Statistics As Infrastructure

It is gratifying that the Meeting of the Heads of National Statistical Offices of ASEAN Countries and Japan sponsored by the Statistics Bureau of the Japanese Prime Minister’s Office has successfully completed its work, and one looks forward to a similarly fruitful end to the 1980 population censuses which are underway in each country. At the same time, one strongly hopes that the 1980s will be the decade that sees the final establishment of statistical organizations in the ASEAN nations.

The ASEAN nations are now beginning to emerge from the ranks of the economically underdeveloped. They have, to use popular jargon, “taken off,” and are beginning to experience rapid economic growth. However, specialists who participated in technological aid programs designed to assist these nations in economic planning at the national and regional levels were often left with a strong sense of dissatisfaction. For the statistical data that are vital to the planning process were unsystematically filed and frequently missing, making it impossible to compile a consistent time series.

For these reasons, the plans drawn up often ended as little more than literary exercises, lacking sufficient checks to verify the accuracy of their quantitative results and to gauge the possibility of role assigned to modern statistical organizations employing high-speed computers and the latest data-handling techniques.

Ippei Sugiura
Professor at Wakayama University

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U.S.-Japan Economic Relations
And Industrial Policies

Interview with William V. Rapp
Vice President, Motor Company
and Visiting Professor, Columbia University

By Chikara Higashiguchi
Visiting Scholar, The Brookings Institution

Higashiguchi: Thank you very much for today's interview for Look Japan. I would like to cover the following three topics: first, Japanese industrial policies and economics, second, U.S.-Japan economic relations, and third, current U.S.-Japan economic relations. First, about Japanese industrial policies, I understand almost all countries have industrial sector planning. What are those factors in your view?

Rapp: I think the major reason is the high level of savings and investment that made a non-inflationary rapid industrialization possible. I think that's the real reason that Japan is so successful. Other countries just didn't have the savings and capital formation that Japan did.

Higashiguchi: Why do you think Japan has higher rates of savings and investment? Rapp: Well, I think that was a conscious decision of Japan's industrial policy.

Higashiguchi: Industrial policy by the government?

Rapp: By the government. In the early 1960s, after World War II, Japan realized that it had to industrialize and that this was going to require large levels of savings and investment. That industrialization was going to be competitive, you had to have a competitive industrial sector and the only way you could develop that was with a high level of industrialization. Japan chose not to be inflationary as it had been in other countries and it had to be supported by a high level of savings.

Higashiguchi: On the other hand, some people wonder about the future role of the Japanese government, particularly MITI, in industrial development. In a hearing of the Joint Economic Committee on July 26, 1989, you clearly and complimentarily explained MITI's role in guiding economic industrial development. In the past, however, MITI had more effective tools which included effective administrative guidance (Gyosei Shikaku) based on traditional business-government relations and administrative, and political tools that included statutory power to allocate foreign exchange or import quotas, authority to permit industrial or investment planning, low interest rate loans, and tax privileges. Now, as today's trade and foreign exchange policies are almost perfectly liberalized in principle, and as Japanese industries have more financial and technological independence, the hope of their own entrepreneurship and as the world is changing very rapidly, there must also be changes in the government's role.

Rapp: I would say MITI's role has been substantially reduced. Because, in addition to the reasons you mentioned, of the fact that many new industries such as medical equipment and pharmaceuticals, prefabricated housing, computerized telecommunications that have been identified as being areas of the future are not under MITI's control. They are under the Ministries of Health, Transportation, Construction, etc. These Ministries, that have been considered second-rate ministries for so long, are now enjoying their new status and, of course, are not as about trying to up power to MITI. In fact, I would say that these ministries are very uncooperative. MITI, I gather, has set up shadow sections to attract some of these industries. There's some frustration, but I

terminating the labor force in the 1980s than in the 1970s, you're having a falling of the rate of growth there anyway. That other side is that unless you do invest in the foreign enforcement factors may rise and take your markets away. You may actually lose more by not investing than you will lose by putting production overseas. So, with overseas investment, you are actually continuing to control your markets.

Higashiguchi: Overseas investment would make it possible for scarce resources like the labor force to be allocated to more sophisticated and more valuable industries. In that sense, it is not only desirable but also necessary, and excessively drastic overseas investment would cause a shift in employment. Rapp: But all studies indicate that it is those U.S. industries that have invested overseas that are now able to compete successfully with the Japanese. These in trouble are the industries that never invested overseas. With the idea of making and producing for the U.S. market, overseas with the idea of having global production have been able to compete — Caterpillar Tractor, Texas Instruments, IBM and so on. But the ones who stayed domestic and allowed Japanese competition don't think it's all that important whether or not MITI has control over the Japanese market. It is important. Higashiguchi: For the country? Rapp: Because the economy is strong enough and because the mechanisms, particularly the incentives for savings are still there, the country is still generating the highest rate of capital formation in the world and everything else being equal, that would mean a higher real rate of growth and economic success. Where it will prove difficult is in the new high technology industries, because the markets are so open that it is no longer possible for a Japanese producer to capture the entire Japanese domestic market. In addition, many major Japanese industries are still quite strong — like steel, automobiles or something like that. They are not about to be phased out. They're continuing to produce. They have expanded overseas. Higashiguchi: In the past, Japanese GDP, exports, trade balance and employment were exaggerated to the extent that Japanese overseas investment was clearly a plus in the national income achieved within Japanese territory. But as you have suggested on numerous occasions, Japanese industries are going to have to go overseas for investment. If, in the process, the capacity overcapacity would bring forth pressures on the profit margins of Japanese GDP, export and employment as in the U.S. during the 1970s.

