

# Triologue

## TRADE ISSUES AND MACROECONOMIC COORDINATION HIGHLIGHT TRILATERAL TOKYO MEETING

About 100 individuals from Western Europe, North America and Japan gathered in Tokyo on January 9-11, 1977, for the seventh meeting of the Trilateral Commission. Broad economic problems were the most urgent matters before the conference. First, the progress of the world economy out of recession has been halting and slow. Discussion focused especially on the "locomotive" argument—that the United States, Germany and Japan, all large economies in relatively strong positions, become the engines for broader international economic recovery through more expansionary domestic economic policies. Second, and of particular concern at the Tokyo meeting, were current trade difficulties between the European Community and Japan. These problems have had much public visibility since the strained visit to Europe in late 1976 of the delegation from the Japanese Federation of Economic Organizations (Keidanren). Third, of a more general nature, was the problem of coordination of macroeconomic policies. Improved coordination appears necessary in the context of increasing interdependence and vulnerability. Some of the troubles of recent years can be related to a lack of coordination, in the sense of national authorities taking insufficient account of the policies of other countries and their likely international effects. One of the Tokyo sessions was specifically devoted to coordination of macroeconomic policies, and became the framework for the discussion of Japan-Europe trade frictions as well.

- In the course of their conference, the trilateral participants met with Prime Minister Takeo Fukuda and with Foreign Minister Iichiro Hatoyama (see Hatoyama's statement p. 14). Former Foreign Minister Kiichi Miyazawa also addressed the meeting, offering a broad perspective on current Euro-Japan trade problems, and several other issues. (see "Japan in a Changing World", p. 19).
- Another item on the Tokyo agenda was discussion of draft reports from two trilateral task forces. One report came from the task force on Constructive Cooperation between Trilateral and Communist Countries for Meeting Global Problems. The second, entitled "Towards a Renovated International System," was a broad overview written roughly three years after the Trilateral

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Commission's inception. Both reports will be published in the next few months.

- Finally, a series of seminars were held in Tokyo on trilateral countries with recent elections: Japan, West Germany, Italy, United States, and Canada (Quebec). There follows a report by Charles B. Heck, North American Secretary of the Commission.

### Macroeconomic Coordination, Trade Problems

The Tokyo session on coordination of macroeconomic policies opened the final day of the trilateral conference. The discussion embraced current Europe-Japan trade difficulties as well. Three speakers opened the session: Marina v.N. Whitman, Professor of Economics at the University of Pittsburgh; Thierry de Montbrial, Professor of Economics at the Ecole Polytechnique in Paris and head of the Centre d'Analyse et Prevision in the French Foreign Ministry; and Saburo Okita, President of Japan's Overseas Economic Co-operation Fund. Their addresses appear *in extenso* in this issue.

The thrust of Marina Whitman's presentation was on coordination as the means to reduce the "very substantial tension" between the acknowledged benefits of international

integration at the market level and the strong continuing desire of national governments for maximizing economic autonomy. She argued for "positive coordination" among several key industrialized countries. Among a wider circle of countries, progress on "negative coordination" is most important, that is, reduction of barriers to international transactions and the avoidance of explicit beggar-thy-neighbor policies in solving domestic problems. Thierry de Montbrial argued that it is impossible to go very far in the field of economic coordination, and thus that interdependence should be restrained. The "brain" of the international system must grow in proportion to the complexity of the "organism" or the whole system cannot survive. "If the brain cannot grow, and I think it unfortunately cannot, then we must try to reduce interdependence." The Europe-Japan trade problem is a "symptom that things cannot go on as they are." There are a number of acceptable limitations to the free trade principle, which are coming whether we like it or not. "We should organize them and not let them appear in disorder." Saburo Okita argued that we cannot deny the long-term trend toward increasing interdependence. Since this is the case, it is against the background of this long-term trend that we should view current problems.

### *Interdependence and Coordination*

In the discussion following the opening presentations, the Montbrial approach drew particular attention. A number of speakers argued that there is no retreat from interdependence. Thus the question is not whether we have interdependence or not; it is how interdependence is to be managed and organized. A Japanese speaker remarked that it is bad for all if the value of interdependence is cast into doubt at this time of difficulties in the world economy. The perceived value of interdependence provides useful incentives for keeping domestic policies on the right path. One European described the notion of reducing interdependence as a "reactionary utopia" which, using Montbrial's "brain" analogy, "raises brainlessness to a principle."

Several speakers expressed more optimism than Montbrial about prospects for improved macroeconomic coordination. Taking a long-term historical view, one speaker saw quite remarkable progress toward macroeconomic coordination over the last four or five decades. Naturally, there will be setbacks and progress will be slow, but the inherent dynamics of the situation are pushing us forward. Of course governments do not like to have their options reduced, but "nature" is reducing them anyway. Turning the Montbrial argument almost on its head, some argued that, given the inevitable increase of interdependence, coordination of necessity must be improved to manage this interdependence.

Countries are not, it was argued, being asked to act against their own interests in improving coordination. One speaker quoted from a Japan-EC-US paper circulated before the meeting: "The term 'coordination of economic policies' is open to a variety of definitions and interpretation, but it

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## MARINA v.N. WHITMAN\*

### *Interdependence and Vulnerability*

Coordination is suddenly becoming the most popular buzz-word of 1977. I suppose this is because of its relationship to the most popular buzz-word of 1976—interdependence.

Interdependence has two aspects. One might be called the classical aspect. The increased specialization that goes along with interdependence brings rationalization of output, gains in efficiency and competition, and therefore greater potential output, income and living standards. It is worth reminding ourselves at this juncture that the growing importance of international trade and investment over the period since World War II has been accompanied by rapid rates of growth in virtually all of the industrialized world and in some, though by no means all, of the developing countries as well.

Recently, we have begun to focus very much on the other, darker side of interdependence. That is its vulnerability aspect. These are at least two reasons why interdependence increases vulnerability. One is, that the more interdependence there is, the more important external disturbances become in any economy. The second is that increased openness of an economy reduces the effectiveness of domestic macroeconomic policies, that is, monetary and fiscal policies, in stimulating or restraining the domestic economy. As a result, there is a very substantial tension between the acknowledged benefits of international market integration and the strong continuing desire of national governments to achieve or maintain economic autonomy. The enormous responsibilities that the governments of industrialized democracies have acquired in the postwar period for a variety of domestic economic goals makes this tension all the greater.

In the United States, there is an additional factor that is perhaps unique. For us, the recognition that interdependence is a two-way phenomenon, that we can be on the receiving as well as on the sending end of external disturbances, is relatively recent. It used to be said that when the United States sneezes, the rest of the world gets pneumonia. It is only now dawning on us in the United States that, in fact, we can all catch the flu from each other.

This is coming home to us at a time when the relationship between the United States' economy and the economies of the rest of the world, in particular of the other industrialized democracies, has become a good deal less stable. Up until the mid-1960s, the United States was regarded as an island of stability in a generally volatile economic sea.

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## Macroeconomic Coordination and Trade Adjustments: Positive Coordination Among Few, Negative Coordination Among Many

Over the past ten years, it became regarded instead as a major exporter of inflation. This shift was due partly to changes in fact—our rate of inflation did speed up and our current account balance did deteriorate—but it was due partly also to changes in perceptions of how the world economy works. At the same time that all this was happening, the foreign sector of the U.S. economy, that is the prices of our exports and our imports, shifted from being one of the more stable segments of our gross national product to being one of the most inflationary. Up until about 1970, the prices of our exports and imports rose much less rapidly than the price level as a whole, but since then they have tended to rise a good deal more rapidly. The vulnerability associated with interdependence has been brought home sharply to us in the last few years.

