## DOMINICAN REPUBLIC

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and tourism provide enough foreign exchange to import needed items. However, an import duty of up to 120% (the rate for automobiles and electrical appliances) places virtually everything of that kind beyond the reach of even the small middle class.

But some favored few are - in whole, or in part - relieved of the tax burden. The telephone company, for example, pays no taxes on its equipment. Forty-six percent of revenue is derived from import taxes; personal income taxes provide 24%.

Unemployment in Santo Domingo is estimated - the country's statistics are not precise - to be approximately 30%. An income of 40,000 Pesos, which is considered very good, would not permit one to buy a house or a car. There are, though, lots of cars on the streets. Many of them are thought to be imported by politicians who get *"exonerados"* - exemption from taxation. Items imported in this way, it is said, are routinely sold at very handsome profits.

There are also immense problems with the city's infrastructure. The breakdown of old generating equipment leaves Santo Domingo, a city of over two million people, without electrical power for as many as twenty-two hours, some days. Large enterprises, such as tourist hotels, maintain their own generators, and are therefore able to provide uninterrupted service. But for most people, everything electrical stops - or reverts to highly inefficient methods.

A desperate push is underway to complete the replacement of water mains throughout the city before visitors arrive to celebrate the 500th anniversary of Columbus's arrival in 1992. So, today, there are trenches dug along virtually every street, and traffic can often be as maddening as it is in New York.

Little of these difficulties ruffle the generally tranquil Dominican demeanor, however. People are friendly and generous, far beyond any superficial display that might be expected to encourage tourist patronage. One senses a national pride free of self-centered bravado. And there are no sweeter friends than those who come to know you.

## THE JAPANESE ECONOMIC MIRACLE: How Real Is It?

The Japanese economy has indeed made giant strides since the nation was devastated in the second world war, noted Professor Stephen Sussna at the New York school's Saturday Seminar on September 28th. However, Japan's tremendous production surge has resulted in a massive inflation of land values. Japan's land area is 4% that of the United States, but its total land value is more than four times greater!

Prof. Sussna who is a professor of law at Baruch College, and has worked as a land-use consultant to the American Embassy in Tokyo, noted that for all its mighty successes, Japan's economy has many fundamental problems, and the price of land is at the top of the list. This fact gives much insight into the Japanese economy.

The way toward Japan's current economic miracle was paved by two vital initiatives in Japanese history, both of which served to break down intense, counterproductive social stratifications, and provide the basis for modern industry. In 1867, the beginning of the modern age in Japan, the feudal Samurai landlord class was liquidated, and the rents taken by the Samurai were transferred to the development of industry. A heavy tax was levied on unimproved land, providing a stable base for public finance and an incentive to growth. Then, after World War II, US pressure pushed Japan further toward an egalitarian society, urging a progressive tax policy. In the push to rebuild Japanese society after the war, a permanent change came to Japan's social class structure; the new egalitarianism aided industrial progress.

Japanese emphasis on public infrastructure has been vital to its current success. Although huge land prices have frustrated infrastructure development, Japan is much further along than the United States in this area. Current plans earmark as much as 15% of GNP to infrastructure maintenance and improvement.

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Prof. Sussna said that the unbelievably high price of land in Japan has created a peculiar set of social conditions. Few workers are able to buy a home; the cost of an average Tokyo residence is ten times the annual salary of the average Tokyo worker. Residences of every kind are cramped, and commutes are long. Because of all the crowding, the rate of population growth in Japan has slowed. Immigration is discouraged; so the government has turned to a policy of subsidies to promote more babies. However, even though Japanese women are offered $38 a month for each extra child, they resent the program, remembering the cannon-fodder policies of WWII.

But is there a lack of space? Although Japan certainly far more crowded than North America, it is afflicted with a familiar mix of special-interest politics and misguided tax laws that cause much inefficient use of land. In metropolitan Tokyo there are 88,000 acres of undeveloped farm land! Moreover, the average building in Tokyo is less than three stories.

Nevertheless, Prof. Sussna reported that although housing space per resident is much less, and the quality of Japanese housing tends to be poor by US standards, Japan has a far lower percentage of homeless people.

Although it burdens Japanese citizens, it may be that massive land price inflation serves Japanese policy goals. According to *Harvard Business Review* analyst Robert Cutts, ultra-high Japanese land values "reflect policy decisions to inflate land values to result in the economic dominance of Japan. This has reshaped Japan's economy and the world's also. Land is not subject to the discipline of the international market." However, the collateral power of this land value can profoundly influence international markets. Thus, Cutts suggests, "Land value inflation has been an instrument of economic and political policy in Japan." Furthermore, much ink has been spilled over Japanese barriers to US business, but, according to Prof. Sussna, the number one barrier is land prices.

Reforms have been proposed that would recognize the special character of land in the market, and use taxation to encourage efficient land use and more residential development. Nevertheless, barring a huge depression, Japan's status as an economic superpower, with stratospheric land values, is here to stay.

Prof. Sussna concluded his seminar with a cautionary note to US policymakers. The main lesson for us, in the story of the Japanese economic "miracle", is the tremendous importance of investment in public infrastructure. "The Japanese are investing 15% of GNP, while in the US, the federal government has shifted the burden to the cities, which are broke. Without adequate infrastructure investment, we will fall further and further behind."