

SAMURAI AND SEXUAL DEVIANTS

By Brink Lindsey

Rising Sun by Michael Crichton, New York: Alfred A. Knopf, 355 pages, \$22.00

Zaibatsu America by Robert Kearns, New York: The Free Press, 256 pages, \$22.95

"The philosophy of protectionism," Ludwig von Mises once wrote, "is a philosophy of war." Protectionism—or, more broadly, economic nationalism—rests on the belief that there are irreconcilable conflicts between nations, that one country's prosperity comes necessarily at the expense of others. It's a zero-sum vision of the world, in which every winner implies a corresponding loser. Mises was right: This is the kind of thinking that gets armies shooting at each other.

If you think this sounds a little overblown, you ought to read *Rising Sun* and *Zaibatsu America*. The first is a best-selling novel by Michael Crichton, a well-known writer, with an afterword asking for the book to be taken seriously and even a bibliography of nonfiction sources. The second is authored by Robert Kearns of the Economic Strategy Institute, the think tank headed by Clyde Prestowitz that has become a major voice for economic nationalism. Both books take as their subject the rise of Japanese investment in America, which both regard with alarm.

What is striking about these books, though, is neither their subject nor their point of view, but rather their rhetoric and tone. These books read like war propaganda.

For starters, just look at the titles. The "Rising Sun," of course, was the name of the Japanese battle flag during World War II—the implication being that there is some connection between Japanese business today and Japanese aggression of a half century ago. The *zaibatsu* reference is more obscure: These were the huge, family-dominated, vertically integrated industrial groups that supplied the imperial Japanese war machine. Broken up during the MacArthur occupation, they were replaced by *keiretsu*, large conglomerates linked through a dense network of cross-shareholding.

Keiretsu has now become a popular buzzword in trade-policy debates, with critics of Japan commonly deriding these groupings as exclusionary and cartelistic. One wonders why Robert Kearns didn't title his book *Keiretsu America*; that would have been inflammatory enough, suggesting Japanese control of our economy, and many more people would have understood the reference. Apparently Kearns, like Crichton, couldn't resist linking current Japanese business practices with the crimes of World War II.

Throughout *Zaibatsu America*, Kearns uses military imagery and metaphors to suggest that the Japanese are a hostile threat. Here are some representative turns of phrase: "sudden

onslaught of Japanese capital"; "at stake is nothing less than America's economic sovereignty"; "arsenal of almost unlimited cheap financing"; "this historic invasion of the U.S. economy"; "Japanese companies wage business in the old samurai tradition"; "Japan's massive sortie into high-tech America." Get the picture?

Kearns even stoops to crude racial stereotyping. He gets in digs such as "the competitive pack instinct, a key ingredient in the *zaibatsu* way"; "the Japanese herd mentality"; "groups of Japanese flowing amoeba-like in and out of Tiffany's"; and "the enigmatic, *zaibatsu* monolith." Why not just come out with it and call them the inscrutable yellow horde? After all, Kearns is not above implying that the Japanese are perverts: In one passage he describes typical Japanese commuters, "read[ing] their pornographic comic books, filled with bound women." (Comic books, called *manga*, are very popular in Japan; only a tiny fraction of them, though, are sexually explicit.)

As bad as this stuff is, it pales in comparison with the rhetoric in *Rising Sun*. I imagine that Crichton could use the Sister Souljah/Ice-T defense and claim that these are just fictional characters saying these things. Let me assure you, though, that the following statements are meant to be read sympathetically:

"This country is in a war and some people understand it, and some other people are siding with the enemy. Just like in World War II, some people were paid by Germany to promote Nazi propaganda. New York newspapers published editorials right out of the mouth of Adolf Hitler. Sometimes the people didn't even know it. But they did it. That's how it is in a war, man. And you are a [expletive] collaborator."

"As our economic power fades, we are vulnerable to a new kind of invasion. Many Americans fear that we may become an economic colony of Japan, or Europe. But especially Japan. Many Americans fear that the Japanese are taking over our industries, our recreation lands, and even our cities.... And in doing so, some fear that Japan now has the power to shape and determine the future of America."

"The American press reports the prevailing opinion. The prevailing opinion is the opinion of the group in power. The Japanese are now in power. The press reports the prevailing opinion as usual."

"You realize that Japan is deeply into the structure of American universities, particularly in technical departments."

"The government. They own the government. You know what they spend in Washington every year? Four hundred million [expletive] dollars a year.... Now you tell me. Would they spend

all that money, year after year, if it wasn't paying off for them?"

