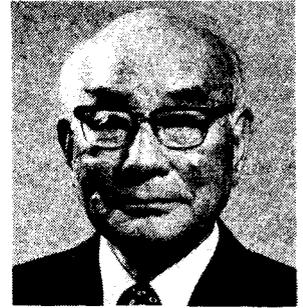

Interview: Toshio Doko



Japan's 'prime minister of business' discusses the economy's dilemma

For the leadership of Japan, now enmired in a crucial national election campaign that will name a new prime minister, no issue is of greater importance than the decline of the world economy, which is creating severe difficulties for the previously-vibrant Japanese economy. As a nation highly dependent on world trade, especially exports of capital goods to the developing countries, Japan's declining export levels are causing the usual symptoms of recession in the country: reduced tax revenues, growing budget deficits, and stagnating living standards.

Without a revival of world trade to boost Japanese exports, conditions in the Japanese economy can only worsen.

Confronted by this crisis, a heated debate has broken out in Japan. Should fiscal and monetary stimulation be used to boost the economy and "tide over" the world crisis? Or is the crisis longer-term, requiring government cutbacks and social austerity? Profoundly related, but rarely discussed in public, is the politically acute question of whether Japan can make independent initiatives to help revive the world economy.

No one in Japan is more central to this debate than 86-year-old Toshio Doko. Formerly the chairman of Japan's leading business federation, Keidanren, Doko is one of the most powerful men in the country, and is sometimes referred to as the "prime minister of the business world." It was for good reasons that outgoing prime minister Zenko Suzuki named Doko to oversee efforts to carry out "administrative reform" in Japan as chairman of the government's Administrative Reform Commission. A program to promote efficiency and reduction in government expenditures, the campaign for "administrative reform" is the chief attempt currently being made in Japan to "adjust" the economy to the global economic downturn.

An engineering graduate of the Massachusetts Institute of Technology, Doko was one of the central figures responsible for the remarkable post-war recovery of the Japanese economy. He made his mark in the business world as president of Ishikawajima-Harima, one of Japan's foremost ship-

building companies. He pioneered the building of oil super-tankers, repeatedly astounding skeptics by making them larger than conventional wisdom held possible. He pioneered the building of the first 50,000-ton tanker, then the 100,000-ton tanker, and finally the 200,000-ton tanker. He later moved on to become president of Toshiba, a giant manufacturer whose products range from washing machines to nuclear reactors.

The dilemma

Now, in heading up the administrative reform campaign, Doko may have met his match—an impossible task of using budget cuts and other efficiency programs to reconcile the Japanese desire for continued economic growth and prosperity with the declining world economy. No matter what, the two just don't go together.

The dilemma involved is that, in the face of stagnating world trade since 1973, then absolute declines in world trade due to the Khomeini oil shock and high U.S. interest rates, the Japanese economy has become dependent on huge government stimuli to make up for the demand previously provided by trade.

Massive cuts in the budget could end up simply deepening an already serious recession in Japan. At the same time, the policy of using government spending to tide over the recession has led to giant budget deficits, which by 1977-78 had reached more than 30 percent of the entire budget. Under conditions of stagnation in the economy's industrial base, such deficits simply cannot be maintained. Unless the world economy and Japanese exports grow, economic disruptions will continue in Japan whether the budget is cut or expanded.

Prior to the 1973-74 oil crisis, Japan did not have to worry about budget deficits. The high-growth economy was producing such large public revenues that Japan was able to make sizeable tax cuts quite regularly, in addition to large government outlays for infrastructure and capital investment.

The first oil crisis changed this. Japan faced its first seri-

ous recession of the post-World War II period, suffering zero growth in exports in 1975, which in turn forced large cuts in imports so as to avoid unmanageable trade deficits. Successive premiers decided to "buy time" until a hoped-for world trade recovery, by running ever-larger budget deficits.

No one in Japan expected this situation to become permanent.

Then came the Khomeini oil shock in 1980 and Paul Volcker's high interest rates, which caused additional declines in world trade. So far this year, Japan's exports in physical quantity are down more than five percent from 1981, and industrial production levels are also down. The continued recession has wreaked havoc with the already large government budget deficits, leading the government to introduce the demand for zero growth in expenditures in the 1982 budget, save for several priority items.

