LAND and LIBERTY

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OFF BALANCE

THE U.S. economy is in a parlous state, with debts that make the Latin American banana republics look like penny-pinchers.

- **In 1985 the country became a net debtor abroad for the first time since the 1920s, when the net international investment position declined by $85bn.**
- **In 1986 the deficit on current account rose to an estimated $125bn.**

Suddenly, as the dollar weakens against other currencies, the foreign financiers have started to worry. The domestic expression of this concern has been the increasingly vocal demands in Washington for protectionism.

The Reagan Administration, in trying to preserve its preference for free trade, has been applying pressure on Japan and West Germany for concessions that would make it easier for American producers to export more goods.

Critics have pointed to the capital surpluses accumulated by these two countries — now running at almost $100bn a year — and their seeming reluctance to import goods from their trading partners.

JAPAN is singled out for her protectionist policies — the wide range of obstacles that make it difficult for manufacturers to penetrate that market. Prime Minister Nakasone has tried to offset the threat of world-wide protectionism by urging his people to run down their savings by consuming more foreign goods.

In particular, he wants a boom in residential construction. The Japanese population is one of the worst housed in the developed world, thanks to the extremely high price of urban land.

But despite Tokyo's cosmetic concern for the feelings of politicians in Washington and London, it will take a long time to change habits that would open up Japan's domestic market (as the distillers of the real Scotch whisky have discovered).

So Japanese business leaders are making great play of their investments in North America, where about 500 companies now manufacture or assemble cars, VCRs and othe products.

Most of the surplus profits made by Japanese investors, however, are pouring into real estate. The process began in 1981. Investments were undertaken on a modest scale and, by the end of 1985, Japanese companies had pumped $1.2bn into American real estate.

But within the following 12 months they had increased that sum to something like $4.5bn!

Much of this investment has been the direct result of pressure from Washington: a Pyrrhic victory, alas. For the real estate sector continues to enjoy a buoyancy (if you turn a blind eye to the agricultural land market) that is not reflected elsewhere in the economy.

Economic advisers have still not learnt the harsh lesson of history: actions which force up rents and land values, investments which supply yet more commercial property in an over-stocked sector, damage the restoration of balance in the allocation of resources. Without that balance the economy cannot be at its most efficient and the American worker cannot recapture his competitiveness in world markets.

In the early 1970s the real estate investment trusts led the headlong rush into the property sector, thereby helping to divert the funds which ought to have gone into consumption and the formation of new capital equipment. The ensuing distortion in the economy knocked growth on the head.

Unwittingly, the Japanese are now serving the same purpose. By proclaiming their enthusiasm for real estate, they will attract yet more funds into that sector — funds that ought to be channelled into the new technologies which would enable American workers to compete effectively against the Japanese.

The Japanese, of course, are only doing what the Reagan Administration wants them to do: and they are laughing all the way to the bank!