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ONDITIONS FOR  
PARTNERSHIP  
IN INTERNATIONAL  
ECONOMIC  
MANAGEMENT

C. FRED BERGSTEN  
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This report was prepared for the Trilateral Commission and is released under its auspices. It was discussed at the Trilateral Commission meeting in Madrid on May 17-19, 1986. The authors, who are experts from Western Europe, North America and Japan, have been free to present their own views; and the opinions expressed are put forth in a personal capacity and do not purport to represent those of the Commission or of any organization with which the authors are associated. The Commission is making this report available for wider distribution as a contribution to informed discussion and handling of the issues treated.

CONDITIONS FOR PARTNERSHIP  
IN INTERNATIONAL ECONOMIC MANAGEMENT

A Task Force Report to  
The Trilateral Commission

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## The Trilateral Process

The introductory and concluding chapters of the report which follows are the joint responsibility of the three authors. Each author is individually responsible for one of the interior chapters—C. Fred Bergsten for the essay on the United States, Isamu Miyazaki for the essay on Japan, and Etienne Davignon for the essay on Western Europe. R. William Lawson is responsible for the closing essay on Canada.

The first meetings among the authors took place in November 1985. Etienne Davignon met with C. Fred Bergsten in Brussels on November 9 and with Isamu Miyazaki in Tokyo on November 12, to discuss the general themes of the report. The three authors met together in Washington on February 25, 1986, a meeting in which R. William Lawson also participated. The beginnings of several individual chapters were on the table for the February meeting. Drafts of the chapters were completed in the course of March and April and circulated for comments. A draft of the overall report was discussed at the plenary meeting of the Trilateral Commission in Madrid on May 17-19, 1986. The final draft for publication was completed at the beginning of June.

Although only the authors and special consultant are responsible for the analysis and conclusions in particular chapters, they have been aided by a number of others in the the course of their work. On the European side, Etienne Davignon is particularly indebted to his associate for this project, Catherine Gernay of Société Générale de Belgique. Viscount Davignon discussed his ideas for the project with European members of the Trilateral Commission at their regional meeting in Paris on October 25-27, 1985. He drew on the advice of several others in the course of the drafting. A small consultative group composed of government officials and academics met with Isamu Miyazaki in Tokyo in July 1985 to discuss the general themes of the project, and these individuals stayed in touch with the project as it evolved. Mr. Miyazaki also discussed a draft of the chapter on Japan with Japanese members of the Trilateral Commission at their regional meeting on March 11, 1986. C. Fred Bergsten circulated the first draft of his United States chapter to a number of others for comments in April 1986. R. William Lawson also received informal comments on the first draft of his essay on Canada.





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## I. INTRODUCTION

A primary purpose of the trilateral partnership is to provide constructive leadership for the world economy. For the first 20-25 years after World War II, the broad trend was upward in this regard. Cooperation and how to improve it between allies was a political priority, not only on the international scene, but on the domestic one also. Immediate policy tried to implement a larger strategy or at least tie in with the high priority given to cooperation, which can be defined as a collective attempt to tackle problems of concern to partners.

The years which followed were less happy ones. To be sure, the deterioration of international economic order in the 1970s was not nearly as profound as the collapse of the 1930s. Skillful crisis management and a healthy pragmatism helped prevent the worst. But pragmatism and crisis management are not enough over time. We need a leap forward in the extent of cooperation.

The foundations for such a leap forward have strengthened considerably. Price stability has improved greatly in the trilateral countries in recent years. General philosophical orientations have converged, with more emphasis on market orientation in economic policies. Some growth is underway in all three regions. The remarkable Group of Five meeting at the Plaza Hotel in September 1985 indicated that the outlines of appropriate economic strategy are widely recognized, and led to changes in exchange rates that helped restore a degree of confidence in the ability of governments, acting together, to influence events. The American role in the G-5 meeting and the "Baker initiative" on Third World debt announced a few weeks later indicated that the United States—the largest economy among the trilateral countries—is interested again in multilateral approaches.

We must not overestimate what the G-5 meeting and other recent events have accomplished, however. What was essentially crisis management must be turned into systematic cooperation on a continuing basis. Improved international arrangements are particularly critical in three areas, to which we will return in our conclusion: macro-economic policy and exchange rates, trade, and Third World debt.

Improved international arrangements must rest upon—and themselves serve to reinforce—improved performance on the part of each partner. The heart of this report is in the following essays that examine a central challenge for each partner. C. Fred Bergsten analyzes the wide swings in American participation in management of the world economy. Isamu Miyazaki shows how the correction of Japan's external imbalance requires correction of domestic imbalances. Etienne Davignon examines the dilemmas of a European Community which is more dependent than others on an effective multilateral system running smoothly—within the Community and globally—but has great difficulty focusing its energies as an initiator and driving force for concerted action. In his essay at the end of the report, R. William Lawson analyzes the relatively passive approach of Canada to international economic management, in contrast to its leadership role in the early postwar years.