

The Great Industrial Policy Hoax

By KARL ZINSMEISTER

President Clinton, stressing the need to "copy our competitors," is devising an expansive U.S. industrial policy. His main model is Japan. Unfortunately, the president doesn't seem to understand the true strengths of the Japanese economy—or its underreported weaknesses. The fact is, Japanese industrial policy offers very little to envy or copy.

In popular fable, the grand intelligence behind Japan's economic miracle has been the Ministry of International Trade and Industry. In the aftermath of World War II, MITI bureaucrats used their broad powers to distribute Japan's limited commercial resources and assign tasks for rebuilding the shattered economy. Right from the beginning, though, MITI's economic enterprising brought misdirections.

In the 1950s, for instance, MITI worked vigorously to force the Japanese automobile industry into a single company because planners were certain multiple domestic competitors would only weaken each other. Fortunately, ministry officials were unable to strong-arm private manufacturers into accepting their vision of one, two, or (by 1961) "at most" three Japanese auto firms. Today Japan has nine auto builders—and fierce competition among them has driven the industry to its current levels of excellence.

Sony's Struggle

At about the same time, MITI was pushing other companies to avoid what it viewed as a dead-end in electronics. In 1953, a small company named Sony asked to buy transistor-manufacturing rights from Western Electric. MITI was not impressed with the technology, or with Sony, and didn't want to squander scarce foreign currency on either. Permission to make the purchase was refused, and a great enterprise would have been lost had it not been for Sony founder Akio Morita's persistent badgering of other bureaucrats until he got the go-ahead.

Meanwhile, MITI was leading other sectors of the Japanese economy down paths that would lead to disappointment and wasted resources.

Take the steel industry. In the U.S., Japan's steel industry is commonly thought of as a MITI triumph. It has actually been a net drag on national income. After a giant, force-fed buildup during the 1960s and 1970s, many of Japan's blast furnaces have fallen idle. Tens of thou-

sands of steelworkers have been laid off over the past decade, and costly but underutilized plants have been scrapped. MITI's expensive crusades to build up the aluminum and nonferrous metal industries were an even worse debacle.

MITI's attempts to target "industries of the future" have misfired far more than they have succeeded. Efforts to build up Japan's aircraft and aerospace industries have produced only inferior products at absurd prices. Decades-long attempts to jumpstart the biotechnology industry

other measures to build up the world's largest yards and highest-volume industry. By the late 1970s, though, world-wide overbuilding and changing cargo patterns had turned the facilities into white elephants. Because they were following government incentives instead of market signals, Japan's shipbuilders monumentally miscalculated the demand for and profitability of their product. The losses were huge.

Another folly engineered by the Ministry of Transport was the national railway. The railway is known to most Amer-

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have been equally disappointing. MITI's Sunshine Project, which was intended to achieve breakthroughs in alternative energy sources, was fruitless.

MITI also made a mess of Japan's oil industry. Ministry mandarins enforced what has been called the world's worst national oil policy, resulting in huge costs to government, consumers and business alike plus a very weak set of energy companies. MITI floundered in similar ways in the petroleum-based chemical making industry.

Another MITI disappointment is the computer industry. Though the sector was first targeted nearly three decades ago, most Japanese products continue to be also-rans, in little demand outside their sheltered domestic markets. Nimble American companies set almost all industry standards, and have used superior technology and manufacturing to take back submarkets—like printers, hard drives and palmtop computers—that were once believed to be slated for Japanese dominance.

One of MITI's most ambitious programs, the Fifth Generation Computer Project, inspired much fear in other countries when it commenced in 1981. The 10-year effort coordinated the work of eight companies in a new government laboratory. Its widely trumpeted goal was to produce the world's first thinking, "artificially intelligent," computers. The project has fallen far short of its aims, however, having produced no fundamental technical advances or marketable products.

MITI isn't the only agency that has failed at industrial policy.

Take shipbuilding. Starting in the 1950s the Transport Ministry used tariffs and

icans for its impressive high-speed "bullet trains." What is less well appreciated is that until it was finally privatized in 1987, the agency had thousands of featherbedded employees, poor service, strikes, overcrowding and losses that averaged more than \$20 million a day. Some \$279 billion in debt ended up on the public books, a burden to be carried by taxpayers for decades. There is a warning in this for Mr. Clinton, who has spoken often of his plans to have the government build high-speed rail lines in this country.

Government coddling has also made Japanese airlines extremely inefficient. Until 1986, government-run Japan Airlines held a monopoly on overseas flights and All Nippon Airways had a virtual monopoly on domestic flights. Tickets were so costly that relatively few Japanese could afford to fly. When JAL was finally privatized in 1987, its managers found that the cozy regulatory cocoon they enjoyed for so many years left them ill-prepared for fierce global competition. Today JAL is one of the world's highest-cost carriers, and its share of travel to and from Japan has fallen by one-sixth. American carriers, which honed operations after being released from government regulation about a decade earlier, are far more competitive on the major trans-Pacific routes.

Telecommunications, similarly, has been stifled by the government's embrace. Although the national telecom monopoly, Nippon Telephone & Telegraph, is at last being privatized, it is still mostly state-owned and not very efficient. Phone calls cost 50% more in Japan than in the U.S., and service is much less innovative. Cellular phones, for instance, have only

just recently caught on, due to clumsy regulation by the Ministry of Posts and Telecommunications.

Then there is the financial sector. Ministry of Finance dotting has kept Japan's banks, life insurance companies and stockbroking firms in an inefficient backwater state, and in the past several years many institutions have careened toward insolvency. Government policies are also directly responsible for the recent collapse of Japan's stock market and for the disastrous speculation in land and real estate markets that has made homes up to 10 times more expensive than in America.

The farm policies of the Ministry of Agriculture can only be characterized as a fiasco. Japanese consumers must pay twice as much for food as Americans as a share of family income. In a time of damaging labor shortages in Japan, 9% of the workforce is tied up in farming (vs. 3% in the U.S.). And large amounts of prime urban land are locked away in inefficient cropping instead of being used for desperately needed housing or commercial buildings.

Better Without MITI

The list of industrial policy failures goes on and on. It is striking to note that many of Japan's feeblest industries are those that have been subsidized by the government. Many of its strongest businesses—such as home electronics, cameras, robotics, precision equipment, pianos, bicycles, watches and calculators, numerically controlled machine tools, and ceramics—developed without help from MITI or other agencies. Japan achieved its economic miracle not because of government planning but in spite of it.

The Japanese understand this and have started to discard their industrial policies, privatizing the national railway, the national airline, and the telephone monopoly. Deregulation of the oil-refining industry and banking and financial services has begun. The once tightly controlled retail and distribution sector is seeing some relaxation. And numerous government tariffs are being removed or lowered. The irony is that just as the Japanese are fleeing national business management, some Americans are edging toward it.

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