

Triialogue

ENERGY, INDUSTRIAL RELATIONS AND TRILATERAL ECONOMIC PROBLEMS MAJOR ISSUES AT TRILATERAL MEETING IN WASHINGTON, D.C.

Commission Decides To Continue Until 1982



President Carter at the White House with the three Chairmen of the Trilateral Commission—Takeshi Watanabe, Georges Berthoin and David Rockefeller—after he addressed the members of the Commission gathered for their plenary meeting in Washington, D.C., last June. In his opening remarks and in his answers to questions from Commissioners, the President (himself a member of the Commission prior to his election) touched upon a broad range of international issues—including trilateral cooperation, East-West relations, China, and the security of East Asia. He also spoke of the usefulness of the Commission's work, and the further contribution it could make to the pressing global problems of our times.

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This issue of *Dialogue* looks back at some of the discussions and events which marked the ninth meeting of the Trilateral Commission, in Washington, D.C., on June 11 to 13, 1978. This plenary conference gathered in the U.S. capital some 200 Commissioners and distinguished guests from Europe, Japan and North America, for three days of discussions on a set of important international and domestic issues.

Highlighted by President Carter's reception and informal talk at the White House, the conference also included a dinner at the State Department with both Secretary of State Cyrus R. Vance and Deputy Secretary of State Warren Christopher. Furthermore, special sessions were addressed by Secretary of Defense Harold Brown; Klaus von Dohnanyi, Minister of State in the Foreign Office of the Federal Republic of Germany; and Kiichi Miyazawa, Director-General of Japan's Economic Planning Agency. Before they were appointed to their current government positions, Vance, Christopher, Brown and Miyazawa were all members of the Trilateral Commission.

In the course of their working sessions in Washington, D.C., the members of the Commission:

- reviewed outstanding trilateral economic and trade issues. This discussion was introduced by W. Michael Blumenthal, U.S. Secretary of the Treasury; Viscount Etienne Davignon, EC Commissioner for Industry and Internal Markets; and Nobuhiko Ushiba, Japan's Minister for External Economic Affairs. Large excerpts from their respective presentations are reprinted here.
- discussed the reports of two trilateral task forces. The first deals with the problems faced by the trilateral countries in their attempts at "Managing the Transition" in energy matters over the remainder of this century, while the second deals with "Continuity and Change in the Industrial Relations Systems of Western Europe, North America and Japan." In the following pages, a short summary of these two sessions outlines the presentations made by the authors of both reports and underscores some of the issues raised by the participants in their subsequent discussions.

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- conducted a series of seminars on current developments in the trilateral regions. The seminar on the United States focused on the domestic setting of American foreign policy-making, with presentations by Congressman John Anderson (Chairman of the House Republican Conference), Sol Chaikin (President of the International Ladies' Garment Workers Union), and Anthony Solomon (U.S. Under Secretary of the Treasury for Monetary Affairs); this session, followed as it was by a press conference with both Anderson and Chaikin, was reviewed at length in the American press. Other seminars—on Canada, Japan and Western Europe—were addressed respectively by Maurice Sauvé (President of the "Quebec-Canada" association), Kinhide Mushakoji (Vice Rector of the U.N. University), and Michel Crozier (Director of Paris' Centre de Sociologie des Organisations). In their closing session in Washington, the participants discussed the future of the Commission after its current triennium expires in mid-1979. On the recommendation of the three Chairmen, and in view of the pressing problems challenging cooperation among the three regions, the members of the Commission decided to continue its existence for three more years, until mid-1982.



Secretary Blumenthal addresses Trilateral Commission in Washington.

ENERGY: MANAGING THE TRANSITION



J. Sawhill, D. Rockefeller, K. Oshima, H. Maull.

The draft report presented in Washington, D.C. by the trilateral energy task force seeks to outline a coordinated strategy for the trilateral governments to secure an orderly transition to a new generation of energy technology as reserves of liquid hydrocarbons are increasingly unable to meet energy needs. The report was prepared by John C. Sawhill, President of New York University and formerly Administrator of the U.S. Federal Energy Administration; Hanns Maull, the European Secretary of the Trilateral Commission; and Keichi Oshima, Professor of Nuclear Engineering at the University of Tokyo.* In the course of their work, the authors received considerable advice from a number of experts in all three regions; in addition, they benefited from discussions with consultants from OPEC countries and non-oil-exporting developing countries, who participated in a two-day meeting with the task force in London, in the spring of 1978.

As indicated by the three authors at the outset of the Washington session on energy, the trilateral countries have made only limited and piecemeal progress in this area since the 1973-74 "oil shock." There remains a need in the first place to identify more clearly the nature of the energy problem and its implications for world economic and political order. Hence the "conceptual framework" devised in the report, which distinguishes between the *short term* (0-5 years) when the possibility of a sudden curtailment or disruption of world oil supplies is the most serious risk; the *medium term* (5-10 years) when in addition, the debt burdens

of some of the more vulnerable LDCs and the weaker industrialized countries could provoke a major financial crisis; and finally, the *longer term* when orderly transition is needed to avoid the serious economic dislocations which would result from a possible precipitous increase in oil prices, as world oil production levels off or begins to decline and falls significantly short of demand.

Emphasizing this latter threat as the most serious facing the trilateral countries, the authors underscored in their presentations what they viewed as the principal recommendations put forth in the report to manage this long-term transition. Bringing energy prices up to world market levels throughout the trilateral countries—the centerpiece of an adequate trilateral strategy—is, in their words, "the only way to encourage new production and moderate the growth of energy demand"; accordingly, they called, in the United States for instance, for the deregulation of the price of new natural gas, and for the elimination of price controls on crude oil, noting that, over a period of time, a large response to freeing these prices could be expected in terms of both production increases and reduction of demand.

In addition, the authors emphasized their report's call for a concerted trilateral effort to set precise goals for such production increases and reductions in demand, to be monitored by the International Energy Agency and vigorously acted upon by each government. They also insisted on the need for OECD and OPEC countries to cooperate in providing the financial and technological assistance needed by the LDCs to help them develop their energy resources and increase their indigenous production, and on the need for a broad agreement among the trilateral countries on nuclear energy policy.

*Franklin Tugwell, Associate Professor of Government at Pomona College in California served as a special consultant to the authors.

In presenting its findings to the members of the Commission, the task force also reflected upon the political challenges presented by such an energy transition, observing that "perfectly rational national policies" can often result in a "worsening of the global situation"—one of the "key dilemmas" of a concerted energy strategy, particularly from a European perspective. Finally, attention was drawn to the case of Japan, where a strong economy and the prevailing short-term optimism may constitute a temptation to increase oil imports—in the long run a very dangerous trend, which could affect negatively the entire world situation. Hence the task force's repeated appeal for concerted trilateral action.

