

Japan: Don't Waste the Crisis by William H. Overholt

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Japan's tsunami of multiple tragedies has horrified every decent observer. It also creates an opportunity for the Japanese people.

Postwar Japan inspired the world. Its government was proactive, its economy a miracle. Its stimulation and its example created a regional economic miracle and saved Asia from communism.

Historically, after a terrible shock, Japan reaches out globally for best practices, brings back the best, and improves them, creating an economic miracle. After Admiral Perry's black ships challenged Japan in the mid-19th century, Japan chose a German education system, a British navy, and much else, quickly becoming Asia's only modern economy. After MacArthur's gray ships, Japan copied GE's labor-management practices, Deming's quality control recommendations, and much else, creating the postwar economic miracle. Its proactive government accelerated market forces, for instance pushing the aluminum industry offshore when high oil prices made it obsolete.

But success brought complacency. From the mid-1970s, instead of accelerating adjustments, the government subsidized laggards. Instead of globalizing further, leaders asserted that success derived from cultural uniqueness. The legislature became a subsidiary of a few interest groups, with legislators formally allocated into tribes (*zoku*) serving interest group clients. So dominant were the flows of funds from the favored industries (most notably agriculture, construction, property, banking and retail) that nobody could get elected without serving them. These interest groups reduced competition, enhanced protectionism, and promoted mindless patronage, paving over Japan's countryside and streambeds. Thus, Japan's economic growth and productivity growth declined steadily from the 1970s onward. Today's stagnation results not from the financial crisis of 1990 but from four decades of decay.

A disgusted public elected the Democratic Party of Japan. But it was worse. Disorganized, catering to the agricultural lobby, reversing Koizumi's postal efficiency reforms, denouncing globalization, and getting into trouble for the same electoral financing problems as the LDP, its popularity fell to 15 percent before the nuclear crisis.

Japan's malaise is unnecessary. South Korea had even worse problems: demographic decline, a 1990s financial crisis, security threats from North Korea. But South Korea

globalized, freed its women to work, permitted more labor immigration, enhanced financial reform and domestic competition, and created a democracy where voters had real policy choices. As a result, South Korea grows when Japan does not, South Korean companies like Samsung and Korean Airlines are trouncing Sony and Japan Airlines, and South Korea has replaced Japan as America's favorite Asian ally. By 2015 Koreans will be richer in purchasing power than Japanese.

Notwithstanding heroic engineers, Tokyo Electric Power Company, the heart of the nuclear crisis, exemplifies the politically coddled corporations causing Japan's malaise. No other nuclear company in the industrialized democracies has been allowed such a history of bungling, cover-ups, and systematic disregard of security recommendations.

If TEPCO is understood as the archetype of Japan's problems, the nuclear crisis can provoke a rebirth. A refocused Japan, with its superior education, superior technology, superior companies, and superior civility, can teach the world how to manage a graying but growing society. Japan can once again inspire.

To do that, Japan must promote competition, open its economy to trade and investment the way China has, liberate women the way South Korea has, permit measured labor immigration, curtail wasteful subsidies for construction, agriculture and the postal network, free up the property market, and shift the balance of income from corporations to consumers.

To accomplish that, Japan needs leaders who will provide a positive vision of a mature but dynamic Japan. In turn, to support such leaders, the Japanese people need to get really angry and outlaw the way the big interest groups have used massive, only partly legal funding to capture both major parties.

If the Japanese people don't seize the nuclear crisis as the trigger for restructuring, within a few years a bond market collapse will do the job. The suffering from that crisis will be less dramatic but more pervasive and longer-lasting. Better for some of today's extraordinary heroism to be channeled into restructuring right now.

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