

CONSPIRACIES OF SILENCE

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PREFACE

I am not sure which member of the family bought one of those metallic stickers for fridge doors which said “In vino veritas”. I turned it over and wrote, instead, “Etiam sin vino, Semper veritas”. The truth always, even without wine,

The view of human nature implied in that “in vino veritas” is hardly a noble one. It assumes that it is normal to dissemble slyly and consciously. We have secrets, some of which are attempts to justify our self-interest of which we are slightly ashamed, some to avoid offending other people. It requires a bit of alcohol to loosen our tongues.

I prefer to believe at least in the principle of Kant's categorical imperative that one must always tell the truth, except when we are constrained to lie by wholly altruistic reasons. When a gunman appears at your door and is obviously threatening harm to a sworn enemy who has taken refuge in your house, you do not answer truthfully when he says “Is X in your house?”

I cannot make the holier than thou claim that I live up to that Kantian imperative. For fear of seeming stiff-necked and un-neighbourly, I contribute to the corruption of Italian society by weakly agreeing when my neighbour the carpenter suggests that I pay him half in cash and only half against a receipt which will record his earnings and give him a tax liability. I don't need wine to make me willingly and worriedly confess that fact, when I am having a discussion with friends about the morality of citizenship. But otherwise I join the conspiracy of silence about tax evasion.

The disparate essays in this book are all about some conspiracy of silence. They are obviously of different types. Two are essentially about taboos within professional communities, an attempt to maintain a version of truth about the real world by banning alternatives which might challenge the consensus. These taboos are maintained by the self-restraint of the members of those communities, a self-restraint reinforced by the principle enshrined in the Japanese proverb “The nail that sticks out is the one that gets hit.” For some the self-restraint comes easily because they accept the consensus hook, line and sinker. For others less easily because they are aware that the consensus has probably got the real world wrong.

The two examples are, first, the way in which most sociologists, and many social psychologists, try to avoid any discussion of genetic factors in

determining human personalities, tastes, or capacities, preferring to operate on the assumption that it is primarily social, remediable environmental factors which explain the variance in wealth, income, status, self-respect, dignity among individuals and that these factors can be remedied if only the power structure of society were changed. The essay on the "Social Conditions for Economic Performance" examines possible explanations for this taboo.

The second example ("OPMF, Central Bank Conservatism and Inflation") is the way in which economists with very few exceptions fail to discuss seriously, the possible effects of a country having an inflation rate greater than 2%. That figure has been incorporated into the mythology the world community of central bankers seeks to maintain, and is axiomatically accepted by most of the community of university and journalist economists as the ideal equilibrium point, though ideal for what is hardly ever made clear, See the essay for speculation on the origins of that taboo, as well as an amateur attempt to estimate what might happen if the ideal figure were instead set at 5-6%.

A third essay, "Collision Course", is about a conspiracy of different origins. It is a product of the binary dichotomous us-them thinking which comes so easily to human beings. An "insider" sense of belonging to community X (a village a religious sect, a soccer fan club, a nation) usually implies a certain cognitive map of the non-X communities, which divides them into allies with whom one cooperates, enemies with whom one competes, and "indifferents". Globalization and the creation of large power blocs ("the West", Russia and satellites, China and satellites) is steadily reducing the category of "indifferents". The essay is about the intense dispute between Japan and China over the sovereignty of what the Japanese call the Senkaku and the Chinese the Diaoyu islands. The "conspiracy" is manifest in the way most Western observers, see this as an example of an aggressive and expansionist China harassing a blameless Japan. I explain this as a consequence of Japan's position as an ally of "the West", which leads people to ignore the fact that it is Japan, rather than China whose bellicosity lies at the origin of the dispute.

The fourth "conspiracy" is a real conspiracy in the sense that it depends on an explicit agreement, reached by a small number of people huddled around a table, to take a common negotiating stand which deliberately suppresses any mention of certain real-world facts. My example is that of the six nations negotiating with Iran over its nuclear ambitions and facilities, who have all agreed not to mention Israel's nuclear capabilities, or its apparent intention to create "facts on the ground" that will allow it to absorb the whole West Bank.

Finally there is the spoof essay "The probably fictional musings of President Obama" which makes it easy to understand why that last-mentioned conspiracy can come about, and speculates briefly on whether the Israeli stranglehold on American (and Brussels European) foreign policy will be eroded over time.

The “social conditions” essay was written to order for the 40th anniversary seminar of that splendid journal, *Stato e Mercato*. All the others were subsequently written in bursts of indignation at something I had read which seemed to me outrageous self-deception, twisted logic, self-interested misinformation, “telescope-to-blind eye” perversity or whatever. Apart from *Stato e Mercato* one other essay (OPMF) has been printed in translation in an Italian academic journal (*Economia Politica*) and a shortened version of Collision Course in the *Corriere della Sera*.

I should confess that putting these disparate essays into the same pair of covers was an after-thought, but I hope not an absurd one. I have always liked the phrase “Speaking truth to Power”. I am pretty confident in the truth bit, but I have never found Power ready to listen to me, in spite of my lengthy dossier of “Letters to the Editor” --- thirty years ago of The Times. Since then of the FT.

When I get a rejection of one of these essays from a British editor or publisher. I ought to be, but am not entirely, consoled by the fact that in 1950 Bertrand Russell produced a volume of essays entitled “Unpopular Essays”. It has gone through 8 editions, the latest in 1996. Russell was my intellectual hero sixty years ago. His *History of Western philosophy* and *Ayer’s Language, Truth and Logic*, provided a substitute for the university education I never had, I have been trying to emulate Russell’s wit and wisdom ever since, without much confidence that it my age I shall ever make it.

Ronald Dore
Grizzana Morandi
March 2014,

Chapter 1: The Social Conditions for Economic Performance: EP1 and EP2¹

By Ronald Dore

Since this is a kind of valedictory, prompted by reflections of the fact that *Stato e Mercato* is thirty years old, perhaps I may be allowed the self-indulgence of a personal note. I have recently written for a Japanese audience a history of post-war Japan, interweaved with my personal intellectual autobiography. In it I describe the implosion in the Anglophone countries in the late seventies of the “mixed economy Keynesian” model of the Golden Age, and the transition to dominance, thanks to Volcker, Reagan and Thatcher of the neo-liberal doctrines of the small state, deregulation, zero inflation and acceptance of market outcomes as optimal manifestations of God’s will², backed up by dogmatic neo-classical economics.

I go on to record the birth of *Stato e Mercato* at that time, how the earlier dominance of studies of corporatism, gave way to a preoccupation with varieties of capitalism and how much I profited from friends who admitted me to the S and M club. I then go on to confess to a certain jealousy at the fact that the discussion of varieties of capitalism has tended to revolve on an axis created by Hall and Soskice’s *Varieties of Capitalism*³. According to Google their volume has been cited 6430 times, and my *Stock Market Capitalism: Welfare Capitalism: Japan and Germany versus the Anglo-Saxons* a mere 833 times.

I go on to attribute the difference to four factors

1. Their book deals with a dimension of ideal types with LME and CCE as polar types, mine is comparatively descriptive of four concrete economies
2. They are studiously value-neutral scholarly, I make quite clear my value preferences; the book can reasonably be classified as polemical and journalistic rather than academic.
3. As their subtitle suggests, they are not really value neutral. They count as the major objective national competitiveness, what I shall call in this paper EP1 (Economic Performance 1) whereas I count as the major objective what I shall call EP2 (Economic Performance 2).
4. My book is written in prose which is too easy to understand to be judged scholarly.

“Performance” is a strange word,” or “paafluawmansu” which is the form in which I encounter it most these days in the writings of Japanese who are obsessed with it. Past performance is the rating given to horses before a race, and indeed many economists

¹ A shorter version of this paper was published in *Stato e Mercato*, 2014.i

² Tocquville’s phrase for the feudal order of the Ancien Regime

³ Peter A, Hall and David Soskice, eds. *Varieties of Capitalism: The institutional foundations of comparative advantage*, Oxford, OUP, 2001

use the word “economic performance” to mean the ability of countries to score high in the growth rate stakes, and to acquire foreign exchange reserves exporting more than it imports. By that criterion German economic performance is outstanding. So much so that Brussels has condemned it for beggaring its neighbours by running a 6% current account surplus.

A synonym for economic performance in this sense is competitiveness.

Let us call that EP1. I prefer as a policy objective what I shall call EP2, namely achieving enough of a growth rate such that, with a decent distribution of income and low unemployment most of the population can look forward to the future as likely to be better than the past.

Economic Conditions of both EP1 and EP2

Before getting on to my main theme of the social conditions for EP2, a word about the economic conditions for both EP1 and EP2, one of which I believe now to be having control over the currency your economy uses. I write in shame as one who was always critical of the way Britain dragged its feet and refused to commit to entering the eurozone. I now repent. Giving a group of highly disparate economies a single currency has now been shown to be the disaster that some predicted. The ZY thesis that of the three variables, interest rate, inflation rate and exchange rate the government of a given can only control two has shown its relevance. The US de jure and Germany de facto, who control their inflation rate and interest rate can happily accept the exchange rate the rest of the world gives them. But the weaker economies of the eurozone have to accept both the interest rate that Germany allows the European Bank to give them and the exchange rate that Germany’s trade performance dictates. German export performance has kept the euro exchange rate so high that the less competitive countries cannot export. Greece should clearly have gone back to the drachma two years ago, let its value sink and get back to some kind of prosperity with a flourishing tourist trade. Portugal, Spain and Ireland should have followed suit. If they had done so, rather than accept Brussels/Berlin austerity as the price for niggardly life support, Spain would not today have 50% of its youth unemployed. National pride – the desire not to be a drop-out and not to be considered a second-rate nation – should never be allowed to trump sensible economics.

One other point before I get to social conditions. Wildly varying resource endowments make nonsense of any attempt to give universal prescriptions for either EP1 or EP2. A Saudi Arabia does not need the sort of measures that Japan or Sweden have to take to raise income per head. America with its vast land and mineral resources, and now fracking oil energy, can afford to spend fabulous sums on keeping a dozen aircraft carrier fleets around the world to assert its hegemony. Nobody else can harbour the same ambitions, though the Chinese will in a couple of decades. Population size also counts, Economic policy for 1.3 billion Chinese is a bit more complicated than that needed for Norway’s five million.

