

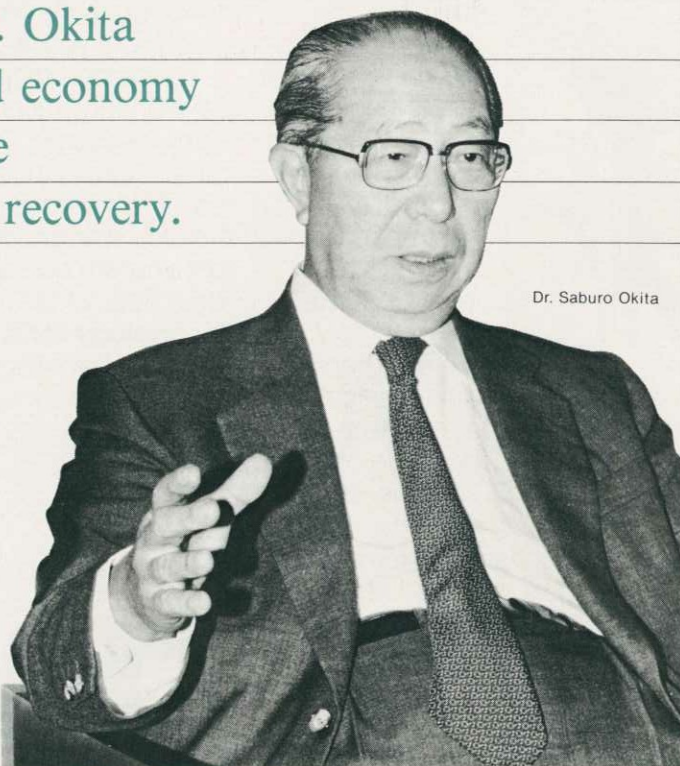
Economics in A Global Perspective

As an economist in the Economic Planning Agency, Dr. Saburo Okita was one of the architects of the famous income-doubling policy of the 1960s. After a stint in the private sector, which included very active participation as an authority on North-South problems for the Commission on International Development in writing the 1969 "Pearson Report" *Partners in Development*, he returned to government as Minister for Foreign Affairs and later Minister for External Economic Affairs. Today President of the International University of Japan and Chairman of the Institute for Domestic and International Policy Studies, he remains one of Japan's best-known and most eloquent international spokesmen. In the interview which follows, Dr. Okita discusses the outlook for the world economy and what must be done to improve the probability of sustained global recovery.

Interview with Dr. Saburo Okita
by Masami Hirata

Question: *Almost everyone agrees that the world economy is finally recovering, but there are still some doubts about whether or not the growth can be sustained.*

OKITA: Different people tend to view this complex issue differently. Looking first at the U.S. economy, economists close to the Reagan Administration are optimistic. Prices are stable, unemployment is down, and the outlook is for continuing growth of about 6% per annum. Although industrial capital investment is still sluggish, they believe the growth in housing, auto sales, and other consumption will stimulate expansion in plant investment and a fairly sustained recovery.



Dr. Saburo Okita

The private sector is more skeptical. Many European economists and bank-associated economists are worried about the continuing high interest rates. They also see other historical differences. The last time around, for example, the strong deficit-financed imports of the Latin American countries in the second half of the 1970s translated into export expansion by the United States and the other industrialized economies. This time, those same Latin American countries are being forced to take very drastic import-curtailement measures, and their industrial imports have been down since last year. (EC Commission Vice President Wilhelm) Haferkamp told me the last time he was here that EC exports to Latin America are down one-third. U.S. exports to Latin America are also down more than 30%, and Japanese exports are down 12–13%. The oil-exporting countries have also lost purchasing power.

Given these contrary factors, there is considerable doubt about how much staying power the recovery has.

Q: *What about the exchange situation?*

OKITA: The dollar's strength on exchange markets is another problem. If the dollar continues strong and the U.S. economy continues its recovery, imports will be up very strongly and it will be impossible for the United States to export that much, so there will be massive deficits in the U.S. trade and current accounts.

Yet there is a very real possibility that the dollar will collapse first. If that happens, it may help the U.S. international balance of payments, but it will also mean higher domestic prices in the United States. This in turn will mean renewed inflation and perhaps a return to double-digit unemployment as the Fed (Federal Reserve Board) tightens up the money supply again. Even though the U.S. economy will probably be strong this year and next, it will face a time of testing the year after next.