Rapp: Several things are happening. First of all, because fewer people are

All studies indicate that it is those U.S. industries that have invested overseas that are now able to compete with the Japanese. Those in trouble are the industries that never really invested overseas with the idea of making and producing for the U.S. market.

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However, in the late 1960s, while U.S. multinational corporations were still growing in many overseas markets, the U.S.uki business cycle reflected in the rise of Europe and Japan, the erosion of the productivity advantage and the deterioration of its value of payment. In the 1970s, the U.S. economy was far healthier and thus not as competitive. The power, although it grew faster than EC countries, the relatively fast growth, in fact, resulted in double digit inflation due to excessively speculative demand and pushed up business costs. This situation is not likely to happen in the U.S. economy in the 1980s or 1990s. First of all, why did the U.S. decline in competitiveness? I would say that the U.S. has a lot of money, and we are not reducing the tax rates, and we have higher rates of productivity without building new plants. Our tax structure has oriented us towards a consumption society and because of this we are lacking a capital good sector. The power of the economy is toward the service or high technology sector with the relatively knowledge-intensive industries and are people-intensive businesses. We pay a lot of money for the big and small, into educational development. Our people are getting a high school and college education.

Higashiguchi: The service sector, particularly high technology industries — the computers, the automobile, the electronics, the cars, these are the industries that are becoming most competitive.

Rapp: What is good and bad about the trend toward expanding the service sector?

Higashiguchi: I would like to go into the American economy. After World War II the U.S. economy was the only one in the world. This industry, which invested overseas, was unquestioned until the mid-1960s.
Higash: So this tendency cannot continue.
Rapp: No, cannot continue. You've also got to have defense considerations. You've got a security problem. The other thing is that even though it's becoming a smaller and smaller part of the $2 trillion economy, the generator of employment is obviously the more important sector and also is a very large part of the balance of payments and the balance of trade. If we were living in a vacuum, that would be one thing, or if we were able to sell our services with the same degree of freedom or were able to sell our goods, that might be alright. The fact of the matter is that just in order to

Keynesian economists had always assumed that savings and investment rates were culturally, historically and institutionally determined. It is proved that the government has the power to change, to create and to influence these factors.

have a reasonably strong currency, we need to be competitive in food and automobiles, at least to be able to satisfy our domestic market and probably also to export some. Weakening dollars creates a competitive advantage for our international economic, political, economical and military problems. If we had had a stronger industrial sector, the dollar would be strong. The reason this discussion is not very relevant is that all kinds of reserve revaluation or diversification account. All these things would be irrelevant and people would be delighted to hold dollars.

Higash: The sudden popularity of supply side economics among U.S. political and economic leaders must be related to the concomitant rise of productivity and declining relative power of the industrial sector.

Rapp: Well, not really. Before Keynes we had a laissez-faire economics which was focused, at least in the sense focused on the supply side of the economy. But there was certainly no management associated with it. What you're really talking about, and this is what happened when we realized that supply-side economics don't really understand what they are talking about. It is not a return to this classical situation, but a management or a government that can impact government policy and of the impact of government policy on the supply side as well as on the demand side of the economic equation. When you talk about supply side economics, what you are really beginning to say is that the supply side of the economy can no longer be taken for granted. I think what has happened is that the world has become more complex and a result of demand management policies, the government has introduced more and more economic policies. Two separate things are going on here. One, you've got this impact on supply. Within that you have a macroscopic and a micro-im

The Macroimplications says that anything that affects savings and investment will affect the supply side of the economy. In effect, what you're talking about is no longer just a matter of ups and downs in any single sector, but also the long term growth trend by having management and planning. Higash: You can manage the growth trend. What many

Rapp: It's not because the Japanese are working four times as much. The most competitive plant in Japan, which produces 76 cars per worker per year, is Datsun's auto plant which is totally automated. So it can't be because the workers are working harder. The idea of moral suasion is absurd. The only way you are going to get 1960 quality is with 1960 equipment. And this is the major reason, I think, for the high quality of the Japanese products. If we look at those American industries which are competitive, like IBM, they are very highly automated. They are constantly renewing their equipment. The major factor is capital investment. I think it's helpful and certainly is important to solve the animosity between capital and labor. But one of the major reasons that it has to be solved so that unions won't be upset by having a more automated facility. The major thing that has to be productive investment is a problem. But if you are generating enough savings, it's no longer a problem. That's why it wasn't a problem in Japan.

Higash: You say the problem is the low savings rate and investment, which has been attributable to inappropriate government policies. Don't you see any fault on the part of American corporate executives for the inadequate investment in the U.S.?