### *Flexible Exchange Rates*

One of the major reasons behind the desire of the United States and the ultimate, although sometimes reluctant, willingness of other industrial nations to shift to managed flexibility of exchange rates was that it was anticipated that flexibility of exchange rates would provide somewhat more insulation from external disturbances than existed under fixed rates. I think we did get some insulation—not as compared with what we had before, but as compared with what we would have had if we had tried to maintain pegged rates throughout the first half of the 1970s. The problems, although enormous, became somewhat more manageable. The alternative would have been a much greater and more widespread retreat into protectionism. But for a variety of reasons, the high degree of capital mobility in the world being one of the most obvious, the insulation provided by flexible rates turned out to be a good deal more limited than many expected. Flexible rates certainly did not eliminate the need to reduce the tension between interdependence and the desire for economic sovereignty, by matching the increase in integration at the market level with some increase in coordination at the policy level.

### *Positive Coordination*

One can get very widespread agreement, of course, on the proposition that we need more coordination, but underneath lie wide differences in understanding or perception of what coordination means. At one level, one might talk about negative coordination—the reduction of barriers to international transactions and the avoidance of explicit beggar-thy-neighbor policies in solving domestic problems. This was

the focus of international discussions and negotiations in the first quarter century after World War II. But in an increasingly interdependent and increasingly interventionist world, such *negative coordination* is clearly no longer sufficient to the problems at hand. What we all have in mind now is a move to what might be called *positive coordination*. This can exist at several levels. At the lowest level, it means simply that each country should take into account in its own macroeconomic planning what other countries are planning to do and what the results of their intended policies are likely to be. If we look back over the experience of the last five years, it is clear that global economic difficulties have been exacerbated by the fact that the industrialized countries indulged first in inflationary overkill—we were all stimulating our economies without taking sufficient account of the fact that everybody else was doing the same. Then we turned right around and did it in the other direction. Terrified by the inflationary forces that had been loosed, we all turned around and indulged in deflationary overkill—again, not taking sufficient account of what other countries were planning to do and what this would mean. This lack of coordination did not create the recession, but I think it contributed to its severity. It is just a matter of common sense, in an interdependent world, that macroeconomic policies should be set in a global rather than a national framework, with as full as possible consultation and information on what other major countries are planning to do.

The real question is whether one should go one step beyond intensified consultation; that is, whether there should be an effort among a few major industrialized countries to set their broad macroeconomic targets in common and to *plan jointly the general policies* to achieve these targets. The crux of the matter is: Should there be some modification of domestic policies to conform to international requirements? This concept is not new, of course. Countries have been doing it, as a requirement of borrowing from the International Monetary Fund, for some time. If we look at the discussions held with the United Kingdom or Italy in 1976, it is quite clear that these countries were prepared in this particular context to modify their domestic policies according to international criteria. The real question is whether we want to extend this kind of coordination to creditor countries as well as debtor countries, and whether we want to try to exercise it continuously and cooperatively rather than intermittently and in situations of duress. It is not at all easy to do this and at the same time preserve the scope for countries to pursue legitimately different objectives with respect to their domestic economies. *(Continued on page 4)*

### *The "Locomotive" Economies*

Let me digress a bit on what I have now come to think of as the "locomotive" argument: the notion that the three largest industrialized democracies should undertake to lead economic expansion for the rest of the world. One has to be very careful about what is meant by this argument. It makes a great deal of sense to tell the United States and Germany and Japan that their stimulative policies should not be limited by a deterioration in their current account balances at a time like this. Indeed, it is essential for the rest of the oil-consuming world that the trade balances or current account balances of these particular countries move either into deficit or into a smaller surplus position. It also makes a lot of sense to point out that large countries cannot sit around waiting for export growth if there is nobody who is in a position to receive the increased imports. At the same time, we must avoid misunderstanding: it seems to me that the appropriate macroeconomic goal from both the domestic and the international point of view is essentially the same: to achieve the degree of economic stimulus that will maximize the real growth of the national economy over some reasonable time frame, say, the next three to five years. Now there can be, and at the moment in the United States there is, a good deal of honest disagreement about how much stimulus is going to achieve that goal. But if that is the goal domestically, it will do no good to try to do more than that for the sake of the global situation. If we recognize that we must, in the process of setting our own goals and the policies necessary to achieve those goals, take into account what other countries are likely to do, there is no real divergence between the appropriate goal domestically and the appropriate goal internationally.

It does make a crucial difference, however, whether economic expansion is based on domestic stimulation or on export-led growth. Since the increased exports of one coun-

try must be matched by increased imports somewhere else, export-led growth is a zero-sum game, at least in the short run, while real growth originating in the domestic sector benefits one's neighbors as well as oneself. It is by undertaking appropriate stimulative policies domestically, rather than waiting for export expansion to restore high levels of employment and output, that Germany, Japan, and the United States can best serve as "locomotives" for global recovery.

### *Trade Adjustments*

What I have called positive coordination of macroeconomic policies is feasible only among a relatively small group of the major industrialized countries. For a wider circle of countries, it is progress on what I have called negative coordination that is most important. At the moment, the most serious focus here is on trade policy.

There is an extremely close connection between successful macroeconomic policies within countries and the success of trade policies. Probably the single most important requirement for successful trade policy is the restoration of high levels of economic activity and the maintenance of solid non-inflationary growth in the industrialized countries. That is critical for the successful resolution of problems in the spheres of trade, investment, and resource transfers. Both the likelihood and the effectiveness of trade liberalization depend very heavily on the existence of healthy economies to serve as markets for exports. Furthermore, the domestic structural adjustments caused by changing patterns of international trade and investment are likely to be socially and politically far more manageable in the context of stable growth than they are under conditions of severe fluctuations, high unemployment, or low growth. The current trade problems at issue between the EEC and Japan are clearly exacerbated by very high levels of unemployment. In sum, good macroeconomic management is critical to reduce the gap

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does not mean altruism. It means enlightened self-interest. . . ." As the speaker saw it, this is "Adam Smith modernized." Political leaders are not being asked to act against national interests, it was stressed by another. They are being asked to provide leadership, to act in the wider national interest while resisting the narrow and parochial. Granted, this is not easy.

Montbrial had used the breakdown of the Bretton Woods monetary system as an example of countries being unwilling to observe international rules. Another speaker disagreed, arguing that the breakdown came from the "unviability" of the rules. If we look at the words and history of the Bretton Woods agreement, the purpose of the system was to maintain as much national autonomy as possible. The trouble is that the system as negotiated, which was a compromise, lacked the mechanism to support this general principle, particularly in a world in which capital is mobile. This is a

"technical failure," a matter of "faulty construction" from the beginning. Even so, the system worked remarkably well for twenty years or so.

In the present circumstances, this speaker emphasized, coordination will ease rather than aggravate domestic economic choices. For any single country, say Japan, less encouragement of domestic demand is required if this is undertaken in phase with others. A single country expanding by itself in a system of relatively flexible exchange rates would face worse trade-offs between demand expansion and price movements than if expansion policies were coordinated.

At the same time, this speaker emphasized the qualification in Whitman's argument that, from both domestic and international points of view, the appropriate goal of national macroeconomic policy is essentially the same: achievement of maximum real growth over some reasonable time frame. The qualification concerns the considerable difference be-

between the ideal of free and undistorted international transactions and the existence of ubiquitous protectionist tendencies in the real world.

Nevertheless, no matter how good macroeconomic management is, some gap will always remain between the liberal trade ideal and the realities of international economic relationships. There are several reasons for this divergence. One is that, while free trade may be optimal from the global viewpoint, economic policies are formulated primarily in the context of national interests. Second, conditions in the real world are frequently very different from the classical assumptions of full employment and exchange-market equilibrium. There is little point in arguing that there are better ways to achieve full employment than through manipulating the trade balance at a time when a country is enduring a stubbornly persistent high rate of unemployment. And, under the Bretton Woods system, payments imbalances frequently also persisted for long periods. In particular, the increasing overvaluation of the U.S. dollar during the 1960s produced, or at least buttressed, strong protectionist pressures. The achievement and maintenance of a better adjustment mechanism for exchange rates has been a very important factor in minimizing protectionist pressures. Finally, the fact remains that, in any case and under any circumstances, adjustment problems are real. There are rigidities in every economy; unemployment inevitably results, at least temporarily, when people must shift from one industry or one kind of employment to another. Very real social problems arise in declining industries when that decline is accelerated as the result of changes in trade patterns. In the United States, the fact is that some of our most vulnerable people (those who are the least educated, have the lowest incomes, and are most likely to remain unemployed once they become unemployed) are heavily concentrated in industries in which other countries have a growing natural comparative advantage and which are thus very vul-

nerable to foreign competition. Besides, there is everywhere an inherent conservatism, a tendency to draw back from rapid change, particularly now that, in most industrialized countries, economic goals are increasingly defined in terms of greater security and an improved income distribution, rather than in terms of total growth alone. The need is to reconcile the benefits of dynamic trade changes with these conservative tendencies, to cushion the shocks of change in the short-term, but to allow change to take place in response to market forces in the long-term.

