

Cuba has indeed been changing, reports Wroe, the *Economist's* "American Survey" editor, "but at a glacial pace." Cubans can now hold dollars, tourists are welcomed, foreign investment is sought, state enterprises are being broken up, and "private" farmer's markets are being allowed. Whereas in 1989, 95 percent of Cubans worked for the state, now "only" 75 percent do. The Soviet withdrawal from Cuba (popularly known on the island as "Armageddon") caused the island nation's gross domestic product to shrink 35 percent between 1989 and 1993. Thanks to the limited reforms undertaken since, the Cuban economy last year grew 2.5 percent. But much of the country, Wroe says, "remains in economic and physical ruin." Even so, she adds, "the revolution is not nec-

essarily bound to crumble." Despite the hard times, she believes, most Cubans "still assume that Mr. Castro has their best interests at heart. American antagonism only bur-nishes his reputation." She considers the U.S. embargo "a cynical farce which need-lessly hurts 11 million people" and which, whether tightened or lifted, will not bring democracy any closer.

Nevertheless, argues Lane, a senior editor at the *New Republic*, the embargo remains for Americans "our only leverage and our best symbolic protest against Castro's dicta-torship." The "endless debate over U.S.-Cuban relations," he believes, helps to obscure "the only question about Cuba that really matters: Why on earth does Castro refuse to hold a free national election?"

Japan's Backward Banks

"Cultural Captivity: Japan's Crippled Financial System" by Eugene Dattel, in *World Policy Journal* (Spring 1996), World Policy Institute, New School for Social Research, 65 Fifth Ave., Ste. 413, New York, N.Y. 10003.

Just a decade ago, many Americans wor-ried that "Japan, Inc." was an invincible eco-nomic juggernaut poised to conquer their country. No longer: Japan's ongoing finan-cial crisis has exposed the invincibility as a myth. And the condition of Japan's financial institutions is far worse than many analysts realize, contends Dattel, a former managing director at the Tokyo branch of Salomon Brothers, a U.S. investment bank.

"Non-performing" loans, in excess of \$400 billion, may not be the financial system's most serious problem. Tightly controlled by the powerful—and secretive—Ministry of Finance, Japan's banks and other financial institutions, Dattel says, "are, in effect, ossi-fied government bureaucracies," with regu-lated franchises in the world's second-largest economy. They "have proved themselves incapable of allocating capital efficiently, investing the country's enormous savings, or recycling its trade surplus."

Japan's economy is two-thirds the size of America's, and its financial system is a con-solidated one, with only 150 banks (com-pared with 13,000 U.S. banks) and only 21 life insurance companies (compared with America's 2,000).

The companies are poorly managed. The practice of rotating employees to new jobs about every three years has exalted the gener-

alist at the expense of the technical specialists who are vital to integrating advanced tech-nology into the financial system. It also has encouraged employees to focus their atten-tion on bureaucratic skills rather than busi-ness, Dattel says. Their acknowledged lack of managerial skills was not overcome, as many analysts once expected it would be, by "buy-ing" expertise from foreigners. "The Japanese cultural obsession with Japan's uniqueness and self-sufficiency" made that extremely difficult, he says. For example, "no Japanese bank has substantive American senior man-agement in its U.S. operations."

Excessive centralization throughout the Japanese financial system, he argues, is another serious flaw, which has encouraged "duplication of effort, wasteful political strug-gles, and defective risk-monitoring systems." By avoiding individual and departmental accountability, *Nemawashi*, the much-ad-mired Japanese consensus-building tech-nique, has made proper evaluation of pro-posed financial transactions difficult.

There has been much talk of reform in recent years, Dattel says, but very little signif-icant action. "While many of Japan's manu-facturing and distribution companies are effectively adjusting to the competitive envi-ronment of the 1990s, Japan's rigid financial system appears impervious to change."