

**Thinking About World Order:
America, Japan and Germany in the 1990's**

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Remarks

by

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at

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It's a pleasure to be here this evening to participate in your "Distinguished Business Leaders" lecture series. Professor Hugh Patrick has been threatening to invite me here for the last five years, and I have been threatening to accept. When he called me a few weeks ago he suggested that I talk about the book I have just written -- "A COLD PEACE: America, Japan, Germany and the Struggle for Supremacy" (to be published in June by Times Books/Random House.) A day later he sent me a letter asking if I'd like to speak about the global mergers and acquisitions markets. Taken together, these are two very important and topical issues for me, the book having served as an opportunity to think through some of the major challenges facing this country, the M&A business being at the center of my professional life. In many ways the two subjects have similar underpinnings, too, especially with respect to the rapid and deep seated political, economic and industrial

changes occurring in the world. What I thought I'd do tonight is to talk a bit about America, Japan and Germany by way of introduction, and then, in discussion with you, focus more on the business scene.

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A few weeks ago, a good friend of mine was asking me about A COLD PEACE and I started to summarize the points I had tried to make. "I'm not interested in the arguments," he said, "but in your motivations. I doubt that you could say very much that is really new about the three countries, but if I knew why you wrote about them, particularly now -- if I knew what themes you were trying to illustrate -- I might have a very valuable framework for thinking about the world." Of course, I was a bit taken aback, especially since it bothered me to think I could work for two years in airplanes, hotel rooms, and during many hours long before the sun came up and not say *anything* new. But maybe he had a point: maybe the act of explaining why I picked the subject, what I was trying to get at, and why I had become so passionate about it, was as important as any facts or conclusion.

Actually, writing about the three countries was a natural for me. Having been raised in a military family, I spent six years in Germany during the American occupation, was bilingual at the age of 4, and had seared in my mind the sights and stories of a country devastated by war -- the rubble, the poverty, the explanations of my parents about what happened. My introduction to Japan was also related to the war and I can still recall my father's tales of fighting against the Japanese in the Pacific -- from the true horrors in the

jungles of New Guinea, to the indescribable exhilaration of entering Tokyo with MacArthur. In the 1970s, I was to interact with Germany and Japan from the vantage point of the White House staff and the State Department policy planning staff, where I was engaged in the full range of foreign economic policy issues -- the dollar, steel imports, oil supply, agriculture, technology controls -- and where I saw first hand the growing economic momentum of Bonn and Tokyo. Then, in the 1980s, I had yet another view of the new world that was emerging as I dealt with both countries as an investment banker, including a two year stint in Tokyo heading up the Far East business of Shearson Lehman Brothers.

It wasn't just these very personal experiences which caused me to write a book about the three countries, however. Even before the Cold War officially ended, and even before we heard the expression "new world order," I had a strong sense that America's interaction with Germany and Japan was the most important question facing the international system, the key to what would happen on fronts as diverse as global banking, trade, immigration and peace keeping. Of course, these were the three most powerful nations in terms of economic clout, and such power would count for more and more as the world moved away from the likelihood of a major military confrontation. And one didn't have to be a genius to see that America, Japan and Germany had to cooperate ever more closely if all manner of protectionism was to be controlled, if the third world was to get the lift it desperately needed, and if post World War II prosperity was to continue.

But there were other reasons why I wanted to focus on these three countries now, and I'd like to discuss a few of them tonight.

First, in my view there was a reason to challenge what I thought was the conventional wisdom -- that the collapse of the Soviet Union would usher in a time of unparalleled peacetime cooperation. Democracy and capitalism had won, so the usual argument went, and now all energies could be devoted to expanding economic opportunities the world over and to building a better environment for living everywhere. I didn't buy the argument for several reasons. I felt, for example, that we were all underestimating the real impact of the end of the Cold War, that we are thinking that changes would come smoothly and gradually, when, in fact, we were sitting on a volcano. I had the feeling that rather than project a straight line of ever increasing international cooperation, we would experience a dramatic discontinuity, characterized in great part by the resumption of drives held by Japan and Germany before World War II. These were drives which were submerged during the last forty-five years by the two countries' preoccupation with economic reconstruction and the need to defer to America because of its role as military protector. These were drives, moreover, which were not fully compatible with America's needs, and which would create problems between Japan and Germany themselves. I tried to illustrate these assumptions with reference to the many political and economic disputes which had taken place since the Berlin Wall came down, but also with regard to deeper patterns. One of the latter was the different ways that America, Japan and Germany had historically organized their economies for well over the last century -- "competing capitalisms," I called it. Another was the "new

imperialism," in which America, Japan and Germany were de facto creating their own empires, evolving via deepening trade and financial links in the arenas being called the North American Free trade Agreement, the East Asian economic zone, and of course, the European Community.

Second, I believed that different national needs and preferences would loom increasingly large in relationships among the three nations, and that domestic preoccupations would lead to different priorities and which would be increasingly irreconcilable agendas. I felt that these differences would increasingly come to the fore as cold war security ties among nations weakened. America's agenda for economic and social regeneration, for example, was bound to make the country turn inward, in fact if not in rhetoric, for the next decade. Japan's domestic needs to lift domestic living standards, or to bring its political system into the twentieth century would absorb much of its times for the rest of the 1990s. Germany would be busy sorting out unification through the end of this century, too. In my view, among the Big Three there would not be enough energy and talent left to deal with the awesome international dimension of problems.

Third, I saw the three countries -- individually and collectively -- as ways to look at some of the great problems and challenges facing the world today.

