



# Pinpointing Causes

By Tsuneo Iida

I am well aware that there is considerable criticism in the United States and elsewhere of Japanese economic policy and the way the Japanese economy works. And I agree that there are problems. For example, I find very little to defend about Japanese agricultural policy, particularly as regards rice production and distribution. This is an area that I believe should be deregulated, not so much for the sake of foreign farmers and exporters as in the interest of Japanese consumers. As such, this is one prominent area where the criticism seems justified.

Yet even though some of the criticism may be valid, I am profoundly disturbed by the one-sided approach and the disproportionate expectations expressed. According to experts, even if Japan were to remove all restrictions on rice imports from the United States, the resultant increase in Japanese imports, and hence the resultant reduction of the trade surplus with the United States, would be no more than \$3 billion or so. This is just a drop in the bucket compared with Japan's overall trade surplus of \$100 billion or its trade surplus with the United States of \$60 billion in 1986. Nor is it any more in comparison with America's total trade deficit of \$160 billion.

Thus the idea that deregulating Japanese rice imports can contribute substantially to reducing the Japan-United States trade imbalance is a delusion. Yet such wishful thinking and unsubstantiated conclusions are typical of much of the criticism today.

The same may be said of overseas expectations for Japan's efforts to stimulate domestic demand. The ¥6 trillion (about \$40 billion at the rate of ¥150/\$) package of measures that the government intends to implement this year represents an all-out effort to stimulate the economy. It is hard to see what more the government could reasonably be expected to do, and

this represents a very courageous policy decision on the government's part. Reflecting the extraordinary determination shown by the government, the heads of state and government at the Venice economic summit reportedly expressed their high regard for this dramatic package.

Yet I fear that there is considerable wishful thinking on how much these measures will contribute to reducing Japan's current account surplus. According to calculations by the Japanese government, the total impact will be no more than \$5 billion to \$6 billion. This is hardly enough to have any significant impact on the massive trade surpluses that Japan currently runs.

While I have long been arguing that Japan must work to further open its markets and to stimulate domestic demand because these are the right things to do, I am under no delusions that these efforts will have much impact on the trade imbalance. And to entertain such delusions at this point is simply to set the stage for further frustration and anger when reality prevails. This, it seems to me, is the crux of much of the problem in Japan's trade relations.

In seeking the causes of the current trade imbalance, it is worth looking back to the 1982-83 period, since this marked a turning point after which America's trade deficit took a turn for the worse and the imbalance between Japan and the United States grew sharply larger. Was this deterioration the result of changes that took place in Japan, changes that took place in the United States or changes that took place in both countries?

Looking first at Japan, there were no basic changes in the Japanese situation that would account for this deterioration. While there may still be some sectors of the Japanese market that are relatively inaccessible, it is clear that there are now far fewer than there were in 1982-83.

Surely Japanese market opening cannot have contributed to a larger Japanese trade surplus. On economic policy, Japan today has massive fiscal deficits that hobble macroeconomic policy efforts to expand domestic demand, but these constraints were in place well before the crucial 1982-83 period.

What of the United States? It is easy to see that there were major changes in the situation in the United States—changes that were sparked by the sweeping tax cuts enacted by the Reagan administration in 1981. At the time, there were optimistic scenarios explaining why tax cuts would not generate budget deficits, but these theories were quickly proved wrong, and the United States was plunged into a period of unprecedented government deficits. And the excess demand that these deficits fueled in turn resulted in unprecedented deficits on the trade front as well. The heart of the problem is thus that these twin budget and trade deficits run out of control even today, and that no serious efforts are being made to control them.

Regardless of what American policy planners may have intended, this is an unconscionable situation that defies all common sense. It is grossly negligent macroeconomic policy management, and it will be impossible to solve any of the symptoms unless this basic cause is rectified. Little wonder we are seeing an erosion of international confidence in the dollar's credibility as the key currency for world trade.

Standing second to none in my desire to see cooperative economic relations between Japan and the United States, I hope that the United States will recognize that its own policies are at the heart of the current trade friction and act to correct its mistakes rather than trying to blame everyone else. ●