Social conditions for EP1

Very roughly speaking there are two rival prescriptions. The first frequently referred to as the developmental state prescription requires:

1. A level of taxation sufficient to provide public expenditure on physical infrastructure, education and health equivalent to at least 35-40 percent of GDP.
2. An elite civil service (elite = brainy and morally committed to public service) sufficiently independent (appointments and promotions insulated from political party control) to share decision-making power with ministers.
3. Sufficient knowledge of technological developments in that civil service, to “pick winners” ---- i.e. provide subsidies for the promotion of industries in which prospective rates of return are not sufficiently certain to attract private investment.
4. An inflation rate of 2-4% to stimulate private investment
5. A population with a sufficient sense of solidarity, homogeneity and collective purpose to accept the levels of taxation required

That developmental state model, most effectively pursued by countries such as Japan and France, was widely accepted in the advanced industrial countries from the end of the war to the oil shock. It ran into trouble in the second half of the 1970s thanks to a combination of high inflation and recalcitrant trade unions. Both Japan and Britain had inflation rates of 23% in 1975. Japan, with cooperative unions and a synchropay system (i.e., a grand national negotiation once a year), got inflation down to a single digit in two years, Britain, with more bolshie unions and a throughout--the-year, industry by industry, “leapfrogging” bargaining system, still had double digit inflation when chaos brought Mrs. Thatcher to power and she enforced a swingeing deflation on the model of the Volcker deflation which ushered Reagan to power.

Thereafter, those two politicians and their economic advisors, managed to convert the world, the IMF, the World Bank to the second, the neo-liberal prescription, which one might summarise as follows.

1. Collective goals (even winning out in international competition) are feeble motivators of personal economic behaviour. The only reliable motivator is self-interest, the prospect of profit.
2. Hence the “small state”, minimum taxation and deregulation to unleash profit-seeking enterprise.
3. Inflation which hits the owners of financial assets is to be avoided. Zero inflation is ideal, but a 2-3% inflation may be tolerated if it stimulates investment.
4. Low or negative interest rates are the best stimulus to investment.

The evil effects of this prescription in industrial countries with declining populations are clear for all to see.

Since Japan started it nearly 10 years ago, the favourite mechanism of central bankers to hold down interest rates has been “quantitative easing”. Central banks expand the money supply by buying up their countries’ bonds, for cash, from the banks. A Japanese calculation shows how ineffective that is. Over 10 years the Bank of Japan (BoJ) bought 131 trillion yen’s worth. Of that sum the banks

increased their reserve deposits with the BoJ by 128 trillion. Only 3 trillion got into the real economy, and some of that must have been spent to buy newly issued bonds necessary to cover the fiscal deficit.

What nobody has yet tried is an idea floated by Adair Turner earlier this year⁴, from which central banks recoil with horror. Stop covering the fiscal deficit by selling new bonds. Instead just tell the central bank to print and hand over new money.

Inflation will inevitably result, and so will a rise in interest rates. The inflation could be allowed to go up to 5%, with compensation for fixed income families of three-monthly adjustments of the minimum wage, social security benefits and state pensions. Five percent inflation might act as an investment stimulus. The danger of spiralling hyper-inflation is minimal in a world in which there are no genuinely bolshie unions. (The Italian four-hour general strike, in the autumn 2013, was a feeble and pretty meaningless gesture.) The rise in interest rates is hardly likely to deter investment and it would have the highly beneficial effect of allowing pension funds and insurance companies to invest in real economy bonds, and stop trying to squeeze out extra returns by subscribing vast sums to the hedge funds and funds of funds whose gambling is turning the world's stock markets into one grand casino. Cash under their management: 24 trillion dollars in 2013 third quarter; World GDP 2012: 72 trillion dollars.

A lot of this is the result of the unbridled growth of the financial services industry and its high-jacking of the real economy. Traditional banking was about using customers' deposits (returnable on demand) to make long-term loans to entrepreneurs. (So-called maturity transformation). Increasingly, as their stock of deposits grew with rising incomes, the ageing of populations and the growth of pension funds and insurance company assets, deposits were increasingly used also for "own-account" trading of financial instruments, albeit with somewhat more sober and less speculative adventurousness than the hedge funds.

The so-called Volcker rule would stop this, split banks into traditional banks confined to making loans to the real economy, and, under entirely separate management, banks which trade financial assets freely. The rule was embodied in legislation passed by Congress two years ago, but haggling obstruction by Wall Street over the rules' precise translation into regulations prevented the announcement of its implementation (on 1 April 2014) until December 2013. To be sure, one could also argue that getting the Treasury, the Fed, the Federal Deposit Insurance Corporation, the Security and Exchange Commission, all of them bombarded with missives from Wall Street and its academic friends, finally to agree on a set of rules in a mere two years, was a considerable achievement. The final document spelling out those rules runs to 964 pages.

Meanwhile, since top financial gamblers have fabulous salaries and profits and pay large sums in taxes, there is lively competition between London, New York, Frankfurt, Paris and Shanghai to have the gambling done on their premises. One

⁴ *Debt, Money and Mephistopheles: How do we get out of this mess?*
Adair Turner, Lecture at Cass Business School, 6 February 2013

of the most egregiously zealous competitors is Britain's Mr. Carney (the current Governor of the Bank of England). He has recently set two targets: to continue quantitative easing until unemployment comes down to 7%, (two cheers! Though he was taken aback when the rate which he expected not to reach target for two years dropped to 7.1% as early as January 2014.) and to increase the ratio of bank assets to GDP from the present 4:1 to 9:1

The social conditions for EP2

1. An inclusive sense of social solidarity, a sense that within the nation-state my brother is my keeper. During the Golden Age from the war to the oil shock most European nations had such a sense, largely a legacy of the war and a function of the relative homogeneity of racial composition. That was what brought the welfare state, and highly progressive levels of income taxation. But fading memories of wartime and the growth of third-world immigration have very largely destroyed such sense of social solidarity. Its periodic revival at World Cup matches has no practical political significance whatever. In United Kingdom, Government efforts to deal with the problem such as the Labour Government's Social Exclusion Task Force fizzle out. Private charities, working in particular sectors such as health, are more effective, but still marginal.
2. Without a strong welfare system and highly progressive rates of income tax, a less unequal distribution of income and life chances cannot be attained. In addition to the solidarity question, highly progressive income taxes are ruled out by the dominant concern with EP1. Highly endowed individuals are indeed mobile in today's global economy.

Inequality: The mechanisms

Every newspaper from time to time, increasingly every Obama speech, includes some recognition of the growth of inequality in all industrial societies, and with a few maverick exceptions⁵, deplore it.

First, to change it, we have to understand it and understand why the degree and nature of inequality is greater in the hegemonic Anglophone economies than elsewhere.

An essential element in understanding is to take seriously the differences among human capacities and orientations and the role played in those differences by genetic inheritance – a subject from which the majority of social scientists recoil with horror. “Genetic determinism” is treated not just as a heresy, but as a moral sin. The social psychologists who did the twin studies and used many other methods to estimate the relative contributions of genes and environment to the variance in IQ test scores are no longer rewarded with punch-ups by the

⁵ E.g., Melissa Kite, “Follow the logic, Ed and hug a banker” *Guardian* 17 Feb and Barry Longford's response, Letters, 18 Jan 2014

righteous when they give lectures, as they were in the 1970s, but the hostility remains⁶.

Several mechanisms are involved. Two relevant theories are those about “small numbers” markets and “winner takes all”. The salaries and bonuses of top CEOs, bankers and footballing stars are explained by their very exceptional talents, which, since in both cases, they have the same training and the same qualifications as many of their less distinguished fellows, is generally attributed to genetic luck. (If proven to be real talent (in terms of goals scored or number of failing companies turned around and not just a cumulative process of myth-making – an escalating feedback loop whereby initial success and reputation and further success reinforce each other.) The small numbers of buyers of these talents – leading corporations and soccer clubs – turns their recruitment markets into auction markets in which the price can rise indefinitely depending on the bidders’ financial resources.

But the “all” of “winner takes all” is highly misleading. A club which hires a star striker at x million dollars, is in team-spirit trouble if his colleagues do not get x-1 or x-2 million. CEOs head far larger organizations than a football team and Disney’s CEO, for all his \$34m per annum remuneration cannot operate effectively if his immediate subordinates with whom he interacts daily, do not have salaries and bonuses at least within striking distance of, say, 50% of his.⁷ At the Bank of America in 2007, the CEO’s salary was \$1.5m, and his four immediate subordinates \$800,000, though with bonuses added the spread was from \$10.5m to \$24.8m.⁸ The same applies to those four people of that inner cabinet, and their own immediate subordinates, and so on down the line. Top pulls up the bottom, leading to a increasing gap between the “middle class” with quasi-tenured jobs in large organizations protected by the predictability of bail-outs, and an impoverished precariat. The total remuneration in 2007 of 57 top earners at the nine US banks which were bailed out in the 2008 Troubled Asset Relief programme, was \$941mn, approximately \$16mn each⁹.

These salary levels rise inexorably, independently of the intentions of the managers who set salaries and bargain with potential genius recruits over their “packages”. In a bid to hold back, large Silicon Valley firms reached a secret deal to dampen the “small numbers competition” which was steadily eroding their profits from inflating salary costs. They agreed not to “cold call” – i.e. not actively to try to poach – each others employees. They were rewarded by a class-action suit brought on behalf of 64,000 programmers, claiming billions of dollars

⁶ For a splendid denunciation of anti-gene hypocrisy see Jill Boucher, “We can’t ignore the evidence genes affect social mobility” Prospect, December 2013

⁷ A brief trawl found no research which could put a ballpark figure to these assertions. The large business school literature on intra-organizational differentials, seems either to derive from the Mayo Human Relations school in which pay is unmentionable, or, in the industrial relations tradition, to deal with situations in which occupational groups within an organization have separate union bargaining arrangements.

⁸ CNN News, *Big Bank Excess. What they take home.*, 2014
<http://money.cnn.com/news/specials/storysupplement/ceopay/>

⁹ CNN News, op.cit

for loss of income due to the illegal breach of anti-trust rules. Steve Jobs was credited with being the chief villain, the chief organizing creator of the cartel.¹⁰

A second major mechanism is the gradual accumulation of technological knowledge and the embodiment of that knowledge in machines. This has enormous implications for income distribution and its relation to learning ability and learning opportunities. There are still optimists who believe that it is learning **opportunities** which are crucial. They point to the fact that Germany, Austria and Switzerland with their well established apprenticeship systems, have lesser youth unemployment ratios than in the US or the rest of Europe. They do indeed, but even there the unemployment ratio is rising, and apprenticeships are being scorned in favour of university education.

Germany's vocational training is a source of international admiration and [imitating it](#) has become a fashionable solution to high levels of youth unemployment across Europe.

But in [Germany](#), growing numbers of school leavers are choosing to go to university instead of starting an apprenticeship, triggering alarm that small businesses will struggle to fill skilled positions.

Eric Schweitzer, president of the Association of German chambers of commerce and industry (DIHK), warned: "Years of blanket calls for Germany to raise the percentage of those studying [at university] have led to the situation that our lecture halls are bursting at the seams while companies search desperately to find apprentices."

