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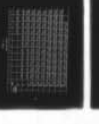
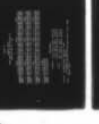
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THESIS

JAPANESE-AMERICAN ECONOMIC RELATIONS AND
THEIR IMPACT ON OVERSEAS MILITARY BUDGETING

by

Mark Allen Teipel

December 1978

Thesis Advisor:

Leslie Darbyshire

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SECURITY CLASSIFICATION OF THIS PAGE (When Data Entered)

REPORT DOCUMENTATION PAGE		READ INSTRUCTIONS BEFORE COMPLETING FORM
1. REPORT NUMBER	2. GOVT ACCESSION NO.	3. RECIPIENT'S CATALOG NUMBER
4. TITLE (and Subtitle)		5. TYPE OF REPORT & PERIOD COVERED
Japanese-American Economic Relations and Their Impact on Overseas Military Budgeting		Master's Thesis, December 1978
7. AUTHOR(s)		6. PERFORMING ORG. REPORT NUMBER
10/ Mark Allen/Teipel		8. CONTRACT OR GRANT NUMBER(s)
9. PERFORMING ORGANIZATION NAME AND ADDRESS		10. PROGRAM ELEMENT, PROJECT, TASK AREA & WORK UNIT NUMBERS
Naval Postgraduate School Monterey, California 93940		12/ LΦ6P.
11. CONTROLLING OFFICE NAME AND ADDRESS		11. REPORT DATE
Naval Postgraduate School Monterey, California 93940		December 1978
14. MONITORING AGENCY NAME & ADDRESS (if different from Controlling Office)		12. NUMBER OF PAGES
		105
		13. SECURITY CLASS. (of this report)
		Unclassified
		13a. DECLASSIFICATION/DOWNGRADING SCHEDULE
16. DISTRIBUTION STATEMENT (of this Report)		
Approved for public release; distribution unlimited.		
17. DISTRIBUTION STATEMENT (of the abstract entered in Block 20, if different from Report)		
18. SUPPLEMENTARY NOTES		
19. KEY WORDS (Continue on reverse side if necessary and identify by block number)		
Japan Balance of Payments Budgeting Overseas Exchange Rates		
20. ABSTRACT (Continue on reverse side if necessary and identify by block number)		
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Japanese-American Economic Relations and
Their Impact on Overseas Military Budgeting

by

Mark Allen Teipel
Lieutenant, Supply Corps, United States Navy
B.A., Northern Illinois University, 1970

Submitted in partial fulfillment of the
requirements for the degree of

MASTER OF SCIENCE IN MANAGEMENT

from the

NAVAL POSTGRADUATE SCHOOL
December 1978

Author

Mark A. Teipel

Approved by:

Leslie S. Galt

Thesis Advisor

Robert D. Rice

Second Reader

Carl R. ...

Chairman, Department of Administrative Sciences

A. ...

Dean of Information and Policy Sciences

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ABSTRACT

The economic relationship between the United States and Japan has undergone significant changes recently, causing changes and repercussion beyond international economics, including U.S. military budgeting. The U.S. Navy's present system of budgeting for overseas activities assumes stable exchange rates. Fluctuating exchange rates are now basic to the operation of the International Financial System. It is proposed that budgeting be done using a target rate, with fluctuations above and below that rate going into general Treasury receipts or supplemented by a specific appropriation, as the case may be. Otherwise, local overseas commanders have budgets nearly totally dependent upon exchange rates, which can convert the original intent of the granted budget when the dollar's value varies in either direction. This problem is particularly acute in Japan when the dollar's value has changed drastically and often, and where the Navy has a significant presence.

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I. THE PROBLEM AND ITS IMPORTANCE

The U.S. military forces in Japan and Germany are the successors to the post-World War II Allied occupation. No longer occupation troops, instead, the U.S. military presence in Japan and Germany is a projection of power overseas unprecedented in not only the history of the United States, but of the world.

When Japan and Germany were near collapse economically while the United States was the towering economic giant, the posting of American forces in those two nations was an economic benefit for all concerned. The infusion of U.S. dollars through the forces stationed there helped bolster their economies, which aided the United States as well as the devastated countries. By the time Japan and Germany had become economic powers in their own right, the financial implications of the foreign forces in their nations, not to mention the political trauma they caused, since no nation enjoys alien soldiers and sailors in their midst, were irritating and a source of concern. But now that the United States is suffering economic difficulties, in particular, vis-a-vis these two countries, the impact of the U.S. forces overseas becomes a deleterious factor in the international monetary equation.

Due to the economic difficulties of the United States, the dollar has also become less highly prized. Since the dollar's devaluation and the discontinuance of fixed

exchange parities the price of U.S. currency has varied from day to day. This has resulted in two immediate problems for the Department of Defense. First, it is now much more costly to operate in foreign currencies overseas (besides inflation and rising costs in general). Secondly, costs may vary greatly since during any fiscal year the value of the dollar varies daily; a budget in dollar terms can only be an approximation at best.

Japan and Germany were chosen for this study primarily because they have continually experienced a significant U.S. military presence (they rank number one and two in U.S. military expenditures), have had considerably currency appreciation absolutely and in U.S. dollar terms, and are major trading partners of the United States. Together they account for nearly one-half of all U.S. military expenditure overseas. (See Table 18.)

The U.S. dollar has suffered a considerable decline in value in recent years, while both the Japanese yen and the German mark have appreciated dramatically. From the effective ending of fixed currency rates in August 1971 to October 1978, the dollar's value to the yen and mark has declined by over 51 and 49 percent, respectively. (Also, the 1969 revaluation of the mark means an even steeper decline in the relative value of the dollar from that point - over 56 percent. See Tables 34 and 35).

Finally, both Japan and Germany are important trading partners of the United States. Over the last ten years,

exports to Japan and Germany constituted 13 percent to 17 percent of total U.S. exports. (See Table 16.) In imports, the relationship is even more pronounced: the range has been 17 to 24 percent of total U.S. imports. (See Table 17.) By far the lion's share of our recent deficits in trade and payments has been accounted for by unfavorable balances with Japan and Germany. (See Table 13.) Meanwhile, the trend of the U.S. unfavorable balance of trade and balance of payments has become increasingly worse. (See Tables 1, 2, 4, and 5.)

The main emphasis of this study is on Japan. There are a variety of reasons for this emphasis. First, as mentioned previously, the dollar has declined slightly more against the Japanese yen than against the German Federal Republic, or West German, mark. Moreover, in the past few months, the fall of the dollar has been most dramatic against the yen. In the period March to October 1978, the dollar-yen rate reached a new record low on twenty-nine occasions. (See Tables 34 and 35.) (The dollar also hit sixteen new lows against the mark during the same period, indicative of the dollar's plight overall.) During the course of research for this study over the calendar year of 1978, this subject became a very topical, even critical, item of extreme interest, especially the dollar-yen rate and the United States -- Japan balance of payments and balance of trade.

Second, imports from Japan have been significantly higher than those from Germany; in the past ten years, the

value of imports from Japan have been double to triple those from Germany. (See Table 17.)

The United States Navy's overseas financial presence is largest in Japan. In the past ten years, Japan has always been the leading country in U.S. Navy overseas expenditures. Besides, the trend has been for even a larger percentage of the Navy's overseas expenditures going to Japan. (See Tables 40, 41 and 42.) At the same time, the cost of doing business in Japan has soared nearly ten-fold. (See Table 43.) This rising cost is in large part due to the multiple effects of rising labor costs, currency revaluations (Tables 34 and 35), and Japanese domestic inflation, which has caused prices to double in a decade. (See Tables 32 and 33.)

Finally, information and statistics, on both a formal and informal basis, were more readily available on Navy and Defense Department expenditures in Japan than any other country. This is probably attributable to the author's background and contacts in the Navy in general and in Defense activities in Japan in particular. Also, Japanese official and semi-official sources usually were much more co-operative and yielded a plethora of useful information, in contrast to reticent German sources.

On a land mass the same size as the state of Montana, Japan supports the sixth largest population in the world. It has a larger population than France and Great Britain combined. More than 111 million people inhabit the four

major islands of Honshu, Hokkaido, Kyushu, and Shikoku, as well as the thousands of smaller islands which make up this Asian nation. This densely crowded country is made even smaller by the mountains which cover 80 percent of the land, pushing the population, agriculture, and industry into the limited habitable areas. A third of the Japanese live in the megalopolis that sprawls four hundred miles from Tokyo to Osaka.

Not only does this chain of islands provide very little living and working room for its inhabitants, it also has few of the natural resources normally needed by an industrial nation. Japan imports 99 percent of her iron ore, 81 percent of her coking coal, 99 percent of her crude oil, all aluminum, nickel, and cobalt, and most copper and lead. Even 27 percent of Japan's food must be purchased from other countries.

Yet, this small island nation, with few raw materials or energy resources, has become one of the most productive countries in the world. Since 1968, Japan has ranked third, behind the United States and the Soviet Union, in the volume of goods and services produced. Bereft of economic resources, Japan made itself the world's greatest "value adding machine." Buying raw materials from all over the world, she shapes them into automobiles, ships, and industrial machines that find their way to every market on earth.

On a land mass one-twenty-fifth the size of the United States, and with a population half as large, Japan has been

able to produce one-third as much agriculturally as the United States, making her, acre for acre, the most productive patch of earth in the world. Of course, population density overcomes any advantage that might be accrued from this agrarian productivity.

II. HISTORY

In only one century, the United States and Japan have formed very close economic, political, and cultural ties across the Pacific, notwithstanding periods of severe political and military conflict. The relationship between the two countries formally began in 1853, when Commodore Matthew C. Perry led a naval expedition to Japan to induce the ruling Tokugawa Shogunate to establish diplomatic relations with the United States. He returned the following year to negotiate a treaty. This agreement signaled an end to Japan's more than two centuries of self-imposed isolation.

Townsend Harris became the first American consul in Japan in 1856. Four years later, the Shogunate dispatched a diplomatic mission to the United States, and, in 1870, a Japanese consulate was opened in San Francisco. The reign of Emperor Meiji that began in 1868 saw dramatic changes in Japan. In order to strengthen his nation as it entered a new epoch, the young emperor embraced foreign ideas, declaring, "knowledge shall be sought all over the world." Meiji is the grandfather of the present emperor, Hirohito (who will be known as Showa after his reign ends), illustrating the truly recent entry of Japan into the modern world.

From an insular agrarian country, Japan rapidly absorbed western ideas and technology which transformed her into an important industrial state by the turn of the

century. As Will Rogers observed, "America knocked on the door of Asia, but she didn't go in. Japan came out." After World War II, the United States played a key role in Japan's successful effort to rebuild her shattered economy. The term "economic miracle" is often used to describe Japan's post-war recovery and rise to economic prominence in less than two decades. The post-war United States-Japan alliance has been fortified by trade, investment, and cultural and political exchanges.

