduce imports, or even ask,” an aide to Reagan Commerce Undersecretary Lionel Olmer told *EIR* in May 1981. “The more they export, the quicker we will have to cut down our auto industry.”