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Remarks to Drexel

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Thank you, Mr. Cantor (sp?), Mr. Milkin, ladies and gentlemen. May I say that I will be very brief in my comments because of the time factor involved and in the hope that when I get through, there will be time enough for some of you at least to ask some questions.

I would like, first, to talk especially to our Japanese guests. The Americans, if they wish, may listen in. What I want to talk about is the elections which have recently been held in the United States and in which the Japanese press and the Japanese government have shown a great deal of interest and some concern.

I would suggest that you take those elections in stride. They happen in our country every two years; sometimes one party wins, sometimes the other; the Republic survives and our relations with our friends continue.

Despite the fact that the Democrats will have a sizable majority in the Senate, there will be more cooperation and accommodation than you think. The right will try to hold back too far, the left will seek to push too much, but the center will remain, and that is where the majority of the Senators of both parties will be. It's in that center where you will find
continuity and substance. It's in that center where you will find that, basically, as far as the middle is concerned, there isn't too much difference between the Republican and Democratic parties. And it's in that center where we will have to look for the kind of action which the 100th Congress will undertake beginning on January 3rd of next year.

When you're "out," it's easy to criticize, to find fault, to make speeches. But when you're "in," you have to assume more responsibility, and that is what will happen when the new Congress convenes in January. The big changes will be in the chairmanships of the staffs of the committees. As far as the President is concerned, he has the veto, which, of course, means that he is anything but a "lame duck," because that is a powerful weapon when properly used. And it has been properly used over the past six years insofar as protectionist legislation is concerned and it will be used in the future if need be.

Asians in general are concerned about the new Congress. They're concerned about protectionist legislation. I would suggest to them that one way to try and avoid that possibility is to open your markets and to open them much more than they are at the present time. The big issue today is trade. The
big figure is a 50-billion-dollar deficit in our trade with Japan in 1985 and an estimated 60-billion-dollar-plus deficit this year. And the big word is access, access to your markets.

Not that that will answer the question and resolve the differential in our trade. But it will face up to reality and show to the American Congress that even if you do everything—we would like to see you opening your markets, abolishing or lowering your tariffs, doing away with your quotas—it would still not be enough to keep Japan from maintaining a tremendous surplus in its trade relationship with the United States.

There seems to be general agreement among the economists that if Japan did everything we would like it to do in opening its markets, the differential would amount to something on the order of 10 billion dollars. I would raise that figure to 15 billion dollars. Subtract 15 billion dollars from a 50-billion-dollar deficit last year and it would still leave a 35-billion-dollar surplus in Japan's favor.

But Japan is only part of the problem. It is with Japan with which we have our biggest deficit. But how often do you hear about the fact that with Canada last year, we had a 22-billion-dollar deficit, with Latin America a 19-billion-dollar
deficit, with Taiwan a 13.2-billion-dollar deficit, and with Western Europe a 26-billion-dollar deficit?

In 1981 we had a 20-billion-dollar surplus with Western Europe, which used to be our primary trading partner. In 1985, to repeat, we had a 26-billion-dollar deficit with Western Europe. That would be a 46-billion-dollar decline in a five-year period. In 1981 we had a 13-billion-dollar deficit with Japan; last year, that deficit was just under 50 billion dollars. That is a 37-billion-dollar decline over a five-year period compared with a 46-billion-dollar decline in our trade with Western Europe over the same five years.

The point I'm trying to make is that our trade difficulties are not just bilateral: they are global in nature. The figure is not just 50 billion dollars in deficit with Japan; the real figure is 150 billion dollars in deficit with the rest of the world. Of course, we want Japan to open its markets more, much more. They are moving in the right direction. But much needs to be done. And the important thing to remember is that, despite what Japan may do in acceding to our desires, it alone will not, to repeat, solve the problem.

Like everything else, there's at least two sides to every
question, sometimes more. The other side of this question applies to us. We have the greater degree of responsibility in facing up to this difficult issue, and there are a lot of things which we must do at home if we are going to correct the imbalance which confronts us at the present time, and which, if not corrected, will face us for years to come.

On the basis of the recent agreement between Secretary of the Treasury Baker and Finance Minister Miyazawa, it appears that we have reached a reasonable agreement on a reasonable level for the exchange rate between the yen and the dollar. In addition, the Japanese have agreed to cut their discount rate from 3.5% to 3% and the Diet is considering a proposal to raise something on the order of 26 billion dollars to reinvigorate and reorient the economy towards the domestic end.

Now to return to us. I've mentioned that it appears that the yen-dollar exchange at the present time is in a reasonably good state. I'm glad to see that interest rates have declined—still too high, but much better than the almost 21% prime rate in 1981. We've got to do something about the deficit; it is getting out of control. Interest rates at home are our responsibility. Facing up to our deficit is our responsibility as well.
We can't avoid these responsibilities. We can't point the finger at another country and expect that country to take the blame for something which it did not cause. We have to look in the mirror once in a while and note the motes in our own eyes. We ought to have a better relationship between management and labor, and I mean both management and labor; a better relationship between industry and government. In both areas—labor and management, industry and government—it is all too often adversarial.

We need to increase our productivity: we probably rank at the lowest among all of the industrialized nations in the world in increased productivity. We need to better the quality of our goods; we need to become more competitively priced; we need to pay more attention to the consumer, the customer, and give to that individual the necessary follow-through service. In other words, return a little bit to the old-time religion and do the things which made our country great: work together, do what has to be done, make the necessary sacrifices, quit pointing fingers, quit blaming somebody else, and face up to reality. There is a responsibility which Japan and the other nations in the world with which we are in deficit, a responsibility which they must assume, but we also have a responsibility. And I think it's about time we grew up and
stopped talking about protectionist legislation, which will benefit no one; it will hurt everyone; it will stifle competition, the benchmark of the free enterprise system; it will increase prices; it will fuel inflation. So I hope that as the new Congress comes in in January, we will face up to reality, we will expect our friends and neighbors to do the things that we think should be done to keep alive the present international trading system, which has benefited all of us so much, and by the same token, face up to the difficulties which have been of our own making and which only we alone can cure.

Because of the shortness of time and the approaching hour of two, let me conclude with two remarks which I consider optimistic: (1) the defense relationship between our two countries has never been better, and Japan should be appreciated for what it's been able to do on a continual basis to bolster up its self-defense forces over the past 18 years. They haven't had a free ride. They have been spending at a rate of approximately 7% per year—a 7% increase each year for the past 16 years—to bring their defenses up-to-snuff, and if you were to change that into real dollars, the figure would probably be 5.3 or 5.4% for each and every one of those 16 years.
Let me congratulate Drexel-Burnham for having this meeting in this country, in this area, and at this time. Because you're in the right place and the right region. The next century will be the century of the Pacific. Make no doubt about it; raise no question about it; because it will come to pass. All you have to do is to look at the trade figures. In 1975 our two-way trade with all of East Asia, including Japan, was 42 billion dollars. Last year, 1985, ten years later, it was just under 200 billion dollars and it is going to increase. All you've got to do is look at those facts and those figures. Note the demographic trends in our own country. Look at one state, for example, California, with the 58-billion-dollar two-way trade with all of East Asia. And then look at the Pacific Basin and you'll find an area in which more than half of the peoples of the world live, rich in natural resources, great potential markets, on the whole friendly peoples and governments. And it's in that Basin where it all is, what it's all about, and where our future lies. And the development of that Basin will depend upon the strength and the reliability and the durability of the Japanese-American relationship, which, I think, is the most important bilateral relationship in the world, bar none. Thank you very much.