### *Cooperative Leadership*

Finally, the United States' situation is in some sense unique. Europe and Japan have lived with the recognition of interdependence for some time now, but the United States is just discovering it. The reasons for that late recognition are partly a matter of size and economic characteristics and partly a matter of history. The United States has really become internationalist in outlook only since World War II, and it became internationalist in the context of a strong sense of American economic invulnerability and of a high degree of American dominance in the world. The challenge we face now is to preserve the internationalist outlook in an era 1) when Americans are perceiving much greater economic vulnerability (still far less than other countries' but much more than we are used to) and, 2) in which there has to be a shift from hegemonial leadership by the United States to cooperative leadership among a group of countries. This is the framework within which we must consider the need, not just for economic coordination, but for different levels and types of coordination among different groups or concentric circles of nations. It is easy to rally around the standard of "coordination," far harder to define and implement the programs of action that the phrase implies. But this is the real task that lies ahead. ■



Thierry de Montbrial, Marina Whitman and Takeshi Watanabe

tween expansion through increased domestic demand and through increased export demand. Some countries which might now reasonably increase domestic demand to assist international recovery point to the presumed inflationary impact of such an increase, while encouraging exports to expand their economies. Yet, unit for unit, an increase in export demand, it was argued, is just as inflationary as an increase in domestic demand; and an expansion of domestic demand in these countries would offer more international benefits.

A number of speakers reminded the group that these issues have important political aspects. One member recalled United States' efforts to organize the industrialized countries into the IEA. This created a furor in France, which refused to join the organization. Yet France has in practice followed IEA recommendations more fully than the United States, where Congress would have nothing to do with the needed reforms. (Continued on page 7)

# Macroeconomic Coordination and Trade: The Need for Orderly Limitation of Interdependence

THIERRY DE MONTBRIAL\*

The general thrust of my exposé will be rather pessimistic. My basic thesis is that there should be some limitation of interdependence, but these limitations should be brought into the system in an orderly way. My exposé will have two parts. First, I would like to make a few remarks on macroeconomic coordination. Second, I shall make a few remarks on the trade issue, with particular reference to current European Community-Japan difficulties.

## *Macroeconomic Coordination*

I think we all agree that, given the current degree of interdependence, we need more of what Marina Whitman has called positive coordination. In existing bodies—notably OECD's Working Party III and the recent "economic summits"—the type of coordination which is achieved is, to say the least, what Dr. Whitman has called negative coordination. The OECD meetings are rather like seminars—people talk together, a bit like we're doing here—and there are no binding decisions. The summit meetings are very untechnical, very general. Nevertheless, they are very valuable, because it is important that the governments, at the highest political level, be able to develop some kind of common language and to have some consciousness of interdependence. This is very valuable. My only point is that the kind of coordination thus achieved is very limited. The basic question is, can we go further? Can we develop positive coordination? My answer is "probably not." Why?

There are conceptual difficulties and political difficulties. On the conceptual side, I think that in the field of international economics our knowledge is probably too limited today. We have some real theoretical problems.

I would like to emphasize the political difficulties. The basic question here is very simple: To what extent can a nation-state accept limits on its degrees of freedom about domestic economic policy in the name of global interdependence? I think we are not ready to do that in a satisfactory way. Let us take two brief examples. The first one is the story of the Bretton Woods system. The degree of coordination achieved through the Bretton Woods system was almost perfect, because it was a kind of automatic coordination. You just had to follow the rules. Why did the system break down? The one major reason is that the actors did not observe the rules. This was particularly so for the United States. Why? Simply because, and this was stated explicitly, the U.S. did not want to submit its domestic economic policy to international needs. Why should the United States bring deflation at home, for instance, in the name of international interdependence? The purpose of this remark is not to

blame the United States. My only point is that nation-states are not ready to accept the basic limitation in their degrees of freedom that coordination implies. Perhaps it is because political systems are not designed to deal with these kinds of problems. Whatever the reasons, it is a hard fact.

Another example can be observed within the European Community. Here we have a number of countries which have an explicit goal of becoming integrated, yet they are unable to coordinate their macroeconomic policies anymore than other countries. The monetary cooperation which should have been the basis for any other type of cooperation failed. The "snake" of aligned currency values has not survived as a European concept, for instance. In the case of Europe, I am nevertheless a bit less pessimistic than I am for the general case, precisely because there is still a political will towards integration. As long as this political will exists, there is a chance to develop more coordination. But if ever this political will disappears, then I think there will no longer be any chance. I shall end my remarks on this problem by asking a question. I put it as a question because I do not know the answer myself. The question is: How strong is the correlation between international political and economic matters? Can economic coordination be decoupled from international security issues? In the case of some microeconomic problems, I think the coupling is unavoidable. If you take what I consider the most important issue today, that is the energy problem, it is necessarily coupled with political considerations on many levels. In the case of macroeconomic affairs the coupling is less obvious, but there is a problem.

If I am right and it is indeed impossible to go very far in the field of economic coordination and macroeconomic coordination, the logical conclusion is that interdependence should be somewhat reduced, or at least we should act in such a way as to stop the increase of interdependence. Let me make a cybernetic analogy. The world economy is a very big system. This system is made up of a number of subsystems, "organs" if you like. These subsystems are more and more interrelated. In a biological system, when a number of organs are more and more interconnected, a brain is needed to make the whole thing work. When you have an organism where the brain does not grow in proportion to the complexity of the organism, the whole system cannot survive, or it has a very deep pathology. This is what is happening to us; we have no brain so we must either let our brain grow or we must reduce interdependence in the system. My point is, if the brain cannot grow, and I think it unfortunately cannot, then we must try to reduce interdependence.

## *The Trade Problem*

This is, I believe, the core of the trade problem. Very surely, we cannot be in the future as oriented toward free

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trade as we used to be. Free trade is, of course, a myth (an Anglo-Saxon myth in particular!). It exists less and less. The GATT rules are no longer followed. Free trade is now the exception rather than the rule. However, in our mentality we stick to the idea that free trade is an ideal to be achieved and think that we owe our prosperity in the last twenty years to this ideal, which is true only to some extent. I think this dream is highly dangerous, because someday we will realize that the dream has nothing to do with reality. We will have a major shock, and the problem is that we must avoid the shock.

The trade problem between the European Community and Japan is not as such a major problem, but it is a symptom of something more important. It is a symptom that things cannot go on as they are. I do not know if the Europeans are lazy and decadent, in particular because they eat and drink too much at lunchtime as some Japanese paper suggests; I do not know if there is some kind of plot between MITI and the big Japanese companies to prevent those European products which are competitive from entering the Japanese market. What I do know is that Japanese exports to Europe jumped tremendously fast in the last months and this is, in a very medical sense, not tolerable. Our "organism" cannot tolerate that. So we must do something. In 1971 Japan had similar problems with the United States; and these problems were solved very fast. The Americans took a big stick and in a few months the problem disappeared. Some people in Europe are saying, well, let us do the same. First of all, we have not the stick; but second, some Japanese say that the way the problem was solved was, if I can say so, the Lockheed scandal. The nature of the debate shows that there is something wrong.

