The Rise and Fall of Economic Hegemony and Policy Change*
(経済的覇権の盛衰と政策転換)

Tadashi Kawata**

SUMMARY IN JAPANESE：一国の世界市場での国際競争力が強くなり，その国の世界における産業的・経済的優越性が顕在化して，経済的覇権の樹立がみられるようなときには，当該覇権国の経済のためにも世界経済全体のためにも，それに見合った適切な政策転換が不可欠の要請となる。もし適切な政策転換がなされない場合には，世界経済全体のバランスが崩れて，結局のところ，覇権国の経済も大きな痛手をこうむることになる。しかし，歴史上そうした政策転換はとかく後手にまわって遅れがちとなり，そのため世界経済に容易ならぬ諸困難をもたらすおそれもある。そのことは，近年とみに世界市場における国際競争力を増大させつつあるにもかかわらず，自国市場の開放等に関してこれまで概して受動的，消極的で，そのことのためにアメリカをはじめとして世界諸国からの批判を受けている日本の事例についてみても，当てはまるようにみえる。

いま1980年代の中葉にあって，日本は世界のあらゆる国のなかで飛びぬけて高い貿易収支，および経常収支の黒字を抱えている。このことは直ちに欧米の経済的諸列強に対する日

* This paper originally appeared in Japanese in "Heiwa to Anzen : Nihon no Sentaku [Peace and Security : Japan's Option]," Nihon Kokusai Seiji Gakkai Soritsu 30 Shunen Kinengo [The Japan Association of International Relations : 30 Years Anniversary : Special Issue], ed. by Nihon Kokusai Seiji Gakkai [JAIR], October 1986, pp. 67-98. This English version is a direct translation of the original and no addition was made. Please keep in mind that this was written in 1986 when reading.

** 川田 侃, Professor of International Political Economy, Sophia University, Tokyo.

本の産業上，商業上，金融上等の経済的優越がすでに定着したことを物語るものではないとはいえ，日本の貿易収支や経常収支の黒字は，かつて世界のどの国も経験したことのないほどの巨額のものに上っており，この状態そのものが世界経済に対する深刻な脅威となっている。そのためこの巨額の黒字を取り除くために，市場の開放をはじめとして多くのことが日本に求められてきたが，日本の対応は必ずしも適切かつ素早いものではなかった。確かに，1985 年 9 月のアメリカのレーガン政権による新通商政策の発表や五カ国蔵相会議（G5）を契機に，日本は市場開放行動計画（85 年 7 月）の実行繰り上げ，ドル高是正のための協調介入など，一連の経済政策を積極的に開始したが，こうした行動は本来もっと早い時期にとられるべきであったろう。

この小論は，最近のこうした日本の経済政策の推移変転を念頭に置きながら，一国の世界市場における国際競争力が強化され，その世界に対する産業的・経済的優越が顕在化するようなとき，それにともない要請されるべき政策転換の問題を取り上げようとするものであるが，ここではさしあたり、その歴史的先例を 19 世紀のイギリス，および第 1 次世界大戦後のアメリカに求め，かつての世界経済舞台において，こうした政策転換に関連していかなる諸問題が起きたかを，第一の課題として取り上げたい。次に，第 2 次大戦後確立されたアメリカの経済的覇権が 60 年代末葉以降，次第に動揺するにしたがい，それにともなっていかなる政策転換ないしは政策調整の必要が生じ，その屈折点はどこに見出されるか等を，第二の課題として取り上げたい。また最後に，この過程を通じてアメリカとは逆に，漸次，産業的・経済的優位に向けて接近の度を増しつつあった日本の諸政策についても，一応の検討を試み，それらについての問題点を探ることを，第三の課題として取り上げたい。

Tadashi Kawata

I. Introduction: The Changing Economic Environment for Japan

When a country's international competitiveness becomes obvious on global markets, and the industrial and economic might of that nation is clear, then the country must implement policy changes in order to preserve the balance of its own economy, as well as that of the world economy at large. When such steps are not taken, the result is inevitable economic disorder. Throughout history, however, countries which have achieved economic hegemony have commonly displayed the tendency to postpone these crucial policy adjustments until after it is too late.

This point has great relevance to Japan's current predicament. In spite of recent gains in its international competitiveness, Japan has not acted decisively on the issue of opening its own market. At the time this paper was written in 1986, Japan's failure to make such necessary policy adjustments had made it the object of strong criticism from a number of countries, foremost among them the United States.

Japan's trade and current account surpluses have increased to become the highest in the world.[1] This does not necessarily mean that Japan's economic, commercial and financial superiority will remain unchallenged. Yet the current impact of Japanese economic power cannot be overlooked, and may in fact be said to pose a serious threat to the balance of the world economy. Other members of the world economic community have demanded that Japan take measures to eliminate its massive surpluses, particularly by opening its market to foreign trade. Japan, however, has not always responded with the most rapid or appropriate measures. Undeniably, Japan did take some action after the Reagan administration's September 1985 announcement of a new American trade policy. Beginning with the 1985 Conference of Ministers of the Group of Five (G5), Japan worked actively to accelerate the implementation of a number of policies, including the Action Program for the Market Liberalization. Japan also participated in a joint effort to intervene and correct the strong dollar. However, all of these steps should have been taken at a much earlier time.

While giving constant consideration to Japan's changing foreign and domestic policies, this paper will investigate the kind of policy change required when a country rises to a position of economic hegemony in the world market. First, I will address the historical examples of Britain in the 19th century and the United States after World War I. In both cases, I will examine the kinds of problems associated with policy change in the world economic arena. Second, I will focus on the major turning points in American policy, including the U.S. rise to economic power after World War II, as well as the economic decline of the U.S. since the late 1960s. Finally, through an examination of this process, I will attempt to shed light on the problems with policy adjustments implemented by Japan during its gradual rise to industrial and economic power.[2]

II. British Economic Leadership and Its Decline

(1) 19th Century Britain as a Prototype for Policy Change

Britain in the first half of the 19th century provides a basic example of the policy change required during a country's transition to industrial and economic hegemony.

Between 1815 and 1840, mechanization occurred in the spinning and weaving divisions of the British cotton industry. With the advent of the factory, cotton manufacturing grew into a large-scale, mechanized industry. This development also stimulated the growth of the coal, iron, and machine industries, establishing Britain as the world leader of capitalism. Without going into a great deal of historical detail, one might venture to say that capitalism made Britain the "factory of the world." This development in turn necessitated the abolition of mercantilism, which had dominated since the 16th century, followed by the adoption of a free-trade policy.

British industrial mechanization led to rapid gains in productivity that put Britain way ahead of other nations and did much to consolidate its already powerful position in the world market. Consequently, the British tariff system, which had served to protect domestic industry during the late mercantilist period, was deprived of its purpose. The same held true for the Navigation Acts and the Corn Laws in force since the Middle Ages. Now obstacles to British industrial development, such regulatory measures became obsolete for several reasons. One was that Britain lost its fear of competing against foreign products in its own market. In addition, import tariffs levied on foreign raw materials and food imports only raised British production costs, which in turn weakened British international competitiveness. Finally, British restrictions on foreign imports became harmful to the economy because they risked provoking foreign retaliation potentially damaging to British exports.[3]

After the beginning of the 19th century, British efforts toward free trade developed into something of a social movement that began the call for tariff reduction and abolition. This movement can be traced to 1820, when London traders petitioned Parliament for the abolition of tariffs according to principles of free trade. As this movement grew, it produced a number of results. First, in 1822, the Navigation Acts were revised, and between 1823 and 1825, Britain instituted its first reforms toward tariff reduction. Further tariff reform was also carried out in 1842, between 1845 and 1846, in 1852, and also in 1860. By 1849, both the Corn Laws and the Navigation Acts had been totally abolished. In 1860, the number of items subject to tariffs had been reduced to only 48.