Q: *Do you see any political considerations in view of the fact that next year is an election year?*

OKITA: Although politics is one factor, it is not dominant. Every effort will be made to help the economy along, but I think the recovery has the strength to continue through next year. It's the year after next that I am worried about.

Q: *Since Reagan's election, there has been a supply-side emphasis and what are termed Reaganomics. What is your own view of Reaganomics?*

OKITA: I think it has much to recommend it, but it has not succeeded in generating more savings. There was a brief upturn, but the savings propensity is back at 4–5%. Some of this is seasonal, but a lot of the recent consumption has been supported by people withdrawing savings. And if savings do not go up, there is not enough capital for plant and other investment. In effect, the U.S. government is having to borrow from abroad to finance its continuing fiscal deficits. The United States needs a strong capital inflow to offset the domestic savings insufficiency, but it is attracting this with high interest rates, and these same high interest rates are inhibiting capital investment. At the same time, the dollar's strength on currency exchange markets is hurting America's export competitiveness. Reaganomics has not had the impact people hoped it would have for revitalizing domestic industry.

Q: *High interest rates are also imposing a very heavy burden on the debt-ridden nations of Latin America. One study has concluded that the total indebtedness of the Latin American and other countries was over \$600 billion as of December 31, 1982, and will likely top \$700 billion by the end of 1983. There are optimistic reports that Mexico is on the way back from the brink, but the future looks bleak for Brazil. What is the outlook for these countries?*

OKITA: When I met Antonio Delfim Netto, head of the Brazilian secretariat for planning, this summer, he justified Brazil's heavy commercial borrowing 3–4 years ago for development projects by pointing out that real interest rates were virtually nil and there were American, European and Japanese banks waiting in line to lend Brazil money at the time. This was primarily oil money. But then there was a sudden policy shift when the Reagan Administration decided to fight inflation with higher interest rates. As a result, interest rates at one point were up to 20%. This has proved devastating for these countries.

At the same time, the contraction in world trade has been especially painful for commodity prices. These countries' terms of trade fell to half of what they were 4–5 years ago. This means that if a developing country kept exporting the same things and importing the same things, it would have to export twice as much as before to pay for the same amount of imports.

With the triple blow of higher interest rates, contraction in world trade, and the deterioration in commodity prices, there was bound to be a sharp deterioration in the trade balances and debt positions of countries like Mexico, Brazil and Argentina over the last 2–3 years. They say they should not be held solely responsible for solving a problem they did not cause. The lenders are neither blameless nor immune from the consequences. A default could mean serious trouble for some of the big banks involved. At the same time, the debtor countries' austerity policies mean slower export growth for the industrialized countries, and the ramifications go far beyond any one country's borders.

Q: *Right now, the debt problem is focused on Latin America, but there are also potential problems in Asia. What about these?*

OKITA: Overall, Asia is doing better than Latin America. Indonesia has responded very quickly by depreciating the rupiah, cutting salaries in half, reducing subsidies, and taking other measures to stave off over-indebtedness. South Korea has a large debt outstanding, but it is a very dynamic economy and is considered very creditworthy.

The Philippines is also in trouble with the Aquino assassination coming on top of several years of current account deterioration. However, I understand the various countries and international institutions concerned are studying ways of dealing with this situation, and I am hopeful that smooth financial support will be forthcoming to enable the Philippines to ride out its present difficulties.

Q: *What can the industrialized countries do to help?*

OKITA: To get over the immediate hurdles, I would endorse (U.S. Federal Reserve Board Chairman Paul

A.) Volcker's suggestion that governments and private-sector financial institutions in the lending countries support IMF lending to turn these nations around. This is one way to stabilize the situation. America's consumption-led recovery and its growing trade deficit also help the indebted countries.

But even so, lending these countries money so they can pay the interest on their debts adds to the long-term indebtedness. And lending at high interest rates—something like 13–14% to places like Brazil—does nothing to solve the basic problem.

At some point we are going to have to reach a compromise, with the debtor countries paying some of their debt and the lending countries writing off some of the debts. Both sides are going to have to share the pain. Otherwise, this debt problem is going to drag on for years and years, and it may even exacerbate the greater political instability in countries such as Brazil and Argentina.

