

MEMORANDUM OF CONVERSATION

Barreda LA
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Participants

Treasury: Secretary Regan
George Cross, Assistant to the Secretary
Joanna R. Shelton, IMA/Japan Desk
Recording Officer

Japan: Finance Minister Watanabe
Vice Minister Sagami
A. Soejima, Minister (Financial)
Embassy of Japan
A. Takahashi, Minister's Personal Secretary
T. Kato, Assistant to Vice Minister
and Interpreter

Time and Place: January 22, 1980; 4:00 p.m., Secretary's Office

Subject: General (courtesy call)

Distribution: Messrs. Sprinkel, Nachmanoff, Leddy, Cornell,
Korp, Syvrud, Barreda, McCamey, Cross

Minister WATANABE began by saying that Diet debate on the FY 1981 budget may prevent him from attending the G-5 Ministerial meeting in March. In response to a question from Secretary REGAN, WATANABE described Japan's budget proposal in general terms. He also noted the difficulties of continued high levels of deficit financing, due to growing bank reluctance to hold large amounts of government bonds. Secretary REGAN responded that the Regan Administration will be making substantial changes in the Carter budget in the coming weeks. He then asked about Japan's plans for defense expenditures. WATANABE's initial response did not touch on defense spending. After further prompting by Secretary REGAN, WATANABE replied that the proposed budget provides for a 7.6 percent nominal increase in defense expenditures -- an estimated 3.9 percent real increase. Nominal expenditures on front-line equipment, such as tanks and aircraft, are due to rise 11 percent (7.7 percent real), and salary increases will be held to one percent in nominal terms.

Secretary REGAN, turning to the automobile/Chrysler problem, said he would like to discuss the issue further the next time he meets with WATANABE. He said he would appreciate WATANABE's view on how best to resolve the problem vis-a-vis Japan, whether through mergers or other measures. WATANABE indicated Federal Reserve Chairman Volcker had raised the same question at lunch the previous day. After describing differences in U.S. and Japanese labor/management/shareholder relationships, WATANABE said the key to improved corporate performance appears to lie in increased labor/management cooperation. He expressed the view, based on Japanese firms' experience, that U.S. workers are as productive as their Japanese counterparts.

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Date: *9/4/94*

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Secretary REGAN closed the meeting by saying he would like to develop a close relationship with WATANABE, adding that they both had much to learn from each other. WATANABE agreed, saying that because the United States and Japan are highly interdependent and are indispensable to one another, we must consult closely and should avoid abrupt policy changes. REGAN invited WATANABE to telephone him at any time -- they can talk off-the-record, in order to understand each other and avoid moving in different directions on matters of mutual concern.


Joanna R. Shelton

Approve: E. George Cross, Jr.

Approve as Amended: _____

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Authority: William H. [unclear]
Date: 9/14/94