

pan in terms of money flow, it still retains a considerable edge in terms of military power and such stock items as wealth (cultural facilities, housing, standard of living, etc.).

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## America in the World Economy: A Strategy for the 1990s

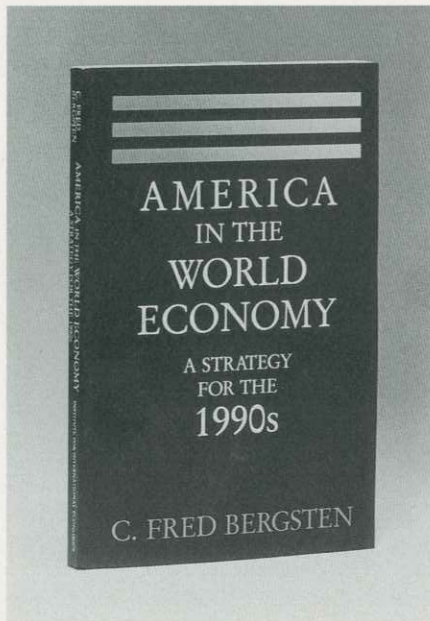
By C. Fred Bergsten  
Published by the Institute for International Economics  
1988; Washington D.C.  
218 pages; \$29.95 (cloth)/\$13.95 (paper)

This book is not based on extensive original research. The book's purpose is rather to draw the results of the research done by the Institute for International Economics over the seven years of its existence together in a systematic manner and to offer economic policy recommendations to the new administration taking office in the United States.

Consequently, the book contains policy advice on just about every major economic issue facing America: rectifying its massive internal and external imbalances, resolving the debt problem, and trade policies to encourage and ensure free and open world markets.

This book brings home a number of basic economic truths—such as the fact that America cannot continue indefinitely to consume more than it produces. If it does, says Bergsten, then it will cease to have access to the policy tools it needs to rescue the economy from recession. Concerning America's eroding international economic position, the author emphasizes that "failure to take preemptive steps usually makes it necessary to adopt stronger reactive measures later, when the situation has worsened." This is the kind of advice that Japanese will be glad to hear a thoughtful American giving.

But the bottom line is how Americans



view the problem. Bergsten emphasizes, "Historically, most American economic (and other) policies have been determined on strictly domestic grounds... With the increase in America's dependence on world markets and the decline in its ability to dictate global outcomes, that approach is no longer viable." From the Japanese perspective, the very fact that Bergsten has to argue for an updating of American perceptions at all is indicative of the newness and seriousness of the problems America faces.

Economic survival is intertwined with and interdependent on what happens in the rest of the world. This is axiomatic for Japan. Time and time again, the Japanese have been made painfully aware of the need to rein in domestic demand for international balance of payments reasons. Indeed, it is precisely because of this that the government and private sector have placed such a high priority on achieving competitiveness within an open economic system. Now it is America's turn. The answer, according to Bergsten, is for America to pursue a strategy of "competitive interdependence."

In recognizing the reality of interdependence, America must be guided by the need to emphasize policy cooperation with Japan and West Germany, as

well as with such economies as Taiwan and South Korea. The author notes, however, that even though the world has now shifted to a pluralistic power structure, the United States is still the largest single country, both economically and militarily, and holds a "veto" over other countries' initiatives. Bergsten feels that America can continue to provide active world leadership if it maximizes its three main advantages—its huge domestic market, its role as issuer of the key international currency, and its position as its economic partners' military protector.

Awareness of the need for America to regain competitiveness has in turn led to an array of proposals to reduce the budget deficit, promote exports and prop up the international financial institutions. Nonetheless, the author recognizes that it will not be easy to implement these policies. This is why he repeatedly emphasizes the importance of prioritizing administration policies and hiring the best people available to work in government.

Of course, there are passages in this book with which I disagree. For example, I would take issue both with his blanket statement that there is no contradiction between short- and long-term policy goals in attempting to alleviate America's external imbalances and with his simplistic claim that there are no basic conflicts among the leading industrial countries' foreign and domestic policies. Additionally, I have trouble agreeing with his assessment of the compartmentalization of the economic and defense sectors.

Apart from these few reservations, however, it is safe to say that the book does a very good job in tackling its stated purpose—presenting valid policy alternatives for the United States government. Indeed, the Bush administration's effort to reduce the deficit and the proposals by the United States, Japan and others for dealing with the Third World debt problem seem to be based on thinking very similar to that expressed in this book.

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