Symbolic of this trans-Pacific relationship are the nearly one million Japanese and American tourists who annually made the journey across the Pacific recently. For the last several years, by far the largest percentage of foreign travelers in Japan each year were from the United States, and Japanese also lead all overseas visitors to the United States. (Canada and Mexico are not considered "overseas" in relation to the United States; they are of course the countries whose citizens visit the United States the most.)

Although the trade relationship between the United States and Japan is only one century old, it matured relatively quickly. Trade progressed so rapidly between the two countries that by the Meiji Restoration in 1868, only 14 years after Commodore Perry negotiated a trade treaty with Japan, the United States had become Japan's largest export market.

In 1880, the trade volume between the United States and Japan was less than \$15 million. Today, these two countries

enjoy the largest overseas trade relationship in the world, with total trade of over \$29 billion in 1977. While the United States sustained close to an \$8 billion trade deficit with Japan in 1977, a campaign has been mounted in Japan to promote more U.S. import in an effort to maintain a more equitable trade balance.

Not only has the volume of trade changed drastically, but so have the commodities traded since 1880. Then, Japan exported such traditional products as tea, fans, and lacquer ware, while the United States exported petroleum, clocks, and ironware. Today, iron and steel, electrical machinery, and transport equipment form the bulk of U.S. imports from Japan. The United States sends mostly wood and lumber, corn, and coal to Japan. These are symbolic of Japan's dependence on food and resources. (See Tables 36 and 37.)

Japan is the largest overseas market for U.S. products. (Canada is the U.S.' largest trading partner.) American agricultural exports to Japan totaled \$3.3 billion in 1976. This represented about 15 percent of the total U.S. export of farm products.

While the United States remains Japan's biggest market, the percentage of Japan's exports going to the United States has decreased remarkably in this decade. In 1971, over 30 percent of Japan's exports went to the United States, while in 1975 this figure fell to 20 percent (though creeping up again). Japan's export policy has been to diversify her

markets; now Japan's trade with developing nations and communist countries exceeds her trade with developed areas, largely because of higher prices for oil and raw materials. Yet the United States remains Japan's preeminent trading partner.

Japan's restrictive import policy is a source of some irritation. However, trade barriers have fallen recently, and today Japan can be classified among free-trade nations. The number of general category items under Japan's residual import restrictions, which totaled 118 at the end of 1969, had been reduced to 27 by 1977.

III. CONTRIBUTORY CAUSES

Japanese society and, by extension, industry, stresses the importance of harmonious relations among individuals. While Americans have recently been concerned with personal rights -- civil rights, women's rights, right to privacy, right to know -- they will sue each other frequently. The Japanese, on the other hand, rarely sue each other. They seek and achieve a remarkable degree of harmony among all aspects of their society and culture, even in business enterprises.

This human relations linkage means that the tie that binds the corporate chief executive to the bottom-rung workers of his firm is strong, far firmer than the American's concept of paternalism, while the reverse upward is far stronger than mere company loyalty. A web of interdependent relationships permeates all levels of a Japanese corporation. The entire identity of an employee is with his company. There are company songs, company retreats, company tours. There is generally lifetime employment (individuals who have left an employer are viewed suspiciously by other potential employers) and few strikes. One of the first questions Japanese ask each other upon meeting for the first time is, "Whom do you work for?"

Japan was affected more seriously by the oil embargo and raw materials shortage of 1974-75 than any other world economic power since Japan imports virtually all of those

commodities. Since the "oil shock" Japan has built up its inventories of raw material to alleviate a similar situation in the future. Japanese industry kept on producing even as world demand softened, partly to avoid unemployment, partly because of a miscalculation of the speed and extent of the eventual recovery. This excess production caused an export drive by "Japan, Incorporated" while keeping domestic prices high. The higher returns from domestic sales, in a sense, are being used to compensate for lower returns from exports.

The Japanese have captured great shares of various American markets. There are a variety of items: automobiles, television sets, steel, textiles, pens, whiskey, beer, zippers and soy sauce. Two million color televisions and 1.4 million cars were imported in 1977. The Japanese have over 13 percent of the U.S. car market, and 30 percent of the color TV market.

The Japanese government, always in concert with the business community, forming what is popularly known as "Japan Incorporated," actively encourages exports. The U.S. government, in contrast, has a multitude of export rules and regulations. These rules and regulations are probably disproportionately influential since most U.S. export companies are relatively small. Although a vigorous export-promotion drive is now underway, most American companies are uncertain how to exploit offshore markets and, perhaps, unconvinced that they should bother trying.

Exports have never been a prime consideration for most American companies. For one thing, profits have not depended on them. With the world's largest society of conspicuous consumers, plus efficient transportation and distribution, the United States has been a natural, familiar market for American corporations. They have been able to prosper without having to cope with different ways of doing business around the world. The traditional American business attitude, particularly by large corporations (even "multinational" ones), has regarded exports as little more than bonuses on top of domestic sales, which is where the main emphasis always has been. In addition, there is an impatient reluctance to do as the Japanese do and spend the time and money required to establish a beachhead abroad and to gradually expand market share at the expense of short-term profitability. However, there is a considerable U.S. business presence overseas, though not in the form of exported products as it is in the case of Japan. Instead, it is in offshore manufacturing units, such as overseas affiliates.

Presently, a United States government export license is required for any sale of technical products that exceeds \$2200. It generally takes two months to complete the paperwork, and that delay frequently prevents U.S. firms from making timely sales. Also, the export license requirement is used to veto sales of what the government considers "sensitive" technology, but what the American trading firm

views as a sale that a foreign competitor will make if it does not.

The Liberal Democratic Party has ruled Japan since soon after World War II. A mainstay of the LDP is agricultural interests. So, even though agricultural products are one of the few groups of U.S. export items to Japan could be profitably expanded, the Japanese farmers vehemently oppose this, and their influence in the government is significant.

Agricultural leaders recently told United States Ambassador Mansfield, former Senate majority leader, that Japanese farmers are strongly opposed to an expansion of American agricultural imports. The Central Union of Agricultural Cooperatives flatly stated it could not agree to any change in the present Japanese system of importing (or, to be more precise, not importing) agricultural goods in short supply.

Japan's protective tariff on computers is indicative of the government's posture toward imports. In 1976, investment and import restrictions were removed. Yet, a tariff of 13.5 percent is levied on central-processor units and 22.5 percent on peripheral equipment, a rate one U.S. official says "is three times the rate charged by all other advanced nations in the world." Very substantial domestic development is proceeding behind this barrier.

Since the "post-OPEC" recession of 1973-74, the United States has been pumping up its economy for domestic reasons

as well as to help lead the world out of recession while Germany and Japan have resisted, fearful of inflation. This has aggravated the dollar's plight.

The United States and its economy are parochial and insulated. The rest of the world may not be that much more dependent on world trade, but the rest of the world is certainly more aware of international trade. The United States and the various segments of its economy have generally not been cognizant and observant of world economics and their role in it.

The United States has a relatively solid, expansive economy that can generally absorb its own output (thus, not "compelling" exports) and more -- meaning imports are marketable. In this manner, the huge U.S. economy wields a double-edged sword. Inherent in it is this two-way, complementary effect -- less need to export more ability to import. It is parochial in that the U.S. government has recently been more concerned with unemployment than inflation, keeping the economy going at a strong rate and able to continue to absorb imports and avoid a need to export.

Inflation in the American economy contributes directly to a devaluation of the dollar, since inflation is basically a cheapening of money. Of course, other factors are reflected in the fall of the dollar since Japan's inflation has been worse than the United States. (See Tables 32 and 33.) However, domestic inflation increases the costs and prices of goods, making them less competitive in the world

market and exaggerating the trade imbalance. It is fair to say that without Japan's higher inflation rate, its trade balance with the United States would be even more unbalanced.

The United States trade imbalance has two additional factors vis-a-vis Japan and Germany. While both Japan and Germany have to import a significant amount of petroleum and a much higher percentage of their total consumption than the United States, the United States still imports more than Japan and Germany combined. (See Tables 24 and 25.) Also, the United States has significant military expenditures overseas, while Japan and Germany have virtually none. (See Tables 18 and 19.)

As in any modern industrial country, the Japanese face certain problems in stimulating their economy. Overstimulation can result in inflation, and Japan has had great inflation in recent years. (See Tables 32 and 33.) At the same time, the Japanese domestic market cannot absorb its industry's output; Japan is forced to produce to avoid unemployment and forced to absorb that production.

Additionally, the Japanese have developed large scale industrial units in order to benefit from economics of scale and learning curves. They have thus, as have the Germans, deliberately built the steel shipbuilding, automobile, and electronics industries much larger than their economy can absorb. The result is that exports are both a residual consequence of this expansion and a major reason for it in the first place.

The West German government will not take additional steps to speed its economic growth because it fears inflation. Germany still recalls its horrible inflations of the early 1920's and immediately after World War II. The consensus of both German public opinion and government leaders is that inflation is not acceptable. The United States has not had a comparable experience, except that of the Southern Confederacy during its brief life in the American Civil War. German Economic Minister Lambsdorff wrote in the New York Times on March 2, 1978 that, "In its economic-policy efforts, the German government has approached the limits of what is feasible in political and economic terms." Though the Japanese are their proverbially somewhat less scrutable selves, the indications are that the Japanese government has a similar attitude.

Japan set a 6.7 percent growth target for 1977 to alleviate its export pressure. Since growth was 5.1 percent, the export pressures continued. The growth of the national economy, measured by Gross National Product, has been one of the hopes of the United States to enable Japan and Germany to achieve more internal absorption of their own products. Yet, the economies of Japan and Germany have not grown nearly fast enough compared to the United States to do this. Of course, the reverse is also possible, a slowdown in the United States economy could lessen demand for imports, but that is not feasible in an absolute sense, only in a relative one -- compared to Germany and Japan. (See Table

31.) An expansive domestic economy is one method of correcting Japan's trade imbalance. Instead, problems in the domestic market mean even more emphasis on the export market.

The fall of the dollar and other foreign currencies in relation to a strong yen has not helped Japanese consumers buy imported goods at lower prices. There is not at this time a market readily expandable and import distributors have generally not lowered prices. According to some Japanese officials, consumers have not felt the benefits of reduced import prices because the lowered costs of imports have been countered by overall domestic inflation. This may be particularly true since Japan's imports are mainly raw materials. Yet, there have been windfall profits for Japanese companies, which they have generally kept rather than pass on to consumers. An embryo consumers' movement has campaigned against the lack of price decreases. The Japanese cultural tradition of accepting authority and of not challenging established institutions hinders development of such a movement.

Also, imported consumed goods are not a large factor in the Japanese economy. Thus, even a significant price reduction in imported goods can be lost in the sea of Japan-produced items. At the same time, the government position is that profits should be used for capital investment. This type of public sector farsightedness has been one of the prime factors in Japan's long-run economic prowess.

Regardless, imports are not expected to grow too quickly. More than 90 percent of several vital commodities -- wheat,

soybeans, iron ore, copper, and crude oil -- are imported, but economists do not see any substantial increase in demand.

