Trends in U.S.-Japan Economic Relations from 1955 to 1986[1]

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日米経済関係の動向：1955年-1986年

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SUMMARY IN JAPANESE：第二次大戦後，30年（1955—1986）の間に，米国と日本の世界市場における経済的立場は大きく変化した。日本は自国の経済的豊かさと国内政治の安定を目指し，外部の与件を可能なかぎり有効に利用して，制約条件（外交的，経済的制限）をそのつど克服し，ひたすら経済的地位の上昇（GNPの拡大）に邁進してきた。

米国の行動原則は日本とはまったく異なり，東西対立の世界情勢の中で，Pax Americanaというグローバルな課題と歴史的使命の達成を優先させた。防衛と対外援助，市場開放と対外投資は，一方では米国に国内利益と国際秩序の安定をもたらしたが，他方では生産性の上昇と国内産業調整において西欧諸国とりわけ日本に遅れをとり，その結果国際競争力の低下にともなって，世界経済の中で米国経済の相対的地盤沈下が徐々に進んだ。

過去30年におよぶ日米経済関係の歴史は，日本の「小国意識」下の自国経済第一主義と米国の「大国意識」下の世界政治優先主義の二つの原則が交錯する中で，共存と発展を示すと同時に厳しい摩擦と対立をも明白にしている。

The future reflects the past. Past events, in effect, limit possible developments in the future. After all, we predict what will happen based on what has already occurred, making the assumption that established trends will continue to be regular and stable. Indeed, if I talk about the future of U.S.-Japan economic relations, I am forced into the bold

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speculation of TV commentators. As an economist, I am only confident discussing the past as objectively as possible.

I will examine the general trends in economic relations between the United States and Japan over about a 30-year period, starting from the mid-1950s to the mid-1980s. On the whole, politically and especially economically, these three decades of U.S.-Japanese relations can be described as the continued development of a close interdependence between the two countries.[2]

I. Positions of the United States and Japan in the Postwar World

In 1955, Japan's exports to the United States amounted to $456 million (customs clearance basis), which accounted for 23% of Japan's total exports. In the same year, Japan's imports from the United States amounted to $774 million, or 31% of Japan's total imports. Thus, Japan's trade with the United States (exports and imports combined) amounted to approximately $1 billion.

In 1970, this trade figure had increased from $1 billion to approximately $11 billion, a more than tenfold increase within 15 years.

In 1986, the amount of Japan's trade with the United States had jumped to approximately $110 billion. That is to say, trade between the United States and Japan expanded more than 100 times during the last three decades. Indeed, Japan's exports to the United States in 1986 amounted to $80 billion, or 176 times more than the total exports to the U.S. ($456 million) in 1955. This means that by the mid-1980s Japan exported to the U.S. equivalent of the 1955 total every two days.

This is a remarkable growth in trade between the two countries and certainly the world's largest expansion in bilateral trade in this period, even if we make a reasonable adjustment for inflation.

Before I examine in detail the nature and characteristics of this growth in economic ties between the United States and Japan,[2] I find it imperative to look at the fundamental differences between the United States and Japan from several different points of view: namely, strategic policy variables (optional or given); initial conditions during the early 1950s in both the United States and Japan; and policy directions available to the United States and Japan in the context of the world political and economic environment in the following three decades.

First, since the end of World War II, the United States has tried to assume global responsibility for maintaining political, military and economic stability in the world. Japan, by contrast, has narrowly, indeed too narrowly, focused her main interest on political stability and growth of the Japanese economy, which was completely shattered on an unprecedented scale during the war. Putting it differently, the issues which concern America are worldwide in scope, while, if I may use an expression put forward by Calvin Coolidge, the 30th president of the United States, "the business of Japan is business."

