

the Nihon Keizai lamented the poor policy responses of the Japanese government. They were not overwhelmingly supportive, but their assessments were, by and large, better than those of the Williamsburg summit, and they did not believe that the summit outcome was fatal for Nakasone.

In retrospect, though the Tokyo summit turned out to be worse than the Japanese policy-makers had anticipated, the damage was not far-reaching nor long-lasting.²⁶⁵ Contrary to the disappointments and scathing remarks exhibited by the opposition, parts of the business community and media, Nakasone's popularity rating did not slip. The approval rating for the Nakasone Cabinet in a poll taken right after the summit marked an all-time high of 53%, unchanged from the March poll though the disapproval rating edged up slightly by one percentage point to 22%. As was in the case of the Williamsburg summit, the poll did show a divergent view held by the general public who might be impressed with the way their leader had presided over the international conference. But the figure seemed not to demonstrate the popularity of his policy stances at the summit, since of the 36% of people polled, the largest category, no special favorite policy of the Nakasone regime was listed. Like Williamsburg, the Tokyo summit revealed a contradictory response to Nakasone diplomacy between the lay people and the attentive public.

This unusually favorable public opinion, indeed, would more than offset the Prime Minister's political misjudgment at the summit. As for the appreciation of the yen, Secretary Baker's testimony in the Senate Committee on May 13, which intended to curb the yen appreciation, helped prevent the dollar from falling further, at least, for a while. Bouncing back forcefully from the aftermath of the summit, Nakasone soon called a snap double election in June which returned the LDP with the largest electoral victory since its foundation in 1955. Riding high in popularity and taking full advantage of the ineptitude of the opposition parties' electoral strategy, the LDP added 54 seats (including four independents) to total 304 seats. By gulping the dissolved former NLC members, Nakasone's own faction in the Lower House would swell to the second largest in number, next to the de facto headless Tanaka faction. The triumph was so overwhelmingly a landslide that the party leaders had to extend Nakasone's tenure in office for another year against the party rule banning presidential terms of more than four years. Like the previous elections, summitry appeared not to have any profound effects on the Japanese electoral politics, except in elevating Nakasone's image.

E. The 1987 Venice Summit

In hindsight, the cooperative spirit to solidify macroeconomic policy coordination by mutual surveillance was not firm.²⁶⁶ To accelerate domestic economic activities, the US Federal Reserve Board lowered its official discount rate twice by 0.5% in July and August and pressed Japan and West Germany to follow suit. The American requests met with defiance from both nations. As the yen hit a record-breaking 152.55 Yen in August, it was apparent that patience in both Japan and the US was wearing thin. The initiative launched at Tokyo for multilateral surveillance and a better concerted management of the world economy was not in full swing, and a series of international conferences from late September to early October were intended to mend the emerging schism created by conflicting objectives of the major economies. The G-5 meeting produced a consensus on the need to place more emphasis on economic growth in the

medium-term and to make efforts to stabilize the exchange rate. When it came to concrete steps to be taken, however, the status quo policies supported by Japan and West Germany collided with a form of "locomotive" role for surplus economies urged by other countries. In Japan, "locomotive" expansionists had fully recovered from their poor position. Pressed by domestic as well as foreign sectors, the government tried to satisfy them by tabling the Comprehensive Economic Measures, including a supplementary budget for passage through the Diet in September. The budget was to accelerate public-works expenditure with a face value of 1.3% of GNP, though its actual effect was estimated to be considerably lower than this optimistic figure. Still, the government was wary of massively increasing the public debt and its main measures to develop internal demand were concentrated on stimulating private domestic demand through amendments in savings, housing and land-use policies.

These measures led to a drop in Japanese exports on a volume basis owing to yen appreciation, and brought about tentative cooperation between the US and Japan.²⁶⁷ At the end of October, the Group of 2 (G-2) meeting was held where Baker and Finance Minister Miyazawa agreed to call a temporary halt to the slide of the dollar vis-à-vis the yen. The statement issued noted that the exchange rate was "now broadly consistent with the present underlying fundamentals" and mandated joint intervention in currency markets if necessary. Following the agreement, Japan reduced its interest rates, submitted its supplementary budget, and began working on tax reduction reform. Announced at the time when the dollar was trading at around 163 yen, the agreement seemed to indicate the US acceptance of the rate's range between 150 yen and 165 yen. Exchange markets did stabilize until the end of 1986, though it remained to be seen if genuine long-term stabilization was embedded in the agreement. It was considered an important step toward international economic coordination confirmed at Tokyo.