I was delighted to read a recent paper by John Pinder, called "Towards a New System of International Economic Management."\* I was delighted because I share most of the ideas presented. This paper suggests that the current division between trading rules and reality is not tenable over the long run, and argues for a radical rethinking of the international trading system. Pinder gives a number of examples of necessary limitations to the free trade principle. Let me mention a few: agriculture, commodity agreements and the Stabex formula. Another example is the necessity for capital-intensive industries to act as cartels in times of recession with such things as minimum prices, quotas, and perhaps agreed reduction in capacity. And to this we could add the Colombo idea, the idea advanced at the 1976 non-aligned summit meeting at Colombo that the underdeveloped countries should develop their own trade system. Thus there are a number of acceptable examples of limitations to the free trade principle. It is important that we not view these things as sins. We should view them as normal acceptable organizing devices. These kinds of protectionist measures will come whether we like it or not. My point is that we should organize them and not let them appear in disorder. ■

\*Unpublished paper presented in Brussels in early December at a meeting sponsored by the Atlantic Institute for International Affairs.

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### **EC-Japan Trade Problems**

The current trade dispute between the European Community and Japan was taken up within the subject of coordination of economic policies. Japan's trade surplus with the European Community has grown quite rapidly in recent years, and the Community is seeking to moderate the imbalance. In 1976, Japan's visible trade surplus with the EC probably exceeded \$4 billion, a figure representing more than the total of EC exports to Japan for the year.

Most European speakers conceded that Japanese success in European markets was based largely on efficiency of production, quality of goods, and successful marketing. The Japanese "have done wonderful work." There is a "great deal of logic in Japanese arguments" that they are simply practicing what liberal-trade Europeans have preached for a long time.

Nevertheless, the problems are quite serious, the Europeans argued. Japanese sales have risen rapidly in certain key sectors, at a time of recession in Europe. This can mean that particular industries are shaken to the core, with serious social and political consequences. If the Europeans seem to be asking the Japanese to do the "illogical" in restraining their "export drive," this could very well be the path of wisdom for the long-term relations of our countries. Another European emphasized the threat to free trade, the "incentive for dangerous protectionism" in Europe if the sharp imbalance is not moderated. Governments want to remain committed to liberalization, but they are weak and may not be able to resist the pressure from firms and trade unions. We will solve such problems as these only through "increased solidarity of trilateral societies." The first task is to show that we all perceive the problem and are together trying to find answers. This member then suggested three concrete steps. One was immediate specific and temporary measures to moderate the current imbalance. A second was to complete the system of exchange of information on our trade and societies. Europeans need to know more about Japan. Third, we should review whether or not existing channels of Euro-Japan communication could be improved, at governmental and business levels. We did not inform each other sufficiently in advance about current difficulties, and are facing a bad situation "too briskly."

The value of European exports to Japan is relatively small. One European spoke of a "natural Japanese tendency to prefer the domestic." Japanese speakers offered a different perspective. There are very significant linguistic and cultural barriers between Europe and Japan. The Japanese worked hard to understand the European context and to make products acceptable in European markets. The Europeans, on the other hand, have never seen Japan as a promising market. The Japanese have gone much farther than halfway with the Europeans in bridging cultural and linguistic differences. Nevertheless, the Japanese are certainly ready to accommodate shocks to particular sectors, and will do what is possible to lower remaining non-tariff barriers. Another Japanese speaker stressed that arrange-

ments for dealing with this dispute should not result in less emphasis on the "human necessity" for being industrious, competitive, better-educated, and so forth.

Other Japanese speakers emphasized the special situation of Japan. First of all, it was argued, Japan depends more than Europe on imports of energy, food, and other raw materials, and must maintain a substantial foreign exchange reserve to protect against such crises as the "oil shock." Japan has large trade deficits with the Middle East, Australia, New Zealand, and Canada; and has to have other areas with which it can be in surplus. Secondly, Japan is surrounded by relatively poor Asian neighbors, to whose needs it must remain sensitive. Japan's rapid growth and economic strength have been of much help to these countries, and the importance of the Japanese economy must be evaluated in this wider context. In addition, Japan faces very serious competition from a number of "latecomer" Asian countries, and is being forced to move ahead, in a world with a dynamic international division of labor.

One European speaker returned to the particular problem of the shipbuilding sector, where he found a "frightening lack of understanding" between Europe and Japan. The Japanese shipbuilding industry made a big mistake in the early 1970s in greatly expanding shipbuilding capacity. This was a big gamble, going against current information, and it has not proven correct. When such a big mistake as this is made, even if by private industry, we cannot just let the free market take the consequences. Some form of cooperative planning among firms should not be dismissed out of hand in such large capital-intensive industries. The application of such a technique in the early 1970s could have helped to head off current situations of over-capacity.

### **Free Trade and Economic Adjustment**

Discussion of EC-Japan trade problems brought forth several more general statements or sentiments about "free trade," as the above indicates. The issue had also been joined in Montbrial's opening remarks, when he spoke of the "myth" of "free trade" and about "acceptable organizing devices" for markets.

A European member of the Commission argued that liberal trading rules had been the most important source of growing wealth in the world in recent decades. He, and a later Japanese speaker, also emphasized the importance for economic progress by the developing countries of a liberal trading regime in the trilateral countries. The speaker agreed that "free trade" does not much exist, but our response should be to help defend market forces, not to build fences around our national economies. Another speaker agreed with Montbrial that there would be more "restraint" on "free trade," but he saw this only as a kind of "traffic control," implying no major change in the overall regime.

Another speaker agreed that "free trade" is not an accurate description of our actual situation, but it is not meant to be a "descriptive phrase." It is rather a "polar model" to guide generally our behavior on international transactions. Economists recognize legitimate exceptions to it. "Liberal

trade" is a better description. As for the problems with "free trade," we should "beware of awarding the prize to the second singer after hearing only the first." Just because we find imperfections in a regime (free trade) does not necessarily mean that we can find a new regime ("organized markets") that represents an improvement. The alternative regime should be considered on its own merits. This speaker had searched in vain for a systematic statement of what the principles are for "organizing markets." The notion needs to be "filled out." What does it mean concretely? Moreover, if one is skeptical about the possibilities for coordination of economic policies, should not one be equally skeptical about possibilities for successful international organization of markets?



Takeshi Watanabe, Japanese Chairman of the Commission, opens Tokyo meeting

The issue of adaptation to change, particularly in the trade area, lies in the background of much of the discussion, another participant noted. Throughout the postwar era, we have debated the appropriate degree of financing on one hand, and adjustment on the other. We have no real principles here; it is a matter of judgment. There are, to be sure, costs in adaptation and adjustment, depending considerably on the magnitude and speed of the process; but we should also remember there are also considerable costs in *not* adapting. This speaker offered a hierarchy or ranking of means for adaptation to change. If our domestic economies are performing satisfactorily, this will substantially ease the pain of adjustment. This is at the top of the ranking. Second is adjustment assistance, of which there are various national and some international types. Last and least are the market-sharing arrangements some seem to be leading us toward. Here again we have no principles to guide us. Once we are on this road, where do we stop? How far do we go with which industries? This method is likely to "politicize" the process to a greater extent.

Another speaker cautioned against positing too sharp a conflict between growth and dynamic change, on the one hand, and, on the other, the universal desire for stability. In a larger context, there is a basic complementarity between the two. We must have growth in order to meet expectations and sustain stability. Growth inevitably brings change. What is the appropriate speed of adjustment? That is the question.

There may be gains from slowing down change somewhat, but the temptation is to slow it down too much. We must make progress, it was stressed, on how the burdens of adjustment are to be distributed. Society will not let the market do this alone. Labor's suspicion of more liberal trade in some countries is related to labor's sense that it will probably be left to bear the adjustment burden. Another speaker noted that the GATT contains a safeguards clause intended to cushion too rapid change, but the application of these safeguards must be only temporary.

A speaker who had been pictured by others as anti-free trade, replied that his own preference was for a liberal trading regime. But there are great difficulties in realizing such a regime. Perhaps the best way of saving liberalism is to recognize its limitations and deal with them in an orderly way.

## POST-ELECTION ANALYSES

Several countries in the trilateral area held major elections in the last seven months of 1976. One day of the Tokyo meeting was devoted to seminars on the post-election situations in these countries: Japan, West Germany, Italy, Canada (Quebec) and the United States.