Central to the U.S.-Japan partnership, is the awareness that Japan is only one of numerous U.S. allies in the world, but that the United States is the only ally for Japan. As a matter of fact, the United States has demonstrated it can carry out single-handedly its intentions. This clearly is not possible for Japan, at least in the international political sphere. The U.S. ability to act autonomously was dramatically illustrated by the Nixon-Kissinger foreign policy in dealing with China. The Vietnam War was another, albeit tragic, experience for the United States of the same nature.

Frankly speaking, the basic direction of postwar relations between the United States and Japan was primarily determined by the strategic goals chosen by the makers of U.S. foreign policy. Japan could do little but accept their decisions throughout much of this period.

Second, there is an asymmetrical relationship between the United States and Japan in the economic sphere as well as in the political one. Japan's trade dependence on the U.S. economy is overwhelmingly high compared with that of the United States on Japan. Japanese products bound for the U.S. market averaged 30% of total exports in 1960s and very close to 40% in 1986.

Moreover, the United States has taken a disproportionate share of Japan's principal exports. I offer some examples from 1986 export figures: tires and tubes (33%); prime movers (34%); automatic data processing machinery (51%); videotape recorders (61%); passenger cars (63%); cameras (45%); and copying machines (48%).

Although the ratio of Japan's imports from the United States declined gradually from 38% in 1957 to 20% in 1985, the share of the United

States in Japan's imports is extremely large, especially with regard to most of the raw materials and fuel except crude oil. In fact, this is true all through the period from 1955 to 1986. The figures for the U.S. share in Japan's imports in 1986 are: meat (31%); fresh fish and shellfish (35%); wheat (55%); maize (63%); soy beans (90%); wood (33%); medical and pharmaceutical products (33%); general machinery (55%); electrical machinery (55%); transportation equipments (53%), and precision instruments (41%).

In contrast to this, Japan's share in the trade of the United States has been much lower than the share of the U.S. in the trade of Japan (it is less than 15% on the whole). Thus, the United States plays a central role in Japan's import-export trade relations, while Japan plays only a peripheral role in U.S. import-export trade relations. We all know that the United States occupies the central position in the Bretton-Woods/GATT regime of the postwar world. Indeed, only the U.S. dollar has been accepted as the key international currency, despite the change in the exchange rate regime from the fixed rate system before 1971 to the freely fluctuating system established after 1973.

Third, it must be remembered that the United States occupies almost half a continent. The United States can, if it so chooses, maintain to the highest degree self-sufficiency, with regard to most of the economic necessities, by utilizing its important natural resources, scientific knowledge, industrial technology and large commercial market for production and consumption.

Japan, by contrast, is in the opposite situation. In its lengthy modernization process, Japan needed to import from abroad all its necessities, ranging from advanced technology to crucial raw materials, fuel and food. Japan was bound to be a trading nation the moment it started modernizing its economy. In fact, Japan would have fallen back to the subsistence level of the Tokugawa era, when Japan was closed to the outside world, *if* Japan's opportunity to trade had been blocked off, say, by war or some other external disturbances. Japan can maintain its advanced level of economic activity and higher standard of living *only* under the circumstance of world peace and international economic stability. Without peace and stability of the world economy it can be seen *prima facie* that the Japanese economy is simply not sustainable.

Fourth, looking back to the early 1950s when Japan became an independent nation after a six-year occupation by the United States, the disparity in economic conditions between the United States and Japan was beyond comparison. Perhaps this enormous disparity between the United States and Japan explains the fundamental difference between the two countries' trade policies during this period. On the one hand, the United States has consistently maintained a free-trade policy as much as possible in order to expand its economic as well as political influence, while Japan has pursued a protectionist policy, in effect arguing that infant industries must be nurtured. This policy was followed at least until the middle of the 1970s, when a more open policy began to be promoted with regard to trade and capital transactions.

