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To: Members of the Executive Board
From: The Secretary
Subject: Economic Cooperation - United States and Japan

The attached press release, which was released simultaneously today in Tokyo and Washington, is circulated for the information of the Executive Directors, at the request of Mr. Dallara and Mr. Fujino.

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TREASURY NEWS



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FOR IMMEDIATE RELEASE

October 31, 1986

U.S. Secretary of the Treasury, James A. Baker, III and Japanese Finance Minister Kiichi Miyazawa today announced that, as part of the ongoing dialogue between the United States and Japan on economic, trade and financial issues, they have reached agreement on cooperative action and understandings regarding a number of economic issues of mutual concern.

Both Ministers stressed the importance of continuing cooperative action by Japan and the United States to address global economic problems. They agreed that action by the key industrial countries is critical at this time to promoting world economic growth, reducing imbalances, and resolving international debt problems.

In this connection, Minister Miyazawa outlined the following actions being taken by Japan to help fulfill its responsibilities in the world economy:

- The Government of Japan (GOJ) has decided today to submit to the Diet a supplementary budget in order to implement the 3.6 trillion yen package announced in September, designed to provide a substantial stimulus to the Japanese economy. This stimulus will be achieved through additional investments in key areas such as public works, housing, and construction. The GOJ will monitor progress in implementing expeditiously the stimulus package to assure that its expected impact on growth is realized.
- The GOJ intends to put in place, as soon as possible after Diet approval, a tax reform plan, including reductions in the marginal tax rates for both personal and corporate income. In this connection it was noted that on October 28 the Government Tax Council recommended, following its interim report, reducing the effective tax rate for corporations to below 50 percent and reducing the highest marginal tax rate on personal income. Such cuts in tax rates will increase investment and give incentive for more business activities. More generally, the tax reform will provide

a system which better reflects taxpayers' choice, unleashing the growth potential of the Japanese economy. The structure and implementation of tax reform would provide additional stimulus to the Japanese economy while providing for needed financing to continue the process of fiscal consolidation.

- The Bank of Japan has decided today to reduce its discount rate from 3.5 percent to 3 percent, effective November 1, 1986.

Secretary Baker welcomed the actions and plans of Japan to stimulate growth and to reduce imbalances. He stated that, for its part, the United States:

- Remains fully committed to significant and steady reductions in the U.S. budget deficit, consistent with the Gramm-Rudman-Hollings Act;
- Has just enacted an historic tax reform which will provide additional incentives to invest and to work and will promote growth in the U.S. economy; and
- Has continued to resist protectionist pressures and work towards free and fair trade.

Minister Miyazawa expressed his appreciation for U.S. policies in these areas, noting that they complement Japan's economic policy actions.

Minister Miyazawa and Secretary Baker agreed that these actions will contribute significantly to promoting growth in Japan, the United States, and the rest of the world, as well as to reducing global trade imbalances. In this connection, they shared the view that exchange rate instability can jeopardize stable economic growth. They expressed their mutual understanding that with the actions and commitments mentioned above, the exchange rate realignment achieved between the yen and the dollar since the Plaza Agreement is now broadly consistent with the present underlying fundamentals, and reaffirmed their willingness to cooperate on exchange market issues.

Secretary Baker and Minister Miyazawa expressed their common view that these cooperative actions represent important steps in fulfilling their commitments from the Tokyo Summit, and the September meeting of the Group of Seven Finance Ministers in Washington, to pursue close and continuous coordination of economic policy. They agreed to stay in close touch on these matters, and called on other major industrial countries to join in these efforts to promote global growth, reduce imbalances and promote open markets.