The Japanese distribution system is complex. It requires a determined effort to break into it and understand it. Of course, the Japanese have done precisely that in foreign markets, especially in the United States. There really has not been a parallel determined effort by American business in general, though there have been exceptions to prove the rule, to penetrate the Japanese market.

Japan is not an importer's market. The trade balance of Japan is mainly attributable to her aggressive exporting, but the other side of the balance is also a factor: Japan imports a very small amount of consumer goods. The import market, such as it is, is quite narrow. The Japanese have a mania for certain foreign products and will pay top dollar (yen) for them. There are a variety of reasons why imported items are so expensive in Japan. The basic one underlying everything is the simple law of supply and demand. A limited amount is imported, so its price is bid up. The social status attached to imported, expensive (perhaps a redundant use of terms regarding Japan) items raises the price further. Such items as expensive golf clubs and high priced whiskeys are staples of the import market. Interestingly, Japanese whiskey is probably just as tasty, but the expensive foreign liquor served to guests is an indication of the host's honoring his guests. Yet, this type of market is quite limited. Importers in Japan must compete in the

larger consumer market, as Japanese imports in the United States do, if the market is to become a mass one.

Foreign businessmen complain that the Japanese government has devised a wide range of rules and practices designed to insulate domestic business from foreign competition. There are many regulations to control the marketplace and maintain harmony in the economy. This sense of equilibrium is not purposely a weapon against foreigners, since the Japanese must abide by it, too, but is a part of the Japanese national character.

The independent contractor, Japanese or foreign, who defies the system, trying to avoid the extra costs of brokers and traders, risks the wrath of the larger trading firms and retailers themselves, who may refuse to display the imports on their shelves. The spirit of "giri," or obligation, is also strong. Japanese businessmen are reluctant to cut their ties with their traditional domestic suppliers, even when Japanese does import, and they also suspect that foreign suppliers would be unreliable in a crisis. (They have been burned once before in that respect.) For example, the weakness of the dollar has given many American products a distinct price edge in Japan. Yet demand for United States products has increased only slightly, so loyal are local manufacturers and retailers to their domestic suppliers, besides the resistance to lower import prices.

The Japanese, and some knowledgeable Americans, criticize American exporters for not trying hard enough and for making little effort to understand the special techniques of selling in Japan. U.S. manufacturers, they argue, not only are inexperienced with exporting in general, they are also reluctant to try to deal with the linguistic and cultural barriers that must be overcome. As Robert Strauss, President Carter's Special Representative for Trade Negotiations, has said, "Unquestionably, a big part of our problem is our lack of skills in selling abroad. If the Japanese removed every barrier tomorrow, we'd still have a very hard time selling over there."

On the other hand, the Japanese are at home when it comes to exports. They study a market completely, including regulations involved, and make a determined effort to conform to local conditions. Meanwhile, as mentioned earlier, U.S. firms seem to have a cavalier attitude toward foreign markets, an attitude that can no longer suffice. For example, electrical items must be converted to Japanese current; Japanese exports to the United States do this automatically. Japanese tastes have become increasingly Westernized, and perseverance should enable U.S. companies to get a foothold.

Compared to their American counterparts, Japanese people and their homes are smaller, and their tastes reflect a different culture. American refrigerators simply will not fit in Japanese homes. Most American furniture is too large

and too bulky for the typical Japanese house. They need smaller pieces, designed to meet Japanese tastes. Few Japanese could find room for the standard size American washer and dryer. The Japanese need right-hand drive cars; but the United States makes only left-hand drive models. (Of course Japanese vehicles exported to the United States conform precisely to American requirements.) The American exporting attitude continues to be figuratively "dump it on the pier" with a take-it-or-leave-it approach. Meanwhile, the Japanese make a concerted effort to penetrate a market, studying demography, regulations, tastes, and advertising.

Although in absolute terms, American productivity (output per hour) compares quite favorably in most industries with the rest of the world, its growth in this important attribute has lagged. The United States now trails behind many other developed countries in manufacturing-productivity growth, particularly German and Japan. The rate of productivity growth (how fast industry is able to increase its output against hours worked) is the key to true economic growth and expansion and real gains in wages; if wage increases exceed productivity increases, domestically-induced inflation almost certainly follows. Also, differing rates of productivity growth among nations will change the relative competitiveness of their products in international markets. (See Table 30.)

There are several factors in the relatively slow rate of U.S. productivity growth. The American worker has become

a "time thief," using "company" time for a variety of personal business concerns. According to one estimate, this time thievery has a price tag of \$80 billion a year, a drag on productivity, to say the least. The large influx of women and baby-boom young people -- less experienced workers -- into the labor force has been part of it. Also, inflation itself, an effect of lowering productivity, can contribute to its cause. Inflation discourages business investment in new plant and equipment, since it makes it difficult to plan ahead, and forces up interest rates, making it difficult to plan ahead, and forces up interest rates, making it costly to borrow investment funds. Industry has also had to clean itself up and to meet the rush of new health and safety standards. Finally, in some segments of U.S. industry the plants are old, such as the steelmakers' aging, but expensive to replace, mills.

The simple ubiquity of the dollar itself is a potential disaster. The dollar is everywhere; it is held by countless foreign institutions and individuals. It is estimated there is well over \$400 billion held abroad. If the depreciation of the dollar causes a panic among those foreign holders, the shift to other currencies would be a stampede.

Apparently, demand for many Japanese products is relatively price inelastic. Despite the rising value of the yen and resultant higher prices for Japanese products, American demand for them has slackened only slightly. For example, in comparison of the first nine months of 1978 with the same

period in 1977 shows a decline in sales of imported Japanese automobiles of less than one-half percent, from 984,257 to 979,674 cars. At the same time, American exports to Japan have not increased significantly. The net result is a worsening of the trade and payments imbalances, instead of its amelioration, as would be expected through a readjustment of exchange rates. In other words, at least in the short-run, the yen revaluation means a higher, not a lower, trade surplus for Japan.

The United States is urging three remedies on Japan. First, stimulation of the Japanese economy through public works or tax cuts. Increased demand could mitigate the export drive, as well as open up markets for imported goods. Second, setting of import targets, particularly since there is a U.S. perception that Japan is unduly difficult for foreign products to penetrate. Third, imposition of some types of export restraint.

The bilateral trade agreement of January, 1978, had mainly cosmetic effects. Though 300 items had tariff cuts averaging 23 percent, most of these commodities are imported by Japan in only a minimal quantity. Similarly, the enlargement of import quotas was also minimal. The overall impact on the U.S. -- Japan trade imbalance will be slight.

In 1977, Japan promised a growth rate of 6.7 percent, but, as mentioned earlier, grew only 5.1 percent. Japan committed itself to a 7 percent growth rate for its fiscal year ending in March, 1979. (The 7 percent rate is a minimum

to stimulate domestic demand and to alleviate export pressures.) Yet, leading private business associations in Japan, such as the Federation of Economic Organizations, the Federation of Employers' Associations, and the Committee for Economic Development, have projected a growth rate of only approximately 5 percent. Apparently, Japanese economic growth will once again fall short of both needs and expectations.

According to the internationally known research firm Arthur D. Little Company, there are no quick solutions to the trade balance. Accords reached at various bargaining tables recently will have little impact on the problem, although such agreements may "reduce the symbolic significance of the deficit as a disruptive influence in economic relations between the two countries." Short-term actions such as the reference price system for steel, orderly marketing agreements, and special export purchasing missions will yield little more than minimal relief to the imbalance. In fact, total elimination of the U.S. deficit may be an unrealistic goal.

By focusing on the immediate economic problem, Washington unwittingly may have started a potentially more dangerous political-economic process. By shaking Japan's faith in America's goodwill, the United States may be impelling Tokyo toward assuring itself markets and sources of supply in the Pacific, along with a defense build-up -- a new version of the "Greater East Asia Co-Prosperity

Sphere" for which it waged war against the United States in 1941.

The dollar's value is now so low that some members of the Organization of Petroleum Exporting Countries are calling for even higher prices to make up for the declining value of their dollar reserves. Not only are those countries concerned about their dollar reserves, the fact that the world oil prices are pegged in dollars means that devaluation of the dollar is, in effect, a price/income reduction for OPEC members. The weakness of the dollar provides the motivation for OPEC's consideration of quoting its prices in some other medium than the dollar.

The general decline and continued fluctuation in the dollar's value have affected monetary dealings between corporations. Many foreign exporters, fearing that they will be stuck with depreciating dollars, now shun payments in dollars. They try to avoid holding them or accepting payment in them. As a result, American importers of foreign supplies as well as retailers of imported goods are saddled with the risks involved in contracts specifying payments in foreign currencies. The entire matter of how bills are to be paid have become a subject of intense negotiation, separate from traditional areas usually negotiated in a business deal.

The dollar's decline has also affected the reported earnings of corporation doing business abroad. The rising value of other currencies against the U.S. dollar has had

a favorable impact on the profitability of foreign operations for U.S. companies. Not only are foreign earnings translated into dollars at current exchange rates, but so are cash assets and liabilities. Yet, non-cash assets are translated at historical currency rates when acquired. Thus, whether financial statements are now a true representation of a company's financial position in that situation is open to question.

Of course, planning and budgeting for overseas investments and purchases are made much more difficult. The forecasting involved now includes currency values, and a more conservative approach is the likely result. Also, companies not only have to worry about the dollar rising or falling against other currencies, but fluctuations among foreign monies themselves, apart from the dollar.

IV. RESULTS AND REACTIONS

Domestically, the dollar's decline has virtually no effect on the cost of food, housing, haircuts, or a United States vacation. It does effect the cost of televisions, radios, tape recorders, cameras, watches, motor vehicles, and electronic equipment.

The devaluation may be weakening the United States politically and economically. Foreigners are able to buy premium American assets at bargain prices. If a basic assumption has been that the dollar devaluation would lift the U.S. economy, it has been proven incorrect for several reasons.

First, although in most countries, currency devaluations make imports discouragingly costly and exports encouragingly cheap, this has not occurred in the United States. The United States is not export-dependent, so exports form a relatively small part of the national economy and also are not easily expanded. Only a domestically powered recovery will be effective. Besides, the United States is committed to a free trade ideal and is hesitant to curb imports, which have become so ingrained in some U.S. markets that the currency revaluation-related price increases have had little effect on demand.

The sharp rise of the yen has brought a mixed bag of blessings and ills to the Japanese economy. The higher yen, to a very limited extent, means cheaper prices for Japanese consumers, in the already limited import market, and pressures for still further price cuts. The higher value has also muted international critics of the Japanese government who formerly complained that Japan had been rigging the market to keep the yen's value lower in order to maintain its international trade. But the yen's increased valuation has frustrated the efforts of the government to get Japan's lagging economy back into higher gear.

