Kansai Economic Organizations

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Good afternoon. Not long ago, I read that in the seventh and eighth centuries the Emperors Kotoku, Temmu and Shomu kept palaces in Naniwa, the present Osaka, where they entertained envoys from Korea. The world knows Osaka as a long established commercial and industrial metropolis. But a few people, I think, realize that the city has as well an ancient history of diplomatic relations. Given Osaka’s heritage of commerce and diplomacy, I believe it is fitting for me to reflect here today on the United States’ economy and on U.S.-Japanese relations.

As you know, I returned from Washington last week after an excellent series of meetings between Prime Minister Suzuki and President Reagan. I think the Prime Minister’s visit went extremely well. Indeed, I consider it the best meeting ever held between a Japanese Prime Minister and a U.S. President. I took particular pride in the honor paid to the Prime Minister by my former colleagues in the U.S. Senate who invited him to join them on the Floor of the Senate. Prime Minister Suzuki and President Reagan established a warm rapport which I am sure will serve both countries well. The summit discussions themselves were most productive. They revealed that the
Prime Minister and the President concur on the most important strategic, regional political and economic issues. As the communique indicates, they shared concern about Soviet behavior; agreed that the industrial democracies should cooperate more in defense, economic improvement and Third World development; acknowledged the desirability of an appropriate division of defense roles between the United States and Japan; and resolved to maintain a free trading system. The visit was a great success, the Prime Minister was superb in his presentations and answers and the group accompanying him was very hard working and very well prepared. The summit demonstrated the close harmony which exists across the broad scope of U.S.-Japan relations, a harmony which will be enhanced by the close personal ties our two leaders established.

We have, I believe, learned from the lessons of the past and we have built our relationship into an equal partnership. One of those lessons is that the American political economy cannot exist in a vacuum. That the U.S. economic situation affects and is affected by economic events elsewhere is obvious. However, to many Americans the relationship among domestic economic developments, domestic politics and international relations sometimes seems obscure. Nonetheless, such a relationship exists.

In the early 1970s, the U.S. economy suffered from slow growth, inflation and balance of payments deficits which flowed
from, among other things, the Vietnam war and industrial maturation. At the same time, Japan's economy was growing robustly and the country enjoyed a substantial trade surplus with the United States. From the contrasting situations in the two countries flowed the dispute over exchange rates, Japan's import regime, and textile exports. The period was marked by recrimination and strained bilateral relations.

Later in the decade, when Japan, the United States and others were trying to adjust to soaring oil prices, Japan enjoyed a large global current account surplus and a large bilateral trade surplus with the United States. Again disputes occurred, scarring overall relations.

An obvious corollary to the lesson of the 1970s is that U.S. economic and political relations with other economic powers such as Japan are likely to be better when the U.S. economy is in a prosperous balance. The new Administration realizes this. For international as well as domestic reasons it has developed a program designed to restore the U.S. economy to balance and prosperity. It has been apparent for some time that the economy was out of kilter. It was tilted toward an unsustainable level of consumption. The savings rate had declined to 5.7 percent. The rate of investment had fallen. Annual productivity growth had decreased from about 3 percent in the 1950's and 1960's to less than 1 percent. Inflation had zoomed. I think the election results last fall reflect the
AMERICAN PUBLIC’S APPREHENSION ABOUT THE PERSISTENT ECONOMIC MALAISE. Restoring confidence in the U.S. economy -- at home and abroad -- is rightly the number one priority of the Reagan Administration.

In a recent article in the Washington Post, the British journalist, Henry Fairlie, remarked on the fundamental difference between the Reagan Administration and its predecessors, comparing the transition to that between Herbert Hoover and Franklin Roosevelt. Fairlie observed that "there is every sign now of a new president acting as if there is a mandate." I think the President does have a mandate. The press and politicians talk of a new willingness of Americans to accept sacrifice. This willingness derives not from some perverse masochistic urge. It flows from the realistic appraisal that some postponement of consumption now is necessary for economic regeneration.

With the recent passage of the budget by the Congress, the Administration now has made a good start on carrying through with its economic program. The program has two major goals: a substantial reduction in inflation and a resurgence of economic growth. The program will be implemented through a reduction of federal spending leading to a balanced budget, a reduction of marginal income tax rates, and a stable monetary policy. Treasury Secretary Regan has termed spending restraint, "an essential ingredient" of renewed economic growth. The
REDUCTION OF FEDERAL SPENDING SHOULD FREE RESOURCES FOR PRODUCTIVE INVESTMENT.