I have prepared several key indicators of comparative status of the United States and Japan in 1955. Figures in parentheses indicate Japan's levels compared with the levels of the United States: gross national product (6%); GNP per capita (11%); steel production (12%); motor vehicle production (0.8%); exports (14%); imports (22%); gold and foreign reserves (5%); official development assistance (3%); and defense expenditures (2%). In addition, at this time Japan had a negative trade balance (−$460 million), while the U.S. ran a surplus ($2,907 million).

Fifth, the main target of the postwar Japanese economy in the 1950s and the 1960s was how to achieve steady economic growth, not necessarily maximum growth, and restore equilibrium in the balance of payments by its own efforts, i.e., by exports of goods and services, *without* relying on temporary outside support, such as demand generated by U.S. military expenditures in connection with the Korean War.

For the Japanese government and business the common goal was simply *catching up with the West* in domestic production (e.g., steel, chemical products, machinery and transportation equipment), international trade (especially, exports of capital intensive products), industrial technology, capital accumulation (plants and equipment), and the standard of living.

Cooperative interaction between government and business in Japan became one of the necessary steps for this purpose, rather than *ad hoc* procedures. However, rigid implementation of governmental plans was carefully avoided. Instead, competition and innovation in the private sector were encouraged in various fields of Japanese industry.

The role of government in the U.S. appears to be that of a referee or a mediator between labor and business and between farmers and consumers. In Japan, by contrast, the government primarily advocates the interests of producers, giving the first priority to helping industry, farmers, and employers in trade and services rather than labor and public consumers.

It is characteristic of Japan to observe that even the domestic labor force cooperated with management in seeking the common goal of market-share expansion.

The labor-business relationship in Japan can be played as a "positive-sum game". In the United States, on the other hand, constant struggle or confrontational negotiations between labor and business management can be seen as a "zero-sum game" implying that an increase in labor's share must be obtained at the cost of business profit.

By and large, a competitive spirit and desire for growth based on technological innovation succeeded eventually in stimulating the entire Japanese economy during the three decades under cosideration, perhaps with the important exception of the agricultural sector, which was heavily protected by government regulations from foreign competition.

In sum, the United States differed from Japan in a distinct way with regard to many important variables weighing on policy decisions and environmental parameters surrounding the two countries in global perspective. In the United States, government, business, labor, farmers, and consumers in general have sought to place their own interests above all others within the wide range of individually optimal conditions. These decisions by different interests in the United States have occasionally come into conflict with each other. A large amount of overseas investment by multinational cooperations in the United States is one such example, as it came at a time when domestic investment in the manufacturing industry (such as steel and electrical machinery) was desperately needed.

II. Structural Changes in U.S.-Japanese Economic Relations: 1955-1986

During the 30-year period from 1955 to 1986, the positions of the United States and Japan in international trade and investment have changed significantly. As a result, bilateral trade relations have produced not only a close interdependence, but also some acrimonious maneuvering over serious economic issues between the two leaders of industrialized nations, which now possess the world's largest and the second largest economies in terms of gross national product.

I shall first survey the distinct features of these structural changes and then discuss briefly the possible causal factors underlying the present transformation.

First, the share of U.S. exports worldwide has declined sharply from the level of 19% in 1957 to the much lower level of 12-13% in 1985, while Japan's share has increased rapidly from a negligible 2% in 1955 to 10% in 1985. It may be of some interest to observe that the sum of the U.S. and Japanese share has remained fairly stable, remaining at about the level of one-fifth (21-22%) of world exports. It is too hasty to conclude, however, that the loss of export share for the United States is directly related to Japan's gain in world markets. It is simply not true that the declining U.S. export share is due mainly to Japan's lower level of imports from the United States, because the U.S. export growth rate to Japan (approximately 14%) is much faster than its global export growth rate (approximately 12%) during this period. There are also many other factors (competitive positions in international trade, world income elasticity, etc.) to be taken into account.

Second, during the period from 1955 to 1986, the world machinery trade in particular expanded very rapidly at a rate of 15%. The U.S. share of machinery trade decreased sharply from about 38% in 1956 to less than 18% in 1984. On the other hand, Japan increased its share steadily from around 3% in 1955 to about 22% in 1984, thus exceeding the world share of the United States.

