

## Yen!

### —Japan's New Financial Empire and Its Threat to America

By Daniel Burstein

Published by Simon & Schuster

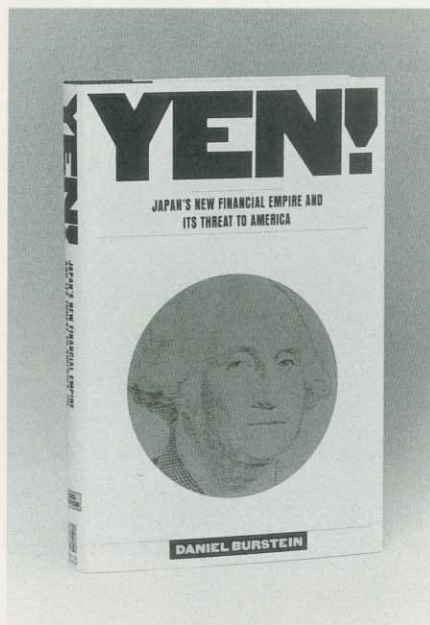
1988, New York

335 pages; \$19.95

This work uses the microscope of money to look at Japan-U.S. relations. Because the author is a journalist, the work is very approachable and a deceptively easy read. Yet because it is written in the journalistic style, there is a danger that it may fan the flames of anti-Japanese sentiment. This danger is exacerbated by the fact that the author has selectively quoted the most provocative Japanese comments and has left out the ameliorating "other side," with the result that Japanese are depicted as boastful about their economic accomplishments and scornful of America's weaknesses. This is not the picture one gets from living in Japan and reading the Japanese press daily.

The prologue, for example, is a storyboard written for dramatic effect: "November 2004. America, battered by astronomical debts and reeling from prolonged economic decline, is gripped by a new and grave economic crisis.... (T)he president-elect and the voters... see only a single cause and a single culprit for America's problems: the Japanese." This is, of course, a hypothetical scenario, but it may be difficult for the reader to separate fact and fiction when the pages that follow detail how Japanese money and Japanese business interests are gaining dominance over many sectors of the American economy. It would be unfortunately easy for the careless reader to come away with the impression that the Japanese are an insidious lot seeking to buy America's soul.

The world's largest creditor country since 1941, the United States suddenly became the world's largest debtor country (falling into deficit in 1986). And the shock of this downfall is probably doubly hard for America to swallow because the country that has come in to fill the gap and finance America's debt is Japan—the



very country that America defeated in the war. Burstein reports hearing Japanese muse that it took England 100 years to become the richest country in the world, the United States 50, and Japan five. He cites the following items as demonstrating Japan's clout as a financial power:

- The United States government relies on Japanese investors to finance 30% of its deficit.
- All of the world's 10 largest banks ranked by deposits are Japanese.
- The four largest Japanese securities companies are now among the world's largest.
- The total market value of all the shares on the Tokyo Stock Exchange surpassed the total market value of all the shares on the New York Stock Exchange in early 1987.
- Japanese banks control nearly 10% of U.S. retail banking assets.
- Japanese investors have bought about \$18 billion worth of prime U.S. real state over the past three years.
- Japanese investors own more than three-quarters of the equity in the 20 hotels along Hawaii's Waikiki Beach.

Burstein's list of items goes on and on, driving home the message of Japanese financial domination. At the same time, he is sharply critical of Japanese financial

policies, saying that Japanese procure super-low-cost money from domestic sources and then manage these assets for maximum profits overseas in high-yield markets. And at the same time, he says, Japan has in place some of the most protectionist financial policies of any industrial country.

Comparing the openness of the two countries' financial markets, Burstein notes that foreigners are not permitted to buy shares in Nippon Telegraph and Telephone Corp. (NTT) on the Tokyo market, that the Ministry of Finance has looked askance at purchases of Japanese government bonds by foreigners, and that there are a host of other restrictions in place; and he warns that if things continue as they are the dollar will cease being the world's key currency, American industry will go into domestic decline, and American workers will be reduced to doing menial manual labor while Japanese workers do the thinking and management. In addition, he says, Japan will have no choice but to become a military power to protect its overseas investments.

Much of this situation he attributes to the policy failure of Reaganomics. On the prescription side, he lists policies he favors in nine basic areas—including reducing the budget deficit (through an increase in the gasoline tax, the issue of "American 21st-century bonds," wealth bonds, etc.), strengthening the dollar, freezing financial deregulation, putting more emphasis on reciprocity in financial markets, and pressuring Japan to invest in developing countries.