In this way, Britain eased and finally abolished protective tariffs and mercantilist restrictions pertaining to trade and navigation. By 1860, Britain had become an almost entirely free-trade nation. Between the 1840s and the 1970s, British reforms inspired the loosening of trade restrictions among other major European countries and also had an impact in the United States between 1846 and 1860. This process was greatly helped by agricultural interest groups in these countries that saw free-trade relations with Britain as advantageous to the marketing of their own agricultural products. This trend produced a universal belief in economic liberalism, a development that both freed the world economy and drastically increased the volume of world trade.[4]

After the 1840s, Britain moved to conclude commercial treaties with various other countries. For example, in 1860, British representative Richard Cobden traveled to Paris to conclude an Anglo-French commercial treaty (the Cobden-Chevalier Treaty). The main tenets of this agreement included the lowering of tariffs, as well as the mutual provision of Most Favored Nation treatment (MFN). The treaty later provided an important incentive for the creation of a network of commercial treaties supporting free trade among almost all the major European countries.

In this way, the world market saw the formation of a multilateral free-trade system. For Britain, this system provided a context in which it could more effectively demonstrate its power as the world's economic and industrial leader.[5] Given the condition of the world economy in the early 19th century, Britain's domestic and foreign policy changes came relatively early.

Nevertheless, the process of transformation was a fairly long one. For example, the Corn Laws, the final stronghold of British mercantile protectionist policy, were not repealed until 1846. The same holds true for the Navigation Laws. These were reduced to little more than a skeleton by the revisions of 1822. Nevertheless, when the British government proposed their total abolition to Parliament in 1848, many still opposed this move. The abolition bill was not passed until 1849.[6] Once embedded in the British tradition, protectionism had taken a great deal of effort and time to remove.

(2) British Decline and the World Economy after World War I

In the middle of the 19th century, Britain established itself as the leader of the free multilateral international economic system. After the 1870s, however, competition in the world market intensified as Germany and the United States began to pose a strong challenge to British industrial superiority. As a result, countries other than Britain gradually introduced and strengthened protectionist policies, slowly transforming the international economic system. The so-called era of classic free trade finally came to an end with the outbreak of World War I, when Britain completely lost its position of industrial and economic dominance. This development upset the fundamental balance of the international economic system that had existed prior to the war.

Britain's fall also did great damage to the free trade system. Particularly deleterious was Britain's replacement by the U.S. as the world's strongest economic power. Even in its new capacity, the U.S. continued its tradition of relying upon its vast domestic market as a solution to international economic problems. Furthermore, the United States was reluctant to form or lead an organized free multilateral economy. Meanwhile, Britain abandoned its past policy of upholding free trade and adopted a protectionist posture.

Let us first examine the case of British protectionism. Under the 1915 Financial Act, Britain instituted the so-called McKenna Duties, which levied import duties on certain luxury goods. With the exception of special import-export restrictions imposed during World War I, this was Britain's first protectionist policy since the mid-19th century. Later, with the 1919 Financial Act, Britain opened the way for preferencial tariffs on a portion of those goods imported from its own colonies.

Since the 1870s, many had advocated a preferential tariff system to protect imports from within the British Empire. In the meantime, Germany and the United States had come to pose a growing challenge to the superiority of British industry. British exports had stagnated, and the preferential tariff system emerged as a countermeasure to solve this problem. In 1881, the Free Trade League established itself as the core of the fair trade movement. This movement sought the imposition of trade restrictions, namely reciprocal tariffs, against countries which closed their markets to British imports. The movement also supported taxing all foreign foodstuff imports, while reducing or exempting from taxation products imported from within the Empire, such as tea, coffee, tobacco, and wine.

Not all of these demands were actually incorporated in British official policy. Instead, Britain only established preferential duties for British goods exported to the British dominions.[7] After World War I, Britain passed the Financial Act of 1919, which also placed preferential tariffs on goods from countries within the Empire. The actual effects of this may appear slight. Yet as a key step in the formation of the British Empire's preferential tariff system, the Financial Act of 1919 was a landmark event.

In 1920, Britain set up import duties to protect the dye and other new industries. These were the Dye Import Restriction Act of 1920 and the Industrial Protection Act of 1921. Britain's adoption of protectionist policies represented a break with its free-trade tradition that shocked the rest of Europe. These steps were taken shortly after World War I, when the countries of continental Europe had fallen into severe financial straits and become particularly dependent on foreign trade for their recovery. Britain was therefore criticized heavily for initiating a trade war under such delicate circumstances.

Viewing this in perspective, some might argue that these particular tariffs only applied to a limited number of commercial goods and that it is therefore misleading to suggest that Britain had completely abandoned free trade. Yet no matter how limited in scope, Britain's alterations of its free-trade principle should not be overlooked. Instead, one must regard them as signaling Britain's decline in the world economy, and as heralding the death of the era of free trade.

After World War I, the world economy was plagued by an increasing trend toward economic nationalism and the intensification of tariff wars. It was in this climate that the United States replaced Britain as the world's leading economic and industrial power. However, a look at the U.S. economy in 1920 reveals American reluctance to relinquish its protectionist practices. In other words, even in an increasingly competitive world market, the United States still failed to make the policy adjustments required to secure economic superiority. This failure later produced a range of problems that influenced the entire world economy.

With the intensification of the tariff war in the 1920s, the U.S. moved to institute high tariff barriers. Unlike Britain, the U.S. had maintained high tariffs even before World War I. The Underwood Tariff in 1913 had showed signs of significant tariff reduction, raising expectations that the U.S. would continue a policy of low tariffs, particularly since it had become the undisputed leader of the world economy. However, these hopes were shattered by the economic disaster that struck the U.S. just after World War I in 1920, which instead increased domestic industry's demand for higher tariff rates. As a result, an emergency tariff was established on agricultural imports in 1921, and in 1922, the Fordney-McCumber Tariff increased tariffs considerably on both agricultural and industrial goods.[8]

These exorbitant tariffs nearly prohibited a number of imports. In 1927, the United States was singled out at the First World Economic Conference in Geneva for having the world's second-highest tariffs (after Spain) and received harsh international criticism.[9] Nevertheless, in 1928, the U.S. once again moved in the direction of strengthening its tariffs. Then came the Great Crash of 1929, the U.S.'s second economic disaster since 1920. With the onset of the Depression, the U.S. passed the notorious Hawley-Smoot Tariff in 1930, the highest, most drastic protectionist tariff in history, and this initiated a chain reaction that raised tariffs around the world.

