Research Institute of Japan

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Thank you, Mr. Ozeki. Mr. Ohata, Mr. Harano, distinguished members, ladies and gentlemen:

It is a pleasure to be back before the Research Institute of Japan, and I welcome the opportunity to address the leaders -- in thought and action -- of Japan.

The speakers who have already appeared before you this year have addressed almost the entire range of opportunities and challenges facing Japan. At the suggestion of Mr. Ohata and Mr. Harano, I have chosen to focus my remarks on three subjects -- the recent U.S. congressional elections, the U.S.-Japan trade situation, and our shared responsibilities to the international community. That's quite a tall order, especially after lunch, but I am willing to give it a try.

Before moving on to these three subjects, let me tell you a few things about where I am coming from. When I left the U.S. Senate nearly ten years ago, I left politics.
When I became Ambassador to Japan in 1977, I became the President's personal representative to this great nation, the explainer and advocate of his policies, and the faithful reporter of the facts here as I saw them. I am not standing before you as a doomsday sayer, nor as a Pollyanna......Mr. Ozeki here has asked for a kibishii speech. Well, I'm not sure if it will be a particularly stern speech, but it will be straightforward and from the heart. One thing you can be certain of: I come here as a friend, and I try to state the facts, the possibilities, the roadblocks as I see them, to Japanese and Americans alike.

Now I understand that there are some concerns and fears about the results of the recent congressional elections. Fears that -- with the change in majority party control from Republican to Democratic in the Senate and a strong Democratic majority in the House -- the next session of Congress, scheduled to open January 6, will be protectionist.

I would like to suggest to my Japanese friends, who have shown great concern about the elections, to take them in stride. It has happened before, when a Democratic majority has been replaced by a Republican majority and vice versa. It will happen again and again and again. The Republic will survive. The policies enunciated before that change in majority will in large part be carried out. There will be, or should be, cooperation and accommodation between the legislative and executive branches of government.
Naturally it is difficult to predict what any Congress will do. On specific issues, members tend to vote as individuals or regional groups rather than as strict party blocs. Since we are not a parliamentary democracy, a change in majority party does not automatically signify a basic policy change. In fact, I would point out that in the American democratic system, within each party, there are the very conservative and the very liberal. But the big mass is in the middle, and when you get right down to that -- the group that will form policy -- the differences between the two parties is not that great. The center will hold.

I realize that what is of particular concern to Japan is the new Congress' approach to the trade deficit and how to best correct this imbalance. From my distant vantage point, I would note that trade was not a national issue in this election. No candidate won or lost solely on the basis of trade. Rather the elections were conducted with the local issues in mind -- the state of the economy in the oil patch, in the coal patch, the steel patch and on the farms. Insofar as I could discern, trade was not an issue -- except perhaps in the South, because of textile legislation -- but not to any visible extent throughout the rest of the nation.

Furthermore, in spite of the rhetoric, a minority party, once it becomes the majority, acts responsibly in the long-term national interest. It leaves behind its out-party criticisms and does its best to reconcile local or regional
interests with national and international ones.

There will be more responsibility on the part of the Democrats, now that they are "in" and not "out". Because while you're "out", you are much freer to criticize and to oppose. But when you are "in", you assume a degree of responsibility which you cannot, and should not, avoid.

As far as the President is concerned, it has been alleged that he will be a "lame duck" chief executive. I do not think so. Why? Because he still has the power of the "veto" on legislation presented to him. And that veto, with very sizable, Republican strength in both the House and Senate, is a most powerful weapon, because it will take a two-thirds vote in the Congress to override it.

That said, however, there is one problem that will not go away regardless of whether Democrats or Republicans are in the majority. And that problem is the trade deficit with Japan -- $50 billion in 1985, and a 1986 deficit that will approach $60 billion -- both intolerably high figures. True, last year's $50 billion was only part of the worldwide U.S. trade deficit of $150 billion. But that $50 billion was a big part of the whole -- one-third. Then the Congress looks at another figure, Japan's worldwide trade surplus, a surplus of close to $60 billion in 1985, $50 billion of which was with the United States.
Dan Rostenkowski, chairman of the prestigious House Ways and Means Committee, was recently in Tokyo with a delegation of 13 congressmen. Dan is not a protectionist at heart, but he made it clear that trade legislation will be the highest priority on Congress' agenda when it convenes in January. So have Bob Byrd, the Democratic Senate leader and Lloyd Bentsen, the incoming chairman of the Senate Finance Committee. What shape that legislation will take remains to be seen, but I would say it is more probable than just possible that some sort of protectionist legislation will pass either House and, maybe, both.