"You know, I have colleagues who say sooner or later we're going to have to drop another bomb. They think it'll come to that." He smiled. "But I don't feel that way. Usually."

Sexual deviance, which Kearns alludes to in passing, actually provides the central plot device in *Rising Sun*. It is the investigation of an L.A. call girl's murder—she is a white woman, catering to Japanese clients, who is killed during kinky sex—that ultimately uncovers a foul Japanese conspiracy to buy up some of America's high-tech crown jewels. Along the way, a friend of the victim—another prostitute who services a Japanese clientele—describes in lurid detail the various bizarre acts that her customers request. She concludes this way: "A lot of them, they are so polite, so correct, but when they get turned on, they have this...this way.... They're strange people."

Here, then, is the image of the Japanese that these books convey: hostile and warlike; lacking individuality (and thus not fully human?); conspiratorial and devious; sexually deviant. Kearns and Crichton press all the right subconscious buttons; they appeal to our lowest and most dangerous emotions—fear and hatred—just like classic wartime propagandists. They even sink to cashing in on sexual taboos, in particular discomfort with interracial sex. The clear purpose of their rhetoric is to demonize Japan, to make it the Enemy.

Let's look now at the factual assertions made in these books. Basically, the Japan-bashing mantra goes like this: The Japanese industrial economy is more or less one giant conspiracy, united through the *keiretsu* and guided and subsidized by MITI, the Ministry of International Trade and Industry. The purpose of this "Japan Inc." conspiracy is to accomplish through commerce what imperial Japan failed to do by force of arms: dominate the world.

The first step is to ensure a secure home base by making the Japanese domestic market all but impenetrable to foreign goods. The next step is to launch an export "invasion," carefully targeted at key basic industries like textiles, steel, consumer electronics, and automobiles. In the United States, this invasion destroys entire industries, primarily through predatory "dumping"—prolonged sales below cost financed by monopoly profits back in Japan. Next the conspiracy moves into high-tech, wiping out the U.S. memory-chip industry and challenging American supremacy in computers.

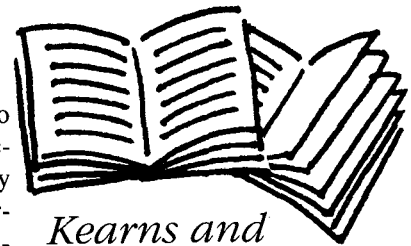
The ground now softened up, Japan Inc. begins exporting its capital: setting up "transplant" factories, buying up major companies and real estate, financing the federal deficit, and generally transforming America into its economic colony. To facilitate this takeover, Japanese money insinuates itself into government, the media, the universities, and think tanks, buying "agents of influence" to lull the American people into complacency while economic sovereignty is lost.

It's a good script; just think what Oliver Stone could do

with it. It would take a book to unravel all the distortions and inaccuracies on which this conspiracy theory rests (a book that, unfortunately, has not yet been written). Let me take a few shots, though, at some of the more glaring problems:

1. Japan's market is by no means hermetically sealed. Japan is the No. 2 customer in the world for American exports, trailing only Canada; Japan imports more American goods than Britain, France, and Italy combined. Yes, Japan runs a trade surplus with the United States; however, on a per-capita basis, the average Japanese buys more from the United States than the average American buys from Japan (\$372 versus \$357 in 1990). With regard to trade barriers, Japan's tariffs and quotas are comparable to those in the United States—a little worse, maybe, in agriculture, but probably a little better in manufactured goods. And everyone acknowledges that Japan has become less protectionist in the last decade than it was in the 1960s and '70s. This is inconvenient for the conspiracy theorists, since the huge trade surpluses of the '80s came at a time of admitted liberalization.

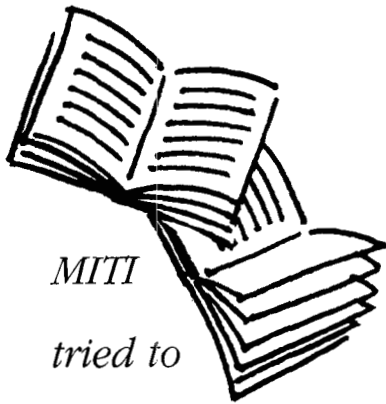
2. MITI is not omniscient. MITI tried to stop Sony from making transistor radios; it urged the consolidation of Japan's decentralized auto industry into a Big Three-style oligopoly; it discouraged Honda from getting into the car business. More recently, the ballyhooed Fifth Generation Computer Project just completed its 10-year run, a fizzling flop. Meanwhile, Japan has wasted its fair share of money subsidizing "sunset" sectors of the economy such as shipbuilding, mining, and agriculture. Japanese business success is a function primarily of entrepreneurial vision and managerial excellence, as well as a relatively favorable tax and regulatory environment—not con-



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spiratorial string-pulling by infallible bureaucrats.