This call for a concerted trilateral strategy was echoed by most participants, who applauded by and large the general thrust of the task force report. Several issues were given particular emphasis in the discussion:

- Several participants stressed the need for a rapid development of *nuclear energy* in the trilateral countries—a development which, in the words of a French Commissioner, is all the more urgent if we are to save oil for the developing countries, "which need it more than we do," and in our own countries where no substitutes for oil exist. In this respect, however, current *non-proliferation* policies were seen as potentially the most divisive issue among the trilateral countries. Reflecting a point of view shared by a number of Europeans, a German participant underscored "three major dangers" in relation to the report's call for new trilateral negotiations on non-proliferation: the fear of some LDCs that a few countries may seek to impose a "cartel approach," which could lead a number of countries to leave the existing system; the concern of some governments that there exists a conflict between "unilateralism in the new American legislation" and the international agreements of the 1960s, which were the result of protracted and difficult negotiations and entailed definite pledges on the part of the United States; and finally the fact that fundamental—and perfectly justifiable—disagreements continue to exist among the trilateral countries. Now that a certain degree of multilateralism and trust has been restored through the INFCE*, the opening of independent negotiations at a new level could be counterproductive and may destroy the "minimum of consensus which is required to improve jointly the non-proliferation regime." On the other hand, a number of participants emphasized that INFCE is a mechanism for technical information and exchange, and not a forum for negotiation; accordingly, they concurred with the task force that other parallel efforts, probably through informal channels, are needed to work for a consensus. Generally speaking, however, the discussion echoed the fear of a prominent former U.S. official that "too doctrinaire a non-proliferation policy" might result in proliferation "getting out of control" since it is unlikely, at best, that Europe and Japan will accept to develop very stringent non-proliferation policies.

*International Nuclear Fuel Cycle Evaluation Program

- Looking at the political context of the oil issue, some participants observed that a comprehensive settlement in the *Middle East*, although "necessary if OPEC is to join in a formal framework of cooperation," will not be sufficient in itself to solve the energy problem: The connection between the two issues was seen as "rather loose"; and also "essentially negative," as the Middle East conflict can always "spill over into the energy field." With regard to the evolution of the principal Arab countries in the area, an American Commissioner stressed the potential implications of rapid social and economic change in Kuwait, Saudi Arabia and the Emirates, which may "radically alter the energy picture" within the next ten years and deserve further study. The present "dovishness" of Iran on oil prices was seen by a European as a short-term policy, due mainly to a temporary oil glut; noting how Iran had taken the lead in the substantial 1976 increases of oil prices, this participant forecasted Iran's return to a hawkish position, and saw the fundamental conflict on price policy between Iran and Saudi Arabia as warranting further attention. On the whole, however, much emphasis was put, across the board, on the disastrous shock which future price increases would cause to a world economy which has not yet recovered from the negative effects of the 1973-74 quadrupling of oil prices. A European Commissioner stressed in particular the divisiveness of the first effects of a new oil shock, distinguishing six countries or groups of countries with very different physical and economic situations: the United States; the United Kingdom; export-oriented countries such as Japan and Germany; the richest non-oil LDCs, like Brazil; the poorest LDCs; and finally, France, Italy and other small OECD countries. These groups are likely to suffer from, and react to, the initial stages of an oil shock in very different ways.

* * *

In the course of the Washington discussion, a number of comments were directed at the energy policy of the United States. Several speakers noted that, by basing its call for action on the misleading assumption of an *early* energy shortage, the U.S. policy had lost so far some of its credibility—hence, in the words of an American Commissioner, "the usefulness of reframing the energy problem" in the perspective of a long-term transition. Many felt that this accounted for the "exceptional importance" of the report presented by the task force.

Other issues touched upon during the debate included 1) the international financial implications of the energy problem—and the report's recommendation that the role of the International Monetary Fund be strengthened and broadened, in particular through an increase of quotas and an enlargement of the "Witteveen Facility"; 2) the necessity of strengthening further the special relationship between the U.S. and Saudi Arabia, as advocated by the task force; and 3) trilateral policies towards China and the Soviet Union in the energy field. ■

HAROLD BROWN



The U.S. Secretary of Defense addressed the Commission at a special luncheon given in his honor on Tuesday, June 13.

Before answering specific questions from the assembled Commissioners, Secretary Brown focused his preliminary remarks on the present status of the military balance—between NATO and the Warsaw Pact on the one hand, and between the Soviet Union and Northeast Asian countries on the other.

Stressing the increased concern of the West over the military buildup of the Soviet Union—whose defense expenditures have expanded in real terms at an annual rate of 4 to 5 percent since the early 1960s—the Secretary noted that the Soviet Union “has overtaken the United States in defense efforts,” and spends today between 20 and 40 percent more than the U.S. One of the results of these efforts on the part of the Soviet Union has been an erosion of NATO’s technological edge: Although NATO retains superiority in aircraft quality, its edge on both tanks and artillery is disappearing.

In the face of the increased numbers in *tanks* deployed by the Warsaw Pact in Europe, the Secretary emphasized the importance of the U.S. nuclear stockpile in Europe to “dissuade” the potential action of these tank forces, and Western Europe’s current efforts to strengthen its anti-tank capabilities. On *middle-range nuclear systems*—the second crucial element in the European balance—Brown stressed the role of NATO’s existing forward-based systems in countering the modernized intermediate range bombers (Backfire) and missiles (SS 20) of the Soviet Union. As he pointed out, the rapid development of the cruise missile constitutes the new element in this equation: Its deployment (or its inclusion in a negotiation on medium-range systems) is under constant consideration.

Overall, the Secretary viewed the *conventional balance* as being less favorable to the West, but not enough so to tempt military adventures on the part of the Warsaw Pact, deterred as it is by the risk of seeing any conventional conflict lead to a tactical or strategic nuclear war.

However, the balance in Europe is the object of increased concern since the United States no longer enjoys the *strategic* superiority it enjoyed in the 1960s—a situation which, in Brown’s words, “cannot be reversed.” Looking at the future, the Secretary thought that the existing equality, both strategic and conventional, could be preserved, provided that

NATO countries match the anticipated Soviet military increases by meeting their commitments in terms of expenditures, and by increasing dramatically the efficiency and rationalization of their forces—an effort which raises substantial economic and political difficulties and therefore requires a “strong political will on the part of our countries.”

• Turning to the *military balance in Northeast Asia*, Secretary Brown characterized the situation there as being, on the whole, “not unfavorable,” particularly because of the People’s Republic of China’s prevailing stance vis-à-vis the Soviet Union. Apart from the current gradual withdrawal of the troops of the Second Division stationed in Korea, he emphasized that the U.S. did not intend to reduce its military presence in East Asia. In this respect, he stressed that the Japanese security relationship with the U.S. indeed constitutes the basis of the U.S. position in Asia, and that the close alliance of the U.S. with Japan is the main stabilizing factor in the area. Japan’s present intentions to modernize dramatically its own military capabilities, he noted, augurs well of the future of U.S.-Japan military cooperation.

Answering further questions from the floor on the U.S. gradual withdrawal of troops from *Korea*, Secretary Brown noted that, in view of the remarkable growth in both the economic and military capability of South Korea, “in the long run, the U.S. ground forces ought to be pulled out.” The major danger, as he saw it, would be a sudden pullout—hence the advantage of starting a gradual withdrawal at a time when “the Koreans themselves are able to assume an increasing share of the military load.” By spreading out this withdrawal over some five years, and by combining it with parallel compensatory measures—such as transfers of equipment and substantial military sales over the years—“Korea can and will assume this load and leave the situation much more stabilized.” Furthermore, Secretary Brown observed that the U.S. will be keeping its air presence; it is in fact increasing the number of its aircraft in the area. It also plans to keep the Seventh Fleet there, as well as certain army units designed to strengthen the Korean capabilities where needed—in particular in the areas of communications, intelligence, logistics, etc.

• Touching upon the issue of the security of NATO’s *Northern flank*, the Secretary described the situation there as being “not comfortable, but clearly defensible.” Defending

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LABOR-MANAGEMENT RELATIONS: MOVING TOWARDS MORE PARTICIPATION?