Although some Japanese politicians and economists, including the leadership of the dominant Liberal Democratic Party, believe the yen's steady climb will harm the economy, there are some positive aspects which may, on balance, outweigh the negative effects. One effect is the acceleration of a "restructuring" of Japanese industry, as took place in the late 1940's and sowed the seeds for Japan's dramatic post-war recovery. This means the weeding out of non-competitive sectors and enterprises which are forced either out of business or into other product lines and survival of only the most efficient and productive units.

The radical dollar-yen revaluation has caused some incongruities. For example, Japanese regulations, slow to change, have kept plane tickets pegged at an old yen-dollar rate of 300 to 1 and overseas phone calls at the even older 1971 rate of 360 to 1. The result is it costs a great deal

more to call the United States from Japan rather than vice versa, and a plane ticket is much more expensive when purchased in Japan instead of the United States.

Concurrent with the attention given yen - dollar fluctuations, the General Accounting Office determined that the 22,000 Japanese national employees of U.S. Forces are overpaid. This is besides the horror stories of Japanese gate guards receiving more than U.S. colonels. Of course, that phenomenon is attributable to the unrealistic exchange rates -- they do not reflect any semblance of purchasing power (parity). Despite anything the exchange rates may purport to say regarding the pay of an American Colonel and a Japanese guard, neither's purchasing power in the United States and Japan, respectively, is affected by any comparisons to the other.

With that background, the GAO determined that the Japanese workers are overpaid because they receive more pay than Japanese civil service counterparts for comparable work. (All Japanese employees of U.S. Forces are also officially Japanese civil servants, so they are considered "indirect hire" foreign national employees.) Of course, the extra pay is necessary in order to attract workers for U.S. Forces. All other things being equal, Japanese would rather work for the Japanese government than the U.S. government. Add to that natural inclination the entire American attitude toward workers -- impersonal, abrupt, propensity to lay-offs -- contrasted to Japanese employer attitudes bordering on

paternalism. Finally, despite the alleged approximately 10 percent overpayment, it is still not enough to enable U.S. Forces to be competitive in the Japanese labor market.

V. FUTURE

As long as the Japanese domestic market remains sluggish, there is terrific pressure on industry to sell abroad. In part, this is because of the paternal arrangements between employers and employees that make layoffs and plant shutdowns rare in times of recession. In a case where an American factory might shut down or cut back, the Japanese company is more likely to keep operating and attempt to sell its products anywhere it can, at any price.

Many U.S. industrialists charge that this leads to the dumping of Japanese goods on the American markets at below-cost price, an act that violates U.S. trade laws. Over the years, the U.S. government has shown a reluctance to enforce these laws, both because these violations are often difficult to prove and because such enforcement sometimes has a deleterious effect on international trade and diplomatic relations.

The balance of trade problem between the United States and Japan is creating major problems for the future between the two nations. It is generating serious frustrations among politicians and businessmen of both nations. Some Japanese claim that racism accounts for what they insist is greater U.S. pressure on Tokyo than on white European nations to make trade concessions. At the same time, many U.S. officials say Japan drags its heels when urged to

reduce the huge trade imbalance, and that it is time that Tokyo does more than talk.

The Japanese government's proposed budget for its forthcoming fiscal year starting April 1, 1979, calls for Japan to pay \$160 million towards American military expenses in Japan. This is a singular example of the recognition by the Japanese government that the stationing of American military forces in Japan is an important factor and symbol of bilateral payments difficulties. This direct contribution by Japan to the cost of U.S. Forces is unprecedented. The money will generally be earmarked for housing construction on American bases. The high cost for American military personnel of off-base housing has been one of the most visible effects of the dollar devaluation in Japan.

Even to the Japanese, who have long considered trade surpluses as insurance designed to offset their country's dearth of natural resources, the recent galloping gains in Japan's balance of international payments have proved embarrassing. War-torn and demilitarized, postwar Japan naturally viewed industrialization as a way to national reconstruction and was eager to earn sufficient foreign currency through exports to import the technology and machinery which would in turn lead to the export of more sophisticated manufactured goods. It took Japan nine years to register its first trade surplus in the postwar period. Until the early 1960's its balance of payments limped along, most of the time falling into the red. Then, after several more

years of zigzagging along the break-even point, the country's current account payment balances topped the one billion dollar surplus mark in 1968, followed by the multi-billion dollar bonanzas in 1971 and 1972. (See Table 8.)

However, just as it appeared that Japan's modernization efforts had been rewarded with the attainment of the status of full-fledged economic power, excess stimulation of the economy and the oil crisis brought on heavy deficits. The years from 1973 through 1975 saw the erosion of most of the nation's past financial accumulations. The Japanese people became perhaps overly sensitive about the "fragility" of their country in view of its exasperating lack of natural resources. For the Japanese nouveaux riches, the era of luxury was over, and they scuttled back to their accustomed style: hard work, production efficiency, and export promotion. In 1976 their diligence once again paid off with the return of a comfortable international payment surplus. Few people foresaw that the surplus would swell to gargantuan proportions the following year. (See Table 8.)

Japan's 1977 surplus of \$11.1 billion soared far beyond Germany's estimated \$3.9 billion surplus, and contrasted sharply with the deficits of the United Kingdom (\$0.8 billion), France (\$3 billion), the United States (\$15.2 billion), and the 24-member Organisation for Economic Co-operation and Development (a total of \$32 billion). Japan's black ink figures in such an ocean of red upset many of the

slumping oil-consuming countries and also baffled Japanese economic planners who had been trying to balance their country's payments position by increasing imports through domestic business stimulation.

Drawing up the budget for fiscal 1978 (April 1978 - March 1979) was a new experience for Budget Bureau officials of the Ministry of Finance (MOF) and appropriations-seeking officials of other ministries. Instead of MOF officials swinging the budget-slashing axe and the ministries offering the usual resistance, MOF not only approved most expenditure items proposed by each ministry but actually asked some of them to come up with more. This extraordinary state of affairs was due to the seven percent GNP growth target for fiscal 1978 hurriedly set up in mid-December of 1977 against the background of poor economic showings and growing criticism from abroad that Japan was not stimulating its economy sufficiently.

The result was a king-sized budget, providing for a total expenditure of ¥34,295 billion (\$171,475 million at ¥200 = \$1), up a hefty 20.3 percent over the initial fiscal 1977 budget. In particular, the outlays for public works projects were expanded by an all-time high of 34.5 percent over the current fiscal year to ¥5,184 billion (\$25,920 million), in an effort to boost the economy by sparking capital spending in the private sector. Although growing more slowly than public works spending, expenditures for social security, medical care and welfare programs and

those for education and culture were also granted exactly as requested by the various ministries. Treasury loans and investments for FY 1978 were set at ¥14,888 billion (\$74,440 million), more than a quarter of which were appropriated for various construction work centering on houses, highways and bridges.

Faced with the compelling need to stimulate the economy, MOF has apparently decided to temporarily set aside the problem of the growing fiscal deficit. The government will appropriate the prospective revenues for April and May 1979 in advance as a part of fiscal 1978 revenues, and will float ¥10,985 billion (\$54,925 million) in government bonds, accounting for 32 percent of total annual expenditures. Without the advance appropriation of April and May 1979 revenues, the dependence on bonds would be as high as 37 percent. However, the ruling Liberal Democratic Party rejected the income tax reduction strongly demanded by the opposition parties, based on the belief that it would be far less effective in boosting the economy than public works.

Defense expenditures grew 12.4 percent from the initial fiscal 1977 budget to ¥1,901 billion (\$9,505 million), as the government decided to add the P3C and F15 -- an anti-submarine patrol plane and a fighter plane -- to its force. In addition, outlays for an array of new ships and planes were allocated, "to stimulate defense-related industries"

as a Defense Agency official explained when questioned about the danger of snowballing defense spendings.

A similar economy-stimulating budget is also in store for the Japanese fiscal year starting in April, 1979. Preliminary plans, for example, call for an additional \$7.1 billion spending on public works.

VI. CONCLUSION

The United States went through a period of concern regarding overseas expenditures in the 1960's. At that time, the problem was mainly concentrated in the expenditures in Germany. It initially received attention in 1958 when the United States had its first post-war balance of payments deficit. Concurrently, a movement began in Congress to reduce American troop levels in Germany; the proponents now had economic as well as political arguments.

In the early 1970's this clamor for European troop reductions disappeared. Whether it lost one of its prime motivations in the anti-Viet Nam involvement, or the former proponents gave up from frustration or a change in their own convictions is unclear. But even with the recent balance of payments deficits (more severe than those of the late 1950's and early 1960's), there has not been another refrain calling for troop reductions overseas. In fact, the question in the government appears to be by how much should the United States presence in Europe be increased. U.S. forces in other overseas areas are not generally included in any public discussion, so at least current levels can generally be expected to continue.

Apparently, unlike fifteen years ago, reduction of the United States military presence in foreign countries is no longer considered a viable method of alleviating balance of payments difficulties. This is particularly evidenced by

the reduction in the Department of Defense of the plethora of reporting requirements and other instructions on the topic of international balance of payments and overseas expenditures. The most comprehensive Navy instructions on the topic, Navy Comptroller Instruction 7020.10E, had its reporting and accounting requirements reduced from eight reports and budget schedules to only three in 1970.

As mentioned earlier, the importance of the cost of U.S. Forces in Japan in the United States-Japan balance of payments difficulties has been recognized by the government of Japan. The defense budget proposed by Japan includes, for the first time, payment for the U.S. Forces. The \$160 million will be earmarked for housing construction on U.S. bases.

Japanese yen and German marks are specifically mentioned in the Navy Comptroller Manual. Daily changes in values of these currencies relative to the dollar are to be effected on all yen or marks held by disbursing officers, chargeable to the appropriation 17-6763, (Gains and Deficiencies on Exchange Transactions, Navy). Thus, the local disbursing officer finds the foreign currency in his possession has no permanent value, in terms of the dollar, a situation that permeates all field activities and overseas commands in the Defense Department.

For activities in Japan, the change to a floating exchange rate in August, 1971, prompted a tripartite agreement between U.S. Forces, Japan, military banking facilities,

and the Japanese government to fix the exchange rate each day for yen purchased by military finance officers. The daily fixed rate, based on the foreign exchange market median rate for the preceding day, is used as the conversion factor for yen payments and collections.

The fluctuating exchange rate difficulties are best illustrated by the problems in accounting for foreign national, indirect hire, employees. Obligations are established by means of labor rates applied to hourly labor distribution under the job order accounting system (as is the procedure for all Navy activities worldwide). In the case of Japan, the labor rates include wages paid monthly, seasonal allowances paid in March, June, and December of each year, annual pay raises which have been consistently retroactive with adjustments paid when wage modification is made to the Master Labor Contract with the Japanese employees, and retirement allowances which are accrued but paid only upon separation of employees. As the level of the exchange rate fluctuates, adjustments are necessary to labor rates for both future payments and prior accruals. Somehow GAO hacked through this thicket to conclude the Japanese employees are overpaid.

