SUNDAY INDEPENDANT MITI John Hyde

Jeff Babb, writing for the Australian Institute for Public Policy, points out that the West Australian Department of Industrial Development (DID) paid 37% of its budget last year to companies that subsequently went bad. The Japanese Ministry of International Trade and Development (MITI) is often cited as the evidence that governments can pick sunrise industries and suckle these favoured infants until they grow to lusty adults. Many ministers in both the State and Commonwealth Governments apparently believe that they only have to tinker with the economy as well as MITI does it to avoid past failures.

Suspicion that "Super MITI" was merely a super myth led me to a paper by Professor Katsuro Sakoh which concluded 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 Katsuro Sakho writes, " The irony is that the [Japanese Government's] contribution has been based not so much on what it did for the economy as how much it restrained itself from doing. Interference in the economy has been 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."

The fact is that Japanese industrial policy is very small; tiny compared with the economic interference of the governments of Great Britain, France or West Germany, and one might add Australia.

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 may account for why Japanese R&D has been so relevant to the task in hand and why so many Japanese products have scooped their markets.

Just like its counterparts elsewhere, when MITI did interfere it most often got it wrong. It is a small comfort 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 been spent on infrastructure with a colossal 18% of the government's annual budget spent upon another Japanese myth, the Japan National Railway.

Niether is Japanese industry much helped by special loans. In the 1980s new loans by the Japan Development Bank and the Export-Import Bank only amounted to about $10 billion a year; as Professor Sakoh observes, "...hardly enough to steer a trillion dollar economy."

Except that taxes were generally lower than any other OECD country manufacturers did not get any special tax breaks.

Most of MITI's help was given to Japan's ne're-do-wells - agriculture, coal, naptha, ethylene, aluminium and shipbuilding. Of these only shipbuilding is successful. Japan's winners, automobiles, hi-tech and consumer electronics got almost nothing. Machine and information industries (which include computers) received only 2.5% of their total investment from government loans during 1961-65 and only .8% in 1976-79. MITI even advised HONDA not to make a car!

Japanese industrial policy has failed but it has been much smaller than our own.