### Japan

In the Japanese election on December 5, the Liberal-Democratic Party (LDP) lost its majority in the House of Representatives for the first time since formation of the party in 1955. By endorsing a number of conservative independents after the election, the LDP regained a majority, but only a thin one. The major gains in seats were made not by the Socialist Party (JSP) or Communist Party (JCP), but by the center parties: Democratic Socialist Party (DSP), Komeito and the New Liberal Club (a recent breakaway from the LDP).

The seminar on the Japanese situation was opened by a three-man panel: Rei Shiratori, Professor of Political Science at Dokkyo University; Shinkichi Eto, Professor of International Relations at Tokyo University; and Ryokichi Hirono, Professor of Economics at Seiki University. The moderator of the panel was Kinhide Mushakoji, Vice-Rector of the United Nations University.

Shiratori concentrated on the decline of the LDP, which he attributed to structural, not accidental factors. The LDP cannot be sufficiently reformed to make a major comeback, he argued. If it is thoroughly reformed, it will lose the base on which it is standing. The four "pillars" of LDP support are all "collapsing": 1. The party's primary base has been in rural areas, a base eroded by the very growth and industrialization which have been the LDP's major accomplishments. 2. Economic growth has been a major pillar of LDP support, but it is now slowing. 3. LDP strength was aided by the rather tight bipolar structure of the international politics in the late 1950s and 1960s. Now Japan has to operate in a multipolar context. Anti-Communism is no longer a suffi-

cient ideology. The U.S. nuclear umbrella is no longer unconditional, Shiratori stated; and the "dollar umbrella" is being pulled back too. 4. In an earlier period, the LDP had a monopoly on governmental management skills. Local "progressive" leaders have shown administrative capability in more recent years, and caused a favorable reappraisal of the ability of the "progressive" parties to capably run the government.

Shiratori envisaged more of a "consensus politics" system emerging in Japan, with no party in clear control. Perhaps there will be a minority LDP government; but a "progressive" coalition is unlikely. He did not see a situation of "immobilism" on the horizon. The opposition parties are becoming more mature as the LDP majority disappears.

Eto also emphasized the growing maturity of the opposition parties, no longer so constrained by rigid ideological commitments and less likely to oppose the LDP simply for the sake of opposition. Also, the LDP is "keenly conscious" now of its declining power and seriously thinking of reforms which could bring about a resurgence of its strength. As for forecasts of the future, Eto guessed that the conservatives (LDP) will be defeated in the next one or two elections and may be compelled to organize a coalition government with some opposition parties. Afterwards, however, he predicted the LDP would recover its popularity and majority in the Diet.

Eto predicted that Japanese foreign policy would in the future become a "well-balanced Scandinavian type" of policy. Japan's position in the international system was pictured as subject to pressures from all sides: from China (pressing for a peace treaty), from the USSR (increasing naval pressure in Asia), from the United States (pressing Japan on regional security issues), from the European Community (claiming Japanese trade policy is too "aggressive"), from the resource-abundant South (representing an economic threat to Japan, particularly through supplier cartels), from the resource-scarce South (demanding more aid), and from industrializing regions (particularly from those countries in Asia becoming serious competitors on various industrial products). Overall, there is an increase of trade restrictions and an increase of "multi-polar fluidity," neither of which is good for Japan.

Hirono concentrated on Japan's economic situation. He gave a fairly optimistic view of Japan's long-term outlook. Japan's dependence on foreign suppliers of resources is not as troublesome as most argue, since the bargaining power of consumers is greater than generally estimated. The technological and managerial skills of the Japanese labor force are very good, though industrial discipline is beginning to deteriorate. The management of the national economy is carried on with remarkably good collaboration among bureaucrats and politicians, collaboration which is likely to continue under a different government. Japan does have long-term problems of imbalance in the regional distribution of wealth within the country, an inadequate domestic system of income transfers, and problems in the domestic-overseas balance of the economy. Short-term problems include low

capacity utilization, unemployment, low profit rates, low levels of investment in new plant and equipment, a slow increase in government revenue and increased restrictions on foreign trade.

Hirono hoped for an "outward-looking, expansionist" approach to Japan's economic problems. This approach would lean, for instance, toward domestic stimulus in the current difficulties and toward increased development assistance to poorer countries to help the world economy expand. Some, in contrast, argue for a more "inward-looking" approach that would allocate any spare resources to domestic needs, not development assistance, while cutting back domestic spending and budget deficits overall.

Foreign policy questions were prominent in the discussion which followed the opening presentations. What about the withdrawal of American troops from South Korea? The Japanese government, it was stated, takes an ambiguous stance here, reluctant to say "yes" or "no." The government would, however, agree to a gradual withdrawal. Such an agreed gradual American withdrawal is unlikely to change Japan's own defense posture or policy toward United States bases in Japan. Japan would not touch any security commitment to Korea, limiting itself to economic assistance.

What about the impact on Japan of recent changes in China? In one sense, the more powerful China is, the more problematic China is for Japan. Thus the current unrest is not completely against Japanese interests. In the short-term, Japan is encouraged by Hua's interest in trade and economic cooperation with Japan, but in the long-term, such a China is seen as an economic competitor of great strength. On Taiwan, Japan will follow a policy of non-involvement and not fight absorption into the mainland.

What about the extension of coastal economic zones to 200 miles, particularly the American extension? This creates big problems for Japan, particularly with regard to fishing; but Japan will adapt to the international environment here, no matter how difficult. The days of aggressive reactions by Japan to such moves are past.

What about energy policy? The Japanese, it was argued, have not been sufficiently long-term in their energy attitudes. There is an energy committee at the Cabinet level, and there is a Keidanren effort. But business has taken few concrete measures. In sum, the consuming countries "haven't done anything at all" over the last four years.

### **Western Europe**

The opening presentation on the Federal Republic of Germany was given by Theo Sommer, Editor-in-Chief of *Die Zeit*. Furio Colombo of *La Stampa* spoke about Italy.

Sommer emphasized three points in discussing the results of last fall's election in the Federal Republic, an election which returned the SPD/FDP coalition to power but with a very thin majority. First, he stressed, the democratic parties again polled 99 percent of the votes; the extremes less than 1 percent. Second, as the SPD and FDP polled more than half of the votes (though only 50.5 percent), there is a mandate for the coalition government. (Only once, in the

1957 election, has the CDU/CSU surpassed the 50 percent threshold.) Third, there is no mandate, however, for a radical Socialist program. Sommer expected the coalition government to remain in power throughout the period to the 1980 elections. He thought it quite unlikely that individual FDP legislators, or the FDP in bloc, would "cross the aisle" to the CDU/CSU side.

As for Germany's current problems, Sommer noted that the domestic situation does not look so "brilliant" to Germans as it seems to look to outsiders. Government deficits are at extremely high levels. Unemployment remains historically very high, and an increasing proportion has been out of work for more than a year (now about 18%). As for external problems, there is pessimism in Germany about the growth of the European Community and an emphasis on "damage limitation" with regard to Europe. The only real hope for progress among the Nine at the moment is the political cooperation machinery. The European Parliament is seen as essentially a "sideshow." It is thought that the substance of the EC would inevitably be thinner with the admission of proposed new members. What sort of Europe do we really want?

Colombo saw important changes in Italian politics, particularly after last June's elections which saw the Communist party once again increase its vote by a few percentage points. For a long time, the country had been politically like a "wax museum," with the same individuals striking the same poses. The profile of the country could be sketched with three points, it was thought: 1. The public political aspect of Italian politics would never change. 2. Private business would do well, and take care of real change in the country, maintaining its vitality. 3. Italian voters would always be conservative, and provide no surprises. In the last years, all this has been changing.

Colombo saw a "strong polarization" developing in Italian politics, almost to a two-party system, albeit an unusual one with one of the two main parties being the Communist party. (Formally, there are ten parties.) Why have the Christian Democrats lost ground? Colombo thought the association of the party with great inefficiency in government was more important here than its involvement in corruption, like the Lockheed Scandal. The party has also "lost momentum" with its poor showing on the major cultural issues of divorce and abortion. The Communist party has made a very good showing on these issues, said to prove its support of a "new pluralism." The Socialist party did not come out of the election well. It gave a quite "opportunist" impression and lost potential voters on both sides.