The budget question

For fiscal 1983, the outgoing Suzuki government has planned for a 5 percent budget cut. Moreover, with the recession continuing, even these cuts will not be sufficient to meet government guidelines; failed expectations for recovery of the U.S. economy in 1982 caused over-estimation of government revenues, promising a higher-than-expected deficit.

Doko's Administrative Reform Commission was charged with finding ways to meet the government desire to reduce the budget deficit *without raising taxes*. Prime Minister Suzuki, who staked his political life on ending the deficits by 1984, resigned in part in realization that the budget problem was still out of control.

One candidate to replace Suzuki as premier, Economic Planning Director Toshio Komoto, is an opponent of the administrative reform program; he is strongly arguing that Japan must take any measures necessary, including continued budget stimulation, to maintain at least 5 percent domestic growth rates. However, like the administrative-reform advocates, Komoto has said little on how to revive world trade and Japanese exports.

Among Mr. Doko's many distinguished positions, he is chairman of the advisory commission studying the Global Infrastructure plan (GIF) proposed by Masaki Nakajima of the Mitsubishi Research Institute (see *EIR*, Feb. 23, 1982). A plan for huge investments especially in the developing countries, the GIF plan and similar plans provide a readily feasible—if politically controversial—means to revive the world economy.

EIR Asia Editor Daniel Sneider interviewed Toshio Doko in Tokyo on Oct. 21.

Sneider: You have been directing the Administrative Reform Commission which is dealing with some of the economic problems of Japan. From that standpoint, I would like to ask you two questions. First, how serious is the problem in the Japanese economy today, and, secondly, do you think

that the problems of Japan are basically internal problems, or are they the result of conditions outside of Japan, the international situation?

Doko: Basically, I think the problem is domestic in nature. Of course, it has something to do with international conditions, but basically the problem is domestic. Since three years ago when we suffered from the rise in oil prices, I have kept saying to the Japanese government that we should proceed with administrative reform.

It has been more than 100 years since Admiral Perry arrived in Japan, and it's now 30 years since World War II. The changes that have taken place in the 30 years since the war have been very significant. However, the organization of the government in Japan has not adjusted very well to these changes. During these years, there have been several attempts to proceed with the administrative reforms, yet unfortunately, because of serious fiscal problems, no such plan has been successful. But now, the situation is such that without administrative reform Japan will be faced with a really serious problem. So, this time, I was asked by Prime Minister Zenko Suzuki to take care of the administrative reform. There will be many difficult problems to be overcome. To make the reform successful, we will have to make the big decision to maintain the reforms even if there is really strong resistance from various circles.

Mr. Suzuki expressed his strong willingness to proceed with the administrative reform, so I have accepted this request.

As I mentioned, there have been very significant changes in Japan since the war. Japan was completely destroyed by the end of the war, so many people thought it would take at least 30 to 50 years for Japan to recover from the serious damage. However, due to favorable cooperation from the United States, Japan is now in a greatly improved situation.

During the 1960s, the Japanese economy achieved growth rates of more than 10 percent annually, and Japan enjoyed a large surplus in revenues. During this growth period, the government grew very large. When the situation changed after the 1960s, Japan entered a stable, or low-growth, period economically, and the government and private industry were urged to learn to cope with the new situation. Changes were made in the industrial structure of Japan to meet the new situation. At the time of the oil shock, Japan had to import close to 100 percent of all its oil, and oil supplied upwards of 73 percent of Japan's total energy supply. Industries had no real choice but to undertake reforms.

So, the oil shock of the 1970s created problems following the period of high growth of the 1960s, and Japanese companies tried to take action to cope with the problems.

On the other hand, the government did not take any counter-measures to cope with the changes. I asked the Japanese government to undertake administrative reform, since during a period of stable economic growth we cannot expect a large increase in revenues, and we could not rely upon a tax increase. In order to cope with the new situation, we urged the

government to try to cut down its size.