The U.S. resumption of high tariff rates during the 1920s created significant incongruities between America's economic status and its trade policy. The U.S. was both the world's strongest industrial country as well its greatest creditor, receiving interest and war bond payments from abroad. As a great creditor and exporter, the U.S. should have attempted to revitalize the world economy after World War I. It could have done by adopting a policy of low tariffs opening its own market and promoting foreign imports. By 1925, the world economy had nearly recovered from the severe damage inflicted by World War I, and once again entered a period of economic expansion. This recovery was largely due to the economic boom which took place in the U.S. between 1922-29. Had the U.S. lowered tariff barriers, opened its huge growing market and expanded imports, it might have prolonged this period of prosperity, for the world economy as well as for itself. Instead, however, the U.S. adhered to its high tariff policy and chose to suppress imports. This aggravated circumstances for a number of debtor nations, who were then forced to borrow American capital in order to save themselves. In this way, American policy unnecessarily intensified the economic discrepancy between the flow of merchandise and international capital.[10]

By increasing trade barriers and strengthening tariffs, the U.S. and Britain contributed to the destabilization of the world economy of the 1920s. International finance was also hampered by the fact that a large portion of international investments in the 1920s were based on short-term credit. Although the U.S. possessed the world's largest capital market, its foreign investments after World War I were short-term and erratic. This produced irregular swings between American foreign and domestic issuing of capital.

After 1925, the world economy once again appeared to regain its vitality. This recovery, however, was merely superficial, and problems continued to persist in both trade and finance. In 1929, the Great Depression dealt the deathblow to U.S. economic prosperity and brought the collapse of the free multilateral economic system, which had been in existence since the mid-19th century. As a result, the world economy of the 1930s headed down the road toward dissolution and disintegration.

(3) The U.S. in the 1920s: Stumbles in Policy

Why did the U.S. fail to adopt a free-trade policy in the 1920s? What drove the U.S., even as the world's economic leader, to introduce high tariffs and strengthen protectionism? Although it would be difficult to grant this question the in-depth analysis it deserves, the writer will nevertheless attempt to summarize the issue in two fundamental points.

The first point relates to the major differences that separate the economic climate in the first half of the 19th century from that of the 1920s. During the first half of the 19th century, Britain had amassed an enormous amount of industrial capital and become the leader of the world economy. By the end of the mercantilist period, that is, between the latter-17th century and the end of the 18th century, Britain already led all other nations as the world's industrial center. As Britain entered the 19th century, it consolidated its power absolutely, thereby rendering other nations as merely peripheral forces.

The structure of economic power in the 1920s was entirely different. Although the world economy was centered around a single power, i.e., the U.S., intense competition had developed among several of the other major industrialized nations, such as Britain, Germany and France.

This type of pluralism is clearly seen through an examination of the world economy during the period of relative stability extending from 1925-1929. During this time, the process of reconstruction and economic recovery was nearly complete. As mentioned earlier, the global economy had entered a phase of expansion that affected industrial production, the production of raw materials and foodstuffs, and world trade. Economic progress by the U.S. was particularly dramatic. For example, the U.S. manufacturing production index in 1913 had grown 48% by 1925, and 80% by 1929. While the U.S. was already first in industrial production before World War I, between 1919 and 1926 it grew to claim nearly half of the world's production totals, or 42.2%. At the same time, Germany, which had lost the war, made a rapid recovery and ranked second with 11.6% of world production totals. Meanwhile, Britain and France maintained relatively high levels of 9.4% and 6.6%, respectively (Table 1).

Table 1
Percentages of World Industrial Production (Manufacturing) Production Figures for 4 Major Nations (%)

	1923	1926-29
U.S.	35.8	42.2
Britain	14.0	9.4
France	6.4	6.6
Germany	15.7	11.6

(League of Nations, *Industrialization and Foreign Trade*, 1945, Table 1.)

Table 2 shows the ratio of U.S. exports to world export totals. From 1911 to 1913, the U.S. stood in second place, behind Britain, with 12.4%. However, in 1929, U.S. exports rose to 16.0%, putting the U.S. in first place. At the same time, one cannot overlook the strength of Britain, Germany, and France, whose shares in world exports still ranked 12.4%, 9.8%, and 6.0%, respectively (Table 2).

After World War I, the U.S. became an economic giant. To a great extent, the axis of the world economy now shifted from Europe to North America. Although the U.S. had maintained a prewar foreign debt estimated at between $2 billion and $2.6 billion, after the war it paid these debts and became a creditor country. By 1929, the

Table 2
Percentages of World Exports of 4 Major Naions (%)

	1911-13	1926	1929
U. S.	12.4	15.9	16.0
Britain	15.3	12.4	12.4
France	6.7	6.3	6.0
Germany	11.4	8.1	9.8

(U. S. Department of Commerce, Foreign Commerce Yearbook. Miyazaki Seiichi, et. al. eds., *Kindai Kokusai Keizai Yoran* [A General Survey of Modern International Economy], (Tokyo: Tokyo Daigaku Shuppankai, 1981), p. 114.)

balance of U.S. foreign investments reached $15 billion, nearly the equivalent of Great Britain. During the approximate 10-year period from the end of World War I to 1929, new American overseas capital investment totals exceeded $9 billion, far beyond the totals of Britain, France and Holland combined. The U.S. had clearly become the world's largest exporter of capital.[11]

At the same time, the strength of Britain, Germany and France in the world economy made America's recently inherited responsibilities as economic world leader too heavy to bear. When the financial crisis of 1920 shook the world economy after the war, the presence of European competition stimulated the U.S. to take drastic measures, namely, the establishment of high agricultural and industrial tariffs between 1921-22.

This partly explains America's shift away from the low tariff policy exemplified by the Underwood Tariff, and its contrary adoption of high tariff barriers. A second explanation for American tariff strategy is closely linked to a peculiarly American notion about high tariffs. This thinking holds that the rise to industrial prosperity of the U.S. in the latter-19th century was directly attributable to its high tariff system.

Even after world War I, with the American rise to economic power in the 1920s, the belief that imports might weaken the domestic economy still remained quite widespread. This attitude survives even through today as the core of American thinking on protectionism. This was pointed out by President John F. Kennedy in 1962 in his annual message on trade to Congress. In this speech, Kennedy advocated the Trade Expansion Act, based on principles of free trade. Kennedy also implied that persisting beliefs in high tariffs were based on misconceptions.[12] Economically, American faith in tariffs derived from confidence in the vast domestic market, as well as in the low level of American dependency upon imports. A look back at American economic history reveals the long-established currency of these beliefs, as well as their bearing on the contemporary American trend toward protectionism.

The first high protective tariffs were introduced by the Republican Party in 1864 in an attempt to increase revenues during the Civil War. Even after the Civil War, such tariffs continued to be advocated as a means of protecting the profits of certain politically influencial industries. As it happened, these tariffs were to remain as a key feature of American fiscal and economic policy.

Following the Civil War, the American capitalist economy made rapid progress, reaching a stage of maturity and monopoly. At this point, arguments concerning the need for tariffs to protect young industries lost validity. Nevertheless, industrialists continued to pursue a permanent tariff system (the so-called "trust tariff") that would secure them special profits. They therefore concocted new reasons for demanding excessive protection.

As a result, tariff levels, which in 1857 had averaged 19%, climbed to 47% at the end of the Civil War in 1864. Although attempts were later made to lower tariff rates, the high tariff system remained unshaken, and in 1897, an unprecedently high 57% tariff barrier was erected by the Republican Party.[13] These protective tariffs enabled large manufacturers to market domestic goods at higher prices. At the same time, however, this also created dissatisfaction among domestic consumers who were forced to bear the burden of these price increases.