The wide fluctuations in the yen - dollar rate cause inordinate revisions of labor rates which have dire effects on financial plans as well as on estimates furnished customers for reimbursable work or services. Similar uncertainty exists on accurate dollar amounts for supplies and

services procured from local open market sources since purchase documents are stated, and payments made, in yen.

The overseas field activities are given a particular rate against which to budget. That is, the major claimants give their field activities an exchange rate which the activities use in preparing their budget. Of course, this method works only if the expenditures happen to occur at a weighted average equal to that rate over the course of the entire fiscal year. A comparison between the prescribed rates in Table 39 and actual rates in Table 35 reveal the wide range of disparities.

As the currency fluctuations become more severe, the distortions in the budget become more pronounced. For example, the initial budget call for fiscal year 1978 was at ¥285 = \$1. The field activities then received budget authority for ¥265 = \$1. The rate was then changed to ¥245 = \$1 soon after the fiscal year began. Of course, the actual rate has been significantly below that, usually below ¥200 = \$1. However, the major claimants had exhausted their funds, and they could no longer supplement their overseas field activities' budgets. The result was the DOD supplemental budget request to Congress to compensate for the lowering value of the dollar.

Requesting additional funds when the exchange rate deteriorates is the most common recourse for overseas activities. This requirement for budget augmentations is illustrated by the experience of the U.S. Naval Supply Depot

in Yokosuka. In every fiscal year except one since 1970, augmentations due to yen revaluations have been required. (See Table 42.) Also a comparison between the budgeted exchange rate (in Table 42) and actual average exchange rate of expenditures (in Table 41) reveals the primary area of budgetary shortfalls for those Navy activities in Japan. When this happens, a chain reaction, not easily halted or modified, results in funding authority channels, despite the fact that the situation may subsequently correct itself by amelioration of the exchange rate. During the interim, activities are not guaranteed relief and must revise financial plans, if possible, to compensate for the increased costs. Funds administered under these conditions places an unfair burden on all parties concerned and contributes to a lack of control over programs. The opposite situation, an improving exchange rate, could result in unusable funds or foster unprogrammed spending, i.e., also a lack of control and conformance with planned objectives.

In recent years, the net effects of currency fluctuations has generally been deleterious to the Department of Defense. That is, the dollar's value has generally declined, and a budget based on a dollar at a given level suddenly has unforeseen shortfalls. Yet, it is also conceivable that DOD could in effect supplement its appropriations through gains derived from favorable currency exchange rate fluctuations.

VII. RECOMMENDATIONS

If expenditures are made at less favorable rates than those budgeted, the Department of Defense must either seek supplemental appropriations and reprogramming authority or absorb the increased costs. This causes delays and uncertainties in carrying out programs that the Congress, through its approval of the budget, has indicated it wants accomplished. In some instances, if enough funds are not obtained through supplemental appropriations or reprogramming, actual reductions in approved programs must be made. As mentioned previously, gains attained from favorable exchange rate fluctuations enable the Defense Department to either offset unbudgeted costs or to finance unfunded, i.e., unapproved, requirements. Although recent events have not included this occurrence, a dollar rising in its exchange value could have just as a disruptive effect on the overseas budgetary process as a falling rate. The budgetary control problem, though not the budgetary problem itself, is in the fluctuation and change of the dollar's rate, not the falling of that rate. The budgetary procedure outlined below would avoid the two main effects of the floating exchange rates; gains permitting the Department of Defense to supplement its appropriations and losses adversely affecting its overseas programs.

If a separate appropriation were established by authorizing legislation, net exchange rate losses could be funded

by that appropriation. Also, any gains from net favorable exchange fluctuations would be deposited in miscellaneous receipts. In this manner, the budgetary intent of Congress, as expressed in dollars at a certain rate of exchange, would not be undermined as can be the case at present.

Under this approach the U.S. Treasury would disburse funds from a permanent appropriation as needed to cover Defense Department exchange rate losses and would collect exchange rate gain windfalls. The gains and losses for all foreign currency transactions would be measured on the basis of differences between exchange. The strain of the depreciating dollar in fiscal year 1978 resulted in a supplemental budget request for the Department of Defense that contained a significant amount attributable to currency rate difficulties. In fact, while the supplemental request was being considered, the sharp decline in the dollar's value continued, particularly in terms of the yen and mark. Initially, \$121 million and \$296 million, respectively, were requested for pay increases to foreign nationals and for other consequences of currency devaluation. This request in January 1978 was based upon exchange rates in effect in November 1977. By midsummer 1978, the \$296 million was revised upward to over \$379 million (\$379,132,000). The additional costs in FY 1978 triggered by the declining dollar amount to \$519,788,000. Of this, \$406.8 million relate to the mark, \$107.9 million to the yen, and \$5.1 million to other foreign currencies. The difference

between the actual costs incurred by the dollar's devaluation and the amount of the request, \$140.7 million, is being absorbed by the Defense Department.

This change in budgeting for overseas activities would be a basic recognition of the end of the era of fixed currency exchange rates. It is long overdue. The local activities should not have the macro-economics of exchange rates affect their day-to-day budget; they do not control or cause them. The currency fluctuations are a matter that require attention at a higher level since only those higher levels can have any impact on them. The piper should be paid there.

This acknowledgement of the importance of currency fluctuations would insure the integrity of financial management, result in positive control of funds for overseas activities, and facilitate the budget execution process.

APPENDIX

TABLES

According to the Organisation for Economic Co-operation and Development, as of mid-1978 the world's economy had a current-account balance of payment deficit of \$50 billion. Of course, because there is no interplanetary trade or banking, this is an impossibility, since the total net balance must be zero. But this indicates the problem with the compilation of statistics in this area.

Apparently, payments are recorded more scrupulously than receipts. But this misbalanced attention to detail can explain only a fraction of the \$50 billion discrepancy. Perhaps this reflects illegal payments, or funds diverted to secret accounts. Also, some underdeveloped countries may exaggerate their deficits in order to appear even poorer and obtain more aid. Whatever the reason, it is cause not to use these distorted statistics with a great deal of precision. The distortion is even more acute than \$50 billion, since the merchandise trade portion will generally yield a surplus, because a country counts all items as an export when they leave its shores, but the receiving nation does not consider them an import until the items arrive. In particular, the balance of trade and balance of payments figures are constantly being revised. The annual figures are still being revised up to seven years later for the balance of payments and three years later for balance of trade

so any figures that are within those respective time frames are truly only approximations and should not have projections applied to three decimal points. In this light, the wide publicity given monthly trade figures, generally released 30 days later, appears unwarranted. From the day of their release until up to seven years later, those numbers are being changed. The more recent the period, the less reliable, ultimately, are the statistics.

These statistics can only offer trends and ranges, and they lag significantly. Of course, trends are important, as data may be relatively good while absolutely bad. Related to this constant revision problem, different sources gave widely varying figures. In hopes of gaining some shred of uniformity, the U.S. Department of Commerce was used as the source whenever its statistics were available. By extension, any other sources that have figures identical to those of the Commerce Department's were then accepted as a valid source for other statistics.

Another peculiarity does occur in connection with Commerce Department statistics; foreign military sales are not considered merchandise trade and do not affect balance of trade. Yet all other sources on international trade, including other governments as well as international organizations, do include foreign military sales as trade.

The tables are presented in an intuitively logical sequence, which is not the same as the order in which the text refers to them. Also, for the sake of completeness,

several of the tables are compilations of the other tables, but in different and other common comparisons. This is included as a convenience to the reader.

Finally, Department of Defense sources are generally by fiscal year (July to June until 1976, October to September thereafter). Commerce Department and international organizations' sources are generally by calendar year (January to December), and Japanese government sources are generally by Japanese fiscal year (April to March). Trends, comparisons, and forecasts from different sources also are in their different categories.

TABLES

All amounts are in millions of U.S.
dollars unless otherwise stated

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TABLE 1
U.S. BALANCE OF PAYMENTS

<u>YEAR</u>	<u>AMOUNT</u>
1968	+ 621
1969	+ 406
1970	+ 2360
1971	+ 1407
1972	+ 5979
1973	+ 6885
1974	+ 1719
1975	+18445
1976	+ 4339
1977	+15221
1978 (JAN.-JUNE)	-10210

SOURCE: U.S. DEPARTMENT OF COMMERCE, BUREAU OF ECONOMIC ANALYSIS, SURVEY OF CURRENT BUSINESS

TABLE 2
U.S. BALANCE OF TRADE
(DATA INCLUDING F.M.S. IN PARENTHESES)

<u>YEAR</u>	<u>EXPORTS</u>		<u>IMPORTS</u>	<u>NET</u>	
1968	33626	(35018)	32291	+ 635	(+2027)
1969	36414	(37942)	35807	+ 607	(+2135)
1970	42469	(43970)	39866	+2603	(+4104)
1971	43319	(45245)	45579	-2260	(- 334)
1972	49381	(50544)	55797	-6416	(-5253)
1973	71410	(73752)	70499	+ 911	(+3253)
1974	98306	(101258)	103673	-5367	(-2415)
1975	107088	(111007)	98041	+9047	(+12966)
1976	114694	(119913)	124047	-9353	(-4134)
1977	120585	(127664)	151644	-31059	(-23980)
1978 (JAN.-SEPT.)	(N/A)	(N/A)	(N/A)	-22670	(N/A)

SOURCE: DEPARTMENT OF COMMERCE

TABLE 3
U.S. FOREIGN MILITARY SALES

<u>YEAR</u>	<u>TOTAL</u>	<u>JAPAN</u>	<u>GERMANY</u>
1968	1392	31	231
1969	1528	18	292
1970	1501	25	194
1971	1926	42	589
1972	1163	41	211
1973	2342	47	316
1974	2952	48	445
1975	3919	36	373
1976	5213	41	322
1977	7079	33	387
1978 (JAN.-MAR.)	1855	9	N/A

SOURCE: DEPARTMENT OF COMMERCE

NOTE: FOREIGN MILITARY SALES ARE NOT CONSIDERED PART OF MERCHANDISE TRADE BY THE U.S. GOVERNMENT AND CONSEQUENTLY NOT INCLUDED IN EXPORT STATISTICS. HOWEVER, OTHER NATIONS AND INTERNATIONAL SOURCES DO CONSIDER FOREIGN MILITARY SALES AS MERCHANDISE TRADE, AND STATISTICS FROM THOSE SOURCES REFLECT IT ACCORDINGLY.