A REDUCTION OF MARGINAL TAX RATES SHOULD CREATE ADDITIONAL INCENTIVES FOR WORK, SAVINGS, AND INVESTMENT. IN RECENT YEARS, THE AFTER TAX RETURNS ON SAVINGS AND INVESTMENTS OFTEN HAVE BEEN LOWER THAN THE INFLATION RATE. THIS DETERRED SAVING AND CAUSED THE DIVERSION OF RESOURCES FROM PRODUCTIVE INVESTMENT TO SPECULATION AND TAX SHELTERS. THE ENACTMENT OF TAX REDUCTIONS FOR BUSINESSES AND INDIVIDUALS SHOULD CAUSE A RENEWED FLOW OF CAPITAL TO INVESTMENTS IN PLANTS AND EQUIPMENT. THIS IN TURN SHOULD INDUCE GROWTH IN PRODUCTIVITY. THE ADMINISTRATION HAS MADE CLEAR THAT THE FINAL ELEMENT OF THE ECONOMIC REVITALIZATION PROGRAM, A STABLE GROWTH IN THE MONEY SUPPLY, IS NO LESS ESSENTIAL THAN THE OTHER TWO AND HAS URGED THE FEDERAL RESERVE BANK TO COOPERATE.

THE REAGAN ADMINISTRATION'S NEW ECONOMIC PROGRAM GIVES US HOPE FOR NEW PROSPERITY. ACCORDING TO THE ADMINISTRATION'S PROJECTIONS, THE REAL GNP WILL GROW BY 5 PERCENT IN 1983. INFLATION WILL DECLINE TO ABOUT 7 PERCENT AND THE UNEMPLOYMENT RATE WILL DROP TO 6.6 PERCENT. THE ADMINISTRATION EXPECTS THAT THE GROWTH IN GNP AND THE DECLINE IN INFLATION WILL BE SUSTAINABLE. THE FORESEEN STEADY EXPANSION IN BUSINESS FIXED INVESTMENT WILL INCREASE PRODUCTIVITY AND REDUCE PRODUCTION COSTS BY INCORPORATING NEW MACHINERY AND TECHNOLOGY INTO AMERICAN FACTORIES. IT ALSO WILL REDUCE INFLATION BY BRINGING INTO
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Better balance the nation's supply and its demand for goods.

There are some other reasons for optimism about the American economy. Among them are the decline of consumption of petroleum in the United States and the apparent glut of oil on the international market. In 1980 the United States used 7.7 percent less petroleum and imported 9 percent less of it than in 1979. In 1980, spending in the United States on energy efficiency more than doubled and now stands at more than $10 billion a year. Experts expect continuing increases in spending on energy saving devices. Conservation and poor economic conditions in the United States and elsewhere have cut the demand for petroleum. The normal capacity of the OPEC countries is 31 million barrels of oil a day. At present they are selling only 25 million barrels a day. Even with the Iran-Iraq war, there is a surplus. This of course is good news for the United States, Japan and other industrial countries for it means that the funds that would have gone to pay for oil price increases can be turned to other uses.

I find in the United States a new resilience and energy and a new willingness to learn. More businessmen in the United States now regard Japanese competition as a challenge rather than a threat. They are trying to identify what they can do to be more competitive. According to Fortune, Edwards Deming who lectured on methods for the statistical analysis of quality in Japan in the early 1950's is in great demand.
by American businesses. Americans are trying to re-learn from Japan the secrets of quality control and productivity. They are avidly studying Japanese management practices. Professor William Ouchi has added to the management alphabet with his book, "Theory Z: How American Business Can Meet The Japanese Challenge." It is attracting considerable attention in the United States.

I am optimistic about the United States economy. The President’s economic program will provide a framework for economic regeneration. It is up to business to take advantage of that framework, to invest, and to compete in international markets.

As I suggested earlier, a sound and vital U.S. economy should remove some of the strains on U.S.-Japanese relations. Trade problems breed in times of economic distress. The auto problem was a case in point. No one debates the point that the primary remedy for the difficulties of the U.S. auto industry is a strong, growing U.S. economy. But that will take time. Some solution to the auto industry’s immediate woes was necessary. In 1980 auto imports from Japan increased to 23.6 percent of the U.S. market. More than 200,000 workers in the U.S. auto industry were unemployed. At the same time the U.S. manufacturers were undertaking a $76 billion program to retool to meet new demands which they will have to finance.
Against this background several U.S. congressmen introduced bills to limit imports which, if nothing had been done, stood a good chance of passage. I think that the Japanese Government response was statesmanlike and understanding. I am grateful for the decision to limit voluntarily auto shipments. It showed sensitivity to the situation in the United States and political acumen.

Those are qualities which are likely to be in great demand in the coming years. The world faces a period of potential instability. In recent years the Soviet Union has been increasing its military and naval forces far beyond levels necessary for defense. The number of Soviet naval vessels deployed in East Asian waters has grown from 67 in April 1978 to 78 principal service combatants, plus over 100 submarines now. Moreover, the Soviet Pacific fleet has improved its quality and has increased its level of activity, thereby amplifying its menace. The Soviet Union intervened in Afghanistan and asserts the right to intrude in Poland. The combination of Soviet paranoia and belligerency ordinarily creates danger. That is heightened now when the Soviet Union faces probable changes in leadership and domestic economic and social difficulties.