Although aware of consumer dissatisfaction, the Republicans sought to maintain this rigidly protectionist trade position, which was largely founded upon the demands of large manufacturers. In principle, the Democratic Party also supported protectionism. After 1868, the Democratic Party had often supported tariffs, though only as a source of revenue. In spite of the Democrats' promises to lower tariffs, the Democrat-backed Tariff Act of 1894 reveals their relative proximity to the Republican Party on the matter of protectionism.[14] Even today, the American Congress is characterized as a stronghold of protectionism. As has been noted, protectionism has been cultivated since late 19th century. At times, congressional protectionism has varied in tone. But as an undercurrent, it has never ceased to exist. Once again, we find this tendency growing stronger.

Ⅲ. American Economic Domination and Its Decline

(1) The Great Depression of the 1930s: The American Transition to Economic Domination

As has been pointed out, the U.S. rise to economic domination in the 1920s was characterized by the failure to enact any required policy adjustments. Regarding the bitter lessons of this failure, the well-known American economic historian Walt Whitman Rostow raised two points in a recent lecture in Japan.[15] The first is that the U. S. advanced tariffs in this critical period, and the second is that the U. S. did not fulfill its obligations to protect the world monetary system as an important source of international capital. According to him, the failures in these two areas helped to make the depression after 1929 serious and prolonged. And he made the following comments before a large Japanese audience. "We Americans understand the difficulties of the transitional period that Japan is experiencing now. Or at least we should understand it. It is very similar to the transition we experienced after World War Ⅰ. …… I would like to stress the importance for a new economic superpower to throw out old self-images and traditions and play the inevitable role of leadership."

In fact, in attempting recovery after 1929, the U.S. did not abandon its traditional policy of economic isolation from the international economy, and instead continued to rely upon its vast domestic market. As mentioned earlier, the U.S. market was encircled by the high tariff barriers that had been erected under the Hawley-Smoot Tariff of 1930. As a consequence, the U.S. was besieged by retaliatory measures taken by countries around the world. Import restrictions were imposed by one country after another, severely reducing international trade. The damage inflicted on American imports was by far more serious than that experienced by any other major industrial nation.

High American tariffs also increased the difficulties of several countries struggling to repay their debts. Some governments actually refused to repay their war bonds, and the U.S. also encountered problems in collecting on private foreign investments. In addition to this, American trade restrictions, which were based on excessive tariffs, became a major hindrance to the development of the U.S. shipping industry. These circumstances prompted the U.S. to gradually recognize the expansion of trade and overseas markets as its sole means to ending the massive unemployment brought on by the Depression. Between late 1933 and early 1934, the American government finally began to adjust its tariff policy. A true believer in free-trade, Secretary of State Cordell Hull (who dubbed himself a "20th century Cobden") proposed the Trade Agreements Act in Congress. Based upon the principle of unconditional Most-Favored Nation treatment this became law in June 1934.[16]

Under the Trade Agreements Act, the president was granted power by Congress to conclude trade agreements with other countries, to mutually reduce tariffs up to 50% of the current tariff rate, and to ease other trade restrictions in an effort to expand American exports. Before the enactment of this law, the American tariff system was essentially non-negotiable. As a result, the administration had encountered great difficulties with the Congress when attempting to conclude trade agreements and settle tariff rates.

However, under the Trade Agreements Act, presidential power to reduce tariffs now enabled the U.S. make a departure from its excessive protective tariffs. Furthermore, given American industrial and economic superiority, the U.S. was capable of a major move toward free-trade policy. Such were the intentions of free-trade enthusiast Hull and other policymakers at the time. All of these possibilities distinguish the Trade Agreements Act of 1934 as a step away from protectionism, and a crucial turning point in the history of American trade policy.

As has been pointed out, from the middle of World War I through the 1920s Britain lost its hegemonic status and discarded its free-trade principles to gradually introduce protective tariffs. When Britain was hit by the Depression in 1929, its first trade measure was to levy import duties. In September 1931, Britain went off the gold standard, and by the end of 1931 passed the Abnormal Importations Act, an emergency measure taken to raise tariffs on certain imported goods. With the passing of the Import Duties Act in March 1932, Britain instituted import tariffs of a permanent nature.

Britain's Import Duties Act placed a uniform duty of 10% ad valorem upon all commercial goods from countries outside the British Empire. Also, an additional 10-30% duty could be levied on top of the basic tariff in order to protect domestic industry. Up until the 1920s, such tariff measures were largely regarded as exceptional. Nevertheless, the Import Duties Act represented Britain's decisive step toward a permanent tariff system. No longer the lowest in the world, British tariff levels had made a major leap. While they still remained lower than Spanish or American tariffs, British tariffs now rivaled those of Germany and France.[17]

In August 1932, Britain met with representatives from the major countries of the British Empire in Ottawa, Canada, for the British Imperial Economic Conference. There they concluded the Ottawa Agreement, under which these countries adopted preferential tariffs favoring members of the British Empire. The agreement also strengthened tariffs against non-member countries, completing the erection of this tariff system. Along with the Import Duties Act, the Ottawa Agreement signified Britain's acknowledgment that its power had declined, as well as proof of Britain's decision to strengthen its imperial economic bloc.

As illustrated above, during the Depression years of the 1930s

Britain abandoned completely its traditional free-trade policy and shifted to protectionism. As if to respond to this, the U. S. announced its own intention to abandon its traditionally defensive, protectionist policy in favor of an actively open free-trade policy.

This development strongly implied a shift in industrial and economic world leadership from Britain to the U. S. Yet more than 10 years had already elapsed since the U.S. had become the world's greatest economic power. The fact is, the American adoption of free-trade came too late. The world economy had already begun to disintegrate.

With the powers organized into a series of economic blocs, the world entered a phase of virtual economic warfare. Economic conflict between world powers translated into political confrontation, and the stage was soon set for the events that preceded World War II. In 1931, Japan invaded northeast China. In 1933, the Nazis gained power in Germany and in 1935 announced German rearmament. This was followed by the outbreak of war between Italy and Abyssinia later in the same year.

With world war on the horizon, American trade policy developed new goals. Led by Germany, Europe had initiated aggressive exports to Latin America. Under such circumstances, the U. S. was virtually forced to apply the Trade Agreements Act of 1934 for purposes of counteracting its declining position in Latin America. As a result, this act assumed a role throughout the 1930s in the formation of what has been labeled "pan-Americanism." This is illustrated by the fact that more than half of the 20 participating treaty nations were Latin American.

Under the Trade Agreements Act, the U. S. again kept the opening of its domestic market to a minimum, and one-sidedly stressed expanding exports. Tariff levels at the time were so astronomical that even after the president ordered a 50% cut, they had merely returned to the levels of the Tariff Act of 1922 (Fordney-McCumber Act).[18] It was not until after the beginning of World War II in the 1940s that the U.S. acknowledged its own industrial, financial and economic superiority. Gathering its confidence as world economic leader, the U.S. actively initiated the rebuilding and reorganizing of a free and open world economy.