Indeed, the growth rates of machinery exports of the major industrial countries (U.S., U.K., West Germany, France, Japan) differ significantly. U.S. machinery exports expanded at the lowest rate (approximately

12%) and Japan expanded its machinery exports at the highest rate (more than 24% annually) among these countries during this period.

The changing positions of the United States and Japan is partly a reflection of the disparity in the expansion rate of the machinery industry in the two countries and also in the growth rate of labor productivity.

Third, the product composition of Japan's exports to the United States has undergone a radical transformation. Starting from a position of exporting mainly foodstuffs and light industry products (such as textiles and sundry goods), Japan has developed the machinery and other heavy industry products that now account for more than 90% of Japan's exports to the United States. Thus, the crucial role played by Japan's textile exports to the U.S. for over a century (1870-1970) was completely displaced by Japan's automobile exports to the U.S. in the 1970s and 1980s. Textiles accounted for only 1.4% of total exports in 1986, while automobile exports, including vehicle parts (5.5%) and motorcycles(1.4%), accounted for 39% in 1986.

In contrast with the drastic change in Japan's export structure, the composition of U.S. commodity exports to Japan during the same period was remarkably stable, reflecting the basic trend of U.S. exports worldwide.

Clearly, there was a distinct transformation of Japan's comparative advantage in the world trade from 1955 to 1986. This was not the case for the United States during the same period.

Fourth, in 1971, the United States had a merchandise trade deficit for the first time this century. Ever since then the U.S. trade deficit has continued to increase, except in 1973 and 1975. Japan had a surplus in its merchandise trade balance in 1965 for the first time since the end of World War II. The magnitude of Japan's trade surplus has expanded steadily, particularly in the 1980s.

Moreover, since 1965 bilateral trade with the United States has continued to create a considerable trade surplus for Japan. It must be noted that the United States has suffered its bilateral trade deficits not only with Japan but also with most regions (including Europe, Latin America, Asia and Africa), with the notable exceptions of Oceania and the Middle East.

Fifth, another contributing factor has been the exchange rate of the yen vis-a-vis the dollar. The exchange rate has fluctuated widely, confounding business people in Japan, especially in the 1980s. The yen in 1970 (360 yen per U.S. dollar) appreciated more than 63% by 1987 (130 yen per U.S. dollar).

Sixth, beginning with the Reagan administration in 1981, the United States government has initiated a drastic tax-cut policy, accompanied by FED's tight monetary policy and cut taxes. As a result, the value of the dollar remained high from 1981 to 1985. U.S. exports were severely discouraged, while imports expanded at an unprecedented rate during the early 1980s.

In order to examine analytically the effects of the Reagan administration's policy mix of expansionary fiscal policy and a tight monetary policy, I find it convenient to introduce a simple macroeconomic model illustrating the policy changes both in the United States and Japan.

Macroeconomic equilibrium conditions for the U.S. economy will be given by the following equation:

$$S(Y)-\bar{I}+T(Y)-\bar{G} = \bar{X}-M(Y)$$

Where $S(Y)$ is a saving function, $\bar{I}$ stands for private investment, $T(Y)$ is a tax revenue function, $\bar{G}$ stands for government expenditures, $\bar{X}$ stands for exports, and $M(Y)$ is an import function. Y is the only endogenous variable, to be determined as an equilibrium level of national income (or GNP).[3]

The left-hand side of the equation shows excess domestic saving, indicating the excess of domestic private saving $S(Y)$ and government saving $T(Y)-\bar{G}$ over investment $\bar{I}$. Since both saving $S(Y)$ and tax $T(Y)$ are increasing functions of income Y, and $\bar{I}$ and $\bar{G}$ are both constants, the excess saving function is described as an increasing function ES_0 of income Y **(See Figure 1)**.