"Germany risks long-term damage as a business location if the trend towards 'academicisation' no matter the cost, is not stopped," he said. **"As is the case in southern European [crisis-hit countries](#), a high rate of graduation from university is by no means a guarantee for a flourishing economy and low youth unemployment."**¹¹

Those same optimists would have a favourable view of the following table which shows how much further along Britain has come in the trajectory just described.¹²

Three UK Cohorts at Age 18

	Cohort born in 1958, aged 18 in 1972	Cohort born in 1970, aged 18 in 1988	Cohort born in 1991, aged 18 in 2009
Employed (with or without off-the-job)		68%	40% (33% paid work, 6%

¹⁰ New York Times, 1 March 2014

¹¹ Chris Bryant, "German school leavers spurn apprenticeships" *FT*, 5 February, 2014

¹² Alison Wolf, *Review of Vocational Education: The Wolf Report*, Department for Education, March 2011, p.25

training	74%		apprenticeship
FT education or training	17%	25%	45%
Out of the labour force	9%	7%	16%

There are still some who would have us believe that the increase in those getting further education and training represents progress. Sancta simplicitas!

While there are no definitive studies, both recent English patterns and comparisons with Europe suggest that increased participation is only partly because of the “pull” of higher-level qualifications, but because *young people are pushed into education by a lack of jobs*. That is borne out by the “churning” in and out of the labour market that characterizes young people’s early years of employment and, in the English case, by the large numbers of 16 and 17 year olds (10% in 2009) who report that they are in education and training but would accept a job offer if available¹³.

The staple offer for between a quarter to a third of the post-16 cohort is a diet of low-level vocational qualifications, most of which have little to no labour market value. Among 16 to 19 year olds the Review estimates that at least 350,000 get little to no benefit from the post-16 educational system.¹⁴

Clearly the fundamental problem lies not so much in differential learning *opportunities* as in differential learning *abilities*. Consider Britain at three stages of technological development. Its still largely agrarian economy of 1850, its largely industrial economy of the 1950s when a 3% level of “frictional” unemployment was the standard definition of “full employment”, and the present day.

In an 1850 village of independent or tenant farmers, most of whom inherited much the same property and land rights as each other, there were nonetheless some difference in prosperity among neighbouring farmers. Much of the differences were the result of demographic luck (ratio of active workers to more passive consumers), and physical robustness, but also due to personal qualities of family members, partly the ability to postpone gratification in order to save, but partly due to intelligence. The smart farmer learned more quickly to recognise the signs of incipient blight, was better informed about soil qualities, fertilisers and the choice of crop strains. That intelligence, learning ability counted, but probably contributed very little to the variance in prosperity.

By 1950 the world had changed. Whereas in 1861, it was perfectly acceptable to spend public money on a Royal Commission to investigate how well the public schools were “preparing upper and upper-middle class boys for the universities”. The reluctant grant of universal male suffrage in 1867 gave an incentive to boost state expenditures on curing the illiteracy of the lower classes. In 1903 the threat from a

¹³ Wolf Report, p.26

¹⁴ Ibid, p.7

rising Germany prompted a nationalist attempt to increase the nation's intellectual resources by a linking of the working class and middle class educational institutions. Bright elementary school children were given scholarships to middle class schools which fed the universities. Thus was born the age of the grammar schools which, until wartime egalitarianism abolished them in 1947, catered for about 20-25% (in Wales 30%) of children, the brightest in each age group.

And, concomitantly, occupational selection for those above average IQ, became increasingly a matter of educational sifting. To be a librarian, no longer was it enough, as a careers guide at the turn of the century advised, to be a lover of books and have the right connections. You had to have a diploma or a graduate diploma in Library Science. Only university graduates could become administrative level civil servants or grammar school teachers.

For the majority who took the other jobs that did not require educational qualifications there were plenty of opportunities for learning on the job. Manufacturing quality controls were still weak and there was a lot of repair work to be done, while expanding populations led to a buoyancy of demand, and continuous creation of new vacancies. By and large there was a rough correlation between learning ability, job complexity, and earnings: the people who became electricians were generally smarter than those who became plumbers, but hardly anyone could not learn to be a builder's labourer or an office cleaner or one of the mass army of assembly workers in manufacturing, and earn a basic living wage thereby, even enough to support a full-time housewife.

But the steady process of automatization has changed all that. Most assembly-lines are tended not by humans but by robots. No building labourer now climbs rickety ladders with a hod of bricks over his shoulder. Keynes saw this "old job destruction" beginning to happen in 1930 and looked forward to the day when technology would allow everybody to work for a mere fifteen hours a week¹⁵. Instead, what we have are a lot of bright people who have mastered the machines, working 70 hours a week and earning vast sums, and an underclass of people who can only do the sort of simple job that almost anyone can do, who work fewer hours of work for pitiable incomes, or zero hours because they can't find a job.

The market undoubtedly does its job of providing incentives. Anyone with the intellect needed to write inventive software, may well be induced to acquire the necessary training. But for those who do not have that level of brainpower, the jobs that they used to do, preparing invoices, packaging, turning, welding are now done more reliably by machines. There remain a whole range of caring jobs, but far from enough jobs, caring for people who have the private or public resources to pay the carer a decent income. It is the lack of effective demand which keeps so many potential carers unemployed.

The most useful cure for the high levels of dignity-destructive unemployment is public sector "make-work" and the subsidization of private sector jobs, the market-value return to which would be below the social security minimum. The subsidy would have to bring wages marginally above that minimum to give an

¹⁵ "Economic Possibilities for our Grandchildren" in John Maynard Keynes, *Essays in Persuasion*, New York: W.W.Norton & Co., 1963, pp. 358-373

incentive to take that job. The Working Tax Credit, plus Child Tax Credit in the UK do just that, but the enormous complications and the possibility of having the credits clawed back if incomes change in the course of a year mean that only 5 million of the 7 million eligible have applied

As market-produced inequality grows, the cost of such a system will of course spiral. At present, both the British scheme and America's similar Earned IncomeTax Credit cost less than half a percent of GDP, but rising as advocates of redistribution like Robert Reich have a probably growing influence¹⁶. The high proportion of such costs devoted to administering such a system, including the cost in terms of diminishing social cohesion as the Wall Street Journal and the Daily Mail go thundering on about welfare frauds. There is a good possibility that eventually this will be cured by transforming the whole system, plus the state pension system into a basic, citizen's income paid to everyone. This, at a stroke, abolishes the concept of unemployment. People are free to earn extra income by taking a job, or, if they are satisfied with their minimum income to spend their time painting pictures or watching television. No stigma should attach to any choice. The Wikipedia article on Basic Income¹⁷ provides a formidable list of people, including, surprisingly, Milton Friedman, who have been Basic Income advocates over the years.

The heart of the matter

It was quite possible, when Friedman was writing in the 1950s, to believe that market forces would ensure that productivity gains from improving technology would be shared by all. Even in humble occupations that almost anybody was capable of learning to do, the demand for labour was keeping pace with increasing supply. And it was still just about possible in Clinton's day to believe that "a rising tide lifts all boats". But in a 2011 in which 93% of the increase in America's GDP went to the top one percent of taxpayers is a different world. And as *The Economist* points out in a special issue¹⁸, the world of 2034 will be different again. The disjunction between the demand for labour in complex jobs and the high incomes that come with them on the one hand, and on the other the distribution of the brainpower needed to learn to do those jobs, will grow ever more obviously acute.

Decades of urging better education and training as the solution, ignoring, or denying the importance of that disjunction have borne little fruit. Nor are they likely to do so in future.

¹⁶ Robert Reich, "We must redistribute income", *New York Times*, 5 Dec. 2013

¹⁷ See also the regular newsletter of BIEN, the *Basic Income Earth Network*, which records a world-wide increase in support for the basic income project. (www.basicincome.org)

¹⁸ *Economist*, 18th-24th January. *Coming to an office near you*. "One recent study by academics at Oxford University suggests that in the US, 47% of today's jobs will be automated in the next two decades". The study in question seems to have been Carl Benedikt Frey and Michael A. Osborne, *The future of employment: how susceptible are jobs to computerization*. 2013?. The 47% is of US jobs, the loss ("over the next decade or two") including the greater ease of off-shoring simplified jobs.

The recognition may grow among the rich, that a high degree of income redistribution is the only way to preserve social peace and any vestige of social solidarity within nation-states. At the moment such recognition is scarce. See for instance the howls of rage that in January greeted in Britain the declaration by a Labour Party spokesman that when it formed a government it would raise the top rate of tax from 45% to 50%.¹⁹

But today it is hard to see how that recognition can indeed grow. The impoverished are also the inarticulate. Kurt Vonnegut's *Player Piano* and Michael Young's *Rise of the Meritocracy* predict an organised revolt which gives them voice, the one led by clever engineers over-endowed with empathy, the other by women, thought more likely to have such an endowment as well as persuasive skills.

It is hard not to be pessimistic about the world that our children and grandchildren will grow up in.

¹⁹ *Financial Times*, 27 Jan 2014, "Labour's growing gulf with business". Ironically, the Ed Balls speech which unleashed these protests included the tax rise as a sop to traditional Labour voters, in a speech the general thrust of which was to reassure the financial community that a Labour government would be just as protective of the City as the Tories.

Chapter 2: OPMF, Central Bank Conservatism and Financial Economics²⁰

To print money to finance deficits indeed has the status of a moral sin – a work of the devil – as much as a technical error. In a speech last September, Jens Weidmann, President of the Bundesbank, cited the story of Part 2 of Goethe's Faust, in which Mephistopheles, agent of the devil, tempts the Emperor to distribute paper money, increasing spending power, writing off state debts, and fuelling an upswing which however “*degenerates into inflation, destroying the monetary system*” (Adair Turner, quoting Weidmann 2012²¹, in a speech at Cass Business School, 6 Feb 2013²²).

Lord Turner, formerly the Chairman of Britain's Financial Services Agency and once generally expected to be the next Governor of the Bank of England, but thought to be too daring a thinker by Britain's Conservative Finance Minister, was responsible for introducing some novel ideas into fiscal policy discussion in the autumn of 2012 and the spring of 2013²³, the most discussed of which was what he called OPMF – overt permanent monetary financing of the fiscal deficit. Unfortunately he also used the term “helicopter money” referring to Keynes' celebrated joking remarks, meant to underline his point that expanding demand was the key to economic recovery. You might think of paying people to dig holes and fill them in again, he said, or print new paper money and scatter it from a helicopter.

But what Turner actually had in mind was something different – financing the fiscal deficit, not by issuing new government bonds and using the proceeds of their sale to balance the books, but simply by getting the central bank or whoever is the issuer of new money to print the necessary cash and hand it to the government.

He warns, in the speech quoted above that this was risky medicine which might turn into poison, but he did not speculate much as to the probabilities or the mechanisms by which it might do so.

I was luckily given fairly extensive space for a long essay in the March 4 issue of the Japanese weekly, the *Ekonomisuto*, a journal which is celebrating its 90th anniversary and has a circulation of 80,000. The title of my piece was “Abenomics 2% inflation target is half-baked” and I used the occasion to introduce Turner's ideas about OPMF and also to fill in what seemed to me to be gaps in Turner's argument.