(2) The Establishment of American Economic Leadership and Retrenchment in the Postwar Period

As mentioned earlier, the Crash of 1929 taught the U. S. the advantages of free trade over protectionism in maintaining its position as the world's most productive nation. American adoption of the Trade Agreements Act in 1934 represented a complete reversal of its previous protectionist policies. It now championed the cause of free trade and advocated an open door for commercial imports. In this way, the U.S. established the direction of a new foreign economic policy based on the principle of non-discriminatory multilateralism. Under this principle, all countries were required to reduce tariffs and other trade barriers, as well as to work toward eliminating discriminatory trade practices.

The U. S. urgently needed to build a world market that would be receptive to American imports and capital. The importance of this increased with the expansion of the American economy during World War II, as well as with the emergence of its overwhelming productive superiority. During the course of World War II, the U.S. had already begun to take concrete measures toward ensuring a world market that would serve its needs. The first such measure was the Lend-Lease Act of 1941, which furthered American policy goals of free trade. This law enabled the U.S. to conclude the Mutual Assistance Act, the purpose of which was to strengthen military support to Britain. In exchange, the U.S. brought Britain to comply with its principle of non-discriminatory multilateralism. The U.S. also made an unsuccessful attempt to force the dissolution of the British Commonwealth Preferential Tariff System created by the Ottawa Agreement in 1932.

It is important to note that prior to this, the U. S. had persuaded Britain to share in the drafting of the Atlantic Charter. The Charter consisted of six articles that established basic plans for postwar economic reconstruction, and incorporated the U. S. foreign policy of free trade.[19] Through the Atlantic Charter, military assistance and other measures, the U.S. acquired the leading role in managing the postwar economy from Britain, its greatest friend of the Allies. The U. S. then entered into negotiations with Britain regarding the establishment of an organization for international economic cooperation. An agreement was reached, and in July 1944, the U. S. invited 44 nations to Bretton Woods, New Hampshire. It was there that they held the Allied Nations' Conference on Finance and Currency and concluded the Bretton Woods Agreement.

The Bretton Woods Agreement laid the foundation for the later establishment of the International Monetary Fund as well as the World Bank (officially called the International Bank for Reconstruction and Development). Along with GATT (General Agreement on Tariffs and Trade, formed in 1947), these two organizations later performed key roles in promoting the coordinated development of international foreign exchange, finance and trade for various capitalist countries after World War II. These three international organizations have been grouped together and referred to as "the Bretton Woods system" (more accurately called the Bretton Woods-GATT system, or the Postwar International Economic System).

On the surface, the Bretton Woods system was established to promote free non-discriminatory multilateral trade. The true intentions of the U. S., however, were fairly transparent: namely, to take the central role in maintaining, strengthening and managing this system as the world's leading economic power. By doing so, the U. S. hoped to control various areas of the world economy such as currency, finance, and trade. In fact, after World War II, the U. S. continued to rely upon the Bretton Woods system as well as to take advantage of its strong currency to increase dependency upon the dollar in Western Europe as well as in Japan. All of this was aimed at promoting economic stability and prosperity in the capitalist world. In addition, the U. S. made efforts to establish a "Pax Americana" by advocating and initiating free trade. At the same time, a number of other capitalist countries struggling to rebuild their economies in the postwar period became dependent upon American financial assistance and were thus gradually incorporated into the Bretton Woods system.

In this context, several major industrialized capitalist countries completed the process of postwar recovery and liberalized trade and foreign exchange by the late 1950s and the early 1960s. Ironically, however, the Bretton Woods system later came to confront problems quite unanticipated by its American founders. Most salient among these was the deterioration of the IMF system. This upset came as the result of a complicated chain of events. In the late 1960s, increasing American involvement in the Vietnam War deepened American economic difficulties, weakening faith in the dollar and producing a crisis. Then, in March 1968, a rush on gold forced the introduction of a dual-pricing system for gold. Although realistic readjustments were in order, the IMF maintained the gold-dollar exchange parity at $35.00 per ounce, creating a serious disparity between this false price and the true value of gold as reflected in the free market (i.e., the London gold market).

Neither the weak dollar nor the upsetting of the IMF system halted the overall decline of the U.S. total balance. In 1971, the U.S. total balance posted a deficit of $22 billion, the largest in its history up to that time, and the U.S. trade balance, in surplus since the end of World War II, also recorded a deficit in the same year.[20] Under such circumstances, not even the U.S. was capable of maintaining the outdated gold-dollar system and the fixed rate of exchange. In August 1971, President Richard Nixon shocked the world by announcing his New Economic Program. This suspended convertibility of the dollar into gold and imposed a temporary 10% import surcharge. Nixon's New Economic Program was more than an admission of America's decline from industrial and economic superiority. It also marked America's first major policy adjustment since the beginning of its decline. After the suspension of the dollar-gold conversion system, the Smithsonian Agreements were concluded in December 1971. However, these agreements were ended by the changeover in February 1973 to the floating exchange rate system. All of these developments spelled the collapse of the Bretton Woods system, which had been in force for nearly 25 years. America's fall from economic superiority now became apparent to the entire world.

(3) American Economic Decline in the 1970s

Nixon's New Economic Program in the beginning of the 1970s marked the beginning of a stormy period for the world economy. At the end of 1973, the oil crisis triggered the most severe recession the U.S. had seen since World War II and signaled the lengthening of a recession worldwide. In spite of the slight recovery that occurred between 1976 and 1979, a severe global recession once again took hold from 1980 to 1982. Competition, friction, and confrontation intensified among the major industrialized nations, which now became locked in a fight to dominate the world market. This brought about a clear revival and strengthening of protectionist trade policy.

The American trend toward decline began in 1971, after the U. S. recorded its first trade deficit since World War II. With the passage of time, this deficit grew worse. Even more critical, however, was the fall of the U.S. current account balance into a massive deficit in 1977-78 (Table 3). This development symbolized the relative weakening of America's industrial and economic power, which had once reigned supreme. In fact, due to loss of confidence in the dollar, the Carter administration was forced to hammer out a dollar-defense policy on two occasions (Dollar protection was first announced in August 1978, and in November, emergency measures were taken to protect the dollar, such as intervention in the foreign exchange market). These moves to defend the dollar marked the second significant American attempt to adjust policy in the face of the its gradually declining economic power.

Congress passed two trade bills, both prior to and after the Carter administration's dollar-defense plan of 1978. The first of these was the Nixon administration's 1974 Trade Act, and the second was the Carter administration's 1979 Trade Agreement Act. Theoretically, the 1974 Trade Act was passed to support free trade. In this way, it was intended to carry on the ideas expressed in both the 1934 Trade Agreements Act and the 1962 Trade Expansion Act passed by the Kennedy administration. However, the 1974 Trade Act contain a strong dose of protectionist language, which no doubt reflects the mood of its day. One of the most significant examples of such language was the introduction of reciprocity, a principle alleged to uphold fair trade. Since its inception, reciprocity has emerged as a powerful weapon employed by the U.S. during its trade negotiations. It is now widely known through Section 301 of the 1974 Trade Act.