The right-hand side of the equation shows the trade balance $X-M(Y)$, indicating foreign excess demand, which is a decreasing function TB_0 of income Y.

An equilibrium level Y_0 of income is determined by the equality of

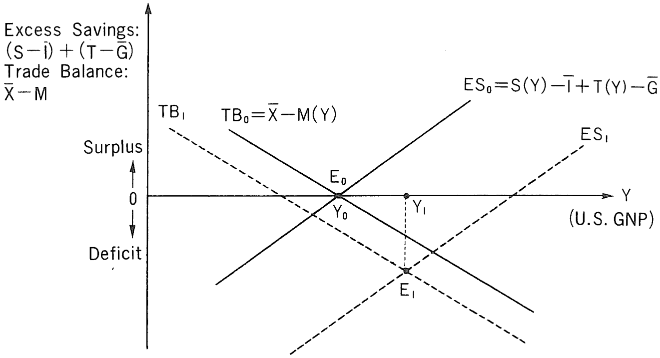

Figure 1. Macroeconomic Conditions for the United States Economy

domestic excess saving ES_0 and foreign excess demand TB_0 at a point E_0 in Figure 1. (We assume that the trade balance is zero at the beginning of the period.)

As a result of tax-cut policies together with expansionary government expenditure, the domestic excess saving function ES_0 shifts to a position at ES_1. On the other hand, the policy of maintaining high interest rates contributes to raising the value of the U.S. dollar, so that foreign excess demand function TB_0 shifts to a position at TB_1. A new equilibrium level Y_1 of income will be determined at E_1 where new excess saving ES_1 and foreign excess demand TB_1 intersect.

At a new equilibrium level Y_1, which is higher than the old level Y_0 of income, the U.S. economy suffers a trade deficit (Y_1E_1) which amounts exactly to the level of fiscal deficit (Y_1E_1), assuming that private saving and investment offset each other.

In **Figure 2**, I describe the situation in Japan with the initial equilibrium level Y_0*. Since the Japanese government made a great effort to decrease the fiscal deficit mainly by reducing government expenditure G*, Japan's domestic excess saving ES_0* shifts to a new position at ES_1*. Yet due to a decline in the yen vis-a-vis the dollar, Japan's exports to the U.S. increase, while Japan's imports from the United States decrease. Hence, Japan's new trade balance TB_1* shifts upward from the old position TB_0*. A new equilibrium level Y_1* of income is determined by the intersection of two curves, ES_1* and TB_1* at E_1*.

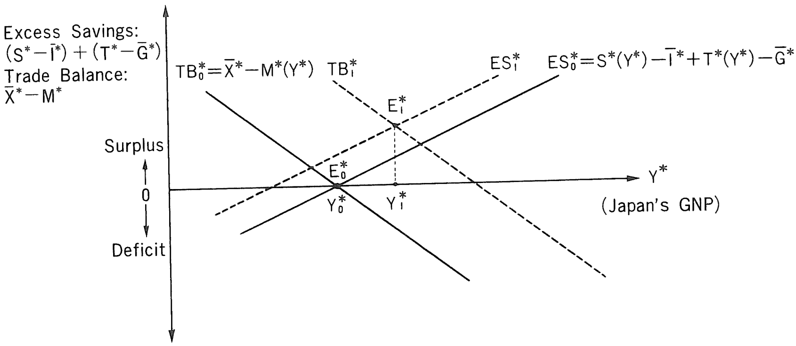

Figure 2. Macroeconomic Conditions for the Japanese Economy

At a new equilibrium level Y_1* of income, Japan has a trade surplus (Y_1*E_1*) which reflects exactly the domestic excess saving. In the case of our two-country model, the U.S. trade deficits correspond exactly to Japan's trade surplus and the shortage of U.S. savings (or U.S. fiscal deficits) will be financed by Japan's excess domestic saving.[4]

This simple illustration shows clearly why the United States has run such large fiscal and trade deficits. The twin deficits of the United States are simply two sides of the same coin. The coin is characterized by excess spending (private consumption, business investment, government consumption) over domestic production which simply reflects a trade deficit.