Q: *Where is the leadership going to come from on this?*

OKITA: It has to be a collective effort, but since America provided the leadership in getting everyone into this, I would hope they would provide the leadership needed to get us out.

Q: *What are the prospects for U.S. leadership? Even on the IMF financing, America does not seem to be very anxious to contribute.*

OKITA: The Reagan Administration wants to meet its assessment but Congress is reluctant. There is considerable Congressional opposition to international "banking bail-outs." In the absence of American leadership, people are looking to the other industrialized countries to play a greater role. Japan and Europe have to generate momentum that America, and Congress specifically, can go along with.

Q: *You mentioned earlier that the U.S. trade deficit is contributing to the global recovery by enabling other countries to sell more in the United States. But there are some people who charge that Japan is relying exclusively on exports for its recovery. In response, the government recently (October 21, 1983) announced a package of economic measures to stimulate domestic demand and boost imports. What do you think of this Japanese response within the global economic context?*

OKITA: I think it was a very strong effort given the government's situation. The government's fiscal deficit is now about 5% of GNP. This is one of the highest percentages anywhere in the world. The value of national bonds outstanding is now over 40% of GNP, and just servicing the national debt burden accounts for about 15% of the total national budget. This is the highest figure of any industrialized country. There are some people outside Japan who say that this fiscal debt is not that much of a problem given Japan's high savings rate, but the burden of these national bonds is making the national budget more and more rigid every year. Given this fiscal situation, there is very little that the government can do to stimulate demand from the fiscal side. Instead, there is an effort being made to cut government spending, and there is talk of a tax hike, to balance the budget.

One thing that can be done is to reduce interest rates. This was done. The Bank of Japan has been afraid that reducing interest rates would widen the interest discrepancy between Japan and the United States and lead to a further devaluation of the yen on currency markets, but they went ahead anyway in the realization that it had to be done to stimulate domestic demand.

One of the other noteworthy measures in that October 21 package was the idea of attempting to reverse the capital flow by selling more government and governmental bonds in foreign capital markets. The interest differential and capital flow have kept the dollar high and the yen low, and the dollar's exchange strength is devastating for the U.S. trade balance. Japanese products have the competitiveness to sell well even with an exchange rate of, say, ¥200 to the dollar.

The Japanese economy is becoming a capital-surplus economy. Japan has a very high savings rate. Much of these savings are sopped up by the national government deficit, but there is still considerable capital surplus, which is making Japan a net exporter of capital. In turn, this net outflow is helping to meet the rest of the world's capital needs. The United States, for example, is unable to meet its own capital needs from savings, and the same is true for many other countries. So if you put the trade surplus against the capital deficit the bottom-line basic balance of payments is pretty much balanced. Japan is recycling its trade surplus to everyone's benefit, and not piling up vast foreign currency reserves.

Q: *Still, that does not answer the critics' charges that Japan's recovery is export-led or their call for more stimulation of domestic demand.*

OKITA: Even though its options are very limited, the government is moving to stimulate domestic demand. Lower interest rates, for example, should stimulate both consumption and investment borrowing. But even if we are able to raise the Japanese GNP 1% (itself a considerable feat), this is only about \$10 billion, which, given the 12–13% import propensity, translates into an import increase of about \$1.2 billion, which is just a drop in the bucket compared to the current account surplus of over \$20 billion. So the basic response has to be in recycling our surplus capital.

Of course, efforts are needed to stimulate domestic demand and to increase imports, but it is wrong to assume that domestic stimulation will automatically eliminate the surplus in Japan's current account. As a number of observers have pointed out, Japan has been almost alone in the last half decade or so in its efforts to open its market to imports. Japan has been progressively opening its import markets and other countries have been closing theirs.

Another problem is that the psychological balance—the perception balance—cannot be rectified with product imports alone. Japanese companies need to build production facilities overseas and to contribute to enhanced employment opportunities in the market countries. Japanese companies need to think of things in the global perspective as members of the world economic community.

Then, if and only if all of these measures prove ineffective should Japan turn reluctantly to export restraint.

Export restraint grates against my free trade principles. It is a last-resort expediency, and not something that people should become addicted to.