G. Lodge



B. Roberts



H. Okamoto

The draft report presented in Washington, D.C. by the Trilateral Task Force on Industrial Relations examines the extent of convergence and divergence among current trends in the relations between labor, management and government in the trilateral countries. Entitled "Continuity and Change in the Industrial Relations Systems in Western Europe, North America and Japan," this report was part of a joint study conducted by the Trilateral Commission and the Paris-based Atlantic Institute for International Affairs. It was written by Benjamin C. Roberts, Professor of Industrial Relations at the London School of Economics; George C. Lodge, Professor of Business Administration at Harvard Business School; and Hideaki Okamoto, Professor of Industrial Relations at Hosei University. While drafting their report, the three authors consulted extensively, through a series of regional meetings, with a number of leading trade-unionists, government officials, business executives and experts in all three regions.

As emphasized by the Washington presentations of the three authors, there is sufficient evidence of cross-border influence between the industrial relations systems of the trilateral countries to look at their evolution as a truly international issue; although each national system is initially the product of specific historical, social and political traditions, the widespread effects of technological, economic and social changes cut across boundaries and no country can isolate itself from them—as is amply demonstrated by the report's analysis. Despite profound differences which persist among the trilateral countries, the authors emphasized in Washington what they view as a definite parallel trend in evolution, with employee-management relationships moving from purely adversary methods of conflict resolution to more consensual systems. In their report, they document this trend with a number of specific examples in the three regions.

In the course of the Washington discussion, most participants did agree with the authors' description of recent Euro-

pean developments with respect to participation. Substantial differences appeared, however, on the nature of the evolution of labor-management relations in North America, as a number of Commissioners questioned the existence in the United States of such a participative trend.

- In *Europe*, it was noted, this trend is particularly visible in the rapid development of the role of work councils; in the substantial extension of collective bargaining in some countries; and in the right to appoint workers to company boards, as exemplified most notably by the German model.

Described as the most influential force of change in Europe in recent years, the German system is characterized by collective bargaining outside the enterprise—with the employers federations; by participation at the plant level through work councils which represent *all* employees; and above all, by "parity" representation for employee and union representatives on the supervisory boards of larger companies. The German experience has had considerable impact on most other European countries as well as on the Commission of the European Communities.

In some countries, this dramatic increase of the involvement of labor in management decision-making has been carried even further, as is well illustrated by the extreme cases of Sweden and Denmark: In the former, *all* management decisions are now open to negotiations; and both countries are considering a system of "economic democracy" whereby a substantial part of the equity in private industries would be held ultimately by institutions controlled and managed by the unions.

- In the *United States*, some found the signs of a similar, although far less significant, move towards a more participative pattern of industrial relations: The authors of the report referred in particular to a generalized extension of the scope of collective bargaining to cover, in both the U.S. and Canada, a wider range of issues, while a host of new committees are created to deal with new problems of con-

cern to the workers, such as the quality of their working life. They also pointed to a number of participative experiments in some U.S. firms (involving in particular the United Automobile Workers). However, several participants in the Washington discussion stressed the inherent resistance of the U.S. system to more participative trends. The labor movement continues to rely by and large on an adversary, contractual type of collective bargaining, and does not assume the broad political and economic role it has traditionally sought in some parts of Europe. Management also expresses considerable doubt about the fundamental compatibility of these participative practices with traditional collective bargaining procedures, which assume an arms-length relationship with the unions and emphasize the rights of property as expressed in clear-cut management prerogatives.

• Like the two other regions, *Japan*, it was noted, is faced with issues of a similar nature and has been developing for some time its own participative methods in the field of industrial relations—particularly with the institution of workshop consultation meetings within the enterprise, and the creation of a variety of industry-wide joint consultation systems. By comparison with recent European developments, the scope of this evolution remains modest in the Japanese case, a speaker from Japan observed. However, to the extent that the general trend identified by the task force is directed toward more consensual relationships—and a greater “communitarianism,” in the words of an American participant—it is in keeping with Japan’s traditional ideology of consensus

and is indeed increasingly reflected in its emerging patterns of industrial relations.

As was stressed by the authors and by a number of participants, the developments described in the report present a number of serious challenges and dangers—not the least of them being an increase of bureaucracy within the enterprise (e.g., the German experience); a growing emphasis on short-term horizons in decision-making, as the unions press from an enhanced position for their immediate, usually material, priorities; and the risk of a substantial slowdown in decision-making, combined with structural management problems, as some processes in the making of decisions do not lend themselves to participation.

Much of the Washington discussion centered on the very concept of *industrial democracy*, the pros and cons of which were debated at length on the basis of each participant’s national experience. Particular attention was given to the implications of workers’ representatives sitting on boards of directors—“an important factor in decisions on industrial adjustment and an element of national solidarity” in the eyes of some participants, while others pointed to the dangers of such representation on the boards for the enterprise’s risk-taking strategies and capital formation. Among the other issues raised in the debate were the role of national *income policies*; the contribution of work-sharing schemes to reduce *unemployment*; and the complex balance between “individualism” and “communitarianism” in our societies.



To left, Secretary Vance; below, Under Secretary Christopher with Georges Berthoin (right) and Mitchell Sharp (left), at State Department dinner.



KLAUS VON DOHNANYI



In his address to the Commission in Washington, D.C., Klaus von Dohnanyi, Staatsminister in the German Foreign Office, discussed "Interdependence, Democratic Control and Global Responsibility—the Limits and Possibilities of the Trilateral Countries." While noting that interdependence had increased dramatically even in the last years, Minister von Dohnanyi particularly emphasized the parallel increases in domestic, social and economic problems—an evolution which makes the management of interdependence all the more difficult. Whereas international political concert is required, domestic difficulties keep encouraging parochial outlooks and powers, with protectionism being only one expression of this problem.

To reconcile these trends, the Minister put forth two suggestions aimed at improving our management of interdependence. In his words: "My first suggestion would be that governments must withstand more strongly the temptation to blame others for their nation's problems. Our political task today is to find, within the framework of interdependence and wherever possible, national solutions for current domestic problems. Of course, all opportunities for international coordination must be exploited. But there is no substitute for well considered national political solutions and decisions. . . ."

Most nations, and not only those of the members of the Trilateral Commission, are still troubled by slackening growth, unemployment and inflation. But in each country the data are markedly different. This obvious difference results from structural dissimilarities and from different domestic economic policies, rather than from the economic policies of other nations. Thus it is primarily national decisions that must defeat slump, unemployment and inflation.

These national policies must naturally allow for the interests of other nations. But my point here is that we must not allow ourselves to get into a situation where we avoid painful domestic decisions by taking the easy escape route—that is, by making other nations responsible or moving onto more international levels of coordination.

The Federal Republic of Germany has at least tried to follow this course. In order to promote growth, we have followed a policy of deficit spending which, in 1978, will again reach 4½ percent of the GNP—a figure which compares favorably with about 1 percent in the United States, for example. Our public debt has risen sharply in recent years. We have followed this policy in spite of strong domestic criticism because we believed we had to expand domestic demand in order to deal with the problem of growth and unemployment in the Federal Republic.

It is true that we have achieved only limited results with regard to the rate of real growth. The average for the years 1976, 1977 and 1978 will probably be in the neighborhood of 3.5 percent. But, if we look at historic rates of growth and realize that we cannot and should not measure our current and future rates of growth on the standards of the post-war recovery period, this would seem not too bad an achievement. Certainly our present growth is not enough to defeat unemployment. Our unemployment rates have come down, but only very slowly. In May 1978 they reached 4 percent. But there have been many national programs developed to maintain employment and create new jobs.