²⁰ An Italian version of this paper was published in *Politica Economica* 2014, i

²¹ **Weidman, Jens:** ‘*Money Creation and Responsibility*’, Speech at the 18th colloquium of the Institute for Bank-Historical Research (IBF), Frankfurt, September 2012

²² Adair Turner, “Debt, money and Mephistopheles: How do we get out of this mess?”, Lecture at Cass Business School, 6 February 2013

1. He did not say whether the policy should be accompanied by the attempt to reduce or to expand the fiscal deficit.
2. He did not consider the social and institutional changes since the 1970s when inflation became the Greatest Evil for central bankers, and so had little to say about the likelihood that high inflation would lead to uncontrollable hyperinflation -- such as that of Germany in 1923, an experience seared into the souls of High Establishment Germans such as the Weidman whom Turner quoted.
3. While quoting the Fed's 2.5% inflation ceiling and Blanchard's proposal for a much higher target, he did not specify what might be the tolerable upper limits for inflation and interest rates.

And so, lacking any real grasp of financial economics (I recognised perhaps 5% of the bibliography attached to the pdf version of Turner's speech), I overcome any "fears to tread" and claim a sociologist's right to plunge into any argument, and have a go at filling Turner's gaps.

Abenomics

First of all, let me summarise the nature of the Abenomics mentioned above. It has what have come to be called the "three arrows". First, a redoubling of QE in order to achieve an inflation rate of 2%. Second, increased government spending on infrastructure, including rebuilding after the Great North East Japan tsunami. (an actual increase in expenditure for 2013 over 2012 of 3%). Thirdly "Structural Reform".

Most scepticism is directed at the third arrow, which since the heady days of Koizumi's election in 2001, has been much more a slogan than a reality. Reality there was, in the painstaking activity of Miyauchi as chairman of, first the Relaxation of Regulation Committee, and later the Abolition of Regulation Committee, but whether or not it effected the sea change envisioned in Takenaka's slogan "Post hoc regulatory checks not ex ante bureaucrat green lights" is doubtful. And Abe's claims to carry further the torch of deregulation took a sharp knock recently when he lost the support of Japan's most prominent net entrepreneur, the president of Rakuten. They fell out over his failure to legalize the online purchase of non-prescription drugs.

Since I wrote the Ekonomisuto article I have learned a little more about what Abe's inner circle are trying to do to make the third arrow real, from lunch with an Abe-loyal member of the BoJ's monetary policy committee, and from reading Abe's September speech inaugurating the present Diet Session. They count on galvanizing Japan's agricultural sector and gearing it to the export of high quality food products. The idea is to drastically reduce the amount of land used for family farmer production, (Average age of worker around 65, average income about the social security minimum, average yearly use of their expensive tractors about 40 days a year.) Instead, the big trading firms that have been so successful in getting Chinese farmers to produce mushrooms, fresh vegetables and tatami-mat reed (60-70% of the Japanese domestic market)for export to Japan, will be encouraged to wade into Japanese villages and use genuinely scientific methods (not just the meticulous

attention of lifelong farmers) to produce both cheaper rice and high quality export products like sake rice wine.

Agriculture produces just about one per cent of GDP. Realism is not a common characteristic in Abe government circles.

The argument for OPMF

The chief points I made in that Ekonomisuto article were as follows.

1. The widespread belief that the best way to encourage investment is to keep real interest rates near or below zero is probably mistaken, particularly, as Turner quotes Koo ²⁴as arguing, in days when the corporates are intent on deleveraging, and now, when they are hoarding cash so that they would not need to borrow to finance investment.. Expectations of future demand are a far more important factor influencing investment decisions.
2. A stable 2% inflation rate, symmetrically targeted (e.g. in Britain the Governor of the Bank of England has to write a letter explaining his failure to the Chancellor of the Exchequer if inflation reaches 2.5% and also if it falls below 1.5%) can, as generally acknowledged, provide stable inflation expectations and easy evaluation of investment projects. But a steady creep up to 2% over two or more years, is unlikely to change inflation expectations.
3. For that, what is needed is a shock, an assertion which in my case is derived from intuition, but I suspect is confirmed by such empirical studies of expectations and “announcement effects” which the small band of empirical economists have made. Turner draws a distinction between the realm of political economy to which this question belongs, as opposed to the “technical” relations with which financial economics deals and the arena in which most of his arguments are deployed.²⁵
4. Such a shock could be administered by the government declaring:
 - (a) There will be no spending cuts which seriously threaten health, education, training and maintenance of the physical infrastructure.
 - (b) But the fiscal deficit will be covered by the printing of cash, and not by the sale of new government debt for as long as possible. Reversion to traditional “sound finance” will happen when there is a danger that the inflation rate will exceed 5%
 - (c) The standard arguments against engineering inflation on the scale which would likely follow are two: the damage to people on fixed incomes and the danger that the inflation could become runaway and hyper.
 - (d) The first can be countered by simultaneously promising three-monthly reviews of the minimum wage, social security benefits and pensions. The real opposition to anything like what is

²⁴ **Koo, Richard:** *‘The Holy Grail of Micro-economics, Lesson from Japan’ s Great Recession* , Wiley, 2009

²⁵ Turner op.cit. pdf version,p.6

proposed here (what Keynes – who managed King's College's financial assets – called “debauching the currency” comes not from the widows and orphans on fixed incomes, but from the very powerful people whose wealth is in some kind of financial asset denominated in that currency. The purchasing power of their assets would certainly be reduced. Inflation is fine for debtors, but painful for creditors.

- (e) The danger of hyperinflation has changed greatly since the late 1970s when Volcker, Thatcher and Reagan had to enforce a great deal of misery to avoid it. The control of inflation is a great deal easier nowadays with the decline in the power of trade unions. The point is well illustrated by the different inflation histories of Japan and the UK. The doubling of oil prices in 1973 caused inflation to soar to 24% in both countries in 1975. In Britain it was still 18% in 1980. In Japan the inflation was brought down to single figures in two years and settled down at below 5% by 1978. The difference lay in the importance of wage-cost-push. Japan had a system dubbed, in the UK at the time, “synchropay”, that is to say that all wage revisions took place on April 1st. Bargaining was company by company, but union and employer federations started negotiations the previous December or November before that, arguing about how big a wage increase the economy could afford --- negotiations widely reported in the press. Hence company negotiators entered their local bargainings with some rough idea of what the *shunto-soba* – the going rate of increase – was likely to be, and often with the record of early-settling companies' deals as benchmarks. In these circumstances it was not too difficult for the government to get unions to recognise that high inflation was disruptive, and that while compensation for past inflation was legitimate, increases meant to compensate for future inflation should be ruled out, and the rate of inflation consequently reduced.

In Britain, on the other hand, there was no synchropay. The railways might settle in January, steel in May, distribution trades in October. In each industry, union negotiators demanded not only compensation for inflation over the previous year, but also for the inflation that everyone expected. And each major industry's unions sought to get a better deal than the industry which settled a month before. Hence “leap-frogging wage settlements” became the name of the game. Central government attempts to influence industry-by-industry settlements through bodies like the National Economic Development Organization or by price freezes or by recommending “pay rise norms” had little effect, because no-one believed in government's power to bring inflation down.

The point is, then, that in all the major developed countries today, the situation is more like the Japan of the 1970s than

Britain or the United States at that time. Inflation would certainly galvanize today's quiescent unions, and the reaction could be some form of syncropay. And meanwhile, any increase in wages at the expense of profits that could be a good thing, increasing aggregate demand by turning corporate savings into household income.

At any rate, wage-cost-push would never reach 1970s levels, and hence little danger of toppling over the edge into hyperinflation.

(f) A shock rise in inflation expectations would be good for investment, partly because of a general flight from cash, partly because, however people might be on guard against money illusion, the prospect that by buying your raw materials today at price level X with the prospect of selling your products in a year or two years time when price levels are $X+\alpha$, seems attractive when calculations are made, as they usually are, in nominal terms. And if you have to go into debt to buy those raw materials now, your debt will be reduced.

Medicine Turning into Poison?

First of all, for whom? It is poison from day one, for those who are owners of financial assets denominated in the national currency, because it reduces the purchasing power of their wealth. But what about the ordinary citizen whose income is primarily derived from his or her work?

The arguments I have adduced above are fine for a pre-globalized economy. But what would be the consequence of adopting a policy such as I outlined in one of the globalized developed open economies that really exist? Could it have an impact on aggregate demand, or the expectations of aggregate demand, that would increase the rate of growth?

Some things are predictable. However strong the assurances that the policy departure has no implications for the value of the stock of bonds that are already in the market, there would be a sell-off of government bonds. How far would it go, and what level would the interest rates for such bonds have to reach for people to buy them back for their short-term yield?

Capital flight out of the currency would clearly raise interest rates. How high would they have to go for capital to start flooding in again? And what effect would this have on bank lending, particularly to small and medium start-ups?

Another effect of capital flight would be devaluation, greater possibilities for exports and higher costs for imports. What would be the net effect of that on aggregate demand?

The flight from the currency would have a particular effect in countries with large global financial centres – the City, Wall Street, Frankfurt, Paris, Hong Kong. How devastating would that effect be for those countries' economies?

What would happen to real interest rates? Would they become positive, keeping ahead of the inflation rate or not?

Whether real interest rates increase or not, money illusion would probably ensure that higher nominal interest rates would increase household savings, but to what extent might that subtract from aggregate demand?

Be Bold. Try it!

Those are just some of the questions my amateur mind finds unanswerable. Perhaps there now are professional model-builders who can give answers. But none of their answers would be as convincing as the results of an experiment, if some government had the boldness, or the desperation to try it. One thing I can assert with confidence. It will not be the Japanese government that tries it. In the *Ekonomisuto* article mentioned above I made sure that my e-mail address was prominently displayed. I received not a single rebuttal or comment, either friendly or hostile. Japan's economists have lost their taste for argument.

Chapter 3: Collision Course

Ronald Dore November 2014

Japan used to be a country which, following the British model, had an independent and in principle apolitical civil service, with the power of appointment and promotion kept in civil servants' hands. The main difference was that in Japan civil service careers were usually careers for life in the ministry into which they were initially

recruited by competitive exam. There was little of the shuffling around from ministry to ministry as happens in Britain. The permanent secretary at Transport was someone who had been at Transport for the whole of his career. This led to a significant difference in levels of intelligence and efficiency between the elite ministries that everyone vied to enter, Finance, MITI, Foreign and the Police, and the rest.

The other difference was that the civil servants of the elite ministries had a better reputation for intelligence and honesty than the average politician. The resentment this generated led to twenty years of what the Japanese call “bureaucrat-bashing” heavily supported by the media and by both political parties. This, combined with the increasing number both of politicians and bureaucrats (as well as of business men and people in the media) who had spent a couple of years in an American business school or graduate school (the “brain washed generation”), generated an Americanizing trend which is still in full swing. The American system in which 3,000 top bureaucrats can be replaced by incoming presidents, is now widely regarded as superior. The present Abe government has presented a draft law, which will require the vetting by politicians of the governing party of all civil servants who are candidates for senior positions.