3. There's nothing unfair or predatory about Japanese import penetration of the U.S. market.

In general, and it is embarrassing even to have to say this, low prices (including low import prices) are good for consumers and good for competition: Getting the best at the lowest price is what economic activity is all about. The only way that low prices can be harmful is when they are part of a successful predatory pricing strategy—that is, when one producer drives all his competitors out of the market so that he can then charge inflated, monopoly prices. The harm in that case is the long-term high prices that outweigh the short-term low prices. Economists generally agree that predatory pricing is seldom attempted and almost never succeeds; the costs are too high, the gains are too speculative, and reentry into the market by displaced or new competitors is too easy.

None of the major Japanese import successes—color televisions, automobiles, computer chips—can be characterized as examples of successful predatory pricing. Yes, these successes came at the expense of American companies. And yes, price competition played a part in these successes (though quality and reliability were important, too). But the simple fact is that in none of these cases have Japanese companies attained monopoly positions; collectively, Japanese companies have about 30 percent of the American color-TV market, about 30 percent of the American car market, and about 25 percent of the American computer-chip market. No monopoly, no predation—without monopoly there is no opportunity to recoup earlier losses through jacked-up prices. All the Japanese companies have

done is engage in hard-hitting, beneficial competition.

4. Japanese competition has strengthened, not weakened, American industry.

Detroit and Big Steel were bloated, bureaucratized, and inefficient before the Japanese came to play. The shakeout has been traumatic, and isn't finished yet, but gains in productivity and quality have been impressive. Meanwhile, the Japanese challenge has forced U.S. semiconductor manufacturers to improve factory efficiency and to focus on their strengths in design innovation. American computer makers, too, have been kept on their toes by dogged Japanese pressure. Throughout the U.S. economy, companies are adopting Japanese business methods—just-in-time inventory, greater cooperation with suppliers, greater involvement of workers in decision making—to improve their performance.

5. Japanese influence isn't all it's cracked up to be.

During the 1980s, when the Japanese supposedly started pulling our strings, American policy actually veered sharply against Japan. The U.S. government erected all sorts of new barriers against Japanese imports; it imposed quantitative limits on automobiles, steel, and machine tools; it instituted price controls on computer chips; and it socked dozens of different products with punitive "antidumping" duties. At the same time, the United States became increasingly bellicose about real and imagined trade barriers in Japan. In particular, Japan was designated an "unfair trader" under "Super 301" and threatened with sanctions unless it opened its markets. On the whole, Japanese interests have been taking a beating in the American political process.

6. The Japanese juggernaut has hit a snag. The real-estate and stock-market bubble, which helped supply Japanese industry with cheap capital during the '80s, has finally burst—the Nikkei has lost over half its value since 1990. Banks are staggering under the weight of bad loans; corporate giants, with profits pinched, are cutting back on R&D and capital spending and slowing down product cycles. Economic growth, which had been rollicking along at 6 percent to 8 percent a year during the '80s boom, is not expected to exceed 2.5 percent this year. With trouble at home and the United States in recession, the supposed Japanese takeover of America has been waylaid: New direct investment was down nearly 75 percent, to \$5.1 billion, in 1991. It appears the Japanese aren't 10 feet tall and bulletproof after all.

All of the misconceptions of the Japan bashers, and all of their hate-filled emotional baggage, can be traced back to one central fallacy: namely, that trade benefits one party by beggaring the other. This fallacy leads its dupes to see the wealth gains and competitive stimulus of imports as an "invasion"; the new blood of foreign investment as a "takeover"; the blessings of a global division of labor as "dependency." If unchecked, as it was in the 1930s, this fallacy can lead to war. ■

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THE CRIMES OF WALL STREET

By Paul Craig Roberts

Eagle on the Street by David A. Vise and Steve Coll, New York: Scribner's, 395 pages, \$24.95



Stealing the Market by Martin Meyer, New York: Basic Books, 208 pages, \$23.00



Merchants of Debt by George Anders, New York: Basic Books, 328 pages, \$23.00



Highly Confident: The Crime and Punishment of Michael Milken by Jesse Kornbluth, New York: Morrow, 384 pages, \$23.00

The latest spate of books about Wall Street tell us more about the culture of publishers and journalists than about the workings of financial markets. Distressingly, the ethics of authors and publishers seem lower than those of the “cowboy capitalists” who allegedly stole the market in the decade of greed and ruined the country with debt. It is almost as if the publishing world is controlled by a puppeteer who pulls a string and out pour scenarios of greed unleashed by Reaganomics.