We have also tackled the problem of inflation, and we have tried to tackle it on national grounds first. Of course, in the period between 1968 and 1973 we learned that we could not fight inflation successfully within a framework of fixed exchange rates. Thus in May 1973, when for the first time we had an opportunity to apply successfully domestic anti-inflationary measures without triggering speculation on the deutsche mark (DM), and thus generating growing liquidity (as a result of Federal Bank intervention), we managed to get inflation rates down to less than 3 percent by May 1978. We also tried to include in our national policies, on which we based our attempts to beat unemployment and inflation, the interests of other countries. In other words, we tried and try to consider the needs of interdependence.

First of all, we have accepted a very substantial appreciation of the DM. As against 1969, the DM has appreciated against the dollar by 90 percent; as against 1973, when flexible exchange rates were introduced, the value of the DM has risen by 57.9 percent. From January 1977 until now, the DM appreciation on the dollar has been about 17 percent.

This policy has permitted us to build our recovery not primarily on increases in exports but on increases in imports. Since 1973, our imports have risen by 61.9 percent; our exports by only 52.8 percent. This makes for an interesting comparison with other member countries of the Trilateral Commission. Japan, for example, has in the meantime increased its exports by 114 percent, whereas imports have grown by only 90 percent.

The faster growth of our imports has permitted us to decrease our current account surpluses from DM 25.4 billion in 1974 to DM 8.7 billion in 1977. For 1978 we expect about DM 5 billion. In addition, we have permitted a development of capital exports which has brought down our balance of payments to a net loss situation.

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TRILATERAL ECONOMIC ISSUES



At speakers' table: E. Davignon, N. Ushiba, M. Sharp (North American Deputy Chairman of the Trilateral Commission), W.M. Blumenthal, T. Watanabe (Japanese Chairman of the Trilateral Commission).

A special session of the Washington meeting was devoted to a review of outstanding economic and trade issues on the agenda of the trilateral countries, particularly trade problems, as they were preparing for the Bonn, July 1978 Summit meeting. The discussion in Washington was introduced by W. Michael Blumenthal, U.S. Secretary of the Treasury; Viscount Etienne Davignon, EC Commissioner for Industry and Internal Markets; and Nobuhiko Ushiba, Japan's Minister for External Economic Affairs. As was repeatedly pointed out in the debate, in no way could the Bonn Summit be expected to solve the whole range of complex issues of concern to the trilateral governments. Described at the time as "only a step" in their continued efforts to concert and coordinate further their economic policies, the Summit meeting has since yielded encouraging, albeit limited, progress. Although the trilateral discussions in Washington were held prior to the Summit, we have reproduced in this issue large excerpts from the main presentations, as they help shed light on the outcome of the Bonn meeting and place its achievements in the perspective of the broad economic and trade

problems which remain on top of our countries' agenda—particularly in the Multilateral Trade Negotiation in Geneva.

In their answers to subsequent comments and questions from the participants, the three speakers elaborated, for the most part, on specific points raised in their initial presentations. Particularly noteworthy among these points were:

- the trade implications of increased government intervention—and the Multifiber Agreement as a good example of the difficulties involved in "orderly marketing";
- the reiteration of the feasibility of Japan's 7 percent growth target, and the readiness of the Japanese government to take further steps if actual growth were falling below the target;
- the increased support for protectionism within the United Kingdom and Britain's concern with the trade surpluses of other trilateral countries; and
- the need for a *global* economic strategy, including a comprehensive package to stimulate growth and the build-up of infrastructure in the Third World. ■



W. Michael Blumenthal

U.S. Secretary of the Treasury

(Excerpts)

On Economic Growth

The United States economy grew last year at a very fast rate—5.8 percent in real terms. As a result, in spite of a very large increase in the labor force, we had a quite rapid decrease in the level of our unemployment (from over 8 percent down to about 6 percent). Obviously, unemployment is still a problem in the U.S.—a problem which is difficult to see as merely conjunctural, or as having to do with an inadequate level of overall economic activity. The cases of high unemployment which we have are essentially *pockets*; as in so many other countries, they are related to the problems of the young, the minorities, the new groups entering the labor force, women, second and third wage earners in families, etc. . . . Our policies are designed to deal with these particular groups of unemployed, rather than to stimulate the overall economy to a very high rate in the hope that such a high level of general economic activity would bring our rate of unemployment down.

On Inflation

At the present time, we have an underlying rate of inflation which is around 7 percent and that, clearly, is unsatisfactory. The policies of this Administration are, therefore, and will be for some time, emphasizing various measures to bring the rate of inflation under control. The President, in his April 11th speech, laid out a blueprint which he is now implementing in a variety of ways—a blueprint which singles out inflation as “public enemy number one” in this economy; and while not relenting in the effort to reduce unemployment with specialized programs, it emphasizes a variety of measures to bring inflation under control. These measures can be characterized as being directed toward a) a very tight fiscal policy—tighter than we have had in a long time; and b) a major effort to keep government spending under control and to reduce it—an effort to reduce the government budget, above all by squeezing down the level of federal spending. We thought, at first, that we would have, in fiscal year 1979, a budget deficit of about \$61 billion. Through a variety of actions,

this deficit has been reduced to an estimated level of about \$53 billion, and we are continuing to look for ways to bring down this deficit closer to \$40 billion. As we had originally indicated, by fiscal year 1981 there is a good hope that, unless conditions change fundamentally, we can bring the budget much closer to balance than it has been in a long time. . . .

The anti-inflationary program emphasized by the President implies in particular a thorough review of government measures which have an inflationary impact. Particularly in the area of government regulations, many of which are promulgated for very good reasons to ensure a safe and clean environment, to ensure safe working conditions, to ensure the production of public goods. These regulations respond to an important demand on the part of the public at large, but they cost money and they push prices up. We are seeking to measure better the cost trade-offs of some of these government measures, in terms of their benefit on the one hand and the impact that they have on the overall level of prices on the other.

On Energy

Another key element of our domestic policy is to continue to put the highest possible emphasis on the implementation of an energy program. Frankly, we are embarrassed as we talk to our colleagues in other parts of the world that a program which was announced and recommended by the President well over a year ago still has not been approved by the Congress. We recognize that this has become an issue in the minds of our European and Japanese friends. For this reason, and most importantly because of the needs of our own economic development and the stability of the dollar in the future, we feel that we *must* implement an energy program that leads progressively to a reduced dependence on imported oil and therefore to an easing of the pressures on our adverse current account balance.

Add to this the President's program to promote exports, and you have a sketch of the major issues we are focusing on in terms of our domestic programs.

Trade

Progress on the *trade* front is very much related to these domestic problems, as what will be feasible in the trade area depends to a large extent on the progress we can make on these issues. As we look at trade, we recognize naturally that the Bonn Summit meeting will take place at a critical moment in the multilateral trade negotiations in Geneva, in the Tokyo Round. In listing the kinds of agreements that we would consider to be the ingredients of a successful trade negotiation in Geneva, it is useful to recall the very substantial changes that have occurred on the trade front over the last ten years, since the very end of the Kennedy Round.

The world has changed greatly and the problems which have to be solved are quite different from what they used to be then. There has not only been a vast expansion of trade over the period—to the point where the 1977 total of world trade has reached \$1 trillion—but also, apart from oil, there has been a substantial shift to trade in manufactured products. In 1977, two-thirds of world trade was in such products, which clearly makes the trade problems which we must face in Geneva much more difficult. In addition, over the last ten years, the interdependence of the major trading nations has been greatly heightened; in most countries, a higher ratio of foreign trade to national output has come about, and the multinational firms and banking institutions have expanded considerably in scope and in number. At this time, there is an increased pressure for providing additional security to workers and consumers against change that arises from rapid movement in the trade field.

