

BEWARE THE SAMURAI PSYCHE!

DOWNWARD pressure on wages in the mid-1990s will create severe crises for the European and North American economies. When the new trade treaties are signed, US manufacturers will have greater access to Mexican labour, and in Europe the skills of eastern workers will come on tap for the EEC. But while this will benefit the pace-setting market leaders, the prospects are grim for the economies as a whole unless they devise their own version of *perestroika*.

Britain and the US are particularly vulnerable because their labour markets were squeezed hard during the Reagan/Thatcher years. Trade union membership has fallen dramatically, in line with the decline in strikes. The workers have been tamed. How, then, if firms are to retain their market shares, can prices be further reduced, to render them competitive in the export markets?

The Japanese are already psyching themselves up to the challenge. Under pressure from a critical shortage of labour, they have defined the problem: "In order to respond to the long-term decrease in the labor force, the ageing of society and the globalization of our economy it is necessary to shift to more sophisticated industries, facilitate a smooth industrial restructuring through support of rationalization and labor- and energy-saving, [and] promote the revolution in information technologies and research and development."

How? The Japanese bureaucrats have figured out the solution. The key areas are investment and taxation, and the two are linked in what they call "a national land plan".

Unlike their western competitors, Japanese firms have begun to visualise the technological needs of the 21st century. These include the "clean" technologies for an environment-sensitive world. This strategy contrasts with the Bush Administration's complicity in the protection of the technology of the 20th century: this was inherited from the primitive investment policies of the 19th century, which were distorted by entrepreneurial cost structures that did not reflect the full costs of production. In the main, what this means is that entrepreneurs

of land. The philosophy for that fiscal strategy was put in place this year.

The implications of a tax structure underpinned by land-value taxation are not inscrutable. They were spelt out by Adam Smith in *The Wealth of Nations*, and (grudgingly) by most economists since. The crux of that policy is this: a tax on land values cannot be passed on in higher product prices - whereas practically all other taxes make goods more expensive.

WHY DO WE believe that Japan is about to employ this fiscal strategy, one that would have a revolutionary impact on her manufacturing productivity (which lags behind the leading competitors) and on the shape of competition and production in the 21st century?

History. A century ago, the Meiji restoration distinguished itself by funding most of the nation's infrastructural investment and scientific research out of the rent of land.² As a result, Japan lay the foundations which enabled her to challenge the world. Her military ambitions turned into a blind alley. Her industrial sector, however - building on the benign labour relations that were a direct result of the tax-and-land tenure policies of the 1880s and 1890s - proved itself a world beater.

Japanese policy-makers are not employing aggressive language, the kind that would alert the world to their intentions. That would be uncharacteristic. But behind the soothing phrases of their analyses, there is clear determination to forge ahead with policies which, during the Meiji restoration, proved lethal in the foreign markets. Note the following combination:

"Policies...for reducing working hours and responding to the land problem are also related to the creation of an economy that is in harmony with the global community."

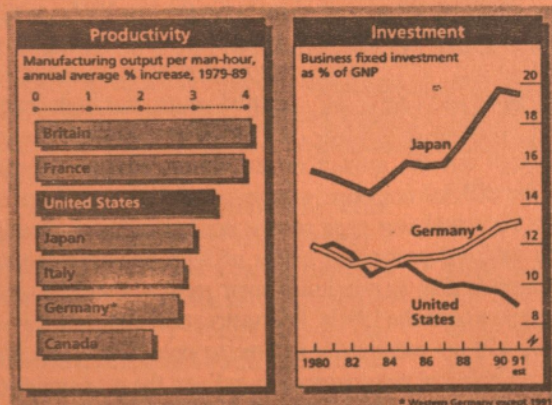
In one swift sentence the Tokyo bureaucrats - reflecting the intelligence of their predecessors, the samurai-turned-civil servants of the Meiji era - linked the four key components: labour, land, enterprising economy, world markets.

When the bureaucrats declare Japan's goal as "quality-oriented, domestic demand-led, non-inflationary and sustainable growth" - you better believe it! When they insist that "The promotion of science and technology are not only necessary for the resolution of global environmental issues and the establishment of a better quality of life; they are also necessary for the construction of the developmental base for our economy and society" - you better believe it!

If they had intended financing the changes out of higher taxes on labour and capital, competitors - who suffer such burdens - could have breathed easily. For that would have meant higher prices, with the taxes passed on to the consumers. And that would have eroded Japan's price advantage. But they do not intend to do any such thing. They know that, to retain price-competitiveness, they will have to accentuate the land-value tax. That's the fiscal peril for the profit-seeking investors in the rest of the world.

1 R. V. Andelson, *Commons without Tragedy*, London: Shephard Walwyn/Savage, MD: Barnes & Noble, 1991.

2 Fred Harrison, *The Power in the Land*, London: Shephard Walwyn, 1983, Ch.11.



escaped from paying the rental cost of polluting the "commons" - rivers, oceans, skies.¹

But in addition to pressure from labour shortages, Japan will set the pace for technology in the millenium because of the tax incentive. She is already well ahead of the major competitors in investment (see graph, inset). In the next two decades, however, EI expects her plans for massive investment in social infrastructure will be financed out of a tax on the value