This is, as the author says, a patriotic book in the sense of calling for a return to the tradition of American ingenuity and competition, but it argues for regulating the free flow of capital and runs the risk of fueling economic nationalism. At the same time, the general reaction to this book in Japan seems to be that Burstein has an exaggerated view of the Japanese economy's strength. To suggest that the yen will become the world's key currency is to vastly overrate the yen. And to worry about militarism in connection with Japanese economic might seems a massive leap of conjecture.

While the United States is losing to Ja-



pan in terms of money flow, it still retains a considerable edge in terms of military power and such stock items as wealth (cultural facilities, housing, standard of living, etc.).

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## America in the World Economy: A Strategy for the 1990s

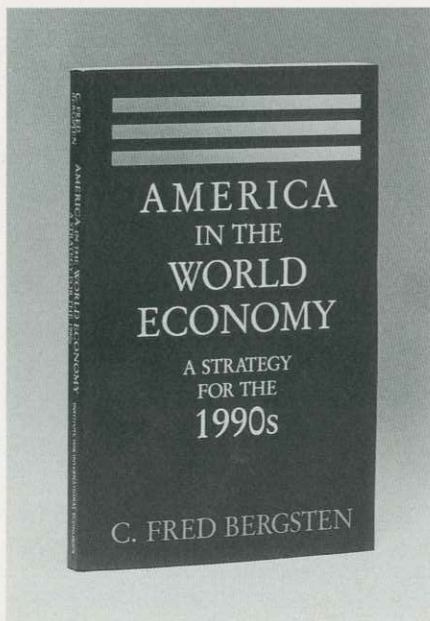
By C. Fred Bergsten  
Published by the Institute for International  
Economics  
1988; Washington D.C.  
218 pages; \$29.95 (cloth)/\$13.95 (paper)

This book is not based on extensive original research. The book's purpose is rather to draw the results of the research done by the Institute for International Economics over the seven years of its existence together in a systematic manner and to offer economic policy recommendations to the new administration taking office in the United States.

Consequently, the book contains policy advice on just about every major economic issue facing America: rectifying its massive internal and external imbalances, resolving the debt problem, and trade policies to encourage and ensure free and open world markets.

This book brings home a number of basic economic truths—such as the fact that America cannot continue indefinitely to consume more than it produces. If it does, says Bergsten, then it will cease to have access to the policy tools it needs to rescue the economy from recession. Concerning America's eroding international economic position, the author emphasizes that "failure to take preemptive steps usually makes it necessary to adopt stronger reactive measures later, when the situation has worsened." This is the kind of advice that Japanese will be glad to hear a thoughtful American giving.

But the bottom line is how Americans



view the problem. Bergsten emphasizes, "Historically, most American economic (and other) policies have been determined on strictly domestic grounds... With the increase in America's dependence on world markets and the decline in its ability to dictate global outcomes, that approach is no longer viable." From the Japanese perspective, the very fact that Bergsten has to argue for an updating of American perceptions at all is indicative of the newness and seriousness of the problems America faces.

Economic survival is intertwined with and interdependent on what happens in the rest of the world. This is axiomatic for Japan. Time and time again, the Japanese have been made painfully aware of the need to rein in domestic demand for international balance of payments reasons. Indeed, it is precisely because of this that the government and private sector have placed such a high priority on achieving competitiveness within an open economic system. Now it is America's turn. The answer, according to Bergsten, is for America to pursue a strategy of "competitive interdependence."

In recognizing the reality of interdependence, America must be guided by the need to emphasize policy cooperation with Japan and West Germany, as

well as with such economies as Taiwan and South Korea. The author notes, however, that even though the world has now shifted to a pluralistic power structure, the United States is still the largest single country, both economically and militarily, and holds a "veto" over other countries' initiatives. Bergsten feels that America can continue to provide active world leadership if it maximizes its three main advantages—its huge domestic market, its role as issuer of the key international currency, and its position as its economic partners' military protector.

Awareness of the need for America to regain competitiveness has in turn led to an array of proposals to reduce the budget deficit, promote exports and prop up the international financial institutions. Nonetheless, the author recognizes that it will not be easy to implement these policies. This is why he repeatedly emphasizes the importance of prioritizing administration policies and hiring the best people available to work in government.

Of course, there are passages in this book with which I disagree. For example, I would take issue both with his blanket statement that there is no contradiction between short- and long-term policy goals in attempting to alleviate America's external imbalances and with his simplistic claim that there are no basic conflicts among the leading industrial countries' foreign and domestic policies. Additionally, I have trouble agreeing with his assessment of the compartmentalization of the economic and defense sectors.

Apart from these few reservations, however, it is safe to say that the book does a very good job in tackling its stated purpose—presenting valid policy alternatives for the United States government. Indeed, the Bush administration's effort to reduce the deficit and the proposals by the United States, Japan and others for dealing with the Third World debt problem seem to be based on thinking very similar to that expressed in this book.

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