The net result has been that, over the years, protectionism has manifested itself in the intensification of a variety of trends and measures which existed in earlier times but not nearly to the extent to which we find them today: subsidies to state-owned enterprises; subsidies to private enterprises; performance requirements of various sorts requiring increased exports and reduced imports by various enterprises. All these constitute much more of a problem today than they used to. Some of these devices border on the predatory. Recent steps—for instance, in the financing of aircraft in a manner which contravenes OECD agreements—are an example of the kind of destructive practices that countries are tempted to follow when the full weight of the pressures that I have described is brought to bear on governments by various special interest groups.

Goals for the Tokyo Round

Our efforts in the trade negotiations are directed toward reaching measurable, concrete and specific agreements to impose some limits on restrictive kinds of practices, to build some dykes against the kind of

protectionism which is now growing around the world, and to provide a basis for further negotiations in the future. For, clearly, this negotiation—however successful—is unlikely to solve all or most of the problems that we confront in this area. For the United States, successful discussions in Bonn and, later, a successful negotiation in Geneva would involve:

- a substantial reduction in industrial tariffs, by an average of as much as 40 percent, with very limited exceptions.
- the inclusion of a significant degree of liberalization on agricultural products—an absolute requirement for the United States, given the nature of our economy.
- a new international code on the use of domestic and export subsidies—a code to put some order in what threatens to be a very destructive and disorderly system in the world.
- an agreement on the specific kind of safeguard clauses that nations may invoke when some of their industries or sectors are threatened.
- a tighter control over other kinds of non-tariff barriers such as quotas, licensing products standards and national purchasing policies.
- the beginning, at least, of a rationalization of the differential treatment in the trade field now accorded to the developing countries. We think that the time has come to take into account the considerable progress that some of these developing countries are beginning to make and to more fully integrate them into the trading system.
- finally, the development of a more comprehensive framework for the settlement of trade disputes—trade disputes of the kind that are likely to occur in the modern setting, as against the kind of setting that was familiar to us in the days of the Kennedy Round and before, when tariffs were, in effect, the major issue confronting us. . . .

If our political will is brought to bear on these problems, today might be the time again for the kind of quantum leap forward which we have seen in the past—with the establishment of GATT, the OECD code of liberalization, the dramatic reduction in tariffs and the phasing out of quantitative restrictions, and the dismantling of trade barriers in Europe in the 1950s and early '60s. Addressing the new problems of the 1980s and '90s is one of the key challenges in the trade field which all of us will face. The Bonn Summit is an opportunity for the heads of state to review the trade problems in relation to growth, in relation to the dollar and currency problems, and in relation to the question of aid; and to set the general framework to give the political push that is needed to work on each one of them today and on into the future. ■



Nobuhiko Ushiba

Japanese Minister of State
for External Economic Affairs

(Excerpts)

Last May's London Summit provided clear evidence of the heightened awareness of the increasing interdependence among all nations. There is an intertwining among all of our economic problems, and the ills of the industrialized nations also lay waste to the later-developing nations, whatever their stage of development.

Yet it is only the industrialized democracies which have the strength and leverage to pull the world out of this economic quicksand. If we are to meet these new trials, trials which call into question the very validity of our industrialized democratic system, our three societies must cooperate closely to deal effectively with the economic morass threatening us today.

Japan's Economic Policies

Japan's primary assignment at this point is that of reducing the current account surplus in our balance of payments. Rather than do this by curtailing exports we hope to do it through expanding imports. This in turn requires greater domestic demand, and our growth target for this fiscal year has thus been set at a stimulatingly high 7 percent rate in real growth. Gradually, the government's ambitious reflationary policies have begun to take hold, generating favorable trends in an increasing number of industrial sectors and convincing me that we will be able to achieve this 7 percent target.

Concurrently, the government of Japan has also been pursuing a variety of import-promotion measures, including advance implementation of tariff reductions, forward purchases of material stockpiles, and more. With the domestic reflationary policies and the international strength of the Japanese yen, it is expected that these import-promotion measures will contribute substantially to reducing our current account surplus. While these trends are not obvious yet, let me stick my neck out and predict a noticeable turnabout before the end of the year.

Japan is making every effort to fulfill its international responsibilities in a spirit of cooperation and solidarity. Within this same spirit, we feel *trade* is a key lubricant and nutrient for the international economy. Neverthe-

less, despite its crucial importance, free trade has recently come under attack from mounting protectionist pressures. For example, the idea of "organizing" international trade found voice at last year's London Summit, and there are those who urge limited protectionism in the guise of protecting free-trade principles. Yet you cannot protect free trade with protectionism. You do not set the wolf to guard the sheep. Protectionism in one sector or nation all too easily provokes retaliation, sparking a chain reaction detrimental to all nations. Once the virus of protectionism is loosed, it is most difficult to contain again. Just because we cannot stand still is no excuse for moving backwards. Dynamic trade growth is the only valid foundation for sustained economic vigor.

In this connection, I would point out that the success of the *Tokyo Round Multilateral Trade Negotiations* and early implementation of the agreements reached are of particular importance to further promoting free trade and ensuring continued free trade under just rules. The United States, Europe and Japan bear a special responsibility for the success of this endeavor, and I am sure that the other principals to these negotiations share my determination to have them succeed.

The Currency Situation

Currency exchange predictability is a prerequisite to trade expansion, and I am therefore encouraged by the stability which has seemed to prevail in recent months. While Japan intends to contribute to enhanced currency stability through balancing its international payments account, central responsibility here would seem to lie with the United States as issuer of the key international currency. I strongly hope that the United States government will continue its efforts to halt the dollar's decline, for a sound dollar is essential to the world's economic health.

Energy

Energy is also a prerequisite. As things stand, uncertainty and even anxiety over the long-term energy out-

look is having a chilling effect upon economic recovery. We must therefore cooperate to alleviate such anxieties and to reassure the cautious through vigilant energy conservation and accelerated development of alternative energies. . . .

* * *

These questions we must resolve not only for ourselves but for all other nations as well, whatever their stage of development. At the risk of slighting the almost infinite gradations among nations, these other nations may be broadly divided into the newly industrializing countries, and what have been elsewhere called the aid-dependent nations.

Let me turn first to the newly industrializing countries—to congratulate them on their success to date and to wish them continued prosperity. As these nations mature industrially, their example and vitality will contribute even more to the overall development of the world economy. It would be both futile and self-defeating to try to restrain their growth. As they mature, they will become increasingly sophisticated partners in trade, supplying more of the world's manufactured goods and opening their domestic economies to inter-



national commerce. We should both welcome this trend and move to accommodate it through reorganization of our own industrial structures.

Yet not all of the developing nations have seen their efforts so rewarded. Believing that balanced world development is in everyone's best interests, Japan vowed last May to at least double its Official Development Assistance within five years. Since then, Prime Minister Fukuda has taken the initiative, in Washington last May, to promise that we will try to achieve this doubling of ODA in only three years. At the same time, Japan is also moving ambitiously to implement a general untying of its aid as requested by the recipient nations. . . .

