McKinsey report on Japan demands "open door" for international capital

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13 September 2000

A recent report by the US corporate management consultant firm, McKinsey Global Institute, is another reflection of the growing demands and pressure of international finance capital for a “restructuring” of the Japanese economy.

The main thrust of the report, entitled “Why the Japanese Economy is not growing: micro barriers to productivity growth”, is that government controls, regulations and subsidies, which have propped up inefficient sectors of the economy, should be done away with and the Japanese market opened up for international competition.

Of course these prescriptions are advanced with the claim that they provide the Japanese government with a program that can reverse the economic stagnation of the past decade and put the economy back on the road to growth. Nevertheless, they coincide with the demands of powerful sections of international capital.

The report is highly critical of the policies pursued by Japanese governments over the past decade, in particular the restrictions and regulations placed on foreign investment, the protection and subsidies given to local industries and small business and the increasing public sector debt.

“The Japanese government,” it states, “once lauded for its masterful management of the economy, has only exacerbated the country's futile attempts at a Keynesian stimulus. The country's debt to Gross Domestic Product ratio grew from 60 percent in 1990 to nearly 120 percent in 1999—twice the level of the United States and Germany. In short, the past decade has seen the Japanese economy go from model to muddle.”

According to the report, Japan suffers from a “dual economy” comprising a “world beating export sector led by the likes of Toyota and Sony” in car manufacturing and consumer electronics and an overprotected and subsidised domestic sector with a workforce that is 31 percent less productive than that of the United States.

“The world beating portion—autos, steel, machine tools and consumer electronics—is thriving, bettering any and all competitors' productivity by 20 percent. Yet these Toyotas and Sonys, accounting for only 10 percent of all economic activity in Japan, are the exception and not the rule. The remaining 90 percent of economic activity takes place in companies that do not export products, instead providing domestic and manufacturing services. Save for their national origin, these companies share nothing with Toyota. They are subscale, poorly managed, antiquated, insulated from competition and woefully unproductive. The productivity of this portion of the Japanese economy stands at a mere 63 percent of US levels. It is the source of Japan's ills and the Japanese economy will not rebound until the performance of these companies begins to turn around.”

The report focuses on four main sectors of the domestic economy—the retail, food processing, health care and the residential construction industries—sections of the economy regarded as potential areas for profitable foreign investment if government regulations and subsidies are removed.

Comparing the overall productivity of these sectors to the United States, the report found that they generated 18 percent of Japan's GDP and provided 22 percent of the country's employment while averaging only 56 percent of the productivity levels of the US.

The retail sector, for example, was described as being dominated by “tiny, archaic mom and pop stores, which are usually family owned and employ two or three family members and lack the buying power and merchandising savvy of larger retailers. The prices are

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high and product ranges and service levels low and they are kept in business because the government has lavished subsidy after subsidy upon them."

These small retail operations, the report claimed, have been given guaranteed loans of more than $40 billion with almost no credit evaluation.

"The government has also given these shops another $10 billion in rent subsidies, grants to buy computers and infrastructure programs for the shopping districts where the mom and pop stores are located. In addition, the Japanese tax code provides large incentives that keep owners of small stores from liquidating them and selling the valuable land on which they sit."

Of course if these subsidies and concessions were removed, the retail store owners would not be able to maintain their operations and valuable real estate would be opened up to larger firms. And the same situation applies in other backward sections of the economy as well.

Delivering its punch line in a section entitled "A Dearth of Domestic Competition", the report declared: "In a more open economy this poor performance would provide an open door for more able competitors to enter *and drive all these inefficient domestic players out of business* [emphasis added]. Yet the Japanese economy is far from open. In fact, it is rife with protection for the inefficient players and competition is nearly non-existent. In a misguided effort to protect jobs and maintain stability, the government subsidises the inefficient players and blocks the entry of competitors."

In an indication of the overall profits to be gained, the reported concluded that if "impediments to competition" were removed, productivity could grow by as much as 4.7 percent over the next 10 years and per capita GDP by about 4 percent. This compares to the 0.6 percent average annual growth rate of the 1990s.

The report claims that some 90 percent of the economy functions at below US levels of productivity. If such areas were opened up, US firms could reap considerable profits because of their more efficient methods.

But it would mean a vast social upheaval. In his speech to recent Federal Reserve Board conference at Jackson Hole, Federal Reserve chairman Alan Greenspan pointed out that increased profits associated with high technology depended on the ability to cut the labour force without legal or social constrictions.

The "restructuring" of the Japanese economy along these lines is at the heart of the program for increased competition.

According to the report: "Many recent studies have estimated that the Japanese unemployment rate would be twice as high as current levels if companies were to release all of their redundant employees. Currently, Japanese companies are deterred from doing so, thanks to government subsidies intended to support excess employment and by perceived societal pressures against layoffs."

Of course the McKinsey analysts, following the well-worn path of other proponents of "restructuring", claim the measures they propose would not create long-term unemployment and would result in a growth of GDP "with far less social dislocation than is commonly feared."

But the very extent of the less productive portion of the "dual economy", which the report itself documents, means that the type of restructuring being demanded will be nothing less than a disaster for millions of "excess workers" who will be thrown onto the scrap heap.

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