Thus, from the viewpoint of simple macroeconomic analysis, we can say that as long as Japan maintains a high saving rate as well as a low rate of private investment and government expenditures, it is very likely that Japan will continue to increase its trade and current surplus. By so doing Japan will increase its export of capital (i.e., foreign lending) to the rest of the world, including the United States, where savings are so urgently needed.

In fact, beginning in 1985, Japan became the world's largest creditor nation and the United States became the world largest debtor nation. The U.S. may now be characterized as a "credit-card nation,"——a status, interestingly enough, certified and endorsed almost unconditionally by the United States itself. This new state of affairs reflects the drastic changes during the last three decades for both the U.S. and

Japanese economies.

III. Characteristics of U.S. and Japanese Economic Behaviors

I would ask you to take a look at **Figure 3**, which, together with **Table 1**, puts into perspective U.S. and Japanese economic conditions from 1955 to 1986.

If you are imaginative, the Japanese economy in 1955 resembles a tiny starfish, wiggling at the bottom of a huge economic pool made by the United States. Yet by 1970, after 15 years, the Japanese economy had assumed the proportions of a squid, its legs stretching in the direction of the U.S.-Japan trade balance.

Table 1. Comparison of Economic Strength of the United States and Japan

	1955		1970		1986	
	U. S.	Japan	U. S.	Japan	U. S.	Japan
1.GNP (Gross National Product) (billions of U.S. dollars)	405.9	24.5 (6.0) %	1,015.5	203.3 (20.0) %	4,206.1	1,962.7 (46.7) %
2.GNP per capita (GNP/Population) (U.S. dollars)	2,446	273 (11.2)	4,952	1,971 (39.8)	17,409	16,155 (92.8)
3.Steel Production (1,000 metric tons)	102,253*	12,570* (12.3)	119,304	93,324 (78.2)	72,864	98,266 (134.9)
4.Motor Vehicle Production (1,000)	6,113*	47* (0.8)	8,244	5,304 (64.3)	10,909	12,269 (112.5)
5.Exports (millions of U.S. dollars)	14,291	2,011 (14.1)	42,659	19,318 (45.3)	217,304	209,151 (96.2)
6.Imports (millions of U.S. dollars)	11,384	2,471 (21.7)	39,952	18,881 (47.3)	369,961	126,408 (34.2)
7.Trade Balance (millions of U.S. dollars)	2,907	−460	2,707	437 (16.1)	-152,567	87,743
8.U.S.—Japan Trade (millions of U.S. dollars)	651 1)	456 2) (70.0)	4,652	5,940 (127.7)	26,882	80,456 (299.3)
9.Gold & Foreign Reserves (millions of U.S. dollars)	21,750	1,014 (4.7)	11,701	3,720 (31.8)	27,426	38,594 (141.1)
10.Private Foreign Assets (billions of U.S. dollars)	…	…	118.8	4.4† (3.7)	929.9	500.3 (53.8)
11.Foreign Aid (Official Development Assistance) (billions of U.S. dollars)	2.6	0.1 (3.8)	3.2	1.2 (37.5)	9.8	5.6 (57.1)
12.Defense Expenditures (billions of U.S. dollars, 1980 prices)	124.7	3.0 (2.4)	166.7	5.9 (3.5)	208.9	12.1 (5.8)

* 1957 †direct investment abroad (1971)

1) U.S. Exports to Japan

2) Japan's Exports to U.S.