But the prospect of such a law (three previous administrations of both the main political parties had presented similar bills but had them timed out, thanks in large part to bureaucrats’ delaying tactics) has had a serious effect on the willingness of bureaucrats to stand up to politicians. Nowhere is this more evident – and disastrously evident – than in the field of foreign policy, particularly policy towards China and the sovereignty dispute with China over an isolated group of islands, which the Japanese call Senkaku, China calls Diaoyu Islands, and Taiwan calls Tiaoyutai. It consists of five what are conventionally called islands and three above-water rocks.

The picture of the dispute most commonly given by the Western media is of a blameless Japan being threatened by a bullying expansionist China. Actually, on the contrary, the origins of the dispute lie chiefly in the bellicose stand taken by an increasingly chauvinist Japan.

The first of a long series of mistakes was taken by the previous government under Prime Minister Noda who headed the administration of the Democratic Party of Japan. The Abe administration pursued the same policy line, but for party advantage accuses the DPJ of not having been tough enough. Abe has set up a Special Standing Committee for the Senkaku islands in charge of a cabinet member (whose two other briefs are space technology and science.) That Minister, enthusiastically seconded by a like-minded former army officer M.P. (both of them in their late-fifties) called the Committee together in November 2013 to grill the senior diplomat who had been private secretary to the Prime Minister of the previous Minshuto government. They got him to admit that the Foreign Office had dragged its feet over the making of a popular video intended to put forcefully to the Japanese people and the world in general, how strong was the Japanese case and strong also the Japanese will to enforce it against the illegal claims of a hostile and predatory China.

So what is the Japanese case. The nearest places of undisputed sovereignty to the islands are Naha in Okinawa which is 410km away, the coast of mainland China at 330 km and Taiwan at 170km. Geologically the islands are on the mainland side of

the Okinawa Trough, part of the crust of the continental shelf. The height to which the islands rise ranges from 30 to 300 metres. The largest one grows enough grass to host a herd of wild goats, and the islands provide one of the few remaining nesting grounds for albatrosses, and the home of the endangered species, the Senkaku mole.

The surrounding, relatively shallow waters provide abundant fishing grounds which make it worth while for large Chinese fishing boats to undertake the 300 km voyage to come for a week at a time, though it is not clear whether this is or was a purely commercial activity or subsidised by the Chinese state as a means of asserting fishing rights. Oil reserves in what would be the exclusive economic zone of a sovereign occupier were assessed by the Japanese government in 1968 and while no accurate assessment was made they were guessed to be considerable.

Recent History

It seems sensible to assume that any court such as the International Court of Justice if it were asked to adjudicate on Japan and China's conflicting claims to sovereignty, would take into account, only easily documented claims since the 19th century rather than the much more disputed and vague references dating back to the 14th century. More or less undisputed facts are as follows:

- 1885 The Kogas, an enterprising Japanese family, establishes some kind of base in the islands hoping to harvest albatross. They bring the species to the verge of extinction and turn to fishing. A 1910 photograph shows their sizeable bonito processing factory with a couple of dozen locally settled employees, fed and watered by imports. (I.e. no fresh-water wells available,)
- 1885 Kogas ask Japanese foreign office to declare the islands Japanese territory and raise flag, Foreign office refuses on the grounds that it would provoke China
- 1893 Chinese empress issues a degree, permitting/demanding the collection of certain precious herbs from the islands. No evidence that anybody did so
- 1895 January, Japan's impending victory in its war with China becomes certain, Japan declares Senkaku to be terra nullis over which it claims sovereignty. No mention of this in the eventual Shimonoseki China-Japan Peace Treaty six months later under which Taiwan became a Japanese colony, (presumably because Japan insisted on the terra nullis assertion) though it in effect established Japan's undisputed control over these remote islands. This led, however, to little development, except for the Koga's bonito plant. The Kogas were eventually granted formal title to the land they claimed by the southern-most district council of Okinawa. The title, however, was for a thirty-year rent-free lease of what was considered to be state-owned land.
- 1926 That lease expired. It was converted to an annually renewable lease for several years, but in 1932 the son of the original bonito-dryer, negotiated an outright purchase of four islands from the Okinawa administration. Total price is not known but the island on which the father had built his plant was bought for the staggeringly small sum of 2,850 yen.

- 1940 Kogas abandon the islands because they were refused the petrol ration necessary for drying the bonito.
- 1945 Victorious US Navy uses one of the islands owned by the Kogas as target practice. Kogas, eventually establish their ownership rights, even though the Okinawa administration is taken over by US Occupying forces, and in 1950 the US agrees to rent the target island for 11,000 dollars year.²⁶
- 1951 Under the San Francisco Treay, Taiwan is handed back to China, but the Senkaku, as part of the “Nansei Shoto north of 29 degrees latitude” are given over to US jurisdiction.
- 1953 The U.S. Civil Administration of the Ryukyus issued U.S. Civil Administration of the Ryukyus Proclamation 27 (USCAR 27), which defined the boundaries of “Nansei Shoto [the southwestern islands] north of 29 degrees north latitude” to include the Senkakus, and give its administration over to the administration governing civil affairs in Okinawa.
- 1971-2 Talks intensify for the “reversion” of Okinawa to Japanese control. The resultant agreement signed 17 June 1971 is called, “Treaty on Reversion to Japan of the Ryukyu and Daito Islands,” thus clearly acknowledging the different origins of US control of the two territories.
- 1971 After years of mobilising a faithful-follower majority to keep Taiwan and not China in the Security Council China seat, the US finally lost to the votes of an increasingly restive Third World (Albania was the sponsor of the UN General Assembly resolution to admit China and give it the Security Council seat.) Then followed Kissinger’s secret diplomacy leading up to the 1972 Nixon visit to China. The Chinese, foreseeing a resumption of diplomatic relations with Japan, also made an official statement setting out a claim to sovereignty over the Diaoyu (aka Senkaku) islands, although until that time Chinese (and Taiwanese) maps had shown the island as Japanese territory, temporarily occupied by the US.
- 1972 The Japanese Prime Minister goes for talks with Chou En Lai to establish diplomatic relations, thus jumping the gun on Kissinger who was still failing to persuade a Taiwan-lobby-dominated Congress. In the event Congress continued to stonewall until Carter resumed diplomatic ties in 1978.(Kissinger is on record as saying, at a meeting of American ambassadors in Hawaii in 1972. “Of all the treacherous sons of bitches, the Japanese take the cake”.) In the 1972 negotiations to open diplomatic relations, the rival claims to the Senkaku islands were an obvious stumbling block. Chou

²⁶ For a clear exposition of the tangled Taiwan-Senkaku-Okinwa relationship, see Congressional Research Services, (Mark E, Manyin) *Senkaku (Diaoyu/Diaoyutai) Islands Dispute: U.S. Treaty Obligations*, January 2013

proposed: “it is such a difficult matter that I suggest we do not tackle it, but leave the dispute to the wiser heads of later generations”. This agreement to “shelve the issue” was confirmed in the negotiations for the 1978 Treaty of Peace and friendship celebrated by a visit of Deng Hsiao Ping to Japan.

The quiescent period

From that point to 2010 the Japanese government studiously observed the shelving agreement. The Koga son having lost interest and being hard up, sold the land to family friends, the Kurihara family, for 38 million yen. The Kuriharas could afford it, being the proprietors of a sumptuous wedding hall on the outskirts of Tokyo which was doing a flourishing business.

In 1997, however, after the islands had passed to Kurihara ownership, a group of maverick nationalist Japanese MPs landed on the main island and planted a flag. They had not sought the Kurihara’s permission. Fear of a nasty Chinese reaction was patent in the Japanese government, but both government and public opinion were divided between those who thought the MPs should be tried for the crime of trespassing, and those who agreed with their unforgiving assertions that there was nothing wrong with Japanese MPs wanting to inspect Japanese territory.

It transpired in 2003, that the Japanese government, alarmed at the possibility of a repetition of such incidents had secretly negotiated a lease from the Kuriharas, under which the State paid 23 million yen a year for exclusive control over the Kurihara’s land, the lease to be automatically transferred to any subsequent purchaser of the land. They did this in order to strengthen the government’s authority in getting the coastguards to prevent any further landings of maverick chauvinists that would cast doubt on their observance of the “shelving” agreement.

The first scuffles

By the mid-noughties, however, Chinese fishermen were getting bigger, faster boats and appearing in increasing numbers around the Senkaku and playing cat and mouse games with Japanese coastguard cutters. One day in 2010, a Chinese boat trying to escape out to the open sea across the bows of a Japanese coastguard, wasn’t quite fast enough and crashed into the bow of the Japanese ship doing some superficial damage. (One of the Japanese crew did a breathtaking “will he make it, won’t he make it” video which was leaked to YouTube for a week or so.)

Breaking a spoken but undocumented agreement with the Chinese to keep these scuffles quiet and not subject to anyone’s jurisdiction, a nationalist Japanese attorney general, sent the Chinese boat back but arrested the captain and proposed to prosecute him under Japanese law. The Chinese reaction was vituperative. Demonstrations turned out, or were turned out in major cities. China announced a ban on exports of rare earths which threatened the Japanese semi-conductor industry with extinction.

Three days before he was due to appear in court, the Japanese caved in and released him. He was flown back to a tumultuous, garlanded hero's reception at the Chinese airport. Egg on a lot of Japanese faces.

Enter Mischief

Enter right stage, Japan's most famous maverick loose cannon politician. Ishiwara Shintaro made his first step to fame with a teenage sex novel which, at the time, sailed close to the winds of censorship for obscenity. In its most notorious climactic scene a boy with a large erect penis, thrusts it through the paper of the sliding door of a room in which some girls are sleeping.

His next, and highly effective, bid for fame was the publication in 1989 of a book entitled *The Japan that can say "No"*. (Originally published in joint authorship with Morita, the president of Sony. It rapidly attracted such notoriety that Morita hastily withdrew and subsequent editions had Ishiwara as sole author.) In it he argued that there was no longer any reason for Japan to defer to the US. The US needed Japan more than Japan needed the US. The US could not even maintain its missile force without supplies from Japan's technically more advanced industries. Japan would soon replace the US as the dominant power in the Western Pacific. A measure of Washington's alarm is the fact that the Pentagon did a private pirated English translation of the book which was distributed widely. I was once offered a copy by the president of a smallish electronic parts manufacturer on the outskirts of Bologna.

By this time Ishiwara was a highly popular member of parliament for the Liberal Democratic Party. In 1990 he decided to cash in on his popularity by offering himself for election as the Governor of the Tokyo Metropolis. He won easily and was re-elected for three more terms.