Under Section 301, U.S. trading partners must provide the U.S. with trade opportunities equivalent to those available in the American market. If a trading partner blocks American exports to its own market by means of tariff or non-tariff barriers, this may be deemed

Table 3

U. S. Trade Balance and Current Account Balance (1970-1985)

(in million dollars)

Year	Export	Import	Current Trade Balance	Account Balance
1970	42,469	−39,866	2,603	2,331
1971	43,319	−45,579	−2,260	−1,433
1972	49,381	−55,797	−6,416	−5,795
1973	71,410	−70,499	911	7,140
1974	98,306	−103,811	−5,505	1,962
1975	107,088	−98,185	8,903	18,116
1976	114,745	−124,228	−9,483	4,207
1977	120,816	−151,907	−31,091	−14,511
1978	142,054	−176,001	−33,947	−15,427
1979	184,473	−212,009	−27,536	−991
1980	224,269	−249,749	−25,480	1,873
1981	237,085	−265,063	−27,978	6,339
1982	211,198	−247,642	−36,444	−9,131
1983	201,820	−268,900	−67,080	−46,604
1984	219,900	−332,422	−112,522	−106,466
1985	214,424	−338,863	−124,439	117,677

Amerika Keizai Hakusho, [A Japanese translation from the Annual Report of the Council of Ecnomic Advisers, Washington, D. C., 1987. 1. 23.], (Nihon Hyoron Sha), p. 307

unfair and the U.S. is entitled to retaliate by limiting access to the American market.

Bilateral reciprocity comprises an important part of traditional American thinking on trade negotiations. It can be traced, for example, back to the Reciprocal Trade Agreements Act of 1934. Under this act, the U. S. adopted a constructive approach to expanding free-trade in the effort to open up the world market by mutually reducing tariffs, which was accomplished through bilateral negotiations with its trading partners. Under Section 301, however, the U.S. applied the same terms to achieve quite opposite ends. Reciprocity in 1974 was now applied retrogressively to limit rather than increase market access. If the U. S. deemed its trading partner's market to be insufficiently open, it was now entitled to close its market to a comparable degree. To accomodate this change in definition, newspapers and other publications in Japan have adopted two different terms when referring to the principle of reciprocity so as to distinguish between its different applications prior to and after the 1974 Trade Act.[21] Originally, the 1979 Trade Agreements Act was proposed to Congress as a means of realizing agreements reached at the GATT Tokyo Round (Multinational Trade Negotiations, 1973-79). When the agreement was passed by Congress, however, various regulations restricting imports were added to reinforce it. Its subsequent passage has cast strong doubts over the general direction of American postwar trade policy, and prompted Raymond Vernon to question American faith in free trade.[22]

IV. Japan's Emergence as an Economic Leader in the 1980s

To summarize, the period stretching from the late 1960s to the end of the 1970s was characterized by the decline of American economic power, and was followed by the division of world economic power into three poles; namely, Europe, Japan, and the United States. Competition, friction and confrontation in the world market have grown more intense every year. In the 1980s, Japan has taken the lead in this competition and demonstrated its economic power not only in the American market, but throughout the world. U. S.-Japan trade frictions in the 1970s may be regarded as only the prelude to the more advanced stage of economic warfare achieved in the 1980s.

With the introduction of a dual-price system for gold in March 1968, the U. S. gradually came to recognize its fall from economic power. Recognition prompted the U.S. to adopt a tougher stance toward Japan's aggressive exports into the American market. Before the end of March 1968, the U.S. filed an appeal against the dumping of Japanese color television sets in the U.S. The following spring, the legislative movement to restrict Japanese imports grew stronger. In May 1969, the U.S. government demanded export restrictions against Japanese wool and synthetic textile products, marking the beginning of the U.S.-Japan textile war. During the 1970s, economic war broke out on several other fronts, with the U.S. filing against Japanese dumping of steel (1971), home electronic appliances and particularly color televisions (1976), and steel products (1977). In February 1978, the U. S. demanded Japan deregulate its state-owned telecommunications industry. Furthermore, in December 1979, United Auto Workers President Douglas Fraser raised the question of whether the U.S. should restrict Japanese automobile imports or promote Japanese investment in the U.S. auto industry, triggering a war in the automaking industry as well.[23]

Throughout the 1970s, Japan reacted to American pressures passively, following a pattern of ill-conceived responses and temporary solutions. In doing so, Japan continually forced itself into the position of having to restrict its own exports. In fact, a look at Japan's gradual rise to industrial and economic power reveals no signs of any active, conscious attempts to adjust or change policy to suit its own changing economic status.

In November 1981, the U. S. government made its first official demand that Japan open its market to correct the U.S.-Japan trade imbalance. In December of the same year, the Japanese government took the first in a series of steps toward liberalization by announcing a new economic policy to open the Japanese market. By May 1985, the Japanese government had set in motion seven such new foreign economic policies. In July 1985, the Japanese government settled upon a new three-year plan to liberalize the Japanese market. This plan contained a wide variety of measures to liberalize the Japanese market beyond even international standards. In principle, this meant carrying out total liberalization, while regarding any remaining restrictions as exceptions to the rule.[24]

With each market-opening announcement, the Japanese government claimed both at home and abroad that its political advances were nothing short of heroic. However, these measures were not well received in either the U.S. or the EC. Rather, there emerged abroad the suspicion that Japan was only making gradual, minor concessions in the attempt to alleviate foreign pressure and save the situation. These criticisms resulted from the failure of Japanese liberalization policy to increase foreign imports. Further grounds for such criticisms may be found in the market liberalization policies of the early 1980s, in which an excessive number of regulations prevented the achievement of substantial results. Such evidence does indeed suggest that Japan feared making any real changes.

Nor did the broad improvements planned by Japan's Market Liberalization Action Program in July 1985 do much to alleviate trade frictions with the U.S. Since 1975, Japan has postponed lifting restrictions on 27 items, merely stating that appropriate measures would be taken through negotiation with its trading partners or at GATT conferences. Both the U.S. and the EC view this as a Japanese tactic to forestall definite action.[25] One must also question Japan's failure to adjust its policies during its gradual rise to industrial and economic power in the first half of the 1980s. True, Japanese policy during this period did display a more serious commitment to action than in the 1970s. Overall, however, Japan continues to adopt the stance of an economic weakling, unable to completely tear itself away from a pattern of passive and defensive behavior.

Meanwhile, the Reagan administration, which assumed power in 1980, adopted policies that were no different from those of all previous administrations since the Nixon era. Secure in the U.S. position as the key-currency country, the Reagan administration saw no need to adopt stringent measures of retrenchment to reduce U.S. trade and current account deficits. Between 1981 and the fall of 1985, the

U.S. government maintained its laissez-faire attitude toward both a high dollar and high interest rates (this has been labeled as a policy of benign neglect). As a consequence of this, both the trade and current account balance deficits have increased enormously. For example, between 1980 and 1984, the average annual trade deficit rose to \$53.9 billion, and the current account deficit reached \$30.7 billion.[26] In 1985, the trade deficit soared to \$124.4 billion and the current account deficit hit a record high of \$117.7 billion (Table 3). Furthermore, U.S. external net assets, which had been the highest in the world, peaked in 1981 but then spiraled downward, knocking the U.S. from first place in this category in 1983. By 1985, the U.S. had become a debtor nation.