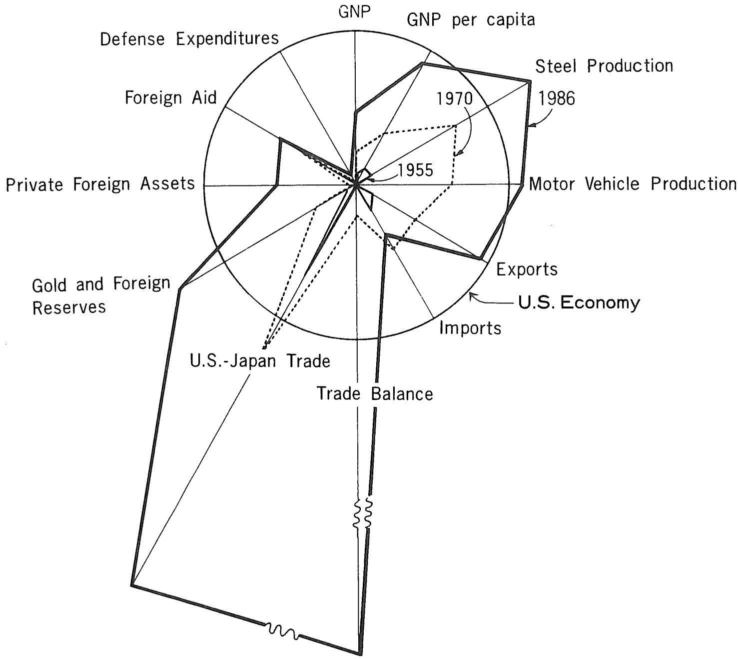

Figure 3. Comparison of Economic Strength of the United States and Japan: 1955, 1970, and 1986 (Percentage of Japan with respect to the United States)

In 1986, after another 16 years, the Japanese economy was realizing its full potential, looking like a gigantic octopus crawling out from the pool formed by the United States.

I would like to offer one way to interpret this metamorphosis, an interpretation, based on economics, pure and simple.

As indicated earlier, Japan's major concern, in fact, its only concern was economic growth. And, believe it or not, the most severe restriction on Japan's growth was the tight constraint created by the balance of payments up until the beginning of the 1970s.

In coping with such difficulties, value added labor productivity, which will be approximated by GNP per capita (at the position of one o'clock in Figure 3) has improved at a rate of more than 7% in contrast with 2% for the U.S. economy. Therefore, steel and automobile production, the two key manufacturing industries, expanded rapidly and eventually overtook the U.S. levels of production in the 1980s.

Reflecting the rapid expansion of domestic production in metal and machinery industries, Japan's exports of steel and machinery have increased, thanks to the expansion of world imports under the free trade and exchange rate system guaranteed by the Bretton Woods/GATT regime.

But Japan's imports have not increased as much as its exports because a great deal of import substitution took place during the period from 1955 to the 1980s. As a result, Japan's trade balance improved dramatically in the 1970s, except perhaps for the short period of the first and second oil crises at the middle and end of the decade. In particular, Japan's trade with the U.S. changed considerably, going from Japan's chronic deficits until 1964 to the continuing deficits of the U.S.

Consequently, Japan's holdings of gold and especially foreign reserves has increased substantially. At the same time Japan's private foreign assets have increased at a rapid rate.

On the other hand, Japan's defense expenditures (indicated at the 11 o'clock position) have not increased as much as government spending in such areas as education, R&D and social welfare.

All in all, from 1955 to 1986 the Japan's economic "wheel" has turned in the clockwise direction in Figure 3, an efficient and productive movement from which Japan benefited. While acknowledging that I have ignored some significant social and political factors working behind this economic movement during this period, an interesting hypothesis can be made that the economic "wheel" of the United States has turned in an almost counterclockwise direction in our illustration.

Mainly responsible for this movement are the high level of defense expenditures and foreign aid the United States has maintained in order to confront the hegemony of the Soviet Union since the end of World War II. The principal aim of U.S. foreign policy has been to establish its "Pax Americana," a policy which has proven costly. Thus, it is not exaggeration to say that the economy of the United States shifted direction under a sense of fulfilling its own historic mission in this century.