TABLE 4

U.S. VS. JAPAN BALANCE OF PAYMENTS

<u>YEAR</u>	<u>AMOUNT</u>
1968	-1389
1969	-1770
1970	-1563
1971	-3500
1972	-4807
1973	-1459
1974	-944
1975	-1220
1976	-5402
1977	-8134

SOURCE: DEPARTMENT OF COMMERCE

TABLE 5

U.S. VS. JAPAN BALANCE OF TRADE
(DATA INCLUDING F.M.S. IN PARENTHESES)

<u>YEAR</u>	<u>EXPORTS</u>	<u>IMPORTS</u>	<u>BALANCE</u>
1968	2949 (2980)	4069	-1120 (-1089)
1969	3477 (3495)	4893	-1416 (-1398)
1970	4650 (4675)	5894	-1244 (-1219)
1971	4053 (4095)	7278	-3225 (-3183)
1972	4963 (5004)	9076	-4113 (-4072)
1973	8356 (8403)	9665	-1309 (-1262)
1974	10724 (10772)	12414	-1690 (-1642)
1975	9567 (9603)	11257	-1690 (-1654)
1976	10196 (10237)	15531	-5335 (-5294)
1977	10561 (10594)	18545	-7984 (-7951)
1978 (JAN.-SEPT.)	N/A	N/A	-9332

SOURCE: DEPARTMENT OF COMMERCE

TABLE 6

U.S. VS. GERMANY BALANCE OF PAYMENTS

<u>YEAR</u>	<u>AMOUNT</u>
1968	-1679
1969	-1299
1970	-1270
1971	-1897
1972	-3174
1973	-3860
1974	-3301
1975	-1684
1976	- 616
1977	-2471

SOURCE: DEPARTMENT OF COMMERCE

TABLE 7
 U.S. VS. GERMANY BALANCE OF TRADE
 (DATA INCLUDING F.M.S. IN PARENTHESES)

<u>YEAR</u>	<u>EXPORTS</u>		<u>IMPORTS</u>	<u>BALANCE</u>	
1968	1639	(1870)	2724	-1085	(-854)
1969	2006	(2298)	2628	-622	(-330)
1970	2651	(2845)	3156	-505	(-311)
1971	2559	(3148)	3680	-1121	(-532)
1972	2732	(2943)	4308	-1576	(-1365)
1973	3750	(4066)	5591	-1841	(-1525)
1974	4687	(5132)	6302	-1615	(-1170)
1975	5052	(5425)	5358	-306	(+67)
1976	5389	(5711)	5581	-192	(+130)
1977	5829	(6216)	7241	-1412	(-1025)

SOURCE: DEPARTMENT OF COMMERCE

TABLE 8
JAPAN BALANCE OF PAYMENTS

<u>YEAR</u>	<u>AMOUNT</u>
1968	+1048
1969	+2119
1970	+1970
1971	+5797
1972	+6624
1973	-136
1974	-4693
1975	-678
1976	+3676
1977	+11063
1978 (JAN.-MAR.)	4005

SOURCE: THE FAR EAST AND AUSTRALIA

ORGANISATION FOR ECONOMIC CO-OPERATION AND
DEVELOPMENT, MAIN ECONOMIC INDICATORS

JAPAN ECONOMIC YEARBOOK

TABLE 9
JAPAN BALANCE OF TRADE

<u>YEAR</u>	<u>EXPORTS</u>	<u>IMPORTS</u>	<u>BALANCE</u>
1968	12973	12989	- 16
1969	15990	15024	+ 966
1970	19318	18811	+ 507
1971	24090	19667	+4423
1972	28655	23481	+5174
1973	36930	38314	-1384
1974	55536	62110	-6574
1975	55844	57881	-2037
1976	67167	64748	+2419
1977	75167	66417	+8750

SOURCE: ORGANISATION FOR ECONOMIC CO-OPERATION AND
DEVELOPMENT

TABLE 10
GERMANY BALANCE OF PAYMENTS

<u>YEAR</u>	<u>AMOUNT</u>
1968	+2964
1969	+2049
1970	+ 876
1971	+ 943
1972	+ 773
1973	+4253
1974	+10427
1975	+3576
1976	+3379
1977	+3874

SOURCE: DRESDNER BANK, STATISTICAL SURVEY
ORGANISATION FOR ECONOMIC CO-OPERATION
AND DEVELOPMENT

TABLE 11
GERMANY BALANCE OF TRADE

<u>YEAR</u>	<u>EXPORTS</u>	<u>IMPORTS</u>	<u>BALANCE</u>
1968	24841	20152	+4689
1969	29052	24926	+4126
1970	34139	29814	+4324
1971	39034	34341	+4693
1972	46202	39776	+6426
1973	68571	55499	+13072
1974	90590	70240	+20350
1975	91620	75619	+16001
1976	101977	88209	+13768
1977	118963	102251	+16712

SOURCE: DRESDNER BANK, STATISTICAL SURVEY

TABLE 12
COMPARATIVE BALANCES OF PAYMENTS

<u>YEAR</u>	<u>U.S.</u>	<u>JAPAN</u>	<u>GERMANY</u>
1968	+ 621	+1048	+2964
1969	+ 406	+2119	+2049
1970	+2360	+1970	+ 876
1971	-1407	+5797	+ 943
1972	-5979	+6624	+ 773
1973	+6885	-139	+4253
1974	+1719	-4693	+10427
1975	+18445	-678	+3576
1976	+4339	+3676	+3379
1977	-15221	+11063	+3874
1978 (JAN.- MAR.)	-6466	+4005	N/A

SOURCE: DEPARTMENT OF COMMERCE

ORGANISATION FOR ECONOMIC CO-OPERATION AND
DEVELOPMENT

DRESDNER BANK, STATISTICAL SURVEY

TABLE 13
COMPARATIVE BALANCE OF PAYMENTS

YEAR	U.S.			JAPAN OVERALL	GERMANY OVERALL
	OVERALL	WITH JAPAN	WITH GERMANY		
1968	+ 621	-1389	-1679	+ 1048	+2964
1969	+ 406	-1770	-1299	+ 2119	+2049
1970	+ 2360	-1563	+1270	+ 1970	+ 876
1971	- 1407	-3500	-1897	+ 5797	+ 943
1972	- 5979	-4807	-3174	+ 6624	+ 773
1973	+ 6885	-1459	-3860	- 136	+4253
1974	+ 1719	- 944	-3301	+ 4693	+10427
1975	+18445	-1220	-1684	- 678	+3576
1976	+ 4339	-5402	- 616	+ 3676	+3379
1977	-15221	-8134	-2471	+11063	+3874
1978 (JAN.- MAR.)	- 6466	-3208	N/A	+ 4005	N/A

SOURCE: DEPARTMENT OF COMMERCE

ORGANISATION FOR ECONOMIC CO-OPERATION AND
DEVELOPMENT

DRESDNER BANK, STATISTICAL SURVEY

TABLE 14

COMPARATIVE BALANCES OF TRADE
(U.S. DATA INCLUDING F.M.S.
IN PARENTHESES)

<u>YEAR</u>	<u>U.S.</u>	<u>JAPAN</u>	<u>GERMANY</u>
1968	+ 635 (+ 2027)	-16	+ 4689
1969	+ 607 (+ 2135)	+ 966	+ 4126
1970	+ 2603 (+ 4104)	+ 507	+ 4324
1971	+ 2260 (- 334)	+4423	+ 4693
1972	- 6416 (- 5253)	+5174	+ 6426
1973	+ 911 (+ 3253)	-1384	+13072
1974	- 5367 (- 2415)	-6574	+20350
1975	+ 9047 (+12966)	-2037	+16001
1976	- 9353 (- 4134)	+2419	+13768
1977	-31059 (-23980)	+8750	+16712
1978 (JAN.- SEP.)	-22670 (N/A)	N/A	N/A

NOTE: JAPAN AND GERMANY DATA INCLUDE F.M.S.

SOURCE: DEPARTMENT OF COMMERCE

ORGANISATION FOR ECONOMIC CO-OPERATION AND
DEVELOPMENT

DRESDNER BANK, STATISTICAL SURVEY

TABLE 15

COMPARATIVE BALANCES OF TRADE

(U.S. DATA INCLUDING F.M.S. IN PARENTHESIS)

YEAR	U.S.				GERMANY OVERALL	JAPAN OVERALL
	OVERALL	WITH JAPAN	WITH GERMANY	GERMANY OVERALL		
1968	+ 635 (+2027)	-1120 (-1089)	-1085 (-854)	-1085 (-854)	-16	+4689
1969	+ 607 (+2135)	-1416 (-1398)	- 622 (-330)	- 622 (-330)	+966	+4126
1970	+2603 (+4104)	-1244 (-1219)	- 505 (-311)	- 505 (-311)	+507	+4324
1971	-2260 (-334)	-3225 (-3183)	-1121 (-532)	-1121 (-532)	+4423	+4693
1972	-6416 (-5253)	-4113 (-4072)	-1576 (-1365)	-1576 (-1365)	+5174	+6426
1973	+ 911 (+3253)	-1309 (-1262)	-1841 (-1525)	-1841 (-1525)	-1384	+13072
1974	-5367 (-2415)	-1690 (-1642)	-1615 (-1170)	-1615 (-1170)	-6574	+20350
1975	+9047 (+12966)	-1690 (-1642)	- 306 (+67)	- 306 (+67)	-2037	+16001
1976	-9353 (-4134)	-5335 (-5294)	- 192 (+130)	- 192 (+130)	+2419	+13768
1977	-31059 (-23980)	-7984 (-7951)	-1412 (-1025)	-1412 (-1025)	+8750	+16712
1978 (JAN.-MAR)	-11131 (-9276)	-3134 (-3143)	N/A	N/A	N/A	N/A

SOURCE: DEPARTMENT OF COMMERCE.

NOTE: JAPAN AND GERMANY DATA INCLUDES F.M.S.

TABLE 16
EXPORTS
(DATA INCLUDING F. M. S. IN PARENTHESES)

YEAR	U.S.			JAPAN		GERMANY	
	OVERALL	TO JAPAN	TO GERMANY	OVERALL	TO U.S.	OVERALL	TO U.S.
1968	33626 (35018)	2949 (2980)	1639 (1870)	12973	4069	24841	2724
1969	36414 (37942)	3477 (3495)	2006 (2298)	15990	4893	29052	2628
1970	42469 (43970)	4650 (4675)	2651 (2845)	19318	5894	34139	3156
1971	43319 (45245)	4053 (4095)	2559 (3148)	24090	7278	39034	3680
1972	49381 (50544)	4963 (5004)	2732 (2943)	28655	9076	46202	4308
1973	71410 (73752)	8356 (8403)	3750 (4066)	36930	9665	68571	5591
1974	98306 (101258)	10724 (10772)	4687 (5132)	55536	12414	90590	6302
1975	107088 (111007)	9567 (9603)	5052 (5425)	55844	11257	91620	5358
1976	114694 (119913)	10196 (10237)	5389 (5711)	67167	15531	101977	5581
1977	120585 (127664)	10561 (10594)	5829 (6216)	75167	18545	118963	7241
1978 (JAN.-MAR.)	30765 (32620)	2619 (2628)	N/A	N/A	5753	N/A	N/A

SOURCE: DEPARTMENT OF COMMERCE

TABLE 17
IMPORTS
(DATA INCLUDING F. M. S.
IN PARENTHESES)