Books purporting to be factual are laden with novelistic dialogue that no writer could have overheard or remembered if he had. Dialogue intended to convey reality to imagined events leaves the reader with the impression that he is reading a historical novel in which the imagination of the author creates the story. Clearly, publishers want a good story, and its veracity is of no import.

Eagle on the Street, by *Washington Post* reporters David Vise and Steve Coll, even goes so far as to advertise on the book jacket the “novelistic flair” with which the authors “unravel all the threads of excess that characterized” the decade of greed. “Here, finally,” the publisher tells us, “is the complete account of the most infamous economic debacle of our century, the story of how the Securities and Exchange Commission, under the sway of Reaganomics and the leadership of John Shad, brought deregulation to the stock market and helped fuel the great bull market while planting some of the seeds for the 1987 crash.”

The 1987 crash? A book published in the 1990s that uses a distant, short-lived event of no lasting import as authority for a portrait of ruin? I well remember how the political left tried to use the crash of 1987 to resurrect itself from the tomb in which the long Reagan expansion had placed it. The left wing was convinced that the Reagan Depression had begun and that it would bring the final demise of capitalism. The rapid recovery of the market and its move to new highs made the left appear even more foolish. Unable to accept reality, the political left has found refuge in a world of pretense created by books.

But did the Securities and Exchange Commission do battle

with Wall Street and lose, as Vise and Coll seem to think, or did the giant brokerage firms, with help from the SEC, steal the stock market from investors, as Martin Meyer writes in *Stealing the Market*? Meyer, who is no fool and has insights, blames the modern technology of the computer age for stealing trading away from open exchanges and diverting it to back alleys. The view seems ingrained in many writers that financial markets are mechanisms for stealing from the public and must be ever more tightly regulated.

Similarly, *Merchants of Debt*, by *Wall Street Journal* reporter George Anders, purports to be the story of Kohlberg Kravis Roberts and “the mortgaging of American business.” Perhaps it is, but it cannot escape the obligatory role of being also the history of “undemocratic capitalism” that cruelly destroys jobs and companies in order to make a few rich. The 18 million new jobs of the Reagan era and the restructuring of companies that caused asset values to rise faster than debt are lost in the telling. The desperation to pour failure all over the 1980s is the hallmark of the Wall Street literature of our time.

Among the Wall Street books, the contrarian is Jesse Kornbluth, whose *Highly Confident: The Crime and Punishment of Michael Milken* is a blockbuster. Unlike James Stewart, whose *Den of Thieves* is based on the false testimony of Ivan Boesky and self-serving leaks from the SEC and U.S. Attorney's Office, Kornbluth digs deeply into the Milken story. What emerges is a picture of U.S. prosecutors as highly unethical scalp hunters determined to get Milken at all costs, irrespective of his innocence or guilt. The federal prosecutors who chased Milken to ground emerge as incompetent scumballs who didn't know the difference between a put and a call but had no qualms about lying to Judge Kimba Wood in their sentencing memo if it would help to nail their man.

Kornbluth's book gets its credibility from 400 hours of interviews with Milken; 10,000 pages of documents; transcripts of Boesky's secretly taped conversations with Milken; personal diaries; lawyers' memos; and interviews with key participants in the prosecution. Although Kornbluth doesn't always tell us exactly what he thinks, the picture that emerges is one of extraordinary prosecutorial abuses that in the end coerced a plea from a broken man. “Welcome to Iran,” as one of Milken's attorneys put it.

Milken emerges as a man whose genius and confidence built a financial empire and many flourishing companies, but when it came to his own case he was unable to make a single shrewd decision in five years. Generous in sharing his wealth and time with the unfortunate, he insisted on no public recognition. This isolation left him unknown to the public, a persona to be defined by prosecutors and their shills in the media.

In Kornbluth's account, the persecution of Milken is a replay of the Salem and McCarthy witch hunts in which common vengeance writes the law. To get a better deal from the govern-