

Japanese economics: the American System

Americans who call Japan's industrial policy unfair to other nations forget their own history: Japanese economics was "made in the U.S.A." Japan's progress-oriented economic tradition is rooted of course in its indigenous history and culture; the Japanese are not simply "good copiers." However, modern Japanese capitalism, the capitalists themselves, and the tools of industrial policy were all forged under the tutelage of the "American System" economists who built Abraham Lincoln's political movement.

Japan's industrial policy began in 1868 with the Meiji Restoration led by Toshimichi Okubo, an official of the Satsuma clan, under the slogan "rich country, strong army." Okubo and his allies came out of the century-old "Dutch Studies Movement." This movement wanted to end Japan's internal decay under a feudal, Confucian-based regime by merging the best of traditional culture and values with the best of Western humanist science, philosophy, and economics. Alarmed at China's fate at the hands of Britain, some of Okubo's colleagues visited the United States in 1867, marveling at its factories and many-storied buildings. They resolved to transform Japan into the kind of industrial power and modern political society they had just seen.

Okubo, the head of the new regime, immediately created a Bank of Japan modeled on Alexander Hamilton's National Bank of the United States. Along with associated private banks, it funneled state-created credit to sectors most useful to rapid national development. Okubo's new Bureau for Industrial Promotion fostered state-owned industries and gave assistance to private industry. Eventually, the industry bureau became transformed into the legendary Ministry of International Trade and Industry (MITI).

Okubo's bureaucracies, and some of the new firms, were staffed by the students of Okubo's ally, Yukichi Fukuzawa, another product of the Dutch Studies Movement. The founder of Japan's first university, he took *samurai* and molded them, rather than the pre-Meiji period merchants, into the new industrial class.

'America is our father'

America was the sponsor and model. As Fukuzawa put it, "America is our father." The Lincoln Republicans had revived the economic ideas and system of Alexander Hamilton through the advice of economists like Henry Carey and the works of Friedrich List. The German-born List had coined

the term "American System" to distinguish America's deliberate promotion and protection of industry from the British system of living off the looting of colonies and slave labor. He was one of the first foreign economists translated into Japanese.

The U.S. State Department, which, unlike Britain, supported the Meiji Restoration, sent a disciple of Carey, E. Peshine Smith, as adviser on tariffs and economics to the Japanese foreign ministry. As America had learned, tariffs not only provided government income, but prevented infant industry from being strangled in the cradle by dumped British imports. Smith's 1871 to 1877 tour of duty was followed by other Americans for the next 34 years. Smith wrote home from Japan, "The Japanese statesmen appear to have sound notions upon the policy of encouraging the protection of native industry." By the time Smith left Japan, one Japanese historian wrote, "the *American System* of protectionist economic theory had become generally common thinking among [Japanese] statesmen, government officials, and philosophers [emphasis added]."

In 1878, Okubo was assassinated by the Black Dragon Society, pro-feudal terrorists with British links. Okubo's opponents took positions of power within the ruling coalition, and weakened some of his policies. In 1881, they sold off state-owned industries, and then applied Paul Volcker-style deflation, which led to a temporary decimation of production and investment.

Okubo's heirs fought back. In 1884, Yataro Iwasaki, the founder of the Mitsubishi business group—also staffed by Fukuzawa's students—issued mass pamphlets demanding restoration of a national bank-based credit system. He cited Hamilton and attacked the London banking model of private generation of credit as a threat to industrial development. He accused his main political opponents, politicians tied to the Mitsui business group, of being British agents. (Decades later the political descendants of the enemies of Okubo and Iwasaki led Japan to the ruin of the 1930s and World War II.) The 1880s fight ended with a compromise, leading to today's Bank of Japan and a commitment to industrialization.

From the 1880s until after the turn of the century, the Japanese state provided one-third of all industrial capital investment, not to mention building of cities and education of the population. In 1896, the government created Yawata Steel, to begin a home-grown steel industry. Aid was given to modernize agriculture, enabling rapid transfer of population from farm to industry as well as export of silk to pay for industrial imports, processes backed up by tax and procurement policy. Additionally, up until the turn of the century, all foreign loans had to be directed through the state-owned Yokohama Specie Bank.

To this day, many Japanese businessmen know the names and ideas of Henry Carey, Friedrich List, and E. Peshine Smith—a sad contrast to the many American businessmen deluded into thinking that their country was built by the ideas of Adam Smith.