Whatever means are chosen, they should be implemented in the realization that Japan cannot be an island of prosperity in the middle of an ocean of recession. Japan stands or falls together with the rest of the world economic community. We should not blindly expand our exports simply because we have the competitive strength to do it. We have to remember the importance of international economic harmony and be careful not to have too traumatic an impact on other economies.

Q: *One of the issues that often comes up is the relationship between arms control and economic growth. Total world spending on armaments and military is about \$500-600 billion per annum, and some people have been struck by the fact that this is about equal to the total indebtedness of the less-developed nations.*

OKITA: There are some Americans who contend that military spending is economically stimulative, but I don't believe it. While there are a number of moral arguments to be made against military expenditures, one of the biggest economic arguments is that it is non-productive. Military spending may provide a one-shot stimulus when the plant is being built, but often that it is non-productive. It is resources down the drain. This is especially disruptive for the developing countries where they do not have the resources to spare. Even in the industrialized countries, excessive spending on the military means that much less private-sector plant investment, and that much less vigorous an economy.

Outside of the economic sphere, of course, arms control is essential to world peace. Nuclear arms pose a special threat to all humanity and the very survival of life on this planet, and arms control is a political imperative as well. If mankind is to have a future, we need to go from escalation to de-escalation. This affects not only the superpowers or the Northern industrialized countries. Nuclear war, if one occurred, would affect all peoples everywhere.

Yet in the present state of affairs, there is a very serious chasm of distrust between the United States and the Soviet Union, and it is very difficult to know how to move from distrust to trust. As it is, the mutual distrust feeds on itself, and each becomes more belligerent than the other, each saying "They started it." This is the first point that needs to be addressed. The deeper the distrust, the more important it is that the dialogue be maintained.

Professor Richard Gardner of Columbia University recently suggested that there should be U.S.-Soviet summit meetings every year, whether there is anything specific to talk about or not, and that they should take their arms control experts along. If the industrialized countries can have annual summit meetings—and these are countries that pretty much agree—how much more important is it that the superpowers have summit meetings to talk out their disagreements and to see if they can't clear away some of the mistrust. The hot line is not enough. They need to talk before tempers are up. And if these are regular meetings, they may be less susceptible to the public relations razzle-dazzle and may be more

businesslike in finding ways to alleviate the mutual distrust between the two superpowers. This is an issue of overriding importance not only for the United States and the Soviet Union but for the whole world. Unless some way is found to sow accord, it is going to be very difficult to make any concrete progress on the all-important issue of arms control.

Q: *Assuming mankind has a future, what do you think the future holds?*

OKITA: If you want to be pessimistic, of course, there is no end to the crises imaginable, but it is going on 40 years since the end of World War II, and the world has managed to avoid a major war in this postwar period. Of course, if there had been one, we probably would not be here to talk about it, but the fact that there have been no major wars for over a generation is very encouraging for the future of mankind. There are still a lot of question marks about whether or not we will be able to avoid a major war, but the fact that we have done this well so far despite the destructive means at our command is very encouraging.

The world economy is also looking up, and even though there are still some problems, the industrialized and developing countries alike are coming along pretty well. In fact, a number of the developing countries have achieved very respectable growth rates over the last decade or two, and the entire world is developing and gradually being unified in an international division of labor. Looking into the 1980s, I think there is good potential for world economic growth. There will be some countries that do better than others, but the overall world economic future should be one of growth.

Q: *What does this imply for Japan?*

OKITA: Japan must assume a greater international role. So far, Japan has been concerned primarily with developing its own industrial capacity and international competitiveness, but from now on we will have to be more concerned with the expansion of the world economy and global development. Any improvement in the world economy will redound to Japan's benefit—and it is worth repeating that Japan cannot prosper except in a climate of global prosperity. So the question is one of how Japan can use its industrial, technological, and commercial acumen for the expansion of the world economy and better living standards all around the globe. Where are the areas that Japan can contribute in? We need to look on this global role not as something that we "have to" do to placate other countries but as something that we obviously should do in our own interests as well.

Happily, the Japanese people are coming to realize that what is good for the world economy is also good for Japan, and I think we can make the future work if we will. ●

Masami Hirata is director of the Economic News Bureau of Kyodo News Service. Hirata, 58, joined Kyodo as an economic correspondent in 1950 after graduating from Hitotsubashi University. He served as market news editor and chief editorial writer before being appointed to his current post in June 1983.