

12.10.84JAPANESE MINISTRY OF INTERNATIONAL TRADE AND INDUSTRY (MITI)

Mr. Hawke is said to have been very impressed by Japanese industry and by the Japanese Ministry of International Trade and Industry (MITI) in particular. Several members of his ministry are said to favour a super ministry, an Australian MITI, cobbled together from bits of the Departments of Trade, Industry and Commerce, Science and Technology and Defence Support. Certainly several ministers have almost blind faith in their own abilities to pick the sunrise industries and to suckle these favoured infants until they grow to lusty adults.

I find it offensive that the government of all the people should enter the competitive scramble for resources to help some of the people at the expense of others. One can but fear that governments will help themselves to votes and their supporters and their friends to wealth.

As well as the dreadful things that the MITIs of this world do to honesty, to equality before the law, to fairplay for the little man and the inarticulate, and to the democratic process, I expect them to be bad for economic growth. Perhaps the record of the Australian Industries Development Corporation and the West Australian Department of Industrial Development (DID) have soured my expectations. Jeff Babb, writing for Australian Institute for Public Policy, points out that West Australia's little MITI, the DID, paid 37% of its budget last year to meet guarantees it had given to private companies which subsequently went bad.

Suspicion that "Super MITI" was merely a super myth, which ought not to be taken seriously, led me to a paper by Professor Katsuro Sakoh. He concludes his paper with this: "The lesson of Japan is clear: Economic success has been in spite of, not because of, government tinkering." In short; in spite of MITI.

If not MITI then Japanese success needs another explanation. Professor Sakoh writes, "The Japanese government has undoubtedly contributed to the economic success of Japan since World War II. The irony is that the contribution has been based not so much on what it did for the economy, but on how much it restrained itself from doing. Interference in the economy has been sporadic and slight - including efforts aimed at industrial development."

" By maintaining a small and balanced budget, fairly low and stable interest rates, relatively low rates of taxation, stable prices, low defence and social welfare expenditures, the Japanese government helped provide an exceptionally favourable economic environment for private enterprise."

Japan has an industrial policy and Japan has a growing economy so people with faith in omniscient government or an interest in big government have portrayed a causal relationship. The fact is, however, that the Japanese industrial policy is very small; tiny compared to the economic interference of the governments of Great Britain, France or West Germany, and one might add Australia.

Japanese Government spending at 33% of GDP is smaller than that of nearly any other industrial country and about the same as the United States. It compares with France, 46%; West Germany, 47%; United Kingdom, 45%; and Australia, 42%.

Japan has achieved an extraordinarily high rate of capital formation, investing over one third of its gross national expenditure, but nearly three quarters of this has been by the private sector, and nearly ninety percent of the outstanding loans over twenty-five years have been lent by private financial institutions.

The most common path to riches for family, firm or nation is by investing much and investing well. Japan has certainly invested much. I think, observing her highly competitive industries, we can also say she has on average invested well, - again no thanks to MITI.

By the late seventies the Government share of Research and Development (R&D) expenditure was over 50% in the US and over 40% in West Germany but below 30% in Japan. Further, in Japan, only 5% of Government R&D money went into private research, whereas in the US 50% and in West Germany 27% funded private research. This fact might account for why Japanese R&D has been so relevant to the task in hand and why Japanese products scooped market after market. Mr. Barry Jones please note.

When MITI did interfere it most often got it wrong, just like its counterparts elsewhere. It is something of comfort to find that Japanese bureaucrats are as fallible as our own.

Overwhelmingly Government financial assistance in Japan has gone to agriculture - not one of Japan's success stories! In the industrial sector most of the money has gone into infrastructure with 18% of the government's annual budget meeting the deficit of the Japan National Railway (JNR).

It is often claimed by their Australian competitors that Japanese industry is helped by special loans, but in the 1980s new loans by the Japan Development Bank (JDB) and the Export-Import Bank amounted to only about 10 billion dollars a year; as Professor Sakoh observes, "... hardly enough to steer a trillion dollar economy."

Except that all industries benefited from the lowest ratio of taxes to national income of any OECD country, and except for a brief period in the early fifties Japanese manufacturers did not get special tax breaks.

MITI targeted its limited alms-giving and the industries which got most were, as one would expect, Japan's ne'er-do-wells - agriculture, coal, naphtha, ethylene, shipbuilding (they got this one half right but caused overproduction) and aluminium (a disaster as one might expect in a country without a cheap energy source until the advent of nuclear power).

Japan's winners, - automobiles, hi-tech and consumer electronics, got almost nothing. The machine and information industries (which include computers) received only 2.5% of their total investment from government special loans during 1961-65 and this had declined to .8% by 1976-79.

MITI tried to get the car industry to restructure. They once advised HONDA not to make a car. They wanted the combined car companies to produce a sort of Japanese Volkswagon. This was stoutly and successfully resisted by Mazda, Honda, Mitsubishi and the others. In effect they told the Government to get lost. The Japanese are such polite people that I wonder how they put it.

(Japanese industrial policy has been a failure and the best in the industrial world. It has been the smallest.)