YEAR	U. S.			JAPAN		GERMANY	
	OVERALL	FROM	FROM	OVERALL	FROM U. S.	OVERALL	FROM U. S.
		JAPAN	GERMANY				
1968	32991	4069	2724	12989	2949	20152	1639
1969	35807	4893	2628	15024	3477	24926	2006
1970	39866	5894	3156	18811	4650	29814	2651
1971	45579	7278	3680	19667	4053	34341	2559
1972	55797	9076	4308	23467	4963	39776	2732
1973	70499	9665	5591	38314	8356	55499	3750
1974	103673	12414	6302	62110	10724	70240	4687
1975	98041	11257	5358	57881	9567	75619	5052
1976	124047	15531	5581	64748	10196	88209	5389
1977	151644	18545	7241	60417	10561	102251	5829
1978 (JAN.- MAR.)	41896	5753			2619		

SOURCE: DEPARTMENT OF COMMERCE

TABLE 18
U.S. MILITARY EXPENDITURES OVERSEAS

YEAR	AMOUNT		TOTAL
	GERMANY	JAPAN	
1968	878	781	4535
1969	948	880	4856
1970	1081	918	4855
1971	1265	869	4819
1972	1405	839	4784
1973	1507	824	4629
1974	1549	758	5032
1975	1540	765	4795
1976	1557	792	4901
1977	1860	811	5745
1978 (JAN.-MAR.)	N/A	220	1548

SOURCE: DEPARTMENT OF COMMERCE

TABLE 19
U.S. MILITARY EXPENDITURES OVERSEAS

<u>FISCAL YEAR</u>	<u>AMOUNT</u>
1968	4433
1969	4705
1970	4909
1971	4799
1972	4933
1973	4690
1974	4680
1975	5086
1976	4672
197T	1235
1977	5490

SOURCE: DEPARTMENT OF COMMERCE

TABLE 20
U.S. GOVERNMENT NON-MILITARY
EXPENDITURES OVERSEAS

YEAR	AMOUNT	COUNTER*	NET
1968	760	353	-407
1969	717	343	-374
1970	725	332	-393
1971	746	347	-399
1972	788	354	-434
1973	862	399	-463
1974	967	419	-548
1975	1044	438	-606
1976	1250	488	-762
1977	1359	485	-874
1978 (JAN.- MAR.)	365	132	-233

*FOREIGN GOVERNMENT EXPENDITURES IN U.S.

SOURCE: DEPARTMENT OF COMMERCE

NOTE: EXCLUDES PENSIONS AND GRANTS

TABLE 21
U.S. GOVERNMENT NON-MILITARY
EXPENDITURES OVERSEAS

<u>FISCAL YEAR</u>	<u>AMOUNT</u>	<u>COUNTER</u>	<u>NET</u>
1968	687	348	-339
1969	770	342	-428
1970	723	334	-389
1971	722	352	-370
1972	773	341	-432
1973	793	358	-435
1974	893	413	-480
1975	1006	455	-551
1976	1117	453	-664
1977	455	117	-338
197T	1306	499	-807

SOURCE: DEPARTMENT OF COMMERCE

NOTE: EXCLUDES PENSIONS AND GRANTS

TABLE 22
 U.S. GOVERNMENT OVERSEAS
 EXPENDITURES WITH JAPAN

YEAR	EXPENSES	COUNTER	NET
1968	16	11	- 5
1969	19	26	+ 7
1970	21	23	+ 2
1971	18	35	+17
1972	22	23	+ 1
1973	25	66	+41
1974	29	20	- 9
1975	31	22	- 9
1976	28	23	- 5
1977	46	31	-15
1978 (JAN.-MAR.)	8	8	-

SOURCE: DEPARTMENT OF COMMERCE

TABLE 23
 U.S. GOVERNMENT OVERSEAS
 EXPENDITURES WITH GERMANY

YEAR	EXPENSES	COUNTER	NET
1968	21	12	- 9
1969	18	9	- 9
1970	23	12	-11
1971	24	11	-13
1972	27	14	-13
1973	31	10	-21
1974	35	15	-20
1975	41	29	-12
1976	53	24	-19
1977	50	16	-34

SOURCE: DEPARTMENT OF COMMERCE

TABLE 24
U.S. PETROLEUM NET IMPORTS

YEAR	EXPORTS	IMPORTS	NET
1968	504	2384	-1880
1969	478	2649	-2171
1970	519	2930	-2415
1971	511	3650	-3139
1972	488	4650	-4162
1973	605	8415	-7810
1974	851	26589	-25738
1975	986	27017	-26031
1976	1078	34573	-33495
1977	1334	44977	-43643
1978 (JAN.- MAR.)	332	10598	-10266
1978 (APR.- JUN.)	N/A	6457	N/A

SOURCE: DEPARTMENT OF COMMERCE

TABLE 25

PETROLEUM IMPORTS

YEAR	RATE ¥ / \$	JAPAN		RATE DM/\$	GERMANY	
		¥ BILLIONS	\$ MILLIONS		DM BILLIONS	\$ MILLIONS
1968	360.0	N/A	N/A	4.0	N/A	N/A
1969	360.0	686	1905.6	3.69	N/A	N/A
1970	360.0	805	2236.1	4.65	8.57	1843.0
1971	314.8	1066	3386.3	3.27	11.17	3415.9
1972	302.0	1190	3940.4	3.20	10.63	3321.9
1973	280.0	1627	5810.7	2.70	15.02	5563.0
1974	301.0	5509	1830.23	2.41	32.22	13369.3
1975	305.2	5830	19102.2	2.62	28.96	11053.4
1976	292.8	6282	21454.9	2.36	35.20	14915.3
1977	240.0	6327	26362.5	2.11	34.40	16303.3

SOURCE: INTERNATIONAL MONETARY FUND, INTERNATIONAL FINANCIAL STATISTICS

TABLE 26
U.S. FOREIGN TRAVEL

YEAR	RECEIPTS	EXPENSES	BALANCE
1968	1775	3030	-1255
1969	2043	3373	-1330
1970	2331	3980	-1649
1971	2534	4373	-1839
1972	2817	5042	-2225
1973	3412	5526	-2114
1974	4032	5980	-1948
1975	4839	6417	-1578
1976	5806	6856	-1050
1977	6164	7451	-1287
1978 (JAN.- MAR.)	1628	1505	+ 123

SOURCE: DEPARTMENT OF COMMERCE

TABLE 27
U.S. - JAPAN TRAVEL

YEAR	EXPENSES		NET
	JAPAN	U.S.	
1968	51	60	- 9
1969	67	70	- 3
1970	101	97	+ 4
1971	134	88	+ 46
1972	205	121	+ 84
1973	334	123	+211
1974	402	102	+300
1975	410	131	+279
1976	439	145	+294
1977	436	149	+287
1978 (JAN.-MAR.)	143	17	+126

SOURCE: DEPARTMENT OF COMMERCE

TABLE 28
U.S. - GERMANY TRAVEL

YEAR	EXPENSES		NET
	GERMANY	U.S.	
1968	44	111	-67
1969	55	114	-59
1970	67	148	-81
1971	79	126	-47
1972	93	163	-70
1973	137	170	-33
1974	126	153	-27
1975	145	174	-29
1976	206	195	+11
1977	261	203	+58

SOURCE: DEPARTMENT OF COMMERCE

TABLE 29
WAGES
INDEXED FOR EACH COUNTRY AT 1970

YEAR	U.S.	JAPAN	GERMANY
1968	89.6	75.7	80.0
1969	94.9	85.9	87.1
1970	100.0	100.0	100.0
1971	106.3	114.7	111.0
1972	113.4	132.4	120.9
1973	121.4	157.5	133.5
1974	131.2	196.6	147.1
1975	143.2	229.9	158.7
1976	154.2	259.1	168.8
1977	167.5	284.8	180.7

SOURCE: INTERNATIONAL MONETARY FUND

TABLE 30
 PRODUCTIVITY INCREASE
 OUTPUT PER HOUR
 INDEXED FOR EACH COUNTRY AT 1967

YEAR	U.S.	JAPAN	GERMANY
1967	100.0	100.0	100.0
1968	104.7	112.6	106.9
1969	107.4	130.0	113.4
1970	104.5	146.5	116.1
1971	110.3	150.5	121.4
1972	116.0	161.0	128.7
1973	119.4	179.0	136.6
1974	112.8	180.3	145.0
1975	117.9	172.4	150.4
1976	123.5	194.8	162.8
1977	126.7	206.6	169.8

SOURCE: U.S. DEPARTMENT OF LABOR, BUREAU OF LABOR STATISTICS

TABLE 31
G.N.P. ANNUAL GROWTH
(WITH DEFLATOR)

YEAR	U.S.	JAPAN	GERMANY
1968	4.5%	12.4%	7.4%
1969	2.8%	10.8%	8.2%
1970	-3.2%	10.9%	5.8%
1971	3.0%	7.4%	3.3%
1972	5.7%	9.1%	3.6%
1973	5.5%	9.8%	4.9%
1974	-1.4%	-1.3%	0.4%
1975	-1.3%	2.5%	-2.5%
1976	6.0%	6.0%	5.7%
1977	4.9%	5.1%	2.4%
1978 PROJECTED (BASED UPON JAN.-JUNE)	4.0%	5.8%	N/A

SOURCE: INTERNATIONAL MONETARY FUND

TABLE 32
CONSUMER PRICE INDEX
ANNUAL PER CENT RISE

YEAR	U.S.	JAPAN	GERMANY	WORLD
1968	4.2%	5.4%	2.6%	4.9%
1969	5.4%	5.7%	1.9%	5.1%
1970	5.9%	7.2%	3.4%	6.2%
1971	4.3%	6.3%	5.3%	5.9%
1972	3.3%	4.3%	5.5%	5.9%
1973	6.2%	11.8%	6.9%	9.6%
1974	11.0%	24.3%	7.0%	11.7%
1975	9.1%	11.9%	8.3%	13.0%
1976	5.8%	9.3%	4.5%	15.3%
1977	6.5%	8.1%	3.9%	13.3%
1978 PROJECTED (BASED UPON JAN.-JUNE)	9.5%	N/A	2.4%	N/A

SOURCE: INTERNATIONAL MONETARY FUND
ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

TABLE 33
 CONSUMER PRICE INDEX
 INDEXED FOR EACH COUNTRY AT 1970

YEAR	U.S.	JAPAN	GERMANY	WORLD
1968	89.6%	88.3%	94.9%	89.6%
1969	94.4%	93.3%	96.7%	94.2%
1970	100.0%	100.0%	100.0%	100.0%
1971	104.3%	106.3%	105.3%	105.9%
1972	107.7%	110.9%	111.1%	112.1%
1973	114.4%	124.0%	118.8%	122.9%
1974	127.0%	154.1%	127.1%	137.3%
1975	138.6%	172.4%	134.7%	155.1%
1976	146.6%	188.4%	140.8%	178.8%
1977	156.2%	203.6%	146.3%	202.6%
1978 PROJECTED (BASED UPON JAN.-JUNE)	171.0%	N/A	N/A	N/A