In the ensuing discussion, one speaker picked up on a Sommer point in stressing that throughout Western Europe, while majorities are narrow, democratic systems remain strong. Extremist parties are weak. Another speaker was not so sanguine. He saw another common element: a decline in the authority of democratic institutions all over Europe. Governments need to regain authority; the economic crisis reflects this political crisis. A third speaker disagreed. The

*(Continued on page 12)*

# Remarks on Macroeconomic Coordination

SABURO OKITA\*

## I

We can agree that the free trade is an illusion and that interdependence brings dangers. At the same time, we cannot deny the long-term technological progress and expansion of communications among nations over the last several decades. I do not see reversion of this trend. Whether we like it or not we have to become more interdependent both economically and politically and even socially. Since we cannot deny this trend, we should consider the current problems against this background of increasing interdependence over the long term. The very fact of having this type of meeting of the Trilateral Commission reflects the long-term trend. We cannot shy away from it.

## II

Mr. de Montbrial and I both participated in a "tripartite" meeting of economists from Japan, the European Community and the United States in early November at the Brookings Institution in Washington. The report of this meeting supported the idea of Germany, Japan and the United States as the three leading "locomotive" economies in moving the world economy out of recession. These countries should stimulate domestic demand in order to halt the further deflationary tendency in the world economy as a whole. The argument at the tripartite economists meeting was that the world economy is now moving into the danger of deflationary overkill rather than inflationary overkill. This deflationary overkill will bring many difficult and dangerous problems particularly to weaker economies among industrialized countries and to a large number of developing countries. There is a hot debate being undertaken now in Japan on this matter. The majority of economists take the position that this government should introduce a stronger policy of expansion of domestic demand, but I am not quite sure the government will follow the economists' line. We have the tradition of very careful, cautious management of the economy, and some of the policy-makers are getting very nervous about the possible renewal of rapid inflation. I personally feel that at this stage in this country, with our balance of payments position and price movements, we have some room for an expansionary demand management policy.

\*President, Overseas Economic Cooperation Fund, Tokyo.

The "economic summit" meetings in the past couple of years naturally emphasized the danger of inflation. If there is to be another such summit, my guess is the emphasis may shift to the danger of prolonged deflation.

## III

When we argue for policies of creating demand, we should not confine ourselves to the domestic creation of demand in key industrialized countries. We should rather expand the scope of demand creation globally. The marginal utility of investment worldwide would be much higher to produce more food than to buy second cars in industrialized countries.\*

When we deal with the economies of developing countries nowadays, we should recognize two types of developing economies. One group has been rather successful in obtaining rapid growth and expanding trade, and is more or less approaching the stage of intermediate development. They have borrowed very heavily from the private market. Their basic problem is probably the term structure of their debt, the fact that they are borrowing short and spending long; and they are trying to roll over this debt. Probably there must be some public facilities to arrange the adjustments in the term structures of the borrowings of those intermediate developing countries.

On the other hand are the much poorer countries. For them there should be really concessional aid; development assistance will have to be expanded. The surplus liquidity of OPEC countries flows into the financial institutions of rich countries. A very large part of those financial resources are going into relatively-developed developing countries. There are poorer countries badly needing the money, but they cannot afford to borrow on commercial terms. There should be some measures taken to fill this gap. Otherwise there is a danger of some paralyzing of economic activities worldwide. ■

\*I and a colleague have produced a report proposing a global effort to double rice production in Asia. The total cost, covering about one billion population excluding China and Japan, would be about 70 billion dollars over a period of 15 years. If you compare this figure with the annual 300 billion dollar waste of potential productive capability mentioned recently by Richard Cooper, the amount needed for doubling rice production in Asia is rather modest.

matter lies not in a decline in authority, but in the nature of the problems. They are not ones that lend themselves to solution by decree. He added that majorities are narrow all over Europe no matter what the electoral laws. The only trend is against those in power.

The European Community was raised several times in discussion. One participant re-emphasized the potential problems with admission of Greece, Portugal and Spain. These countries are not at the same level as current members. The possibilities for economic and monetary union will inevitably recede farther in time. Another speaker disagreed. He looked favorably upon the involvement of Greece, Spain and Portugal. They are part of historic Europe, and EC membership would help strengthen democracy in each. In his country, France, the European parliament was surely not a "sideshow" but a major focus of political debate, with important political implications.

### **North America**

The Quebec election and its implications were discussed in an opening presentation by Mitchell Sharp, former Canadian Minister for External Affairs. Senator William V. Roth, Jr. gave the opening presentation on the post-election United States.

In Quebec, a government has been elected representing a party committed to the separation of Quebec from Canada. Sharp detailed the dramatic results of the November 1976 election, in comparison with the previous election in 1973. The Liberals fell from 102 (of 110) seats to 26. The Parti Quebecois rose from 6 seats to 71. The Union Nationale, which not long ago had formed a government, rose from 0 to 6. The Liberal vote dropped sharply from 55 percent to 34 percent of the total. About half of this drop went to the Parti Quebecois, which rose from 30 percent to 40 percent. Sharp interpreted the results primarily as an indication of "massive dissatisfaction" with the Liberal government of Prime Minister Bourassa. As the Union Nationale was badly disorganized, the only real alternative for the voters was the Parti Quebecois. The Parti Quebecois downplayed the issue of separation in the campaign, and committed itself to a provincial referendum on the issue. Thus the election cannot be interpreted as a vote for separation, a conclusion supported by the polls. In fact, Sharp doubted there had been any increase in support for separation in recent years in Quebec. The central issue in the election was dissatisfaction with the Bourassa administration.

Nevertheless, the Parti Quebecois is committed to separation, and will do all it can, of course, to win the promised referendum. Quebec cannot be dealt with by somehow adjusting the Canadian federal structure. Canada is already more decentralized than any other industrialized country (with the possible exception of Switzerland). Any kind of "special status" for Quebec would just be a step toward separation, it would settle nothing but would mean the beginning of negotiation. There is no provision in the Canadian constitution for the separation of a province.

In the ensuing discussion, one participant speculated on

what would happen with various referendum outcomes. If the percentage for independence is very small, the Parti Quebecois will probably split. If the percentage for independence, while less than 50 percent, is somewhere near 50 percent, then the Quebec government might be tempted to look for international support. This is unlikely to come from anywhere except perhaps France and some developing countries in francophone Africa. A French participant later reassured the Canadians here. While there is a sense of sympathy in France for the Quebecois as a minority not

### **Message from President Carter**

It gives me special pleasure to send greetings to all of you gathering for the Trilateral Commission Meeting in Tokyo. I have warm memories of our meeting in Kyoto some eighteen months ago, and am sorry I cannot be with you now.

My active service on the Commission since its inception in 1973 has been a splendid experience for me, and it provided me with excellent opportunities to come to know leaders in our three regions.

As I emphasized in my campaign, a strong partnership among us is of the greatest importance. We share economic, political and security concerns that make it logical we should seek ever-increasing cooperation and understanding. And this cooperation is essential not only for our three regions, but in the global search for a more just and more stable world order. I hope to see you on the occasion of your next meeting in Washington, and I look forward to receiving reports on your work in Tokyo.

Jimmy Carter

### **Message from Zbigniew Brzezinski National Security Adviser to the President**

The Trilateral Commission has meant a great deal to me over the last few years. It has been the stimulus for intellectual creativity and a source of personal satisfaction. I have formed close ties with new friends and colleagues in all three regions, ties which I value highly and which I am sure will continue.

I remain convinced that, on the larger architectural issues of today, collaboration among our regions is of utmost necessity. This collaboration must be dedicated to the fashioning of a more just and equitable world order. This will require a prolonged process, but I think we can look forward with confidence and take some pride in the contribution which the Commission is making.