All of these issues are intertwined, and their solutions will require a constructive, concerted effort from all of us at the Bonn Summit and beyond. Even after the Summit, we must continue our mutual understanding and cooperation through continued dialogue at all levels, governmental and nongovernmental. Our common goal is far too important to allow our discussions to degenerate into finger-pointing exercises. Patiently, resolutely, and sympathetically, we must all work together to promote the sound development of the world economy. ■

Viscount Etienne Davignon

*Commissioner for Industry and Internal Markets,
Commission of the European Communities*

(Excerpts)

On Protectionism

Everybody is against protectionism, which does not stop a number of protectionist actions from being carried out and a number of claims from being made that 'the others' are more protectionist than you are yourself. Today, however, the prevailing feeling in Europe is that we must get rid of purely defensive strategies. First and foremost, the European Community cannot afford the risk of a protectionist policy—not only for the obvious reason that we depend on exports more than anybody else, but above all because increased protectionism means the end of any possibility of bringing Europe together, since we cannot have protectionism at the outer border without having protectionism within the Community. A weaker Community country cannot protect itself against American or Japanese exports

without deciding, at a second stage, to protect itself against German, French or whatever other country's exports; one should not forget that. In trying to build Europe, our whole effort aims at creating a large market which will permit us to go through our necessary industrial adaptation—an effort which is not compatible with any form of closing the market or any measure directed against market forces.

On Current Trade Problems

The negotiations of the Tokyo Round bear little resemblance to the important results which were reached at the time of the Kennedy Round; the circumstances are wholly different, and if tariffs are still important, they are no longer the main element of trade liberalization. Whatever percentage of reduction we achieve, it will

not be an essential element to free trade as long as we continue to have the fluctuations of parities which we now have. . . . Indeed, the new elements in the current negotiations which were mentioned by Secretary Blumenthal are those which, at this moment, are of major importance if what remains of free trade is to be reinforced. In this respect, we in the European Community would agree with the list of items given by Secretary Blumenthal as being central in our negotiations. . . .

Consequently, it is essential that we all make the effort to adapt the rules which we seek to establish to the changed nature of these new objectives. Rather than seeking the type of rules which will satisfy narrow interests, we have to promote the kind of political consensus which is required by the new issues on our agenda.

On Industrial Adaptation

The problem of industrial adaptation is extraordinarily complicated because it deals directly with people and with our concept of democracy. We can no longer afford to have an industry disappear overnight just because it has not adjusted fast enough or because it has made wrong decisions—especially if this industry represents a large number of jobs. At the same time, however, we do have to create the necessary conditions for industrial adaptation, because it is not good enough to grant artificial protection to an industry which is no longer competitive. We must do so in a reasonably short period of time, and consequently, the prevailing economic vitality must be such as to allow for the creation of new jobs that are required to make the industrial adjustment socially tolerable.

The creation of these conditions for adjustment heightens considerably the temptation of protectionism. And it also makes specific sectorial agreements more tempting, which is also a potentially dangerous road to take. . . . All our past experiences with such sectorial agreements repeatedly show that a global sense of responsibility is required and that, most importantly, industrial-adjustment measures should no longer be seen as *exceptions*, but should rather be *brought within the rules*. Exceptions are dangerous because they tend to perpetuate themselves. If, on the contrary, we clearly devise our policies with the objective of returning increasingly to the law of the market, both within and among industrialized countries, then we can limit these exceptions and avoid, above all, bringing them into an excessively rigid and codified system. What we are presently doing for steel—i.e., recognizing the enormous magnitude of the restructuring effort required in the U.S., Japan and the European Community, and in trying to return to the real competition of the market—is the proper way of addressing these problems. . . .

Without sustained economic growth, the constraints under which we must make this necessary industrial adaptation will be insurmountable. Such growth is particularly vital if we are to be able to relocate people from one sector to another—especially when these people are young and just out of the universities. This is probably one of the major problems which has to be faced head-on. What we are doing in Europe with respect to industries which are in difficulty has one overwhelming objective: to return to the law of the market. This is also the objective of all our negotiations on, or dealing with, industries and trade unions. Our strategy for promoting the development of new industries is primarily based on the responsibility of the industrialists. What governments and the Community have to do is to give them the best possible market and create a fiscal environment which can encourage active investments as much as possible.

On Currency Problems

It is clear that the member states of the European Community recognized during their last meeting in Copenhagen that, unless they met a certain economic challenge and confronted the implications it had in terms of currencies, they would not live up to the goal which they fixed for themselves. At last, the quasi-theological dispute—between 1) those who say that as long as there is no unified economic policy in Europe, one cannot talk about currencies, and 2) those who say that as long as we do not have a single currency in Europe, there cannot be concerted action on the economy—was finally discarded as a sterile debate. We finally came to realize that Europe will be unable to promote the industrial development that will be required if the instability of our currencies remains as great as it is now. Once again, growth is a primary requirement, and we cannot have growth with inflation and with the prevailing situation in which some of our currencies depreciate too much while others reappreciate excessively. . . .

With this new determination on the part of the European countries to address at last this fundamental problem in a realistic fashion, the points which now have to be solved, and which are the objectives of our current discussions, are: How do we go about fixing the target zones for the fluctuations of the exchange rates of our currencies; how do we introduce a clear relationship between our currencies; and how do we concert our actions more closely in order to have, in each of our countries, a rate of growth which—by the multiplying effect of nine countries acting together—can be higher than it would in the case of isolated action on the part of each state, and can approach the 4 percent target which will give us the flexibility required for the adaptation of our industries. ■

(Continued from p. 5)

the Northern flank requires that we be "prepared to operate there both sea-based and land-based air." Above all, Brown saw NATO's capability for rapid reinforcement in this area (which involves the U.S., Canada and the U.K., in particular) as the key element to deter any Soviet military action. In addition, to face the very substantial forces massed in the North by the Soviet Union, particularly near Murmansk, the U.S. Fleet has to be able to operate in the Norwegian Sea if needed—something which, in his words, is "difficult" because it is within the reach of large numbers of Soviet land-based air, but is "not unfeasible and is indeed included in our plans."

• Referring to the conflict between *Cambodia and Vietnam*, Secretary Brown noted that the strength and economic growth of non-Communist Asia—in the North but also in the South, in countries such as Singapore, Thailand, Indonesia and the Philippines—help significantly to stabilize the military situation. In the short run, the Cambodia-Vietnam

conflict "does take the pressure off ASEAN," while in the long run, in Secretary Brown's words, the "Vietnamese attempts at minor league hegemonism is likely to preoccupy the Communist powers in Southeast Asia for some time to come."

• Turning finally to the U.S. strategic assumptions with respect to *Yugoslavia*, Secretary Brown emphasized the U.S. support of Yugoslavia's independence and nonalignment, which he characterized as being "genuine" in American eyes. In his words, Yugoslavia's territorial integrity and unity are seen by the U.S. as extremely important. Although the U.S. does not propose to become Yugoslavia's main arms supplier nor its main political connection, it is in the U.S. interest "to give political support to Yugoslavia on these principles and to improve mutual military relations." A Soviet move—through subversion, political intimidation or military action—against Yugoslavia's integrity and neutrality "would be regarded as a very serious matter indeed," he concluded.

(Continued from p. 8)

This is not to say that the German policy has been perfect in all instances. For example, I do believe that in 1976-77, we were probably giving too much emphasis to the consolidation of public deficits. But we have corrected this in 1977-78. The point I have tried to make is that, important as international economic coordination is—and it is very important—it is no substitute for the right national decisions to be taken within the framework of existing interdependence. National democratic control still leaves most power in the hands of national parliaments and national executives. There is a danger of our putting too much emphasis on what others should do and too little on what we can do ourselves. There is also a danger of our shifting responsibilities to coordinating levels where they cannot be shouldered because the decisions cannot be made on these levels.

* * *

My second suggestion would be the following: In our policymaking it becomes more and more important that we not only realize our own interdependence, but also that we understand the exact impact of our decisions on other nations. And we must not reserve this knowledge to the executive, but must share it and spread it throughout the entire body politic, in particular the legislature. We have avoided so far a beggar-my-neighbour policy, but parochialism manifests itself nevertheless—in terms of protectionism by export-subsidizing policies, in terms of disregard for fair competitive standards, and so forth.

