

The Political Forum

*A review of social and political trends and events
impacting the world's financial markets*

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SPOTLIGHT ON U.S.-JAPANESE TRADE FRICTIONS OVERSHADOWS LONG-TERM PROBLEM WITH EUROPE

Mark L. Melcher

I agree with the hordes of editorial writers, both conservative and liberal, who say that President Bush's Far East trip was a public relations disaster. I also agree with the increasingly popular view that his advisers on both domestic and foreign matters must be dumb as tree stumps.

Having said all this, I must now say that I disagree with those whiny doomsayers, especially in the media, who think they see evidence in the current downturn and in the on-going trade talks with Japan and Europe that the United States is sinking slowly into economic oblivion.

I think the message both from Bush's trip to Japan and the talks within the General Agreement on Tariffs and Trade (GATT) in Europe is that the United States is alive and well economically and will continue to be a healthy international player in the 1990s.

It goes without saying that Bush shouldn't have allowed himself to be portrayed as a hack for a group of overpaid and underimaginative U.S. corporate crybabies. But the bottom line on the trip is that U.S.-Japanese relations continue to be based on a strong economic foundation, common sense, and a deep reservoir of good will between the two nations.

For their part, the Japanese, once again, publicly recognized the importance of the U.S. marketplace to their continued prosperity and paid up with trade concessions in order to remain in good stead with that market. This is something they have done in the past, when push came to shove, and they can be counted on to continue to do in the future, so long as the U.S. market remains largely open to Japanese goods.

For our part, despite all the anti-Japanese rhetoric from presidential wannabes Pat Buchanan and the five Democratic contenders, the American people like Japanese products and are not about to agree to huge price increases on these goods in exchange for slightly lower unemployment

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figures. These guys should figure it out. If the public didn't want Japanese products, they wouldn't buy them.

Bush's hole card in his dealing with the Japanese is the same as the one he holds with the Saudis, namely, "You guys want one of those Democrats in the White House? If not, help out. Okay?"

The Saudis have done their share for the American economy, and by extension for George Bush, by helping to push down oil prices. They really had little choice, given that they face the prospect of exchanging the only U.S. president ever to be openly antagonistic toward Israel for a pro-Israel Democrat, who opposed or was ambivalent about using force to defend the Gulf States against Saddam Hussein and thus would be unlikely to do so in the future.

The Japanese are as smart as the Saudis and certainly don't like the prospect of Bush being replaced by an openly protectionist Japanese basher. The mystery is why Bush didn't realize this and conduct his negotiations with the Japanese with a little more dignity.

In any case, another U.S.-Japanese trade summit is in the works for next summer, and my guess is that this one will go reasonably well. Certainly, there will be friction between the two nations for years to come. But I think that the 1990s will find the United States and Japan growing increasingly closer economically, to the benefit of both. The leaders of Japan, who recognize the importance of good U.S. relations to their economic security, and the people of the United States, who enjoy the fruits of Japanese technology and industriousness, won't have it any other way.

Europe is another matter. I have thought for some time that Europe is headed into a very difficult decade, for a variety of reasons, mostly having to do with the meltdown of the old Soviet Union on its border. This feeling was reinforced by recent press reports that the European Community has decided to make no concessions on farm subsidies in the ongoing GATT talks.

This decision is, I am told, based not as much on pure stupidity as it is on the political reality that angry European farmers could bring governments down if their markets are threatened. It really doesn't matter. The result is the same. In the long run, Europe will suffer as economic unification is increasingly used to protect both inefficient farmers and similarly inefficient manufacturing plants. And while this attitude will hurt commerce around the world, it will most affect the long-term health and competitiveness of its perpetrator and sacrifice competitive advantage to both the U.S. and Japan.

I am impressed with the recently released data in the accompanying table from the Bureau of Labor Statistics. I recognize these data don't tell the whole story. But there is a message in the fact that hourly compensation costs for production workers all over the industrial world skyrocketed between 1985 and 1990 when compared with the United States. For all the public whimpering last week from President Bush and his enervated boardroom buddies, the U.S. is becoming increasingly competitive worldwide, especially when compared to Europe.

German labor costs soared in 1990 to 146% of those in the United States. They were 75% in 1985. In France, labor costs reached 103% of the U.S. figure, exceeding U.S. costs for the first time ever. The figure for France in 1985 was 58%. For all of Europe, trade-weighted labor costs in 1990 were 118% of those in the U.S., compared with 57% in 1985.

U.S. labor costs are still high compared to those of Japan and the smaller Asian economies. But the gap is closing. In 1985, Japanese labor costs were 49% of those in the U.S. In 1990, the figure was 86%. For the Asian "newly industrializing economies" as a whole, labor costs more than doubled from 1985 to 1990, rising from 12% of the U.S. figure to 25%.

Now I know, these figures have limitations. But the trends are undeniable, and they are confirmed by considerable anecdotal evidence. For example, according to an article in the August 17 issue of *The Economist*, German workers (the world's highest paid and once believed to be the most highly motivated) take more time off than their peers in any of the other six G7 industrialized countries.

In 1990, according to the article, the average German engineering-worker reported "sick" on 18 days, compared with 11 days in Britain and America. The article notes that a recent survey of 498 firms by the German employers' confederation found that on any one day, 7% of all workers are "ill."

As a result, *The Economist* notes, the average German works only 1,550 hours a year compared with an average 1,800 hours worked in America and 2,300 hours worked in Japan. Besides the shortest working week of the big economies, German workers receive a generous six weeks of annual holiday. All this, *The Economist* says, has led Germany to the slowest productivity growth of the four biggest European countries in the 1980s, after having produced the fastest growth in the 1970s.