One of these is the fact that many countries are undergoing major crises of identity, making their foreign policies that much more unpredictable and volatile. I attribute these

crises to the end of the cold war and the blinding pace of economic change stemming from global forces. I tried to make this case with regard to the United States as it adjusts to new patterns of immigration, rapidly expanding dependence on the world economy, and lowered expectations of what the American Dream can, in fact, deliver. Japan is in the throws of restructuring its financial and industrial system, not to mention its role in the world. Germany is trying to balance pressures from the west and east, and trying to figure out how much power it has and how to use it -- trying, like Japan, to figure out just where it fits in the evolving world order. The new search for identity has enormous implications. It is leading to questioning of how best to organize political and economic life. It is spawning tensions between supranationalism, national sovereignty and localism, to questioning about where governing should take place and at what level policy should be made and financed. The debate over basic governance is itself a reflection of the seemingly uncontrollable forces of the world economy, the fact that some events outside our borders have so much to do with our lives at home, and some things are more purely local -- and the difficulty politicians have sorting out the differences and organizing themselves to deal with them. All this leads to great political frustration, foreign scapegoating, economic bashing, and it is hardly conducive to cooperative policies.

The three countries are also good case studies of what power is and how it can be used. America is a military and economic superpower, whereas Japan and Germany are, so far, just economic giants. Among the issues which fascinated me were, which of the two models will have the advantages in the future? What will be the implications of these

different models on the global economic agenda? How are burdens and responsibilities to be shared among nations and disparate strengths and ambitions? Looking at the Big Three was a great way to explore these questions.

Yet another issue which I wanted to examine by writing about America, Japan and Germany, was the industrial paradigm of the future. We are in the middle of a third industrial revolution, to be sure. We may not know where we are headed, but we do know that the era of standardized mass production, regulated capital markets, and relatively static technology is over. We know that the requirements for investment, workforce training, and general education are growing exponentially. Here is a big question: As I mention before, I believe America, Japan, and Germany all have economic systems with different strengths and weaknesses. Who is in the best shape to deal with the new industrial imperatives? Who, if anyone, owns the future the way America dominated so much of the 20th Century?

Fourth, I was very interested in exploring the American psyche as we began the grand debate over who we are, now that the cold war is over, and who we want to be. It was my hunch that Japan and Germany would be at the center of the debate. Of all the chapters in my book, the one I most enjoyed writing was the one called "Japan and Germany in the American Mind," in which I tried to trace America's relations with both nations for the last 150 years, not so much in terms of objective history, but in terms of how we thought of each one. I came to the conclusion that these two countries have occupied a very special place in our thinking for a very long time. From the beginning they were dauntingly energetic and

ambitious nations. And while we have had many close ties, for the most part they have been our most disturbing challengers, representing perceived threats to our freedom of action, and perceived threats to our way of life. It seemed to me that the only time we were really comfortable dealing with them was in the late 1980s when relations were thin, or during those times when we single handedly called all the shots, such as during the cold war. The past patterns do not auger well for the future in which we are going to be inextricably involved with both Tokyo and Berlin, yet will no longer have much of a upper hand. So we are on uncharted and potentially dangerous terrain when it comes to our relationships between the two countries, and hence world order.

History aside, Japan and Germany are going to represent to us the interaction of foreign and domestic policy as no two other countries can or will. This, too, will be new ground for America, because we are used to thinking about domestic and foreign policy in separate compartments. Economics was something we practiced at home, while foreign policy meant politics and defense. There were separate communities dealing with each, with cold war national security concerns always being dominant. But as the economic dimension of foreign policy becomes so much more important, the domestic-foreign distinction becomes meaningless, and Japan and Germany become the most intense objects of our attention. When we worry about interest rates, it isn't the Bank of France or the Bank of England that we look to but the Bundesbank and the Bank of Japan. When we think about job creation from trade, it's Japan and Germany which we expect to lead the moves for open markets for our exports abroad. When we compare our education system to those of

our competitors, it isn't Sweden or Australia that we look at but Japan and Germany. But this is just the tip of the iceberg of the ways Japan and Germany will enter our daily lives. Here are just two other examples of how domestic and foreign policy are overlapping. This past year German steel workers went on strike for higher wages. The ultimate settlement was deemed inflationary by the Bundesbank, which then decided that the high interest rates would have to be maintained. But because of its pivotal position in Europe, high German rates meant high rates elsewhere in Europe, which meant slower growth on the continent, which meant more trouble for American exporters. Another example: rising health care costs in America has caused American automobile firms to pay debilitating insurance premiums and has become a real handicap in their competitiveness vis a vis their Japanese counterparts.

My final reason for writing about Japan and Germany was, frankly, that I was tired of America's singular preoccupation with Japan itself. I wanted to think through whether the problems we found with Tokyo were really so unique or so singularly overwhelming so as to justify not just our emotional obsession, but policies which were specifically targeted at Japan and Japan alone. My hunch was that we were wrong to be so obsessed. Although Germany and Japan were by no means the identical challenges, my conclusion was in fact, that we are badly underestimating how much difficulty Berlin will be for us in the not-so-distant future, particularly as it is in the central player in Europe, particularly as German economic links with America are nowhere as intense as are Japan's, and particularly because it's inhibitions to being politically assertive are falling away so much more quickly than

anything we have seen in Japan. Moreover -- and this is my bottom line -- the measure that America must take to put its own economic and social house in order are the crucial ingredients in dealing with both Japan and Germany -- and they are the same measures (which I hope we can discuss in a few minutes.)

Well, I've gone on a bit too long, so let me stop here and see what questions you have.

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