I must emphasize, however, that we have had comparatively little of this experience within the European Community. And this is remarkable because even within the

Community there are still national responsibilities, national parliaments and therefore parochial temptations. In spite of apparent differences in national interests—for example in the steel industry, if I compare the Bresciani problems with the interests of the steel companies of the European North—we have managed to arrive at mutual decisions.

We have not lost the decision-making potential in the European Community. In fact, we have probably increased recently our ability to arrive at decisions in the troubled sectors. Why has this been the case? Of course, there is the Treaty of Rome; there are close rules and institutions such as the Commission. Perhaps the most important element of this positive development would seem to be that our exchange of views has become very frequent, very natural, very different from other political contacts between sovereign nations. For practical purposes, European Foreign Ministers meet at least twice a month and mostly for a full day. In June 1978, for example, we have and will have the following meetings: 12 hours on June 6, in the EC; 6 hours on June 12, in the EPC (European Political Cooperation); about 16 hours I would guess on June 26 and 27, again in the EC; and then we are going to meet again in the European Council, that is, on the level of presidents, prime ministers, chancellors and foreign ministers on July 6 and 7 in Bremen. Other ministers—of economy, finance, agriculture—meet at least as frequently; and some, in particular agriculture, meet their European colleagues more frequently than their national cabinet colleagues. We have secretariats for the EC meetings, of course, since we have an institutional system. And we will also have a secretariat, I believe, for the European Political Cooperation, which is not directly a part of the Treaty of Rome. ■

Options for the World Economy and Japan

Kiichi Miyazawa

Japanese Minister of Economic Planning

Today—A Time of Change, Not Crisis

We have produced a great many “innovations” in our era, one being the means to convey more information faster than ever before. But whatever the medium, the headlines each day are bound to inform you of a “crisis,” “downfall,” or other catastrophes. By now, we are accustomed to such announcements as, “No Way Out of the Recession,” or “Soaring Prices Cut into Living Standards,” and we are chronically warned of problems that loom in the future—“Natural Resources Drying Up,” “North-South Gap Grows No Smaller.” Going by the newsmedia, one can list any number of “crises,” all happening at any given moment. Some of these developments are indeed serious, and merit real concern, but I do not think the words “crisis,” “ultimate,” and so on, are at all appropriate to describe what they represent.

We have pulled ourselves through a great many tight situations in the past and have survived this far. The Japanese economy is a good case in point; after the successful struggle that began in 1868 with the Meiji Restoration to modernize the economy, it was decimated in World War II. But we pulled it right back up again within two decades. Our economy kept going and bounced back after being hit by what is called the oil crisis of 1973. We have weathered enough bad situations to prove that we can survive, and that our economy is sometimes the stronger for it. If there is a crisis, I think it lies in our attitudes; if we approach our various troubles with a sense of powerlessness and defeatism—then we have really got a crisis on our hands.

Our era is popularly called the “Age of Uncertainty”—but has not human history in its entirety proceeded from one “age of uncertainty” to another? In fact, of all eras, ours seems to be the best informed, with the best means of conveying information. The desire to try to cooperate is stronger now than it has ever been in the past, and we have at our disposal rich technological and theoretical knowledge for problem-solving that gives our age less uncertainty than ever before.

I cannot agree that current problems should be called crises, nor that our time should be called the “Age of Uncertainty” any more than any other age. These widely used terms seem to reflect not accurate, objective assessments as much as they do the lack of guides to steer us through the events of our era—which is really an “Era of Great Change.” Using that label, the first important dimension of the Great Change is that for the first time, it has become impossible for any country to isolate itself, and impossible for any state to govern its own society and economy purely on the basis of its own interests and principles. The internationalization of each national economy has accelerated international specialization, and an enormous rise in trade. The annual volume of trade is today on the level of \$1 trillion (based on total export figures for 1977), about ten times what it was twenty years ago (in 1957 total trade was about \$100 billion).

Closer to home, it is startling to think about some changes right before our eyes. Japanese still tend to think fondly that at least the humble bean curd soup at their breakfast table is made 100 percent from home-grown products, but the fact is that today, the raw materials used for both the soup and the bean curd are almost all imported. Economic interdependence has also strongly affected our world on a much larger scale. On the level of foreign reserves, for example, Japan’s large surplus cannot but influence employment in the countries with which we trade, and in the same way, inflation in countries that export to Japan has a direct impact on fluctuations in prices in Japan and on the value of the yen. Greater interdependence is not only necessary but welcome in the development of the international economy. However, there is no country which does not seek maximum benefit for itself out of the benefits of interdependence. In short, “international cooperation” is easier said than done.

The second element I want to mention in this Great Change is that international rules set up after the war to govern the world economy no longer function adequately. The rules codified in GATT and the IMF system were created in reaction to the prewar system of economic domi-

nation by a few advanced countries, and that system failed to prevent the outbreak of two world wars. For a full thirty years after World War II, GATT and IMF provided a strong frame within which nondiscriminatory, free trade could expand, and stability of international currency became an established fact. Japan's rapid economic growth would never have been possible without the rules that GATT and the IMF system provided.

But no system remains very long without change. One reason that we seem to be experiencing more serious and more numerous disorders today is that this is a period of transition, and as we move deeper into a new era, the old rules become less and less relevant.

One of the most influential factors in the dysfunction of the rules today is the relative decline in the position of the United States in the world economy. Of course, the U.S.A. remains the world's strongest economy in both industrial and technological power, and it still has the most potential for the future. The U.S. dollar, furthermore, will remain the world's key currency, no matter what the U.S. government plans or wishes. But America has, nonetheless, lost the absolute economic dominance it achieved after the second world war. Think in terms of income—in 1955, per capita income in Japan compared with that of the United States was 1 to 8.9, but by 1976 that ratio had fallen to 1 to 1.7. That is only one way to illustrate it, but the relative place of the U.S. economy has undergone a significant shift, and this should mean modification in American attitudes towards the world, and vice versa.

The rules have also proved inadequate to handle another change—and that is the rising political voice of the Third World countries, the countries of the South. As the newly independent countries stabilized their political base after the war, and particularly in the 1970s, when their productivity began to rise more markedly, representatives of these countries began to participate more frequently and more assertively in international forums. It is inevitable that they will play an increasingly influential role.

The discrepancy between the economic levels of the nations of the North and South remains a yawning gap, however. Whereas average per capita GNP in the OECD countries was about \$5,800 in 1976, that in the countries of the South—except the Middle East—was only \$400. Furthermore, given present and projected population growth levels of the South and other factors, there is little prospect that the gap will close very much until 1985. Either way, it is not wise to think of the South as a cohesive group now, or in the future, for the disparities between the countries are so large. The OPEC countries have since 1973 pulled out altogether from the category of "poor countries," leaving other developing nations far behind in economic power. And in comparison with the newly industrialized countries, such as Brazil, Mexico and South Korea, whose economic growth has been solid and steady, the income levels of those we call MSAC (*most seriously affected countries*) and LLDC (*least developed among less developed countries*) are tragically low, most notably among African and Asian nations.

The rules of GATT and the IMF as they stand today, in any case, are hardly adequate to do more than scratch the surface of the diverse and pressing problems associated with the North-South gap.