In his last term, he got the news that the Kitahara family's luxury wedding hall was suffering from the declining popularity of marriage and the family wanted to sell off its Senkaku land. Ishihara, envisioning a splendid opportunity to cock a snook at China and develop the islands as a tourist resort, entered into secret negotiations with the Kurihara family. His plan was to buy out the Kuriharas with Metropolitan funds and incorporate the territory into the Metropolis. It was a bizarre concept, The Metropolis includes a chain of islands stretching south into the Pacific, but the distance between the southern-most island and the Senkaku would still have been over a thousand kilometres,

These negotiations came to light before they were concluded in the summer of 2012. The Japanese ambassador in Beijing, as a former business man and a very rare example of an ambassador who was not a career diplomat, was anything but popular in the Japanese foreign office. He gave an interview to the Financial Times in Beijing in which he said that all hell would break loose if the Ishihara plan became reality. He was recalled and sacked. Ishihara has powerful friends.

But they did not quite dominate in the Foreign Office nor in the Cabinet of the Noda administration. The decision was made to thwart Ishihara by passing a law

expropriating the land still belonging to the Kuriharas and putting it into national ownership.

Nationalization to thwart Ishihara

It is not clear whether this was meant as a direct challenge to China, or whether nobody was smart enough to realize that the Chinese would take this as an assertion of sovereignty, and as a deliberate breaking of the “shelving” agreement,

The nationalization law was passed on 11 September 2012 and the Kuriharas got 2.5 billion yen in compensation. The Chinese reaction was furious. Anti-Japanese demonstrations broke out --- or were broken out --- in all major cities. Four days before the law was passed President Xi and Prime Minister Noda had a stand-up encounter on the fringes of an Asian-Pacific meeting in Vladivostok, in which the former expressed his extreme displeasure to the latter, despite Noda’s attempt to convince him that Japan’s intentions – to keep the islands uninhabited --- were of the best.

At this point a sensible Japanese government would have claimed the moral high ground and answered: You have long acknowledged that Japan has legitimate de facto administrative control of the islands. We believe that Japan has a right to acknowledged sovereignty over the islands. You obviously disagree. Since we are in de facto possession why don’t you appeal to the International Court of Justice. We will happily accept that court’s jurisdiction.”

Instead the Japanese government adopted the following extraordinary position.

1. The shelving agreement never existed. The records of the 1972 and 1978 meetings certainly make it clear that the Chinese proposed shelving, but there is no record of any agreement by the Japanese side to the proposal.
2. A dispute over the islands does not exist. They belong to Japan,period.

Sheer Implausibility

It is hard to imagine a more implausible piece of diplomatic chicanery. If the Japanese had not agreed to shelving, how could there have been the atmosphere of champagne euphoria with which the signing of the agreements was greeted?

And if the Japanese deny the existence of a shelving agreement, why had they, for 35 years, until the unstoppable Ishihara came along, prevented any provocative development of the islands?

In fact, the 88-year-old Nonaka Hiromu a former Chief Cabinet Secretary, and former Secretary-General of the Japanese ruling Liberal Democratic Party,(and,though formal biographies do not mention this, scion of a Kyoto outcast –

burakumin – family, a very rare bird in Japanese politics,) visited Beijing to try to mend fences. He there made a press statement after meeting with Chinese officials, described by the Asahi newspaper (4 June 2013) as follows.

According to Nonaka, Japan and China reached an agreement to shelve the issue and not make any big waves about it. He said: “ I suppose I am one of the last living witnesses and I feel responsibility to make the truth clear. Prime Minister Tanaka told me this clearly when he came straight from his talks with Chou EnLai to address the Tanaka Faction Youth Seminar which we had organized at Hakone.”

The next day, the Japanese Foreign Minister and the Chief Cabinet Secretary summoned hasty press conferences to say, in effect, that Nonaka was lying. “Old man, memory not that reliable”, etc.

The Chinese foreign office, for its part, continues to heap abuse on Japan for the position it has taken, and is hurting Japan’s very large stake in the Chinese economy, by export restrictions, hounding with tax demands etc. A professor of Fudan University in Shanghai writes for an English-language journal:

One of the steps China has taken is to send in Chinese ships to the disputed waters for regular patrol and and ‘law enforcement’. The objective is to bring about de facto joint jurisdiction and joint patrolling in the relevant waters as a way to deny Japan’s unilateral ‘control’ of the islands. [Beijing wants to force Japan to change its ‘no territorial dispute’ position.](#)

Another step was to create a National Maritime Affairs Committee (*Guojia haiyang weiyuanhui*), an inter-agency coordinating body, and to reinforce the State Oceanic Administration (SOA) by merging several separate organisations.

to enable Chinese maritime law enforcement capabilities to be used in a more controlled manner while also retaining their effectiveness as an instrument of national power. In the meantime, both Japan and China are trying to beef up the capabilities of their coast guards by using retired military ships.

Exacerbating Factor: History

There are three exacerbating factors. The first is the so-called ‘rekishi ninshiki’ or “historical consciousness” problem.

There is a tendency, probably accelerating under Abe, for Japanese school textbooks to present the Pacific War as a brave struggle against heavy odds, rather than as a guilty war of aggression. The difference between Japan and Germany in this regard is important. The verdict of the Nurenberg trials was easily accepted; the historical narrative according to which the Nazis were a gang of criminals who highjacked the German state was convincing enough. The Tokyo trials, by contrast, condemned and hanged six men who had been acknowledged leaders of Japan, if not revered at least supported by 95% of their people. Moreover, many Japanese believe that any guilt the Japanese might share was wiped out by the gratuitous use of atom bombs on Hiroshima and Nagasaki at the end of the war.

Hence the significance of the Yasukuni shrine, created in the 1870s, to commemorate all those who died for the Emperor. Every soldier killed in Japan's wars is commemorated with a tablet, and, from the 1970s, so are the six executed war criminals.

Prime Minister Koizumi's insistence on worshipping at the shrine was a cause of great friction in relations with China and Korea in the first half of the last decade, which the prime ministerships of his successors, particularly Fukuda were largely, if temporarily, repaired. In 2014, 168 MPs made a mass visit on 23 April at the shrine's spring festival. Abe confined himself to sending wreaths or the equivalent until he too made a worshipping visit in December. Protests from China and Korea about Japan's lack of any sense of war guilt are routine and used for what seems a deliberate strategy to inflame anti-Japanese sentiment.

Second exacerbating factor: totalitarian solidarity

The second exacerbating factor is that Japan has become a quasi-totalitarian country, in which conformity is enforced not at all by a Gestapo, but by social norms according to which no Japanese should criticise a fellow-Japanese in any matter relating to disputes with foreigners, particularly when abroad. In a feeble attempt to mend matters, there was a meeting at the end of October 2013 in Beijing of the Tokyo-Beijing Forum, an organization created nine years earlier when relations were less fraught. Participants numbered about 80. Two of the Japanese members whom I know personally are the former prime minister, Fukuda Yasuo, and Akashi Yasushi.

Fukuda, when he was prime minister in 2007, made a highly successful visit to China. A scholarly man, he was fully aware of the way China was the model for Japan's modernizing process in the 8th and 9th centuries, and of the background to the decision to stop paying annual tributary visits to China in 894. By that time China's classics had become Japan's classics, the source of proverbs in both countries, equivalent to the Bible and Shakespeare in Britain. Japan had become a bilingual society. Women wrote poems, essays and novels in traditional Japanese. Men wrote poems and essays (not novels) in Chinese.

Fukuda included in his visit a trip to Confucius' birthplace. There, in his quite respectable calligraphy, in characters over one foot tall, he inscribed a banner with a variation on a phrase from the Analects. The original phrase was "Respect the old and know the new" which he changed to "Respect the old and create the new". Akashi is also a man of some stature, formerly the UN High Commissioner in Bosnia during the civil war and now the Japanese representative engaged in "Peace building, Rehabilitation and Reconstruction" in Sri Lanka.

The Nikkei Shinbun's account of the meeting includes the following:

On territorial matters, there was a clash between the Japanese government's contention that no dispute exists, and the position of the Chinese government, demanding at least an acknowledgement that a dispute does exist,

The Chinese started by saying: it is a mistake to believe that the Chinese position is softening on this matter, and went on to ask that the existence of a dispute should be written into the "Consensus statement" to be issued at the end of the meeting.

The Japanese side refused, and began to despair of ever getting a consensus statement. Eventually the two sides compromised on an agreement to omit from the statement any mention of the territorial issue whatever.

The official records

The meeting had split up into sectional meetings from which reports were given at the final plenary. Here are the Chinese and Japanese reports from the Section dealing with military affairs,

In the security dialogue Li La (Director of the Japan Research Centre at the Chinese Academy of Sciences) reported that many Chinese were sceptical of Prime Minister Abe's "Positive Pacifism", and remarked that Japanese politicians' statements about history fanned the embers of a general mistrust of Japan's foreign policy. Japanese delegates also expressed their concern about the increases in China's military expenditure, and said that China needed to work harder to convince the world that it was truly intent on making a "peaceful rise". On the matter of the Senkaku, the Chinese asked on the one hand that the existence of a dispute should be acknowledged by Japan, while emphasizing that any attempt to resolve the issue by force should be eschewed. They also called for building an ocean emergency mechanism to deal with any accidental clash between the Chinese coastguards and the Japanese navy, and said that the establishment of a hot line was of prime importance. They also said that the US-Japan military alliance should do nothing to arouse Chinese doubts and fears,

Miyamoto Yuji, the Japanese panellist (former Japanese ambassador in Beijing) commented on a difference in mentality as between the two countries. Chinese believe that in all discussions there must be trust in the other party's good faith, whereas the Japanese believe that through the cumulation of small efforts, one can build up trust. It is this difference which lies at the heart of present problems. He appreciated the way in which both navies were conscious of their proper role in the turbulent situation in the West Pacific, and emphasized the need for a crisis control mechanism to deal with accidental clashes. The Senkaku issue was hard to resolve, but it was necessary to have widespread public understanding to back up decisive political decisions,

The Nikkei shinbun report has the gall to say. "Although this is supposed to be a non-governmental forum of researchers and retired public servants, it is obvious that the Chinese Government dictates the position Chinese delegates take". Unlike the free-thinking Japanese!!!

What I find hard to understand is the fact that both Fukuda and Akashi, who personally share my view that the Japanese government's line is idiotic, are still

willing to go along with such nonsense and toe the government line. I suppose you have to be a Japanese to understand the social pressures which force them to do so. A friend who teaches at a leading provincial university writes in his New Year letter as follows:

Recently, Japan has gone so far to the right – way beyond conservatism – that somebody like me who goes on talking as I am used to talking for the last thirty years is now in danger of being branded as a “red”. I get a real sense of liberation when I go abroad and see friends who share my sense of fairness and my feelings about equality and inequality, without having to excuse myself and point out over and over again that I wouldn’t call myself a left-winger. Abe the all-powerful, can go and worship at the Yasukuni shrine out of “conviction” and never mind how much it screws up our relations with neighbouring countries, teachers who, out of their ideological convictions refuse to stand up or to join in singing the national anthem, can be summarily dismissed – surely I am not the only one who feels suffocated in that kind of atmosphere.....