Euphoria, however, was temporary.²⁶⁸ The yen's value rapidly went up from the beginning of 1987, affected by the revaluation of the German mark. The BOJ intervened in money markets, purchasing \$1 billion a day, but to little avail. The US had been discontented with the extremely austere JFY 1987 budget, and deemed it as "breaching the spirit of the earlier accord" of G-2. Naturally the Fed did not cooperate with the Japanese to jointly brake the depreciation of the dollar; rather the US government reportedly tried to "talk down" the dollar. The dollar plunged to below 150 yen in mid-January and prompted Miyazawa to fly to Washington. While Baker consented to coordinate intervention in markets in case the dollar would go down below 150 yen-level, he urged Miyazawa to take more expansionary fiscal measures or to further cut interest rates. Miyazawa wanted the G-2 agreement on exchange rate to be legitimated by the G-5 meeting, but to his disappointment, the G-5 at Paris made public European discontent about the still undervalued yen, and the yen further appreciated. The stage moved to the G-7 meeting in late February. The BOJ determined to reduce its discount rate to the lowest level of 2.5% one day before the conference. The first G-7 meeting tried to reconcile the differences by issuing a statement requiring surplus countries to further expand domestic demand through fiscal and tax reforms and deficit countries to further cut back on budget deficits. The compromise solution for better monetary policy coordination also included the G-7 consensus to stabilize money markets around the current level of 150 yen to the dollar. Despite this Louvre accord and temporary stability in the yen-dollar exchange rate, the dollar was to further fall to 143 yen prior to the Venice summit.

In the meantime, trade conflicts continued between Japan and its trading partners.²⁶⁹ Japan resorted to VERs on its machine tool and textile exports to the US. Japan

agreed with the EC to simplify tariff regulations and standards in order to increase imports of European alcohol and ski equipment. At the same time, the Japanese economy was going through a slow structural transformation necessitated by the yen appreciation. Japan's exports dropped 1.2% while imports went up 12.5% in volume terms in 1986, setting the stage for the changes. As a result, the total real domestic demand increased 3.9% in 1986 over the 3.2% rise in the 1982-86 period. These figures were not well translated into the trade figures in dollar terms due to so-called "J-curve" effect. Besides, the changes were painful for Japanese export-oriented industries. The economy stagnated at the beginning of 1987 with shrunk corporate earnings and an all-time unemployment rate high of 3%. Since Japan defines its unemployment rate the most strictly of all the OECD countries, it was equivalent to more than 5% if the rate were calculated in the American way, according to MITI sources.

In the midst of these economic difficulties, the government could not help by boosting Japan's economy with a view to implementing the principles of the Maekawa report.²⁷⁰ The proposed JFY 1987 budget was the most stringent since 1955. Total expenditures were to rise by a meager 0.02% and public-works spending would decline by 2.3%. The budget showed that the conservative forces seemed to win over the liberal expansionists. This budget and Nakasone's recommendation for instilling the large-scale "sales tax" reform to the tax system in Japan triggered a big political row. The "sales tax" was seen by the opposition and the media to contradict his campaign pledge. It resulted in the lackluster performance of LDP candidates in the spring local elections and declining popularity for the Nakasone regime. The Prime Minister needed to take some drastic steps to make the upcoming Venice summit successful.