A third glaring dimension of the Great Change on which no textbook exists, are economic and social changes going on before our eyes—changes taking place most rapidly in the advanced industrial nations to which you and I belong. They are propelled and qualified by a change in human values. There is no change in the universal aspiration for higher standards of living, and to achieve that, higher incomes; but what is very new are the priorities taken in determining standards. Demand has shifted strongly toward higher quality goods, toward services over goods, toward public amenities and services over private. Aside from the changes in the industrial structure that such new priorities clearly necessitate, they affect the whole organization and institutions of the domestic economy. Material affluence also brings about new attitudes toward work, as the main object of work shifts from the higher level of income to more leisure time.

Naturally, the quality and direction of shifts in values in the advanced nations differ from country to country and from person to person. This poses a tremendous challenge to policy-makers, who must achieve a broad popular consensus from both the individuals and groups that make up the society, on any policy they wish to implement.

The advanced industrial countries confront change on still another front—the failing efficacy of the price mechanism. The elephantiasis of the big corporate organizations and labor unions alike, for example, puts inexorable pressure on wages and prices, which then results in stagflation. The effects of malfunctioning price mechanisms vary from country to country, but Japan's has continued to work comparatively well, which I think goes far in explaining its successful economic activities, especially in recent years.

The kind of changes I have mentioned are generally shared by all the industrial nations. There are differences among them, however, in levels of productivity, growth, international payments, rate of inflation, and so on. These differences alone hold the seeds of new kinds of tension as the separate countries, increasingly anxious about their own domestic interests, become more defiantly protectionist.

Creating New Rules

Our world is, then, feeling the strains as greater interdependence creates new power relations, as the North-South problem begins to manifest its many ramifications, and as the values of the advanced countries continue to move in new directions. I think we should consider ourselves today as engaged in a search for new rules and new responses, seeking by trial and error new ways to handle these problems. And there is no stronger imperative in our search than

dialogue and efforts toward mutual understanding. Dialogue between East and West has been going on over a long period of sometimes fractious communication, but it has finally produced a loose set of understood rules. Communication between North and South is still the focal point of the clash between the conventionalism of the North and the hypersensitive pride and self-respect of the South. Even more complex, however, are relations among ourselves—those among industrialized nations that share similar ideologies. At a time when there are no major wars and relative economic positions are changing rapidly, friction among the industrial powers inevitably tends to intensify, sometimes escalating into ominous antagonism.

The postwar economic order structured around GATT and the IMF system made stable, steady growth possible, and now we must remodel that order to fit the requirements of a new era. The exact form of the new rules remains to be worked out among all sectors in international society, but one thing is certain—they are bound to be more flexible and loosely knit than the system we have had in the past.

Five years have passed since the system of fixed exchange rates was replaced by the floating rate system, and too much has happened since then to allow any possibility of reinstating the fixed system. At the same time, the system of floating rates is also not working the way the textbooks say it should. Economic cooperation between industrialized nations is still flabby, and the United States is indifferent, or oblivious, to the effects the fluctuating dollar has on other economies. There are various options, but at the very least we need some sort of “flexible” framework or set of viable standards to be able to effectively guide the potentially chaotic floating rate system.

I still believe that the healthiest development of world trade depends in the long run on free trade based on comparative advantage. But, as we have seen all too often, the principle of free trade can degenerate into the practical logic of the strong, creating domestic and international friction and hostility. When the industrial structure is changing in all the advanced nations, and protective measures of one sort or another threaten the international economy, some adjustment measures are probably necessary, both internationally and domestically. All countries are experiencing unemployment; if industry is to be restructured too rapidly, the employment situation may be aggravated beyond toleration.

Unconditionally free and nondiscriminatory trade is probably no longer the trump card in today’s world. Still, if we are to place some restrictions on trade, it should not free any person or nation to neglect efforts to increase productivity. The phrase “managed trade” or “liberalisme organisé” can mislead us, and we should be careful how we use it.

Most important is to retain the full advantages of free trade without letting it become the tool of the strong, which I believe is best achieved by open discussion and honest dialogue. Effective dialogue requires two things: First, if talks are bilateral, third-party interests must be taken into account, either by direct representation or by providing other

channels for receiving third-party opinion. We should perhaps consider either creating a system of “referees,” or we could pursue fruitful dialogue by drawing on the resources of existing international organizations.

Another way to make international discussions regarding restrictions on free trade more fruitful is to give much more weight to consumer interests. So far, we have concentrated too heavily on producer interests. Pressure for protectionism typically arises from producers, rarely from consumers. Most complaints about the drawbacks of free trade that come from the United States, Japan, or Europe are made from the standpoint of the producer. If from the beginning we had given more thought to the consumer when it came time to settle trade problems, whether of agricultural imports or industrial exports, I think the road would have been a lot smoother than it is.

A Role for Japan—Lessons of Postwar Development

A changing world is nothing new to Japan, and much has been written about its high growth rates and the adaptability of its economy. Several factors account for this success: from early on, a high propensity for saving, a hard-working, efficient and dedicated labor force, universal education, vigorous entrepreneurship, and since the war, peaceful, cooperative relations with other nations and strong ties with the United States.

Without freedom, however, these qualities would not have served us so well. Since 1945, at least, the Japanese people have had the advantages of a free society and have used them well, even though they may not have always understood deeply what freedom means. Freedom is a very broad concept and is easily subject to abuse, but there are two aspects that I think have been vital to the working of a productive, fair economy in Japan. First is freedom of speech; the free transmission of information and free expression of opinion have been essential to our progress.

The other kind of freedom I want to stress is economic freedom. The growth of the Japanese economy itself would not have been possible without free competition between corporations, free market pricing and independent decision-making on wages between labor and management. The Japanese economy has never embodied all kinds of freedom in the ideal sense; we have made our share of compromises. On balance, however, the Japanese economy remains free. Action or intervention by a modern government may be necessary and even advisable when the market mechanism is inadequate to change a situation, when the price mechanism does not work, or when reliance on the price mechanism would result in social inequities. But basically I stand by my conviction that the free working of the market is the most important factor in progressive industrial and commercial activity.

Finally, in thinking about Japan's role in the world, I would like to comment on the immediate prospects for the Japanese economy, and the government's position on economic policy. As you all know, the Japanese government has set a 7 percent growth target for fiscal 1978. When the average growth rate for all industrial countries during 1977 did not reach even 4 percent, Japan's 7 percent may seem high, but there are solid reasons behind the decision. This figure represents the top priority being given by the government to the unemployment problem. Second, a high rate of growth will alleviate pressures in the export drive and stimulate demand for imports, thereby reducing the surplus in the balance of payments. Disequilibrium in international accounts is a major cause of current instability in the world economy, and for this reason, we hope that Japan's 7 percent growth target will be understood by other nations as an act of international cooperation.

Private research organizations and economists initially believed that a 7 percent growth rate was impossible. Even today, most of the private agencies forecast a growth rate somewhat lower than 7 percent, but several positive changes

in recent economic indicators have convinced me even further that we will achieve our goal.

If through cooperative efforts, particularly on the part of the United States, we can stabilize the dollar as well as stimulate growth in world trade, Japanese economic recovery will be that much faster. A stronger Japanese economy, in turn, will serve to redress the lopsided balance of international payments in other nations and assist in their economic recovery.

Interdependence among nations is inevitable. Nations can no longer prosper at the expense of others, and those which do not live up to their responsibilities cannot hope for economic stability or development. There is no hope for any of us without concerted action.

It is with a spirit of responsibility and eagerness to act together that the Japanese government made the firm, but carefully thought-out decision to aim at a 7 percent rate of growth. We do not set ourselves apart by setting a target higher than others. Rather, we are acting from the belief that in this way we can best contribute to the overall welfare of the world economy. ■



Pages 1 and 19 White House photographs; other photographs by Pat Hurley.

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