Zbigniew Brzezinski

getting a "fair shake" and while there are increasing cultural ties to Quebec, this does not change the overall situation. France will not assist in undermining the Canadian Federation. Another speaker emphasized that Levesque has his hands full in running Quebec. Unemployment is high (10 percent), and some of the government's policies could create economic havoc. Provincial difficulties could create dissatisfaction with the Levesque government as they did with Bourassa.

Turning to the United States, Senator Roth saw no abrupt changes in domestic or foreign policies with the accession of the Carter administration. The changes appear to be more ones of style, emphasis and internal government organization. There is a very broad consensus in the country on the basic lines of policy, and it is the kind of voter representing this consensus to which any successful Presidential candidate must appeal. The big changes usually come when there is a sense of crisis, and there is no such sense now. Also the more open style the new President preaches does not go along with abrupt changes.

The basic competitive relationship between Congress and the Executive will continue, Roth argued, but the tone will change. There will be no more deliberate efforts to embarrass the President. Congress will certainly continue playing an important role in foreign policy, with foundations laid, for instance, in the War Powers Act and the Trade Act of 1974. Congressional committee chairmen, more than in most

parliaments in the world, have their own bases of power. And in this new Congress, they owe nothing to the President. The authority of the top leadership may be somewhat stronger in the new Congress, which would help the President by presenting him with a more structured situation, although it means these leaders will have a strong early input into policy formulation.

In conclusion, Senator Roth proposed a very high-level bipartisan foreign policy council, spanning the Executive and Congress and perhaps including some private citizens as well, to nurture and support a bipartisan foreign policy consensus in the country. American foreign policy has always been carried on under the influence of a basic contradiction in the national personality. On the one hand is the cherished idea of self-sufficiency and separation from the concerns of others, which coexists uneasily with a sometimes overzealous urge to be a helpful neighbor. But the basic intent of the country is assuredly a positive one.

In discussion, one speaker added another reason why Congress will remain so important in foreign policy, namely the importance of economic and resource issues. In his estimation, of all postwar Presidents, Eisenhower had the best relations with Congress, although the legislature was generally dominated by the opposite party. This was perhaps due to Eisenhower's "sense of process" from his military background; and Carter seems to have some of this sense too.



Prime Minister Fukuda with Messrs. Berthoin, Smith and Watanabe, the Commission Chairmen

## TASK FORCE REPORTS

Two draft reports from trilateral task forces were discussed at the Trilateral Commission meeting in Tokyo. One report, entitled "Towards a Renovated International System," is a broad "overview" written roughly three years after the formation of the Commission. The authors are Richard N. Cooper, recently named Under Secretary of State for Economic Affairs in the new U.S. Administration; Karl Kaiser, Director of the Research Institute of the German

Society for Foreign Policy; and Masataka Kohsaka, Professor of Political Science at Kyoto University. The second draft report deals with cooperation between trilateral and communist countries in managing global problems. The authors are Chihiro Hosoya, Professor of International Relations at Hitotsubashi University; Henry Owen, Director of Foreign Policy Studies at the Brookings Institution; and Andrew Shonfield, Director of the Royal Institute of Interna-



at all levels may be the prerogative only of strong countries like the United States, Japan and West Germany. The proposition would be least acceptable, and least available, to developing countries. Also, whatever the arguments for operational efficiency supporting piecemeal functionalism, this separation makes it harder to mobilize political support. Segregation of issues is least possible when these issues have to be carried into and through a democratic legislative process. Indeed there seems to be a correlation between the existence of linkage and the level of consideration of issues within a national political process. We can only segregate issues by "relegating" management of them to specialists. And we would pay a heavy price for this in terms of inability to mobilize political constituencies and absolving top leaders from direct management of the problems involved.

In advocating decentralized management, the draft report argued that "wherever possible the function of management should be pushed to 'lower' or more local levels, if necessary within a framework of rules established at 'higher' or geographically larger levels. . . . At the international level, then, emphasis should be placed on rule-making rather than management." One speaker argued that this should not be done in the area of coordination of economic policies, where the problem lies in day-to-day cooperative management. It is not too difficult to agree upon rules. Where the shoe pinches is in cooperative management. Another speaker argued that nuclear energy and proliferation were another area where such decentralized management would not be adequate. Rather, powerful international management is in fact required to give the various parties adequate assurance about each other's activities.


On particular substantive issues, a few speakers stressed how poorly the trilateral area is doing in meeting the target of 0.7 percent of GNP for development assistance. There is a great need to do better here. On the substantive discussion of nuclear energy, one speaker argued that the chapter does not give an adequate sense that this will probably be the most important source of European-American friction since the strategic debate in the early 1960s. Another disagreed with the report's emphasis on bringing suppliers and consumers together into an overall dialogue. First we must make better progress among suppliers toward common standards for all phases of nuclear technology.

### ***Trilateral-Communist Cooperation on Global Problems***

This draft task force report examines potential Trilateral cooperation in nine areas of global concern: food, energy, oceans, trade, space, weather, earthquake warning, development aid, and nuclear non-proliferation. The nine areas are grouped into three categories according to the promise they will offer over the next several years.

In discussion of the draft, several speakers thought particular areas showed more promise than the authors esti-

**RICHARD COOPER**



The image shows a large, dark, textured rectangular area, possibly a scan artifact or a placeholder. In the upper right corner, there is a small, high-contrast black and white portrait of a man with glasses, identified by the text as Richard Cooper. The name "RICHARD COOPER" is printed in bold, capital letters to the left of the portrait. The rest of the page is filled with a dense, grainy texture.



# Japan in a Changing World

## (excerpts)

Kiichi Miyazawa\*

. . . During the past decade we have seen, for the first time, this earth from outside—a green, solitary planet floating among the trillions of stars. The significance of this event cannot be over-emphasized. Just as the invention of the compass in the Middle Ages enabled men to explore the surface of the earth, the invention of computers, as applied to the development of space science, has so dramatically broadened our intellectual and emotional vision and our comprehension of the universe.

The development of nuclear science has been just as important. While it holds one of the few hopes for the future of mankind, it has given men the Satanic ability to annihilate themselves. The peace of the world today is predicated upon the assumption that the leaders of the United States or the Soviet Union do not want to see the eruption of nuclear war, in spite of the occasionally serious political and ideological differences between them. The detente is encouraging it; however, is not to be considered an end in itself, but merely a process of mutual effort to increase the chances for this precarious peace to continue. The nuclear science is a double-edged sword, and man must learn to utilize it with wisdom.

The developments in audio-visual communication, as best exemplified in the ubiquitous television sets, have qualitatively improved the level of mutual perceptions and understanding among peoples across the boundaries of states. No Japanese youth visiting the United States for the first time today would experience the daze with which I beheld San Francisco for the first time in 1939 as a college

student. The young people now have a pretty good knowledge about the world beyond them because of the modern audio-visual communication. The hippies all over the world seem to understand each other quite cozily. They do not seem to be fettered by the indigenous cultural values of their own countries and almost unconsciously open to what is alien to them. The sovereignty of the nation-state does not seem to matter to them very much.

I have mentioned computers, nuclear energy and audio-visual communications as symbols of the distance we travelled in the thirty years since the end of the second war.

While these scientific and technological developments so tremendously changed the world, their impacts were perhaps greatest in Japan, because they took place exactly at the time when Japan was starting from scratch after the bitter experiences in the defeat of the war.

Whether the impact of such developments have found harmony with the traditional sense of values and social fabric of Japan is an open question. I think, however, that these mutually alien factors are influencing each other and the slow process of assimilation is underway in Japanese society today.

Visible and yet inscrutable as Japan may remain to you, I can describe some factors which underlie social and economic activities of contemporary Japan.

We have all but eliminated class distinctions. As such, it is a meritocratic society where work ethic still operates. The problems of class consciousness seldom or never complicates our labor-management relationships. The post-war land reform effectively contributed to the stabilization of the rural areas. The life-time employment and seniority system, a

\* Member of the Diet of Japan, former Foreign Affairs Minister.

