

Industrial policy for Russia, questions for the West

by Chris White

Two studies, prepared recently by the Research Institute attached to Japan's Ministry of International Trade and Industry (MITI), highlight the deepening policy collapse within the leadership of western nations.

The studies are entitled "Japan's Postwar Experience: Its Meaning and Implication for the Economic Transformation of the Former Soviet Republics" (March 1992) and "Russia's Economic Reform and Japan's Industrial Policy" (June 1-2, 1992). Both attempt to answer the question whether the economic policies adopted for Japan's reconstruction after the shattering defeat of World War II could be applied or adapted to the republics of the former Soviet Union today.

Representing the views of the individuals who prepared the papers, and not necessarily of MITI, the studies provide a sharp contrast to the idiocy put on display at the Munich meeting of the Group of Seven nations July 6-8. Their content will, no doubt, provide much food for thought for those who insist that all Japanese policy discussion is controlled top-down by a combination of senior government officials acting together with their counterparts in the private sector. In this view, it is not possible for individual Japanese, whether in the government or anywhere else, to have individual views about anything.

To compare the approach discussed in the papers with what transpired at the Munich summit, whether in regard to the economic collapse of the western nations, or the International Monetary Fund (IMF)-dictated Russian "reform" program, is to put a focus on what is actually at issue. The so-called policymaking structures of the western nations have broken down beyond repair. But the criminal insanity of western policy towards the republics of the former Soviet Union, reflects the same commitments which have been applied toward the western nations themselves, as well as to developing sector nations. The Japanese discussion of the necessity for

alternative policies to be adopted in the case of Russia therefore raises, by implication, the question of the changes which ought necessarily to be adopted in the West, too.

IMF reforms are 'without substance'

Understated, even bureaucratic, though the arguments of the Japanese researchers might be, their thrust is clear: "The so-called 'IMF Memorandum' cited, as measures that the government has to take by year-end, further price liberalization, continued tight monetary policy, reduction in fiscal expenditures, and external economic policies aimed at establishing a single foreign exchange rate. . . . It is doubtful that such macro-economic policies alone are enough to revitalize production. . . . The program showed the government's intention to carry out industrial restructuring. . . . However, such reforms are without substance. . . . What is needed to be done at this moment is for the government to take emergency measures to halt the output decline. . . . For production to pick up in the short term, the government needs to study the problems of the economy more thoroughly and needs to take necessary strategic policies, or what we call here industrial policy-oriented approaches, for removing bottlenecks for output and thus beefing up production ability."

The paper continues: "Market mechanisms cannot be almighty. Furthermore, in Russia, the market mechanism barely works. It is paralyzed by a number of systemic, structural, and personnel problems, including the lack of a private ownership system, the monopolistic nature of the market, and the absence of such concepts as individual freedom and self-responsibility. It is important to trust the functions market forces can play, but under a condition such as that facing Russia, proper functions cannot be expected and government intervention is inevitable."

In background elaboration of the report's contention,

MITI officials insist that the “shock therapy” approach thus criticized leads, through increasing unemployment and bankruptcy, to social chaos, breakdown, and war. This relationship was among the subjects for discussion at an early June seminar in Tokyo which brought together Japanese, Russians, and Europeans working on such matters.

The Japanese experience

The MITI researchers identified three areas in which comparison with Japan’s postwar experience is relevant: the threat of hyperinflation, the deepening collapse of production, and the monopoly organization of production in the Russian Federation. On the first two, the conclusion was drawn that Japan’s postwar experience is something from which Russians could benefit. On the third, it was pointed out that while some aspects of the way in which the family cartel (or *zaibatsu*) system and military production conglomerates were dismantled after the war, are relevant, the 75-year history of the Bolshevik system introduces special considerations. However, the researchers insist that an approach based on defending and improving economic production functions, rather than extending the sway of financial or ideological preconceptions, could be successfully implemented.

Their insistence on “what we call here industrial policy” goes to the heart of what has broken down within the West, as well as what is destroying the republics of the former Soviet Union.

Leaving aside matters on which the U.S. military occupation authorities in Japan were in agreement with Mao Zedong’s Chinese communists, like the banning of Confucianism from the education system, and idiocies like the “Dodge Line” anti-inflation policy, which GHQ imposed, the United States, under conditions of Cold War and the Korean War, supported the approach recommended. It worked, not only in the short term, but to lay the foundations for what the Japanese economy subsequently became. It can be argued that, as with Marshall Plan in Germany, it was internal efforts, not U.S. aid, which made the decisive difference. The point is that 45 years ago, what the Japanese researchers now recommend for Russia, was common currency, so to speak, within the political culture of the West. It no longer is.

The ‘Priority Production System’

Now the MITI researchers recommend the adaptation for Russian conditions of what was called, after World War II, the “Priority Production System.” In their case, the emphasis was put on the coal and steel industries. Resources were made available to the steel industry to produce the goods which could permit the coal production to be expanded, to permit steel output to be increased to rebuild capital goods capabilities.

In the Russian case, the MITI writers consider that the oil industry would provide the best focus, though agriculture might possibly be considered too, for reasons of “social stability and national security.” They leave agriculture aside,

because their concern is how to revitalize industry.

Oil comes to the top of their list, because of the potential for export earnings which could permit the re-equipping of that industry, and the infrastructure which supports it, with the required modern technology available only from the outside. They recommend an internal price reform, since collapse has reduced internal industry prices below the point at which oil, among other commodities, can be sold without destroying the industry, and the adoption of an export price. This is not the same as the IMF’s insistence that prices find “market levels.” The idea is to maintain a domestic supply of oil, while going for export earnings. The earnings could be funneled into a bank created for the purpose, to permit reinvestment in capital goods and infrastructure. Vital also would be measures taken to ensure that workers and engineers, in the identified industries, stay with their jobs—measures such as wage stabilization and housing.

The researchers recommend that such a prioritization system be extended to cover the rehabilitation and upgrading of basic economic infrastructure, electric power supply, railroad transportation, and the chemical fertilizer and shipping industries.

“Our official policy,” MITI officials say, “is, nothing can be discussed until the matter of the Northern Territories [the Kurile Islands, occupied by the Soviets after World War II] is resolved. But, in the meanwhile, we’ve got to do something.” Apart from the cited early June Tokyo seminar, the perspective has also been discussed with officials of various Russian ministries in Moscow, and was the subject of a seminar held in Vienna, Austria.

Behind these discussion papers is something else. “It’s fine that you won the Cold War,” one is told, “but it is ridiculous to now think that trade and economic questions have become a threat to be treated as equivalent to nuclear annihilation and nuclear missiles.”

It is not so mysterious. The IMF approach is no more intended to produce “market reform” in Russia than it has been anywhere else. It is a policy designed to achieve what could not be achieved during the Cold War because of the ever-present threat of mutual thermonuclear annihilation: the destruction of the national existence of the republics of the former Soviet Union.

That won’t work. But what it will do is already shown in the territories of the former Yugoslavia, and in the Transcaucasus. It will come back to haunt those who fanned the flames.

That is what the issue is in Russia. And since it is the ruling combination of the West which is pushing the policy on Russia, to change course also requires a change of course in the West. It requires dumping those who are reducing the whole world to genocidal chaos. That such reflections would now begin to come to the surface from Japan, puts the activities of America’s “Japan-bashers” in a different kind of perspective, doesn’t it? What they are attacking happens to be what they choose to reject from America’s own not-so-distant past.