As seen, the sharp appreciation of the yen had made Japan's exports rise significantly in dollar terms.²⁷¹ Besides, overall Japanese exports did balloon steadily after the Tokyo summit. The trade imbalance with the major industrial trading partners widened as it had never done before. The Japanese overall current account surplus hit \$93.7 billion in 1986. The surplus of Japan amounted to \$114.3 billion of which \$52 billion was with the US. The US-Japan trade imbalance accounted for about one-third of the bulging US trade deficit of \$166.3 billion. Anti-Japanese protectionist feeling in the US was boiling up to the point of slapping a \$300 million tariff on Japanese semiconductors in the spring of 1987. A series of charges against Japanese trade practices further worsened the bilateral mood. When Nakasone met Reagan to cope with the spreading "Japan-bashing" in early May, correction of Japan's egregiously lop-sided trade surplus was naturally placed high on the agenda. US pressure for increased domestic demand to offset Japan's export drive resulted in part in a Japanese pledge to adopt more than 5 trillion yen in supplementary fiscal means and to accelerate income and corporate tax cuts. Nakasone also made public his plan to recycle \$30 billion capital to developing countries. Unlike the previous bilateral summits, the meeting forced Nakasone to take up specific pending issues and to expound earnestly on the Japanese economic position, reflecting the severity of the bilateral economic relations and probably demonstrating the limits of the "Ron-Yasu" personal harmony. The US renewed its pledges to reduce budget deficits, pursue policies to strengthen American industrial competitiveness and curb domestic protectionist pressures. Both leaders agreed that the further slide of the dollar would adversely affect the growth of both economies and promised close consultation to promote stabilization of the dollar-yen exchange rate. But no concrete measure to stabilize the yen was put forward in the meeting.

By now, the main Japanese pledge at the Venice summit was apparently to increase its efforts to effectively expand domestic demand.²⁷² At the OECD ministerial meeting,

Nakasone's proposals to Reagan were reconfirmed and Japan was further nudged to implement its comprehensive economic policies and build up its imports by widening its access to services and agricultural industries. Subsequently, Tokyo decided on an emergency economic package, promised at the Louvre and the meeting with Reagan, which consisted of large-scale public works projects, tax cuts, improvement of import access, and an increase of imports including government procurement, at the end of May. By issuing a 1.3 trillion yen construction bond, the fiscal stimulus measures finally signalled a change in the government's macroeconomic line from an austere fiscal stance aimed at balancing the budget to an expansionist budgetary stance with a view to bettering social capital. The package was the largest for an emergency measure and was estimated to have the effect of boosting Japan's nominal GNP by 2% and shrinking Japan's trade surplus by \$6 billion. As had happened in the past, tremendous pressures perceived by Japanese decision-makers to be emanating from the advent of the summit did contribute to the creation of this remarkable stimulus plan over the resistance of conservative MOF bureaucrats. In fact, the failure of the Venice summit was listed as one possible cause of Nakasone's downfall. Considering his low level of approval rating (31% to 49%) and weakened political position, often referred to as "lame duck", the fear was justified. Nakasone publicly expressed his confidence in the effectiveness of the package and optimism that this would satisfy the summiters, implying that "Japan-bashing" would not take place at Venice.

Japanese pre-summit positions did not diverge much from those of the previous summit.²⁷³ The yen was still high at around 145 yen to the dollar. Now not only prevention of further appreciation of the yen but also of the free fall of the dollar was widely seen as an objective to be pursued at Venice. For that purpose, macroeconomic policy coordination and structural adjustment measures along the lines presented at the Louvre (G-7), and GATT ministerial conferences were expected to be reconfirmed at the summit. But the government did not hesitate to play down expectations of an agreement on currency stabilization. Nakasone wanted to push forward on the issue of peace and disarmament by making the Venice summit give a "momentum" after the Reykjavik US-Soviet summit. Japan's struggle against protectionism had continued, and the Prime Minister was to advocate a review of the Uruguay Round at the ministerial level in 1988 and promotion of the talks. On political issues, the INF was high on the agenda. Japan was to insist on the ultimate "double zero option" plan. Asian problems, especially concerning Cambodia, were on the agenda, too. More troublesome for Tokyo was the escalation of the Gulf War involving the US fleet. Japan hoped to escape criticism of its "free ride" and to decline any military role, but was willing to provide a financial contribution to a framework of international cooperation. On the North-South issue, Japan would endorse Baker's scheme of dealing with the accumulated debt problems by introducing a growth-oriented policy, facilitating \$20 billion in untied capital recycling to the Third World, doubling Japan's ODA over 5 years, and expanding grants to the poorest nations in Africa. Other issues included Japanese proposals for an anti-AIDS strategy and Nakasone's pet project, the human frontier science program (HFSP).