### COMMISSIONERS IN THE NEWS

Following the election of President Carter and Vice President Mondale, both former Commissioners, a number of former U.S. members of the Federal Commission were appointed to high government positions in the new U.S. Administration. They include, in particular, Secretary of State Cyrus Vance, Secretary of Defense Harold Brown, Secretary of the Treasury W. Michael Blumenthal, and National Security Advisor Zbigniew Brzezinski, former Director of the Commission. Other former Commissioners designated for government service are Warren Christopher (Deputy Secretary of State), Andrew Young (Ambassador to the United Nations), Richard N. Cooper (Under Secretary of State for Economic Affairs), Lucy Wilson Benson (Under Secretary of State for Security Affairs), Paul Warnke (Director, Arms Control and Disarmament Agency), Richard Holbrooke (Assistant Secretary of State for East Asian and Pacific Affairs), Joel Linowitz (Co-negotiator for Panama Canal Treaty), Elliot Richardson (Ambassador at Large and Representative to U.N. Law of the Sea Conference), and Richard Gardner (Ambassador to Italy).

puzzlement to the West, have been effective more as security against easy unemployment practices than as disincentive to hard work. Companies so structured provide the employees with welfare benefits the government at times is slow in giving. Having experienced virtually no socialist government in the last thirty years, our economy is relatively free from direct government intervention. The private sector, however, reacts rather cooperatively to the economic and monetary analyses and guidance of the government which has one of the most competent bureaucracies in the world. The basic vulnerability of the Japanese economy and the pressing need for survival have forced the entrepreneurs constantly to re-examine their investment policies and to modernize their production systems.

Here, let me emphasize that I have idealized the picture for the sake of clarity. But if all these factors are put together, you get this awesome picture of "Japan Inc." We will not be able to rectify this impression wholly, in as much as this is the fabric we have to maintain to survive as a liberal, democratic and open society.

For Japan today, so-called peace diplomacy is not rhetoric but a realistic imperative. The magnitude as well as the vulnerability of our economy have closely linked our national interest to the shifting sands of the international situation. Any turmoil and conflict at the farthest corners of the world may at once seriously affect our shore. The maintenance of the peace and stability in the world is a prerequisite for our existence. We are committed to our political and social values, yet would not insist that others abide by the same. Differences in ideology, political, social or economic systems should not stand in the way of establishing friendly relations with any and all countries. This is easier said than done, and the criticism may range from being unrealistic to egoistic. If so, I should add that behind the formation of this diplomacy is the people's fundamental aversion for arms and armed conflicts.

Let me say a few words on our thoughts behind the

acceptance of the treaty of Non-Proliferation of Nuclear Weapons which we ratified last year at long last. The treaty will remain in effect till 1995, well beyond the lives of many of us, so it was a difficult decision. What finally pushed us to ratify the treaty was our belief that its basic purpose—to avoid the calamities of war—is consistent with the foreign policy pursued by Japan since the end of the war. Implicit too, is the knowledge that we may have full confidence in the U.S.-Japan security arrangement as a deterrent to potential conflict and a dependable guarantee in case of emergency. For my generation, Hiroshima and Nagasaki are a vivid personal experience. More than one half of the Japanese population today was born after 1945. For these and for many others in the world, these calamities of war are fast becoming historical anecdotes. Each generation must pass on its legacy to the next with due humility and skepticism. The treaty is a part of our legacy to our children.

Another point I should like to make a passing reference to is the danger of proliferating arms trade. I shall not dwell on details. But there is an urgent need for international cooperation to control the rampant growth in the volume of trade in armaments. The tragedy is that the recipients of these weapons are mostly developing countries where the hard foreign currency and trained human resources are most needed for their economic development and welfare.

One of the major issues the Japanese people and government are grappling with today is how to improve Japan's trade relationships with West European countries.

No meaningful future can be visualized without a strong and thriving Europe. I do not deny that some economic and social realities of the European countries justify a sense of crisis the Europeans harbor about their economic future.

I should like to say, however, that the history of Europe is one of continuous crises which the Europeans have always managed. Great Britain has claimed its decline since the time of the Napoleonic Wars, if not from the Roman times

**FRANKLIN BECOMES COORDINATOR  
HECK IS MADE NORTH AMERICAN SECRETARY**

The three charter members of the U.S.-Japan Commission for Security and Peace appointed George Franklin, Coordinator of the Commission, and Francis D. Heck, Executive Director of the Commission, to the U.S.-Japan Commission for Security and Peace. Heck will serve as the Commission's North American Secretary. The Commission was established in 1974 by President Jimmy Carter. Heck is a graduate of Oberlin College and Case Western Reserve University. He has worked extensively in the Carnegie Endowment for International Peace.

**FRANCIS D. HECK**

of Caesar. Raymond Aron once said that Britain declines in an orderly fashion while France advances in confusion. The Europeans are fond of talking about their own crises. Spengler predicted the demise of Europe, whose historical role, he thought, had been completed. The Second World War, the subsequent dependence of the Europeans on the United States, to which Europeans at least culturally had ambivalent feelings, the liquidation of empires and its concomitant political and economic instabilities; all these were genuine crises. And all of them the Europeans have managed and survived. Why not now?

Inflation and unemployment, hostilities existing among social groups as serious impediments to solutions of problems and progress, the failure of the representatives to adjust and control the demands of those whom they represent, mal-effects of the welfare system—I am not the one to elaborate upon them but all these are very serious problems.

I feel, however, uncomfortable every time I hear this talk of crisis. In Europe, and perhaps in Japan, too, a sense of crisis often encourages those who are impatient with the slow and painstaking process a democratic form of government requires in arriving at a solution to its problems. The magnificent intellectual tradition of Europe contains within itself one debatable tendency which provides all-embracing solutions to any problem based on its exclusive claim to the truth in history. It is for this reason that I do not particularly care for such expressions as "the need to create a new order."

Also, an intensified sense of crisis tempts people to find a scapegoat with all its baleful associations. It is for this reason that I abhor the sensational articles and editorials in some of the European mass media accusing us Japanese for all of their economic ills.

Japan should not be passive in the face of European difficulties. We will continue our utmost to see what we can do to ameliorate the problems. So often, however, what the Europeans consider Japan's non-tariff barriers are not so much impediments themselves as cultural and linguistic barriers still so deeply separating us. To overcome these difficulties, both sides have to come to meet in the middle as it were. In this regard, the Japanese are far ahead of the Europeans whom we have considered a model to emulate for our own development during the past century.

I am not suggesting that the Europeans emulate Japan now. I should, however, like rhetorically to raise such questions as whether their investment policy is aimed at restructuring, renovating and rejuvenating their industries, whether their society has provided adequate incentive to the average citizen to carry out his or her social and economic responsibility, how much efforts they have paid on the cultural, linguistic and psychological level to explore new markets elsewhere. How much do they realize that they are still some of the richest in the world in terms of per-capita income, the accumulated wealth in social infrastructure or social welfare benefits and that they were the creators of a democratic and liberal society upon whose values the Trilateral Commission has been formed?

Recently I read Professors Cooper, Kaiser and Kosaka's paper, "Towards a Renovated International System," prepared for this meeting of the Trilateral Commission. My original misgivings about the title—as I said earlier I do not particularly care for such expressions as "order" or "system"—were soon dispelled by the authors' awareness of the complexities of the problems we are faced with today. The article is balanced between a healthy skepticism towards over-all blueprints for international cooperation and the belief in man's ability to mould his future through such cooperation.

Here I began with recalling the scientific and technological developments man achieved in the thirty years since the end of the war. It was during these years as well that we came to the sober realization of the limits of what Arnold Toynbee called "Biosphere" and the potential of man to destroy it. I did not address myself to any of the particular problems the world is confronted with; the North-South problem, energy, environmental pollution, international trade and monetary situations or arms control and disarmament. The difficulties of each problem often discourage us. Yet, I believe that, if we can put our intellectual and emotional resources together, as we indeed have done in the Trilateral Commission, we can overcome them. Creative and humane use of wisdom and intellect alone can make it possible for us to bequeath a free and thriving world to the generations to come.