By contrast, Japanese trade and current account surpluses hit \$56 billion and \$49.2 billion, respectively. External net assets reached \$129.8 billion by the end of 1985, bringing Japan into first place for the first time ever.[26]

In September 1985, concern over these developments, and particularly over the fact that the U.S. had become a debtor nation, hardened the Reagan administration's resolve to end its policy of supporting the high dollar. At a meeting of the G5, the U.S. proposed taking steps to lower the dollar. At the same time, the U.S. announced Reagan's new trade policy. This contained strong demands that trading partners such as Japan and several other countries correct their so-called "unfair trade practices" to further market liberalization. For the United States, this was a major policy adjustment.

In spite of growing protectionist sentiments in Congress at that time, the Reagan administration was nevertheless able to control the situation by appealing both at home and abroad for the maintainance of free-trade.

After announcing its new trade policy, the Reagan administration actively pursued comprehensive strategies aimed at adjusting the trade imbalance, as well as recovering American international competitiveness. These strategies included maintaining appropriate exchange rates, mutually coordinating adjustments of economic policy on the part of all the G5 countries and abolishing unfair trade practices.[27] Meanwhile, fear over the American national debt and the decline of the U.S. dollar continued to grow. Under these circumstances, many anticipated the Reagan administration would enact new trade policies that would make major changes in American foreign policy, perhaps similar in scale to those effected under Nixon's economic program in the early 1970s. Indeed, Reagan's new trade policy could quite possibly have become the third major policy adjustment by the U.S. since its fall from economic supremacy.

However, during the 1980s, a series of protectionist bills calling for reciprocal trade and import tariffs was proposed to Congress. Among these was the 1982 Reciprocal Trade and Investment Bill (otherwise known as the Danforth Bill), which did not, however, win approval from Congress.

Throughout the postwar period, the U.S. has advocated free trade. However, a growing tendency in the direction of protectionism now appears to be weakening the consensus. The ability of Congress and public opinion to influence government policy toward even greater protectionism has always made congressional activity a matter of tremendous concern for the nation's trading partners.

There is no question that the U.S. considers the correction of its huge trade imbalance with Japan an urgent issue. Japan will have to prepare a comprehensive policy to correct its trade surplus, rather than simply depending on the recent strength of the yen. Since Japan has come close to attaining industrial and economic supremacy in the 1980s, it should recognize its own ability not only to increase its own profits, but also to help promote the balanced, stable growth of the world economy.

Indeed, the time has come for Japan to re-evaluate the success of its recent economic measures and policy adjustments. More than ever, Japan must now reconstruct its overall domestic and foreign policies to suit its new position in the world economic order.

Notes

1 This paper was written in this period, i.e., in the mid-1980s.

2 During the period extending from the early to mid-19th century, and in the 1920s as well, the structure of the world economy underwent a massive transformation. Changes in the world economic structure have also occurred on an equally large scale since WWII. Differences are particularly apparent when comparing economic structures of the 1950s-60s with those of the 1970s-80s. Proper analysis of the relationship between economic hegemony and policy change demands that full consideration be given to such changes in world economic structure. Without looking at the respective historical background and changes in world economic structure, one cannot make a comparative examination of the problems of policy change and economic hegemony. It would be impossible, however, in this paper to describe this process in exhaustive detail. Therefore, this paper will attempt to draw the broad historical lessons by looking at actual social characteristics and tendencies regardless of the period in which they occur.

3 Kawata Tadashi, *Gendai Kokusai Keizai Ron* [Contemporary International Economy], (Tokyo: Iwanami Shoten, 1967), p.3. For more detailed discussion of this point, see Uno Kozo, *Keizai Seisakuron* (Kaiteiban) [An Inquiry into Economic Policy (new edition)], (Tokyo: Kobundo, 1971), p.109 and following pages.

4 Yanaihara Tadao and Yanai Katsumi, *Kokusai Keizairon* [International Economy], (Tokyo: Kobundo, 1955), p.68. See also H. Levy, *Die Grundlagen der Weltwirtschaft*, 1924, S. 13-14; W. Woytinsky, *Die Welt in Zahlen*, 1927, S. 176; Walt W. Rostow, *The World Economy: History and Prospect*, 1978, p.662.

5 It is important to note that after the middle of the 19th century, Britain provided other countries with a huge supply of capital, thus playing a key role in the growth of world trade,and the subsequent expansion of the world economy. Britain was the only country capable of satisfying both foreign needs for capital as well as its own large domestic demands. At the end of the 19th century, Amsterdam which had once been the international center of capital, completely lost this status and was replaced by London. After the beginning of the 1870s, export capital had to be supplied by France and Germany. However, in international finance, Britain maintained an overwhelmingly strong position up until WWI. See Yanai Katsumi, *Gaisetsu Kokusai Keizairon* [Introduction to International Economy], (Tokyo: Tokyo Daigaku Shuppankai, 1965), p.72 and following pages. Full attention must be given to the fact that Britain's constantly large capital supply served as an essential lubricant in the working of trade and the world economy. The importance of international finance in the expansion of world trade is quite accurately assessed by Susan Strange in her recent article, "Protectionism and

World Politics," *International Organization*, Vol.39, No.2, Spring 1985, pp.235-45.

6 Uno, op. cit., p.127.

7 For example, in 1898, Canada reduced by 25% tariffs on British goods and on goods from British colonies that provided reciprocal privileges to Canada (excluding wine, liquor, and tobacco). This included Bermuda, the British West Indies, and British Guyana. See W. Page, *Commerce and Industry*, Vol.I, Chap.XI. Also, Yanai, op. cit., p.127.

8 As for a hasty raising of tariff walls early in 1920s, U.S. Tariff Comission described in the following words. "After the World War there arose a demand for tariff revision which was intensified by currency depreciation in European countries, particularly in Germany. Industries which had grown up or expanded during the war were fearful of increased foreign competition, and a severe decline in agricultural prices in 1920 caused the farmers also to advocate increases in tariff rates. In response to this demand the Congress enacted the Emergency Tariff of 1921 and later the Tariff Act of 1922." (U.S. Tariff Commission, *Trade Agreement between the United States and the United Kingdom*, 1938, Vol.I, 30.) For further details about British and American tariff policies in the 1920s and 1930s, see also Kawata Tadashi, "Tsusho Seisaku [Trade Policy]," *Sekai Keizai Ron* [World Economy], ed. by Yanai Katsumi, (Tokyo: Tokyo Daigaku Shuppankai, 1961), p.345 and following pages.

9 League of Nations, *Tariff Level Indices*, 1927, p.15. Also, J.H. Richardon, *Economic Disarmament: a Study on International Cooperation*, 1931, p.31. See also Kawata, loc. cit., p.348.

10 See Kawata, *Gendai Kokusai Keizairon*, p.23. See also Kawata, loc. cit., p.348 and following pages.

11 American and British foreign investment balance in 1929 were estimated at $14.6 billion and $16.8 billion, respectively. (United Nations, *International Capital Movements during the Inter-War Period*, 1949, p.29.) That British investment balances exceeded those of the United States may be credited to Britain's long period of capital accumulation prior to WWI. Judging from statistics, there is no question that after WWI, the United States became the world's largest capital market. As touched upon earlier, unlike Britain, the United States lacked proper capital export organizations such as commercial firms that specialized in foreign investment and the issuance of securities. As a result, the United States often changed its foreign investment policies, vacillating between foreign and domestic capital issue. This was partly due to the fact that American economic organization depended less upon consistency in capital exports than did Great Britain. When the United States suddenly

reduced or cut off foreign credit, it vastly broadened problems for a number of foreign countries and played a role in destabilizing the world economy. (*Sekai Keizai Ron*, ed. by Yanai, p.238 following pages.) The U.S. dollar sums referred to above are based upon the US Gold standard Act of 1900; one ounce of gold = $20.67, or 1/20th of an ounce (1417.5 milligrams) = $1.00. In 1933, the United States abolished the gold standard and in 1934 set the price of one ounce of gold at $35.00.