Also, by the end of the 1960s, the Western countries had established well-organized social welfare systems, and Japan also started to introduce such a system domestically. Now, Japan has a social welfare system functioning quite similar to those in the West. But these systems gave rise to an increase in expenditures, to which industry had to contribute to maintain the system. The cost burden for the Japanese government to maintain our social welfare system is quite comparable to that in the United States.

Trade relationships in the world have also changed, so Japan has also had to take effective counter-measures to cope with these trade relationships. We have less than 20 years until we enter the next century, so for Japan to be successful and to prosper in the 21st century we have to take some drastic action at this moment.

We have experienced a large increase in the number of elderly people in Japan. Japan is perhaps the country with the highest life expectancy in the world and this trend will become more serious in the next 10 years to come.

The larger the Japanese government becomes, the more the people have to pay in expenses. As much as 35 percent of the Japanese people's income is paid in taxes or to support welfare programs, and this ratio is expected to go up to 50 percent in the near future. Fifty percent is the level in the Western countries, and we can not afford to do that!

After the oil shock, Japanese industry was revitalized to cope with the problems, and at this stage we have a more favorable situation with regard to unemployment and inflation than other countries in the world. However, the government did not take reasonable counter-measures to deal with the problems, and they are still headed on the same course they pursued during the high-growth period, including intervening with private industry a little too much. There are many examples of inefficient government-run enterprises, such as the railway, and there are an additional, over 200 special government corporations, most of which operate in the red. Sometimes, some of the interferences by the government halt the vitality of the private industry.

So, this is the domestic problem. There are also the increases in government bonds issued, which now total 100 trillion yen, or something like \$370 billion.

Sneider: The world economic situation is very critical at this time. What do you see can be done by Japan in this situation, perhaps an "administrative reform" of the world monetary and trade system? And, do you see the possibility of regaining high economic growth in the future, perhaps by developing the less-developed countries as new markets?

Doko: Since the end of the war, at which time Japan was destroyed, Japan has grown to the point that we have now approximately 10 percent of the world's economy. Japan has to assume the international responsibility comparable with its weight in the world economy. This is the responsibility of

the government.

The Japanese government has been providing economic assistance to the developing countries, but for the government to increase this assistance to the Third World the Japanese economy must be in a healthy state. This is one of the main purposes of the administrative reform.

Regarding high growth rates, we do not think that this will be necessary or desirable. We would like to have more stable economic conditions, with less inflation and less unemployment, and we should have a reasonable level of social welfare. Beyond that, if we have extra funds, maybe we should investigate the kind of contributions we will be able to make to the developing countries.

So, we are now looking at what should be done over the next 20 years, leading into the 21st century. We do not expect high economic growth; maybe what we expect is an increase in the rate of 3 to 4 percent annually.

Japan has no natural resources, no significant energy source, and Japan has to import a large amount of food. So, Japan has to rely upon trade for its future prosperity, and we will continue to have trade relations with the countries that have abundant natural resources. What Japan should do is add very high value to the products imported from the Third World and other countries. But Japan should not just buy natural resources and export products to other countries in the world. Perhaps in the future Japan should import the natural resources after some value has been added, and then Japan should add even more value to the product, and then re-export.

So, to summarize: The first thing we have to do is make our domestic economy as healthy as possible. Japan will continue to rely on imports from other countries, so we must assume more international responsibility for the world economy. Five years from now, Japan would not be in a position to undertake the administrative reform. We must make the reforms at this very moment. That is why I am working so hard on this right now. This is not only the task of the government; the Japanese people must not overly rely on the government, they must stand on their own feet and be as autonomous as possible.

We will have to have a mutually beneficial relationship with the Third World in the future. The government is saying we will have to have a 5 percent growth rate, but I think 4 percent will be enough.

Sneider: As my final question, I would like to know your view on the future industrial structure of Japan. What do you envision to be the "leading technology" of the next 20 years?

Doko: The steel industry is not growing any more, and the aluminum industry relies so much on imported materials. Since Japan has to have a trade relationship with foreign countries, perhaps Japan should place more emphasis on the high-value-added productive areas in the future. Japan has a lot of problems to be solved.