In class, Japanese students, knowing full well that there are Chinese and Korean students in the class, will quite blithely say things like “I hate the Chinese” or “Before they start lecturing us about historical conscience, they should give us our territory back”. It’s as much as I can do to try and explain what did happen in history and try indirectly to get them to understand.....

Third exacerbating factor

The third factor is the strengthening of Japan’s strategic military alliance against China as its sole potential enemy.

At the beginning of November 2013, Japan held the first of its intended-to-be-annual 2 on 2 meetings with Russia. (Foreign and Defence Ministers of the two countries.) These meetings, warmly encouraged by the State Department and the Pentagon, are an unconcealed attempt to strengthen the containment of China. A major point of discussion at the first meeting was how to prevent the Chinese navy from using in future, as in recent months it has begun to do, the Tsugaru Straits between Hokkaido and the Japanese main island as a means of gaining the open Pacific. This is a surprising development. It means, in effect, that the Japanese establishment is abandoning its long-standing claims to the two Kurile islands which Japan ceded to Russia in the San Francisco Treaty, even though they were not “spoils of war” but territory ceded to Japan by treaty a century earlier. A ritual reference to Japan’s determination to right this wrong has been a feature of prime ministers’ inaugural speeches to the Diet for decades. Abe omitted it this year.

China’s Diplomatic Stance

If it is hard to comprehend what is going on in Japanese heads, it is equally difficult to assess the reason why the Chinese Foreign Office refuses, even in the absence of a Japanese invitation, to go to the International Court of Justice or the tribunal set up by the Law of the Sea. (which they have ratified but the US Senate not.) Chinese friends say it is because they see the ICJ as only for little countries not

for Great Powers. Maybe that is the answer. China is certainly a proud and confident country, as Japan used to be until 1990.

But, perhaps more probably, China wants to keep the “shelving” situation frozen, until Taiwan finally comes into the fold, since Taiwan also has claims on the islands and is closer to them than either Japan or China. Doubtless Beijing foresees the day when the integration of the Chinese and Taiwanese economies reaches the point where China can arm-twist Taiwan into agreeing to a “one nation three systems” arrangement and foreswearing its links with America and its Taiwan lobby. Then they could launch a combined bid for sovereignty of those islands with every chance of success in international courts. That day may not be far distant as the recent talks between the Taipei and Beijing governments suggest²⁷.

So far, the Americans have kept their heads down and played Mr. Nice to China. But as soon as, or if ever, America extricates itself from the Middle East and leaves the Israelis to sink or swim as they choose, the “pivoting” of naval strengths from 60% Atlantic, 40% Pacific to vice versa will go ahead, and US-China rivalry rekindle,

Meanwhile winning possession of those goats and possibly a few billion barrels of oil cannot possibly be of more importance to either country than good commercial and diplomatic relations between them. As a rough generalization one can say that any country’s foreign policy has three objectives.

1. Ensuring the trade relationships that improve domestic prosperity
2. Keeping the country safe from foreign enemies
3. Maintaining national pride and prestige -- giving their Ruritarians reason to feel themselves lucky to have been born in Ruritania.

It seems that the dispute will continue to fester as long as the bellicose politicians and the brow-beaten diplomats of both countries continue to give absolute priority to that third objective.

²⁷ Any newspaper 10 Feb. 2014

Chapter 4: A New Beginning?

Ronald Dore, 21 December 2013

Why is nobody much bothered about North Korea's nuclear weapons and missiles? Because everyone knows that, however rogue a state it might be in which dear leaders execute their uncles, any North Korean politician or general whose finger is anywhere close to the nuclear trigger, is fully aware that if they ever used a nuclear weapon, even against non-nuclear Japan or South Korea, Pyongyang would become a pile of rubble within hours.

And why is the Western world so exercised about the likelihood of Iran developing a reliable nuclear deterrent? Because it would destroy Israel's monopoly of nuclear weapons in the region and reduce the usefulness of its formidable chemical and bacteriological arsenal. To be sure, the Obama tactic of postponing the day when Iran is ready to "out" its nuclear capacity --- a six month freeze and talks--- is much superior to unleashing Israel's itch to bomb, Mossad's assassination of Iranian scientists or the use of cyberwarfare to screw up Iran's centrifuges.

But "postponing" is generally seen as what it is all about. "50-50 chance of getting an agreement that would reassure Israel", Obama said recently²⁸, qualifying his optimism. I doubt if any of the Western negotiators expects that the millions of dollars they will spend on all those negotiations during those six months of talks will persuade Iran to renounce its ambition to get a handful of functioning nuclear-tipped missiles sooner or later. As compared with an Israeli bombing the talks could well actually hasten the day when Iran announces its withdrawal from the NPT. Former President Ahmadinejad may have taken a back seat, but it is obviously highly improbable that any amount of relief from (leaky) sanctions will persuade the sweet-talking Rouhani to accept as permanent a situation in which Israel could obliterate Teheran but Iran could only lob a few conventional missiles into Israel.

And would it be a catastrophe if Iran got a few bombs? The real catastrophe would be if Israel bombed Iran the moment Mossad learned that the completion of an effective weapon was imminent. But a nuclear-armed Iran would pose no immediate danger to anybody for the same reason as North Korea keeps its missiles in their silos. If Iran went nuclear, Saudi Arabia and perhaps Turkey, even Egypt if it ever gets a stable government, would doubtless follow suit. But just as between India and Pakistan, the nuclear capability of both sides serves to restrain their hostile Kashmir skirmishes, there are good grounds for thinking that the Middle East with its on-going, indeed increasingly bloody, Sunni-Shiite and Jewish-jihadist conflagrations, and the relentless rivalry of the US and Russia for regional influence, would be more peaceful with three or four nuclear states than with one. Deterrents do deter.

The greatest irony of the whole situation is that the Non-Proliferation Treaty, invoked by the United States and its allies as legitimate grounds for imposing

²⁸ New York Times, 9 Dec. 2013

sanctions on Iran, endorsed by the Security Council to protect Israel's WMD monopoly, is a treaty in which Israel has always refused to take part.

Of course the principle enshrined in the UN Charter "equal rights forlarge and small states" has long ceased to have any practical meaning, but the way in which the might of the United States can be mobilized by Israel against Iran must surely seem unjust to any impartial observer. Yet how often does one see that injustice commented on in the Western media?

But, forget the argument that the situation is unjust. Justice is very much in the eye of the beholder. Think of Canada's statement at the first preparatory meeting for the 2015 Review Conference of the NPT. It explained that it voted against a resolution urging work towards a nuclear-free zone in the Middle East "because it *unfairly* singled out Israel by calling for its accession to the Treaty while failing to address serious non-compliance issues by States in the region, in particular the Islamic Republic of Iran and the Syrian Arab Republic."²⁹

If justice is not at issue, what about strategy? What about the idea that over and above the jostling for positions in the power ranking, there is a common interest, shared by all states, in minimizing the chance that nuclear weapons should never be used in that jostling and that the NPT, for all its flaws, is still the best way of doing that.

The argument that the safest way of ensuring peace was to give the five veto-wielding members of the Security Council a monopoly of nuclear weapons, and the ballistic means of their delivery, never was very convincing, even when the US and the USSR paused in their absurd cold war missile race to preserve their shared privileges by negotiating the NPT. That argument was always opposed by a dissident minority of American policy scientists, notably Kenneth Waltz³⁰ and Thomas Schelling³¹, more recently by John Mueller³², that in fact proliferation could be the better road to peace.

They anticipated what later came to be accepted as the reason why the once-feared US-USSR nuclear exchange never happened, and we all slept peacefully in our beds after the first great test of the 1972 Cuban crisis, namely the doctrine of mutually assured destruction, MAD. Waltz argued that the probability of nuclear weapons being actually used would be reduced if any state that did not want to be a big power's client were allowed to have them. Deterrents do deter.

²⁹ ²⁹ Preparatory Committee for the 2015 Review Conference of the Parties to the Treaty on the Non-Proliferation of Nuclear Weapons
NPT/CONF.2015/PC.I/9 3 May 2012

³⁰ Kenneth N. Waltz, *The Theory of International Politics*, 1979, and his last article, "Why Iran should get the bomb" *Foreign Affairs*, July-August 2012

³¹ Thomas Schelling, *The strategy of conflict*, 1960

³² John Mueller, *Atomic Obsession: Nuclear Alarmism From Hiroshima to Al-Qaeda*, 2012

Clearly the NPT has passed its sell-by date. It has already been flagrantly contravened by America's nuclear supply agreement with India (part of America's anti-Chinese strategy) and its only likely future use is to justify an Israeli or American attack on Iran.

Entrenched stalemate

Though the NPT was prolonged indefinitely (instead of requiring renewal and new signatures every decade.) it has Review Conferences every 5 years with three Preparatory Conferences in the interval. Why has there been no move to abolish The answer becomes clear when one reads the proceedings of the quinquennial Review Conferences or of the three Preparatory Committees which precede each Review. The conferences are clearly polarised between the nuclear states and the nuclear have-nots, with the latter showing varying degrees of militancy, depending on the closeness of their ties to the nuclear five. A number of caucuses have been formed among members, all of which are recognised as having the right to speak. Thus, Iran at the second preparatory conference for the 2015 Review, gave two speeches, one for itself and one on behalf of the Non-Aligned Movement of which it holds the chair until 2015. (A grouping which has lost the prominence it had in the days of its founders, Nehru, Nasser, Tito, etc. but can still get 150 countries to send representatives to its occasional summits.) Other such bodies are the New Agenda Group formed in 2000 to pressure the nuclear powers into commitments to disarm, NPDI, (the Nuclear Proliferation and Disarmament Initiative), the Vienna Group of 10, Opanal (the Latin American and Caribbean countries that have signed the nuclear-free zone agreement) as well as bodies which function for other purposes than campaigning within the NPT meetings such as the Arab League.

All of these bodies are inspired by resentment at the nuclear divide and call for the Nuclear Five actually to implement the articles of the NPT which call for reduction and eventual elimination of all nuclear arsenals. One can understand the resentment when one reads, for example the joint statement of the Five to the 2012 meeting of the 2015 preparatory committee. Having recorded that the US and Russia had agreed to a future limit of 1550 deployed war heads each, that Britain had reduced its arsenal to 250 and France to 300 and China, though not specifying any numbers, declared that its arsenal is limited to the minimum means of reprisal, it then goes on to say

We recall the unprecedented progress and efforts made by the nuclear-weapon States in nuclear arms reduction, disarmament, confidence-building and transparency, and note with satisfaction that stocks of nuclear weapons are now at far lower levels than at any time in the past half-century.

It is amazing that Obama's Prague speech of April 2009, envisioning a nuclear-free world, was generally, at least in the Western press, greeted with enthusiasm rather than with the derision its hypocrisy deserved.