The globe's problems do not all derive from the Soviet Union, however. The bulk of the world's oil comes from regions subject to political eruptions. A number of the developing countries are coping with severe balance of payments deficits. Others suffer from drought and starvation. Still others are
TORN BY POLITICAL DISORDERS.

In the last decade, the existence of Japan, Western Europe and North America as strong economic regions has lent some balance to the world and has helped keep the world economic gyroscope upright. The markets and aid by Japan, America and Europe have contributed to world economic growth and thus to political stability in the developing countries. Cooperation in the OECD, GATT, the IMF and the annual economic summits has contained and solved some serious problems in the international trade and financial systems. The years ahead will, I am sure, demand even closer formal and informal cooperation among the industrial democracies.

For its part Japan is taking on greater responsibilities for foreign economic development and for defense. From 1976 to 1980, in dollar terms Japan tripled its foreign assistance. In 1981 Japan expects to spend ¥889 billion on foreign assistance. From 1981 to 1985, it intends to double the amount it spent on foreign assistance during the five previous years. Similarly it is increasing its defense expenditures. In JFY 1981, Japan's defense expenditures are budgeted to be ¥2.4 trillion, up 7.61 percent from 1980.

In the May 4 issue of Fortune, Prime Minister Suzuki said that "I believe it's essential that the nations of the Free World, with the U.S. as the central power, band together
and solidify their collaboration to meet this Soviet buildup. We recognize that peace and world order rest on the balance of power." In Washington the week before last, Prime Minister Suzuki announced Japan's intention to improve its capability to defend its territory and the surrounding sea and airspace.

I share Prime Minister Suzuki's appraisal and welcome Japan's willingness to increase its defense and aid expenditures. I know that such increases are difficult at a time when the budget is in deficit. The United States faces similar problems. Nonetheless I think these increases are necessary and that Japan is capable of shouldering a greater burden. In this regard, I would like to note that compared to other OECD countries, Japan has one of the lower ratios of government income to GNP. In 1977, it was 0.245 compared to 0.32 for the United States and 0.435 for Germany.

As I have said repeatedly, I consider the United States' relationship with Japan the most important bilateral relationship in the world. The commercial ties between the two countries have nurtured prosperity not only in Japan and the United States but in other countries around the Pacific rim. The defense relationship has contributed greatly to the strategic balance.

As with Japan, the United States has with Western Europe a web of commercial, political, defense, cultural and family connections. For historical reasons the fabric between Japan
and Europe is not so closely woven as that between the United States and Japan or that between Europe and the United States. This is unfortunate, for Japan, North America and Europe are the three legs of a tripod from which hangs responsibility for the global economic system and for the modicum of political stability that has persisted the last 35 years. Trust, confidence and cooperation among the three is essential. I think both Japanese and European leaders recognize the merit of greater consultations and a fuller range of ties between them. As one consequence, the European Community has encouraged industrial cooperation between European and Japanese firms. I hope that Japan and the western European countries continue to expand their relationship beyond a commercial one.

Until now I have spoken of necessity -- the necessity for economic regeneration in the United States, the necessity for greater defense efforts, the necessity for more consultation and cooperation. Before I conclude, let me talk a bit about opportunity. In our efforts to cope with pressing difficulties, the immediate often obscures the ultimate. We Americans are embarked on a period of economic regeneration and rearrangement which will not be without pain. Japan similarly is trying to restructure its finances. These and the need for a more secure defense are the immediate problems with which we must grapple. The solution of these problems will provide the opportunity to improve the lives of our citizens and to promote with trade and assistance the development of other countries. This may sound unfashionably altruistic. If it does, let me assure you
THAT THE ALTRUISM HAS A STRONG FLAVOR OF PRAGMATISM. INCREASED PROSPERITY IN THE THIRD WORLD, LIKE STRATEGIC MILITARY BALANCE, PROMOTES INTERNATIONAL STABILITY AND SAFETY FOR US.

I RETURNED FROM WASHINGTON LAST WEEK OPTIMISTIC. RELATIONS BETWEEN THE UNITED STATES AND JAPAN ARE SOLID AND STEADY. OUR TWO GOVERNMENTS SHARE A REALISTIC APPRAISAL OF THE MAJOR INTERNATIONAL PROBLEMS AND AN INTENT TO COOPERATE IN THEIR SOLUTION. THE UNITED STATES GOVERNMENT HAS BEGUN TO REGENERATE ITS ECONOMY WITH THE SUPPORT OF THE PUBLIC. I AM CONFIDENT AMERICANS WILL SUCCEED. I AM EQUALLY CERTAIN THAT JAPAN AND THE UNITED STATES WILL CARRY ON WELL THE COLLABORATION ESSENTIAL FOR THE WORLD’S ECONOMIC AND POLITICAL HARMONY.