What The United States Can Learn From Japan

Japan and the Four Little Dragons in order to achieve their industrialization goals have a diverse set of policies ranging from limited entitlement programs to a education and government bureaucracy that stresses achievement and meritocracy. But one of the most significant innovations of Japan and the Four Little Dragons is there industrial policy which targets improving specific sectors of the economy by focusing R&D, subsidies, and tax incentives to specific industries that the government wants to promote. The United States could adopt some of these industrial policies to help foster emerging high tech businesses and help existing U.S. business remain competitive with East Asia.

In Japan the government both during the Meiji period and the post World War II period followed a policy of active, sector selective industrial targeting. Japan used basically the same model during both historical periods. The Japanese government would focus its tax incentive programs, subsidies, and R&D on what it saw as emerging industries. During the Meiji period Japan focused it's attention on emulating western technology such as trains, steel production, and textiles. The Meiji leaders took taxes levied on agriculture to fund the development of these new industries. Following World War II Japanese industries used this same strategic industrial policy to develop the high-tech, steel, and car industries that Japan is known for today. Some American industries are currently heavily supported by the government through subsidies and tax breaks to farmers, steel producers, and other industries that have been hurt by foreign competition because they are predominantly low-tech industries. But this economic policy of the U.S. is almost a complete reversal of the economic policies of Japan and the Four Little Tigers; instead of fostering new businesses and high tech industry it supports out of date and low tech firms who have political clout. The existing economic policy of the United States fails to help high tech businesses develop a competitive advantage on the world market instead it stagnates innovation by providing incentives primarily to existing business. The structure of U.S. industrial policy like the structure of an advance welfare state has emphasized rewarding powerful lobbying groups and has not targeted emerging sectors of the economy. The current U.S. industrial policy is a distribution strategy and not a development strategy.

Instead of this ad-hoc industrial policy the United States should follow Japan's model of strategic targeting of emerging technology. The U.S. instead of pouring its money into subsidies and tax breaks for failing low-tech industries should provide loans, subsidies and R&D money for firms that are producing high technology products. Unfortunately, there are several impediments to copying Japan's model: first, tremendous political pressure from interest groups forces politicians to give corporate welfare to failing established firms and not emerging firms. Second, it is difficult for a government to select which sectors of the economy it will target. But despite these obstacles the U.S. is now confronted with trading powers who have coordinated government programs to foster the development of new technology; in comparison the U.S. governments reliance on individual initiative and a lack of government support for new industries has allowed Japan and the Four Little Dragon's to catch up to the U.S. in the area of high technology. In the coming years the U.S. could not just lose its advantage but fall behind if it fails to redirect government subsidies from failing firms to emerging sectors of the economy copying Japan's industrial development model.