Rapp: There certainly have been problems, but we can certainly point to a lot of industries where there have been a lot of major strategic developments, like computers, semiconductors, industrial aircraft, or agriculture, for instance, where that hasn't been a problem, and where there's been a lot of innovative management. We can also say there have been a lot of companies that go out of business in Japan and obviously there are a lot of, therefore,

On August 17, 1988, Mr. Higash (right) and Dr. Rapp (left) met with President Johnson in Copenhagen. They discussed Japanese industrial policies and economy, the U.S. economy and supply side economics, and U.S.-Japan economic relations.
Higash: It seems to me that a basic undertone of Japan's trade front is that Japan needs to have surpluses with advanced industrial countries particularly with the U.S. to pay for raw materials...

Rapp: Foreign investment is an important aspect. There is a tremendous opportunity, for instance, for Japanese steel companies to come here and build 10 mil.-ton-a-year facilities.

Higash: But if the U.S. system is wrong as you have described, how can the Japanese or the Europeans successfully invest here if they are going to compete in the same environment as their U.S. counterparts?

Rapp: First, they have more modern plant equipment from which they are immediately giving benefits.

Higash: Why cannot American management do the same? Do you suggest that the significant managerial differences exist between American and Japanese or European executives?

Rapp: Well, tax incentive have not been sufficient. Many of the basic industries, particularly those firms which are at the margin, just don't have the debt capacity. They can't raise the equity because they are selling at very low multiples. They don't have the depreciation rates because their plants are so old. What they really need is some sort of tax and build incentive, some sort of replacement cost accounting which will give some tax benefits to the companies to make a claim on the Treasury. In fact, some companies have already done that. The problem is that the cost to society is very high. It's a big cost to society, the basic industry, the heavy, capital intensive industry, skilled labor intensive industry. I think those firms will be stronger and more competitive.

The other possibility is that nothing will happen. American industry will continue to fall further and further behind in some of these spectacular bankruptcies like Chrysler. Because you have created an investment vacuum where so much of American industry is operating with obsolete plants and equipment, you have potential foreign competitors coming in with modern technology, which is an incentive even for them to do it. And I'm not talking now just about the Japanese, I'm talking even more about the Europeans. People like Mittal. German chemical companies, the fiber business, the basic chemical business. You have steel companies coming in and fabricating industries and so on. Those people are coming at the present rate and if they're going to invest. They are building in the South, the Sun Belt, and I think they are going to be highly competitive. This is in fact one of the reasons that I would argue the Japanese almost have to invest in the U.S.

Higash: But if the U.S. system is wrong as you have described, how can the Japanese or the Europeans successfully invest here if they are going to compete in the same environment as their U.S. counterparts?

Rapp: The reason is because the Japanese steel companies to come here and build these large facilities. There is a tremendous opportunity, for instance, for Japanese steel companies to come here and build these large facilities. Through an aggressive financing program by the U.S. and Japanese banks, you can begin to build synthesis plants or coal plants and begin to supply U.S. energy needs, particularly power needs. There is demand in Japan. There is some discussion now in Japan and in the U.S. about the coal project.

Higash: Coal facilities. I know that in Virginia the program for synthetic fuels is in progress among Japanese, U.S. under the strong and effective leadership of Governor Rockefeller.

Rapp: I think that should be done much more rapidly and aggressively for much larger quantities than should be supplied being. I think the Japanese government should take the lead in this.

Higash: In 1978 when the U.S. suffered a nearly $12 billion trade deficit, the Carter administration proposed some structural adjustments. Are you familiar with this? I understand it was basically that the Japanese economy should be less export oriented and more import oriented, whereas the U.S. economy should be more export oriented and more consumption oriented.

Rapp: I can see that Japan will become somewhat less export oriented because of its dynamic growth. At the same time it's going to become less import oriented. So I think those things will go together. It's not as if you're going to be reducing exports and then all of a sudden you're not going to be able to pay for your imports, because clearly if you move steel facilities offshore or wherever, you are going to be cutting down on your imports as well.

What you do, the current major issues between the U.S. and Japan? Do you have any general comments on them?

Rapp: I would say that the U.S.-Japan situation is a natural result of what is likely to happen when you have one country pursuing relatively independent economic policies and another country which has no logical consequence is that the industries in the more intelligently managed economy are going to be more competitive and that side is going to lose markets and go out of business. It's a very logical, if we are able to solve our problems and pursue more appropriate economic policies, particularly in terms of capital flow, there will still be problems, but they won't be as large as the magnitude that they are now. What will be important is where Japan will be less competitive, in effect, be dominating certain segments and the U.S. will make the overtures particularly in the U.S. would help ease the pressure in the trade relations.

Higash: Do you think that economic friction is to stems from factors, perhaps in the U.S., such as Turkey, Egypt and Pakistan, or are these factors particular in the Japan, would help ease the pressure in the trade relations.

Rapp: They help. One thing that could be done, certainly, is in the energy area. The Japanese should be much more aggressive about trying to come in with the U.S. government and trying to ease the energy problem.

Higash: If you think that that energy problem should be given a large amount of importance.

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