

GLOBAL REGIONALISM

How Markets Really Operate Under Today's
Socio-Political Institutions

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Not so many years ago, many of us observed in awe from afar the seemingly relentless output coming from Japan's producer economy. After Japan's socio-political institutions were restructured under the watchful guidance of General Douglas MacArthur, Japanese business and political leaders created the world's most potent public-private partnership. MacArthur mandated an end to agrarian landlordism with a land to the tiller program. Small land-owning farmers became a political force in Japan, promising that Japan would be self-sufficient in agriculture so long as Japanese consumers acquiesced to high food prices. The same policies dictated pricing for other consumer goods at home. High tariffs and a complex system of bringing goods into Japanese markets marginalized imports and restricted competition, leaving Japanese producers free to produce for overseas markets (and foreign reserves) at prices producers in other countries could not match. Few outside observers and analysts forecasted the crash of the Japanese miracle that occurred in the late 1980s.

What the overwhelming majority of mainstream economists, business journalists and others failed to see was the underlying structural disconnect between Japan's public revenue system and the operation of land markets. MacArthur's land redistribution program tripled the number of land owners but did not address the long-term consequences of permitting the private appropriation of location rents. Land owners paid virtually no annual tax on their land holdings. Thus, the location rent became imputed income to the land owners, capitalized by the market into higher and higher prices to land parcels. By the late 1980s land prices in Japan had risen so high that producers could not profitably produce goods or provide services in Japan. Japanese companies were forced to move production facilities off-shore. Unemployment (and even homelessness) began to appear in Japan. The land markets began to collapse, exposing banks and insurance companies to huge losses as real estate development softened. Loan defaults cascaded into an avalanche.

Here it is in the final year of the 20th century and Japan has yet to adopt the structural changes in its public policies and public revenue system required to solve its problems. Reformers have another serious obstacle to overcome - a society plagued by serious corruption and domination by organized crime. In October of this year, Forbes documented this side of the Japanese miracle ("Japan's Dirty Secrets," 10/30/00). Here's a brief excerpt from this article:

"A ranking gang source, speaking to FORBES, says yakuza are used by LDP politicians, as well as some from the opposition Democratic Party, to fund their campaigns. How does this work? One giant example: When the \$14 billion Kansai airport

was built near Osaka, mob members were informed of where access roads would go. They then intimidated residents along the proposed routes into selling their property. Parcels were resold to the government for a premium, much of which was plowed back into politicians' pockets. ..."

Japan is certainly not alone in this struggle between people who want nothing more than to earn a living producing goods and services others find useful and affordable, and those expert in theft, legalized and otherwise. Organized crime and the monopolization of location rent are two of the most serious problems facing virtually every society around the globe. In neither case, however, is public policy moving along the path of reasoned, scientific response.

A significant portion of the world's people are addicted to drugs, such as heroin and cocaine, or are frequent users of marijuana or hallucinogens. Many of same people and countless others are daily consumers of cigarettes and alcoholic beverages. Science tells us that cigarette use kills people and seriously diminishes the health of anyone who uses this substance on a regular basis. The same is true for alcoholic beverages. The same is true for heroin and cocaine. On the other hand, the scientific debate is unresolved on marijuana and hallucinogens.

For many reasons, our younger people are often attracted to the use of these kinds of stimulants. Far too many travel along a path of addiction, then either to an early death or to frequent and intensive rehabilitation treatments. In the United States, where the market for addictive drugs is the greatest in the world, the public policy reaction has been to impose harsh penalties on anyone who participates in the production and sale of such drugs. Billions of dollars have been spent and are being spent on the construction of prisons to contain persons convicted of involvement. What has been the result? Experts may argue over statistics (and over integrity of how those statistics are gathered and analyzed), but with every year there is an endless supply of new users and new producers and new sellers. New criminal gangs, willing to defend control over the market with unrelenting violence, appear as soon as the criminal justice system removes a competitor. The profits are just too attractive, and the actions of our societal institutions have energized and continuously reinforced the most destructive behaviors.

The young need guidance and options. They need positive role models and activities that are enjoyable and character-building. We need to redirect resources away from oppressive and degrading criminal justice responses and treat the use of addictive substances as a health and safety issue. We need to take the extraordinary profit out of the production

and distribution of these substances and try to make sure that when used they do the "least harm possible." This is my personal view and should not be construed as a view necessarily held by the publisher and editor of GroundSwell. But, just as we need to lift our head out of the sand where the land market and public policy is concerned, so do we need to discuss what to do about organized crime, the sources of its potency and how to greatly diminish (if not end) its corrosive impact on the lives of so many people in so much of the world. Let us have a dialogue and come to some rational and reasoned responses.