At the same time, whenever these important congressional delegations visit Japan, I always point out to them -- how can we defend the U.S. economy when American corporate executives are giving themselves hefty raises or bonuses? Or when a major steel company spends billions to acquire a petroleum company -- money that could have been spent in plant and equipment modernization? How can we justify American auto manufacturers raising their prices, tagging along after Japanese car dealers have had to raise import prices due to the strong yen? Are they so hungry for this quarter's profits that they have forgotten there is an American consumer market out there waiting to be won back?

As for Japan, there are also some tough questions. Fifty billion dollars bilaterally and almost sixty billion dollars globally. The United States accounts for 85 percent
of Japan's trade surplus. We are your biggest market. Aren't you concerned about keeping that market as open as possible? Why, ask the numerous congressmen and private businessmen both resident and travelling through Japan, why must we negotiate, argue, or plead for the same opportunities that are already granted to Japanese firms operating in the U.S.? Why does the United States continue to absorb more than 50 percent of the developing nations' manufactured exports, while Japan, the second largest economy in the world, continues to absorb a mere 8 percent?

I cannot answer these questions.

But what I can do is propose once again -- that as partners, as allies, as friends, and as leaders in the international trade system -- that we share the attendant responsibilities.

The unique era following World War II that left the United States as the only operational industrial economy in the world has ended. Other nations have become strong and affluent. Americans welcomed this development, looking forward to sharing, on a cooperative basis, the difficult task of ensuring worldwide peace and prosperity. We have applauded Japan's rise to the number two economic position, believing we were gaining a co-guarantor in maintaining a free and open trade system. I know Japan will not let us down.
So the real question becomes what can each of our countries do to get its own house in order, all the while contributing to the international trade system?

For America the $150 billion trade deficit means our industries are taking a beating just about everywhere. It means we must improve our competitiveness, increase production, pay serious attention to quality and follow-through service, and court the consumer as never before. It means controlling and reducing the federal budget deficit, digging out from under the mountain of national debt that has made us the largest debtor nation in the world. It means working for a more cooperative relationship among industry and government, management and labor -- each equally responsible for putting America back on the right track. It means resisting the forces of protectionism, and realizing that an expansion of trade, with its accompanying opportunities, is the real path toward prosperity.

For Japan, your burgeoning trade surplus is evidence to much of the world that this is a country -- one of the chief beneficiaries of the world trade system -- that continues to take and take from that system, without giving enough in return. What are we asking that Japan give us? Access. Access, ACCESS. That, in large part, is the answer to protectionist legislation. We do not seek Japan's guarantee
that we will sell our products—be they agricultural, industrial, or construction-related—but we do seek the opportunity to compete on a more or less equal basis with you. The Maekawa Report, with its recommendation for a reorientation of the Japanese economy away from export-led growth, is under serious consideration by the Japanese Government. We would welcome structural adjustment, an emphasis on domestic demand stimulation—through public works, housing, roads, etc.—that would encourage imports of products and materials, giving the average Japanese a higher living standard at a cheaper cost. And as far as imports go, increased imports from the developing countries burdened by debt, would also be helpful.

Since I last spoke to the Research Institute of Japan two years ago, there have been important strides forward in solving U.S.-Japan trade friction.

The United States, in cooperation with Japan and other G-5 nations, concluded the Plaza Agreement of September 1985, which resulted in a yen-dollar exchange rate that broadly reflects economic fundamentals. Just this past month, Secretary Baker and Finance Minister Miyazawa re-affirmed their commitment to this agreement.

Also in 1985, the United States and Japan started the market-oriented sector selective—MOSS—negotiations in the areas of telecommunications, electronics, forest
products, and pharmaceuticals and medical equipment. And we're beginning to see results. In the first half of 1986, U.S. exports to Japan in these four sectors were up 4 percent in dollar value: in forest products -- up 10 percent to $1.1 billion; telecommunications -- up 10 percent to $640 million; pharmaceuticals and medical equipment -- up 8 percent to $447 million. The one sector where exports declined was electronics -- down 0.2 percent, probably reflecting the worldwide computer slump. But even with the decline, the U.S. exported $1.5 billion -- that's $1.5 billion worth of electronics to Japan in the first half of 1986.

I am also pleased to note that services and agriculture will be on the agenda for the new trade round. With the help of many countries, including Japan, and with compromise on all sides, the Punta del Este meeting in September was a success.

We need more positive results like this. In my country we have a saying, "Much thunder, little rain." You probably have a similar saying in Japan. The time for excuses and promises is over for both countries. We must move into action. It's up to both of us.

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