In its October 25 issue, *Business Week* claimed that "alarms are sounding from Stockholm to Madrid that Europe has fallen years behind the U.S. in harnessing efficient quality-management techniques as a strategic weapon." According to the magazine, a 1989 study by Daniel T. Jones of Britain's Cardiff Business School and MIT concluded that "European producers haven't learned the secret of raising quality and at the same time lowering costs." The study maintains that the average European large-volume car plant took 36.2 hours to build a car--twice what Japan took--and produced 97 defects per 100 vehicles, or 62% more than Japan. American factories, the study found, scored roughly midway between the two on both measures.

Finally, I would offer the following quotes from a September 15 article in *The Washington Post* by Joel Kotkin, a senior fellow at the Pepperdine University School of Business and Management and co-author of the book *The Third Century: America's Resurgence in the Asian Era*.

- o "Last year, Italy, France and Belgium barely produced as many engineers as South Korea alone--and only half the number of engineers needed by their industries. Overall Japan boasts as many researchers in science, engineering and technology as the entire European Community, while the United States has 50% more."

- o "Even Germany, with by far the best educational and technical infrastructure of the major European states, is experiencing a severe shortfall-- upwards of 30,000--of engineers in fields such as construction, development, planning, sales and marketing. Meanwhile, the number of eligible university students has dropped steadily, with a

Table 1. Compensation Costs For Production Workers In Other Industrialized Nations Have Skyrocketed Versus The United States'...

Country/Area	Indexes Of Hourly Compensation Costs For Production Workers In Manufacturing*								
	1975	1980	1984	1985	1986	1987	1988	1989	1990
United States	100	100	100	100	100	100	100	100	100
Canada	91	85	88	83	83	88	97	103	108
Brazil	14	14	9	9	11	10	10	12	18
Mexico	NA	NA	NA	12	8	8	9	11	12
Australia	87	86	78	63	64	70	81	86	88
Hong Kong	12	15	13	13	14	15	17	19	22
Israel	35	38	37	31	39	47	55	54	58
Japan	48	57	51	49	70	80	92	88	86
Korea	5	10	10	10	10	12	17	23	26
New Zealand	50	54	37	34	42	50	59	55	56
Singapore	13	15	20	19	17	17	19	22	26
Sri Lanka	4	2	2	2	2	2	2	2	NA
Taiwan	6	10	11	12	13	17	20	25	27
Austria	68	87	56	56	78	97	100	95	115
Belgium	101	133	69	69	93	111	112	106	128
Denmark	99	110	64	62	84	108	109	101	121
Finland	72	83	62	63	81	99	112	116	141
France	71	91	58	58	78	91	93	88	103
Germany	100	125	75	74	101	126	131	124	146
Greece	27	38	30	28	31	34	38	38	46
Ireland	48	60	44	46	60	69	72	68	80
Italy	73	81	58	57	76	91	94	95	111
Luxembourg	100	121	62	59	80	96	99	95	NA
The Netherlands	103	122	69	67	92	112	114	105	123
Norway	107	118	82	81	102	128	139	131	148
Portugal	25	21	12	12	16	19	20	20	25
Spain	41	60	36	37	49	58	63	64	79
Sweden	113	127	73	74	94	112	121	122	142
Switzerland	96	112	77	74	104	126	129	117	141
United Kingdom	52	75	47	48	57	66	75	73	84
Trade-Weighted Measures									
27 Foreign Economies	NA	NA	NA	54	65	74	81	81	88
Less Brazil, Mexico, Israel	64	72	58	56	69	79	86	86	93
OECD	75	83	67	64	79	90	98	97	105
OECD Less Canada	68	82	58	57	77	91	99	95	103
Europe	82	102	63	62	83	101	105	100	118
European Community	79	100	61	60	81	98	102	97	115
Asian NIEs	8	12	12	12	13	15	18	23	25

* The indexes extend to 30 countries or areas and selected economic groups (U.S. = 100).

NA: Not available.

Source: "International Comparisons of Hourly Compensation Costs for Production Workers in Manufacturing, 1975-90," U.S. Department of Labor, Bureau of Labor Statistics, November 1991, Report 817.

nearly 25% downturn forecast in the former West Germany between 1988 and 1995. By the year 2010, according to government estimates, the gap between the country's supply of college graduates and its needs will exceed half a million."

o " ... a 1990 survey of European college students found Germans, second only to Scandinavians as the least ambitious and motivated of all young Europeans. Only 3% of German college students indicated any interest in manufacturing, research or development, again among the lowest percentages in Europe."

o " Twenty percent and higher youth unemployment rates are commonplace in many European countries, notably in Spain, Ireland and Great Britain, where close to half of all youngsters are out of school by age 17, far higher than the percentage for American minorities. In Britain, more than a third of these young labor market entrants have difficulty spelling at the most basic level."

European unification has been cited as a panacea for these and other problems such as a rapidly aging population and a rising tide of untrained immigrants attracted by the generous European welfare systems. But, as the recent digging in on GATT issues by European negotiators indicate, the enormous public attention to international trade caused by the "1992" proceedings has done more to raise fears of unemployment and social dislocations across Europe than it has to liberalize attitudes.

The bottom line is that a severe protectionist movement is more likely to gain momentum in Europe in the 1990s than in the United States. Despite recent headlines to the contrary, the reason for this lies with our cordial and mutually beneficial trade relations with Japan. And there is probably not much the protectionists, either here or in Europe, can do about it.

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