SOURCE: INTERNATIONAL MONETARY FUND

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

TABLE 34

MARKET RATES
MARK AND YEN TO DOLLAR END OF
PERIOD 1970 II = 100

	1969				1970				1971			
	I	II	III	IV	I	II	III	IV	I	II	III	IV
GERMANY	110.8	110.3	109.2	101.6	100.9	100.0	100.0	100.5	100.0	96.3	91.4	90.0
JAPAN	99.7	100.0	99.6	99.7	99.0	100.0	99.7	99.6	99.6	99.6	93.1	87.1
	1972				1973				1974			
	I	II	III	IV	I	II	III	IV	I	II	III	IV
GERMANY	87.3	86.9	88.2	88.2	78.2	66.8	66.7	74.5	69.5	70.3	73.0	66.3
JAPAN	84.8	83.9	83.9	84.1	74.1	73.9	74.0	78.0	76.9	74.2	73.2	83.9
	1975				1976				1977			
	I	II	III	IV	I	II	III	IV	I	II	III	IV
GERMANY	64.6	64.8	73.3	72.2	69.9	70.9	67.1	65.0	65.8	64.4	63.6	58.0
JAPAN	81.9	82.6	84.3	85.0	83.5	82.9	80.1	81.6	77.3	74.0	66.9	62.0

	1978		
	I	II	III
GERMANY	55.7	57.4	53.3
JAPAN	62.0	57.0	52.7

PAR RATES

GERMANY	4.00 (110.2)	UNTIL 10/24/69
	3.66 (100.8)	UNTIL 8/15/71
	3.225 (88.8)	UNTIL 2/16/73
JAPAN	360 (100.3)	UNTIL 8/15/71
	308 (85.8)	UNTIL 2/16/73

SOURCE: INTERNATIONAL MONETARY FUND
DEPARTMENT OF COMMERCE
NOTE: U.S. FORCES OPERATED AT PAR RATES UNTIL 8/71, THEN
MARKET RATE

TABLE 35

DOLLAR RATES

	1	2	3	4	5	6	7	8	9	10	11	12
<u>1969</u>												
JAPAN	-	-	-	-	-	-	-	-	-	-	-	-
GERMANY	-	-	-	-	-	-	-	-	4.000	3.660	3.660	3.660
<u>70</u>												
J	-	-	-	-	-	-	-	-	-	-	-	-
G	3.660	3.660	3.633	3.633	3.633	3.633	3.633	3.633	3.633	3.633	3.633	3.633
<u>71</u>												
J	-	-	-	-	-	-	360.0	339.0	334.2	329.3	327.6	314.8
G	3.633	3.633	3.633	3.633	3.550	3.497	3.460	3.396	3.318	3.336	3.309	3.268
<u>72</u>												
J	310.4	304.2	304.2	304.8	304.6	301.1	301.1	301.1	301.1	301.1	301.1	302.0
G	3.209	3.187	3.168	3.179	3.177	3.156	3.175	3.190	3.202	3.204	3.196	3.202
<u>73</u>												
J	301.2	270.0	265.8	265.5	265.0	265.3	263.5	265.3	265.7	266.8	280.0	280.0
G	3.158	2.843	2.838	2.837	2.730	2.425	2.352	2.468	2.420	2.445	2.618	2.703
<u>74</u>												
J	299.0	287.6	276.0	279.8	281.9	284.1	297.8	302.7	298.5	299.9	300.1	301.0
G	2.782	2.667	2.523	2.447	2.529	2.555	2.587	2.664	2.653	2.580	2.477	2.410
<u>75</u>												
J	297.85	286.60	293.80	293.30	291.35	296.35	297.35	297.90	302.70	301.80	303.00	305.15
G	2.341	2.2845	2.3450	2.3780	2.3465	2.3548	2.5765	2.5847	2.6615	2.5552	2.6276	2.6223
<u>76</u>												
J	303.70	302.25	299.70	299.40	299.95	297.40	293.40	288.75	287.45	293.70	295.75	292.80
G	2.5943	2.5645	2.5383	2.5360	2.5945	2.5742	2.5430	2.5265	2.4365	2.4052	2.4048	2.3625
<u>77</u>												
J	289.30	282.7	277.5	277.7	277.3	267.7	266.00	267.30	265.45	250.60	245.70	240.00
G	2.4214	2.3947	2.3887	2.3589	2.3565	2.3380	2.2878	2.3219	2.3074	2.2528	2.2278	2.1050
<u>78</u>												
J	241.40	238.70	222.40	222.90	223.40	204.70	190.70	190.20	189.15	176.10		
G	2.1118	2.0360	2.0230	2.0678	2.1008	2.0753	2.0413	1.9865	1.9386	1.7365		

TABLE 36
 JAPANESE EXPORTS TO U.S.
 (% OF TOTAL EXPORTS TO U.S.)

	SILK	TEXTILES	FOOD	MACHINERY	TRANSPORT. EQUIP.	ELECTRICAL	TOTAL (\$ m)
1926	82%	4%					304
1940	66%	4%	6%				133
1950	10%	9%	11%				179
1960		26%	7%	17%			1083
1976				11%	27%	21%	15651

In any of the above years, the amount of any commodity, other than the ones listed was negligible. For those years where a listed commodity has no percentage given, the amount of that commodity that year was also negligible.

Source: Japan External Trade Organization

TABLE 37
 U.S. EXPORTS TO JAPAN
 (% OF EXPORTS TO JAPAN)

	COTTON	MACHINERY	FOOD	RAW MATERIAL	TOTAL (\$ M)
1926	47%				10,126
1940	14%	12%			1,545
1950	52%		26%		417
1960	14%	17%	8%	17%	291
1976			22%	26%	319

In any of the above years, the amount of any commodity, other than the ones listed was negligible. For those years where a listed commodity has no percentage given, the amount of that commodity that year was also negligible.

Source: Japan External Trade Organization

TABLE 38
 NUMBER OF COMMODITY ITEMS UNDER RESIDUAL IMPORT
 RESTRICTION IN MAJOR DEVELOPED COUNTRIES

COUNTRY	RESIDUAL IMPORT RESTRICTIONS		
	TOTAL	AGRICULTURAL AND MARINE PRODUCTS	INDUSTRIAL PRODUCTS
FRANCE	74	39	35
WEST GERMANY	39	19	20
ITALY	20	12	8
BENELUX COUNTRIES	8	4	4
U.S.A.	7	1	6
UNITED KINGDOM	25	19	6
CANADA	5	4	1
JAPAN	27	22	5

SOURCE: GOVERNMENT OF JAPAN, MINISTRY OF INTERNATIONAL TRADE
 AND INDUSTRY

TABLE 39

ITEMS UNDER RESIDUAL IMPORT
RESTRICTION IN JAPAN

Items under residual import restriction in Japan are not prohibited entirely but are regulated by quotas which may vary from year to year.

Beef
Fresh milk and cream
Processed milk and cheese
Processed cheese
Canned beef, pork, etc.
Fresh shore fish and cod roe
Salted shore fish and cod roe
Scallops, shell ligaments and
squid (fresh and salted)
Fresh oranges and tangerines
Oranges and tangerines for
temporary storage
Fruit purees and fruit paste
Canned pineapple and fruit pulp
Fruit juice and tomato juice
Tomato catsup, sauce and mixed
seasonings
Dextrine
Dextrose
Wheat flour, rice flour, etc.
Ground wheat, ground rice, etc.
Red beans, broad beans, peas, etc.
Peanuts (except those for oil extrac-
tion)
Devil's tongue taro
Food preparations (sweetener, milk,
edible seaweed, wheat, etc.)
Coal
Cowhide and horsehide
Dyed, colored and/or patterned sheepskin
Dyed, colored and/or patterned goatskin
Leather footwear

Source: Ministry of International Trade and Industry

TABLE 40
U.S. NAVY EXPENDITURES

FY	OVERSEAS	JAPAN
1968	891.7	128.4
1969	900.8	130.0
1970	892.0	202.9
1971	776.3	163.2
1972	812.9	180.2
1973	734.5	222.7
1974	858.6	318.6
1975	934.6	340.0
1976	871.5	366.3
197T	204.4	89.5
1977	939.6	392.4

SOURCE: U.S. DEPARTMENT OF THE NAVY, OFFICE
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TABLE 41
CINCPACFLEET
EXPENDITURES IN JAPAN

FY	AMOUNT	BUDGETED EXCHANGE RATE	ACTUAL AVERAGE EXCHANGE RATE OF EXPENDITURES
1971	35.9	360	360
1972	35.6	360	315
1973	39.3	300	260
1974	50.3	300	276
1975	57.6	300	293
1976	73.0	300	298
1977	17.8	300	278
1977	76.1	290 - 265*	278
1978 JAN.-JUNE	92.8	245	224

*RATE REVISED DURING THE FISCAL YEAR

SOURCE: U.S. DEPARTMENT OF THE NAVY, COMMANDER-IN-CHIEF
U.S. PACIFIC FLEET

TABLE 42
NSD YOKOSUKA

	AUTHORIZATION	AUGMENTATIONS DUE TO YEN REVALUATIONS	TOTAL	BUDGETED EXCHANGE RATE YEN/DOLLAR
FY 70	\$ 5,827,800	\$ 57,000	\$ 5,884,800	360
FY 71	7,127,700	238,000	7,365,700	360
FY 72	6,111,400	622,000	6,733,400	300
FY 73	6,825,781	427,781	7,253,562	300
FY 74	8,596,200	-	8,594,200	300
FY 75	11,937,200	59,000	11,996,200	300
*FY 76	20,343,200	152,000	20,495,200	300
*FY 7T	4,532,000	-	4,532,000	300
*FY 77	22,220,000	1,123,000	23,343,000	290-265
*FY 78	25,692,000	2,281,000	27,973,000	245

AUTHORIZATIONS, NOT EXPENDITURES, SO CURRENCY REVALUATIONS
IN SUCCEEDING YEARS DO HAVE AN EFFECT.

*MAY STILL NEED REVALUATIONS.

SOURCE: U.S. DEPARTMENT OF THE NAVY, U.S. NAVAL SUPPLY
DEPOT, YOKOSUKA

TABLE 43
FOREIGN LABOR COSTS AT THE U.S.
NAVAL BASE, YOKOSUKA, JAPAN

FISCAL YEAR	AVERAGE HOURLY LABOR RATE	AVERAGE EXCHANGE RATE	% RATE OF PAY INCREASE
1968	\$ 1.19	¥360/\$1	7.90
1969	1.29	"	8.00
1970	1.50	"	10.20
1971	2.23	"	12.67
1972	3.07	¥315/\$1	11.74
1973	3.95	¥260/\$1	10.68
1974	4.68	¥276/\$1	15.39
1975	5.71	¥293/\$1	32.48
1976	7.40	¥298/\$1	10.85
1977	7.98	¥278/\$1	6.94
1978	11.08	¥224/\$1	6.92

SOURCE: U.S. NAVAL SUPPLY DEPOT, YOKOSUKA

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