



# Japan's \$500 billion plan to finance global development

by Richard Katz

Agreeing with West German Chancellor Helmut Schmidt's evaluation that the greatest threat to world peace is the danger of a new depression, Japan intends to bring to the next summit meeting of the seven top industrial nations an unprecedentedly huge, \$500 billion plan for world development in order to end the depression. Although Tokyo has already announced it will make a demand to lower U.S. interest rates a subject for the upcoming seven-nation summit this summer in Paris, Prime Minister Zenko Suzuki's administration is concerned that this is not enough. Tokyo fears that without positive measures to end current economic stagnation, the world economy will sink into depression like the 1930s, and that depression could lead to war just as happened a generation ago.

At the summit, Japan will propose a \$500 billion plan for massive infrastructural investment in the developing countries over the next 20 years. With projects for the agricultural and industrial modernization of the Third World—projects ranging from greening of the Sahara to massive hydroelectric and irrigation projects for the Himalayas—the purpose of the plan is to use the resulting economic stimulus to stop a new world depression while avoiding the evils of an arms economy.

The plan was originally developed by the Mitsubishi Research Institute in 1978, and has now been adopted by Prime Minister Zenko Suzuki as official policy. Minister of International Trade and Industry Shintaro Abe is instructed to sound out the reactions of U.S. and European leaders during a Jan. 14-15 meeting of Trade Ministers in Florida and perhaps also during a private meeting in Washington with President Reagan Jan. 18, according to the Jan. 3 *Yomiuri Daily*.

To develop domestic and international support for the plan, Suzuki has set up a high-powered council

chaired by Toshio Doko, the former chairman of the major business federation Keidanren.

The Japanese proposal envisions a \$25 billion-a-year fund, including \$5 billion each from the United States, Japan, and West Germany, plus \$5 billion from OPEC and an additional \$5 billion from a group of other advanced industrial nations. Over a 20-year period the "Global Infrastructure Fund" would finance 12 massive projects such as: construction of new canals across Thailand and Nicaragua to shorten and cheapen sea transport; greening of the Sahara, Sinai, and Arabian deserts to make agriculture possible; creation of a giant lake using a dam on the Congo River to allow irrigation of the fertile Sahel area; and massive water projects on the Himalayan river chains to allow hydroelectric and irrigation developments for the modernization of the Indian subcontinent.

In the face of U.S. economic policy marked at best by negligence and at worst by Volckerism, Tokyo has decided it must make some independent initiatives. Tokyo is also mindful that unless steps toward expanding the world economy are made, it will almost inevitably face trade wars echoing the tragedy of the 1930s.

Thus the Suzuki administration's motivation in pushing this plan is the prevalent view in Japan that the economic depression of the 1930s caused the wars of the 1940s and the relevant fears generated by the current economic crisis. Many Japanese leaders agree with West German Chancellor Helmut Schmidt's comment to the *New York Times* that the danger of a new world depression, rather than the Polish crisis per se, forms the greatest threat to world peace. Indeed, a recent report of Japan's Economic Planning Agency asserted that the

*Above: Japan's Sakai shipyard.*

source of growing East-West tension is world economic stagnation, exemplified by Poland's problems. Prime Minister Suzuki sent top Foreign Ministry official Toshiaki Muto on a 12-day tour of Europe, with due emphasis on West Germany, to coordinate reactions to the Polish crisis. Japan has already said it will follow the European policy on Poland.

Two features of the global development plan indicate how Japan wants to use the economic program to break up the institutional logjams that lead to East-West confrontation and world economic stagnation. Firstly, according to a leak in the Jan. 3 *Yomiuri*, Tokyo is considering inviting the Soviet bloc to participate in the development scheme. If implemented, this feature would break down the Cold War division of East and West economic blocs and is the first such proposal on that scale since Franklin Delano Roosevelt proposed a \$6-10 billion postwar reconstruction aid package for the Soviet Union during World War II. This feature underlines the "peace through economic development" motivations of Tokyo policymakers. Secondly, according to the *Yomiuri*, the plan's sponsors think such a special fund is needed "because such existing international bodies as the United Nations and the World Bank have ceased to function effectively as a result of international disputes and North-South confrontation." Japan's business and political leaders, who have a great deal of expertise in the matter of turning developing nations into industrial powerhouses, are well aware that the anti-industrial biases of the World Bank leadership form one of the greatest obstacles to the modernization of the developing countries. Tokyo believes that industrialization of the Third World is a prerequisite for restoring economic health in the advanced sector.

### **Mitsubishi economics versus Keynes and Friedman**

It is fitting that the proposal was developed by Mitsubishi, since this business group was set up de novo in the 1870s by the founders of modern Japan specifically as a vehicle to import the economics of Alexander Hamilton and Lincoln-advisor Henry Carey to Japan. These were the ideas, specifically counterposed to those of Adam Smith, which made both America and Japan industrial giants.

Mitsubishi's \$500 billion development scheme, as explained by the Mitsubishi Research Institute, continues this tradition by posing a solution that avoids the twin pitfalls of Milton Friedman and John Maynard Keynes: While the Mitsubishi plan's dirigist attack on Friedmanism is obvious, equally important is the analysis that Keynesian forms of public stimulus are "make work" projects that are inherently unproductive and therefore inflationary, whether these unproductive Keynesian measures take the form of military or civilian

projects. The Mitsubishi plan instead proposes investments that pay for themselves through increased productivity.

[The plan] aims at developing new sources of energy and increasing food production for the world, thereby trying to establish long-range programs to overcome the current worldwide stagflation.

It is expected that the implementation of the various "super projects" proposed herein would lead to the development of peaceful demand in the manufacturing industry as well as of technological incentives in advanced countries in lieu of arms production. Also expected would be the multiplier effects upon the national income and employment of many developing countries which would be recipients of these proposed projects. . . .

Keynesian policy for stimulating effective demand operated with good results for 30 years after the war. Recently, however, its various inherent problems have become subject to discussion, the first of these is . . . by its very nature, an inflationary trend. . . .

The world panic of the 1930s was not overcome solely by the Keynesian policy of stimulating effective demand nor by President Roosevelt's New Deal policies. It is a stark historical fact that, unfortunately, rearmament and vast military expenditures caused by war itself provided the effective means to overcome this crisis. . . .

In today's world, however, the development of nuclear weapons . . . rule out a large-scale war that would involve major industrial nations. . . .

To overcome the present worldwide recession, there is no other way but to stimulate private business activity in the major industrialized nations. . . . We believe that in order to allow the existing world economic system to follow a peaceful and steady course without excessive military expenditures, a type of public investment on a global scale would be strategically effective. . . .

All the conventional types of public investment have their limits in terms of needs and capability when looked at solely in the light of each national economy. For instance, among the advanced industrial nations, West Germany does not require much public investment. On the other hand, while there is a great need for this among the developing nations, say in Africa and Southeast Asia, they lack the means to carry such investments through. . . . Therefore it will be necessary to implement New Deal policies on a global scale in order to first stimulate private business activity in the advanced industrial nations and then extend its effect to the economies of the developing nations.