So, to return to the earlier question: why do none of these activist bodies not question the usefulness of the NPT? The answer is that they are so intent on getting

the Big Five to honour their commitments under the treaty that to criticize the NPT itself would be inconsistent.

Breaking the Log-jam

There are still in Western foreign offices some people who give thought, not just to furthering their own country's interests but also to creating a more rational and peaceful world order --- though far fewer than in the heady days after the second world war when people like Henry Wallace fought for a more open and transparent set of nuclear controls against the Bernard Baruchs who were more intent on perpetuating American nuclear dominance.

Today there are far fewer people who try to "think for mankind",³³ but they are still not an extinct race. They are most likely to be found in such countries as those of the Vienna Group of 10 formed in 1980 (Australia, Austria, Canada, Denmark, Finland, Hungary, Ireland, Netherlands, New Zealand, Norway and Sweden). As the Middle Eastern situation grows increasingly tense, and the total failure of the West's interventions in Iraq, Afghanistan and Syria becomes increasingly acknowledged, there must be many more people in those countries who seek the "new beginning" that was promised by Obama in his Cairo speech of June 2009.

Let them act together to make that new beginning and leave the job of snapping at the heels of the Big Five to bodies like the Non-aligned Movement. The steps that they might take are something like this.

1. Immediate announcement of their intention to withdraw from the NPT after the 2015 Review Conference.
2. Immediate convening of an expert committee to begin work on drafting a new Nuclear Weapons Control Treaty which shall aim to,
 - (a) Establish an enhanced system of IAEA inspection of all the world's nuclear warheads, including systems of targeting deployed weapons,
 - (b) Make adhesion to the Treaty compulsory for all states, with heavy sanctions for any that refuse to join.
 - (c) Allow any state which feels sufficiently insecure, or sufficiently anxious to enhance its status in the world pecking order, to want to acquire nuclear weapons to do so.

If such a regime were in place there would doubtless emerge a series of bilateral, trilateral or quadrilateral "nuclear umbrella agreements" whereby non-nuclear states are promised retaliation by proxy if they are ever attacked.

The realization that something of the sort is necessary, and that Israel and her "my country right or wrong" supporters in the US should not be allowed to obstruct it, is growing in the US. The American Studies Association recently announced a boycott

the right-hand man of Monnet and his lecture dwelt on the difference between hard and soft³³ A phrase I first heard in the inaugural lecture at Sussex of Professor Francois Duchene He had beenft power, though without actually using those terms subsequently "patented" by Joseph Nye. See Obituary, Guardian 22 July 2005.

of all collaborations with Israel³⁴. In the fierce blogging debate about academic freedom which resulted, [David Palumbo-Liu](#), a professor at Stanford wrote: “People who truly believe in academic freedom would realize that protesting the blatant and systemic denial of academic freedom to Palestinians, which is coupled with material deprivation of a staggering scale, far outweighs concerns we in the West might have about our own rather privileged academic freedoms.”

There are other constituencies in the United States which would back such moves as I have suggested, apart from the probably weakening Israeli stranglehold on US policy. One is the community of military strategists. To take one example, the National Bureau of Asian Research, an establishment-blessed think tank, has this to say about the US talk of abolishing nuclear weapons from the earth³⁵ „

It is odd that statesmen like the Gang of Four and leaders like President Obamapeddle such escapist solutions at this juncture in international politics. To chase such a chimera amid continuing interstate competition and the prospect of more nuclear powers worldwide is more than merely a fool’s errand; it is actually a dangerous distraction from the more urgent tasks of ensuring that nuclear weapons remain reliable, survivable, safe, and secure—and thereby preclude actual use.

Such constituencies may be growing, but as yet they have no influence on policy. Meanwhile, Congress can go on threatening even more sanctions on Iran in the expectation that Russia and China will continue to give such sanctions Security Council blessing. And leaders of the Israeli lobby can get op-eds in the New York Times vociferously supporting their doing so³⁶.

This may by no means be the case when the six country talks break down in six months time. China’s support is largely based on its desire to foster ties with Israel. As is made clear in a Brookings forum, bringing together Israelis and Chinese, on the sidelines of the secret three-party (US included) talks in mid-February 2014, China fosters relations with the Israelis for several reasons³⁷. First to get a fair wind for the growing

³⁴ Boycott by Academic Group Is a Symbolic Sting to Israel NYT, 17 Dec 2013

³⁵ Ashley J. Tellis, “The Enduring Reality of Nuclear Weapons”, in NBR, *Strategic Asia 2013-14: Asia in the Second Nuclear Age*, 2014

³⁶ *New York Times International Edition*, 25 March 2014

³⁷ *China, Israel and the United States* – Discussion at Brookings organized by the Saban Center for Middle East Policy and the John L. Thornton China Center at Brookings, in partnership with the Israel Institute and the Institute for National Security Studies in Tel Aviv, Video 13 February 2014. www.brookings.edu/events/2014/02/13-china-israel-us

volume of Chinese FDI in the Middle East, and to protect its growing need for mid-Eastern oil, secondly to make the US indebted to it by dissociating itself from the Russian side in the proxy US-Russia war in Syria, and to do so, thirdly, in a way that can enlist Israeli support in stopping the US from ordering Israel to ban export of militarily sensitive technology to China. Russia, for its part, is avoiding confrontation with the US until the Olympic Games are over, but its support for Iran sanctions can hardly be counted on, given its general support for the Shias in the spreading and intensifying Shia-Sunni war, that is also a proxy Russia-US war, and given its economic problems now that US fracking oil is undercutting the price of its own oil exports, a problem that would be alleviated by a mid-East conflagration.

There is, therefore, a strong possibility that China or Russia or both will veto further sanctions on Iran when the talks break down. But that would be only a first step, a very long way from creating a consensus, in which the US leadership can share, for dumping the NPT and creating a sensible and realistic and safer nuclear weapons control regime. But the alternative seems to be an intensification of Middle-Eastern chaos that might spread to endanger the futures of our own, European and American, children and grandchildren, not only of all the Jews, Muslims and Christians in the Middle East itself.

Chapter 5: The probably fictional musings of President Obama

Ronald Dore

As most people know, in addition to our world, there is a parallel world out there. Most of the time it is identical to our world, but just occasionally something happens that shakes that parallel world to its foundations. The two worlds diverge, and it takes a long time for the convergence tendency to reassert itself.

I got to taking a few days off last week at Camp David. What I do when I am there is to imagine I am in the parallel Damp Cupid, canned in, shut off from all news about our own screaming party battles and spend a bit of therapeutic time imagining what I might do if I were Barmy Okack my counterpart in that parallel world. It is a sort of “think experiment”, trying to imagine what is the most likely thing to happen in that parallel cyber-world that would shake it to its foundations?

Let me tell you what I came up with, and you can tell me whether this world would ever converge with that cyber world, or whether it would be vice versa.

It was –forgive the arrogance – a speech by me. A speech which, had I cleared it in the usual way with the White House support staff would have had them getting legal permission to have me certified and taken off to the loony bin. The speech went like this.

Friends. One of the ways of looking at our world is as a pattern of alliances and confrontations. Some are more important to us than to the counterparty, and some the other way round. And some are generally more important than others in affecting what happens in what we like to call “international society”.

For example our so-called “special relationship” with the Brits seems to matter a lot to them, although it is mostly a matter of indifference for us. I remember, back in 2003, a wise old diplomat who had been their ambassador in Moscow and chairman of their Joint Intelligence Committee, taking on the Blair argument that retaining the trust of Bush was the British categorical imperative and therefore we must get our boots on and get in there to help the Americans make a mess of Iraq. It was nonsense, said the diplomat with the ancient British forename, Roderick. The only Brits who were truly dependent on the US, he said were the submarine commanders who couldn’t fire off their missiles until the Americans gave them the codes. But in 2003, the good sense of people like him was overwhelmed by emotion. Didn’t the Americans twice save Britain’s bacon when she was on the verge of defeat?

Clearly, our most important alliance today is the much more special relationship with Israel – most important because it dominantly shapes our relations with most of the rest of the world bar Latin America. It is what leads to the total absurdity of our

hawks who want to get us involved in Syria to show solidarity with the Israeli choice to back the aggressive Saudi-Qatar-etc. Sunni alliance. (Recently, 22-29 June, endorsed vociferously by that stupid magazine the Economist.) All because two of that alliance's miscellaneous enemies are Hamas and Hezbollah, the two chief thorns in Israel's side.

Not to mention Iran, One of the chief ironies of the modern age is the way that Israel, the nuclear bomb state which refuses to join the Nuclear Non-proliferation Treaty, is a major force in making sure that America treats that absurd treaty as the Ark of the Covenant, a grand moral mission to preserve Israel's nuclear monopoly in the Middle East.

In fact, of course, however good might have been the intentions of its creators, today that treaty is the single most probable cause of war. Chirac once said at an indiscreet moment "I can't understand all this fuss about the Iranian bomb. They know and everyone else knows that before an Iranian missile had entered the upper atmosphere, Teheran would be obliterated." Too true. When I am an ex and some Wall Street Titan builds me a library and research institute, apart from doing what Jimmy Carter does and try curing the world of some of its worse follies, I will also self-indulgently do a bit of research. One topic will be to trace the flurry of transatlantic calls that caused Chirac to retract the next day and say that perhaps he had been too flippant.

That's the trouble, Friends. We have got to a world where speaking the truth is dismissed as flippancy. Of course Chirac is right, as Kenneth Waltz, one of the most clear-minded of political scientists, has always been right. It is the criss-crossing pattern of probable or certain retaliation capacities that keeps the peace, not the NPT. That treaty serves only to provide aggressive hawks with a high-moral-purpose excuse for impoverishing the Iranian people with sanctions, or bombing them to hell..

Let the Iranians have their bomb, I say, if they think that is the only way to a sense of national pride and security and don't care about the opportunity cost they would pay in slowing down their growth in national prosperity.

So that's part of my fantasy speech, which actually a lot of my leftish friends, especially university Jewish friends, might largely endorse. But being, not Barmy Oack, but Barack Obama, why could I never envisage making it?

Pretty obvious. The most articulate and wealthy, and therefore powerful, organized segment of our electorate – and especially of the party on which I rode to the presidency---are those people of Jewish ancestry who have vast sums of money and a strong sentimental attachment to Israel that overrides most of their other interests. Most of my life I've been asking for trouble, but not the trouble a speech like that would get me into.

But there is a glimmer of hope. That the expansionist Israeli elite will push too far. Recent speeches by Israeli ministers both of defence and of the economy have made clear that wimpish talk of a two-state solution is simply for the conference table while Israel steadily creates facts on the ground and annexes the whole West Bank.. This was too much for the executive director of the American Jewish Committee,

David Harris who made an unprecedented, and what Roger Cohen in the New York Times called punchy, attack on those ministers.

So there's hope. In the next generation of Jewish Americans, common humanity, good sense and decency may begin to win out over ancestral loyalties.

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