12 See Kawata Tadashi, *Sekai keizai Nyumon* [Introduction to World Economy], (Tokyo: Tokyo Daigaku Shuppankai, 1963) p.140.

13 E. L. Bogart, *Economic History of the United States*, 1922, pp. 409-11. For information about the tariff decrease after the Civil War, see F.W. Taussig, *The Tariff History of the United States*, 1923, pp. 171-93.

14 Under the 1894 Tariff Act, tariff levels in 1894 averaged 39.9%. (Taussig, op. cit., pp. 284-320).

15 Walt W. Rostow, "Kantaiheiyo to Sekai Keizai [Pacific Basin and World Economy]," trans. by Takagi Nobuyuki. (*Ekonomisto*, Mainichi Shimbunsha, July 16, 1985, P.59). As for the quoted passage of 6 lines, the writer translated it into English from *Ekonomisto*, p.59.

16 See Kawata, loc. cit., p.387 and following pages.

17 *The Economist*, May 7, 1932, p.1010. For a discussion of the development of the Import Duties Act, or details of its various characteristics, see Kawata, loc. cit., p.352 and following pages.

18 For a detailed discussion of the actual employment of the Trade Agreements Act during the 1930s, see Kawata, loc. cit., p.389 and following pages, and Yanai, op. cit., p.198 and following pages.

19 For details about the Mutual Assistance Agreement and the Atlantic Charter, see Kawata, *Gendai Kokusai Keizairon*, p.42 and following pages. See also Kawata Tadashi and Twe Jaw-Yann, *Gendai Kokusai Shakai to Keizai*, [Contemporary International Society and Economy], (Tokyo: Ochanomizu Shobo, 1983), p.19.

20 Since 1958, the United States international balance of payments has continued on a gradual trend toward decline. The United States trade balance has been running a deficit since 1971. The continuation of such a long-term deficit is without precedent in world economic history. That the United states government failed to follow a policy of retrenchment or take strict countermeasures to resolve the deficit played a direct role in this decline. Such behavior has been facilitated by the fact that since the U.S. dollar is the key international currency, the United States has not had to make any immediate compensation for its international deficit with foreign currency. See Tomizuka Buntaro, "Nichibei Keizai Masatsu e no Taio," *Nihon no Taibei-Taiajia Keizai*

Kankei o Do Kangaeru ka [What to do about Japanese Economic Relations with The United States and Asia], ed. by Ouchi Tsutomu, (Tokyo: Ochanomizu Shobo, 1986), p.20 and following pages.

21 Since 1982, the term *sogoshugi* has been employed by Japanese newspapers to refer to "reciprocity" in the sense that it is appears in Section 301. In February 1982, a great deal of attention was focused upon the Danforth Bill, also called the Reciprocal Trade and Investment Bill (*sogo boeki toshi hoan*) which was followed by a series of proposed bills labeled " 'reciprocity' bills" (*sogoshugi hoan*). For a detailed discussion of this point, see Kawata Tadashi, *Shin Keizai Masatsu* [Economic Friction (new edition)], (Tokyo: Tokyo Shoseki, 1986), p.213 and following pages. For more on changing notions of the term "reciprocity," see Robert O. Keohane, "Reciprocity in International Relations," *International Organization*, Vol.40, No.1, Winter 1986, pp.3-4.

22 Raymond Vernon, "1980 Nendai no Amerika Gasshukoku no Kokusai Boeki Seisaku [International Trade Policy of the United States of America in the 1980s]," *Boeki Furikushon* [Trade Friction], eds. by Okita Saburo and Sato Ryuzo, (Tokyo: Yuhikaku, 1983), p.23 and following pages. By the end of the 1970s, the U.S. current account balance turned to a deficit, and the international balance of payments deteriorated further. Some scholars argue that this trend was produced by increases in overseas production and a greater international division of labor by American multinationals. In other words, increasing deficits in the balance of trade and payments are not necessarily produced by the weakening of the U.S. economy. In contrast, others argue that "mulinationalization" encourages the outflow of capital, factories, and employment opportunities, consequently hollowing and weakening the U.S. economy. All these arguments raise the issue of how to assess transnational activities by multinational corporations. According to R. Vernon, while the sales of U.S. corporations producing overseas accounted for less than 6% of U.S. production totals in 1957, they surpassed 9% in 1965 and reached 18% in 1976. (Vernon, loc. cit., p.21.)

23 The United States and Japan have carried out intermittent negotiations over frictions in the auto industry since 1979. At the beginning of 1981, a series of bills to restrict Japanese auto imports were proposed in the United States Congress. In May 1981, Japan announced voluntary restrictions on auto exports to the United States for the three-year period 1981-1984 that set the export quota for 1981 at 1.68 million cars. After 1982, a number of Japanese auto manufacturers began establishing plants in the United States. It has been argued that this move may cause the hollowing of Japan's own economy. See Kawata, *Shin Keizai Masatsu*, p.107; and p.124 and fol-

lowing pages.

24 For details concerning these seven liberalization policies, see Okawara Yoshio, *Koritsuka o Sakeru Tame ni : Taishi no Chokugen* [Advice from an Ambassador: To Avoid Isolation], (Tokyo: Sekai no Ugokisha, 1985), p.126 and following pages. See also Kawata, *Shin Keizai Masatsu*, p. 26 and following pages.

25 Besides the problem of remaining import restrictions, foreign criticism also included several other demands. One point of contention concerned Japanese government re-examination of the standards and approval system. This would entail reducing government input in the existing "government approval" process, and moving instead to a "self-approval" system in which individual foreign manufacturers would take on the responsibility of inspecting their products themselves. This method of approval was adopted in only 14 cases. In addition, tariff reduction was not extended to include cheese and chocolate, items very much at the top of the list for the United States and the EC (these issues were reported in the several major Japanese evening newspapers on July 30, 1985. See Kawata, *Shin Keizai Masatsu*, pp. 25-32).

26 Announcement by the Ministry of Finance, *Nihon Keizai Shimbun*, evening edition, June 8, 1986. In 1986, the United States trade deficit stood at $147.7 billion and its current account deficit climbed to $140.6 billion. By contrast, the Japanese trade surplus soared to $101.4 billion and the current accounts surplus also rose to $93.8 billion. In addition to this, by the end of 1986, the United States' external debt reached $263.6 billion, far exceeding that of Brazil ($109.2 billion) and Mexico ($100.4 billion) and making the United States the world's greatest debtor nation. By the end of 1986, Japan's external net assets accounted for $180.4 billion, actually higher than that of the United States at its peak, $140.7 billion at the end of 1981. (Japanese Ministry of Finance announcement; *Asahi Shimbun*, morning issues of May 2, May 26, June 24, 1987).

27 Kojima Akira, "Bei no Hokatsu Senryaku to Nihon [American Comprehensive Strategies and Japan]," *Nihon Keizai Shimbun*, morning issue, June 12, 1986.