Taking U.S. foreign policy into account, official holdings of gold and foreign reserves declined gradually, while U.S. private foreign investment increased. The U.S. trade performance vis-a-vis Japan was reversed. U.S. imports increased tremendously, while its exports did not grow to keep up with the high pace of buying abroad. As a result, the U.S. trade balance worsened sharply. Steel and automobile production in the U.S. fell behind that of European countries as well as production in Japan. The increase in U.S. labor productivity was comparatively slow and hence U.S. GNP did not grow as much as Japan's GNP did in this period. The counterclockwise journey of the U.S. economic wheel has thus been completed.

It is important to observe that such economic behavior in the U.S. represents nothing but the outcome of choices made by American themselves in the context of their historical perceptions. The process of their decision-making has never been forced on them from the outside. The United States has shown it carries out its own policy targets both domestically (e.g., "the Great Society") or in the external sphere (e.g., Vietnam War).

The great American philosopher, Ralph Waldo Emerson, once said, "All successful men have agreed in being causationists." Perhaps unsuccessful people tend to believe themselves not to be the cause, but to be the effect, or simply a victim of someone else's misconduct or wrong-doing.

The fundamental approach required for all of us today is to examine carefully and patiently, but without emotional reaction or jumping to hasty conclusions, the causes and effects of the stark reality we face. Then, and only then, are we able to establish a clear vision for the future in an uncertain environment.

Notes

1 During the two-week period from April 3 to April 17, 1988, with Professor Tetsuya Kobayashi of Kyoto University and Professor Mitsuru Uchida of Waseda University, I participated in the "1988 Japanese Studies Traveling Seminar," which was sponsored jointly by the Japan Foundation and the Maureen and Mike Mansfield Center at the University of Montana, the University of Colorado (Boulder), Brigham Young University, University of

Washigton, Evergreen State College, University of Portland, Portland State University and Oregon State University.

I presented *Trends in U.S.-Japan Economic Relations from 1955 to 1986* at the seminars. At each lectures I used many of statistical tables and diagrams, only four of which are reproduced here.

A Japanese version of this paper, titled, *An Investigation into Postwar U.S.-Japanese Economic Relations*, was dedicated to Professor Ryutaro Komiya of Tokyo University on the occasion of his 60th birthday and was included in a book, *A Study of the Japanese Economy*, edited by Kikuo Iwata and Tsuneo Ishikawa, University of Tokyo Press, 1988.

2 A more detail analysis of this subject will be found in my paper, *U.S.-Japan Trade Relations, 1955-1982*, and in *The United States and Japan in the Postwar World*, ed. by Akira Irie and Warren Cohen, forthcoming from the University Press of Kentucky.

3 An equilibrium condition $S(Y)-\bar{I}+T(Y)-\bar{G}=\bar{X}-M(Y)$ will be rewritten as $S(Y)+T(Y)-\bar{G}=\bar{I}+\bar{X}-M(Y)$. The left-hand side of this equation represents the sum of private saving and government saving$(T-G)$, while the right-hand side of the equation represents the sum of domestic investment$(\bar{I})$ and foreign investment$(\bar{X}-M)$. Therefore, the equation shows simply a macroeconomic equilibrium condition of saving and investment.

4 Consolidating two country's macroeconomic equilibrium conditions, we obtain the following three equations :

$$S(Y)-\bar{I}+T(Y)-\bar{G}=X(Y^*, \pi)-M(Y)$$
$$S^*(Y^*)-\bar{I}^*+T^*(Y^*)-\bar{G}^*=X^*(Y, \pi)-M^*(Y^*)$$
$$\bar{X}+\bar{X}^*=M+M^*.$$

These three equations will determine the three endogenous variables Y (U.S. GNP), Y^* (Japan's GNP), and π (the yen-U.S. dollar exchange rate).