The pre-summit bilateral meeting with the US President alleviated the thorny problem between the allies across the Pacific.²⁷⁴ Reagan told Nakasone that the US would lift 17% of the \$300 million import tariff on Japan's semiconductor products imposed under the alleged dumping charge. Although the affected industry showed rather half-hearted pleasure at the solution of part of the problem, the Japanese Prime Minister could save face by this pre-summit arrangement. His friendship with Reagan was shown to be still alive. The two leaders then discussed the Gulf passage issue and Nakasone promised

Reagan that Japan would cooperate with the US in non-military ways. After hearing the Japanese exposition on the economic package, the President urged him to further cut interest rates. Nakasone pledged his efforts in the desired direction and made clear his wish to see the fall of US budget deficits. Secretary Baker underlined the US efforts by citing the fact that the deficit ratio in terms of GNP declined from 6.1% to 3%. A Mulroney-Nakasone meeting was also held. The Canadian Prime Minister took up his objections to protectionism in the US and to South African racism, and said that he hoped to discuss the South African issue. Nakasone agreed with Mulroney on opposing US protectionism, promised cooperation on it, and appeared willing to talk about South Africa during the session. Nakasone did not stumble in these meetings.

The second Venice summit demonstrated a greater Japanese presence and the outcome turned out to be, by and large, what Japanese policymakers had hoped for.²⁷⁴ In contrast to some of the initiatives the Japanese took at Venice, President Reagan's poor leadership role, in the aftermath of the Iran-Contra fiasco, was underscored. As calculated, Japan could finally abandon its life-and-death anxiety of "Japan-bashing" at the summit by presenting its \$43 billion emergency economic package. The package was unanimously hailed by other summiteers during the session. With Nakasone's pledge to recycle \$20 billion capital to developing countries, to grant \$500 thousand free aid to the poorest African nations and to increase imports through \$1 billion government procurement, Japan suffered no blunt criticism of its exorbitant trade gains from the summit leaders. By contrast, West Germany was put on the defensive by summit pressures, stemming especially from the US, to stimulate domestic demand through additional fiscal stimulus. Kohl vehemently defended the status quo policy, arguing the cited trade surplus figure was exaggerated and showing a 6.2% import rise in volume terms. US-German haggling over macroeconomic policies largely hid the "Japan problem". There were some moves toward more outward accusations against Japan from the UK and France, but Tokyo somehow managed to stifle them with American help. Nevertheless, some summiteers reminded Japan of the importance of actually reducing the trade surplus through faithfully implementing the package and domestic demand growth. Later, Thatcher revealed her doubt about Japan's current account surplus correction by pointing out the low Japanese propensity to import, and added that Japanese policies were not sufficient. Secretary Baker said he was somewhat disappointed about the relatively small amount of government spending (1.7 trillion yen out of 6 trillion yen) and alluded to further government spending to propel internal demand in Japan.

Compared to the Tokyo summit, Nakasone was more assertive about putting forward Japanese positions.²⁷⁵ Nakasone insisted on the need to stabilize currency-exchange rates, to decrease the \$220 billion American budget deficit with a view to curtailing protectionism, and to coordinate each country's macroeconomic policies more properly so that the American fiscal consolidation would not result in a future world recession. Thatcher agreed with the Japanese leader on the need to reduce the US budget deficit. Consequently, the declaration affirmed the trend in these directions. In return for requesting "deficit countries" like the US to cut "fiscal and external imbalances", the declaration proclaimed that such "surplus countries" as Japan and West Germany would "design their policies to strengthen domestic demand and reduce external surpluses". Moreover, it was noted that the summit nations which had "made significant progress in fiscal consolidation" and ran "large external surpluses" would unchangeably commit themselves to "following fiscal and monetary policies designed to strengthen domestic growth", but inserting the Japanese-desired phrase of "within the framework of medium-

term fiscal objectives". The American assertion that "a future market-led decline of interest rates would be helpful" was also inserted into the document. The phraseology in the declaration appeared to signify a trend to depart from the conservative fiscal and monetary policies of the early 1980s towards more liberal macroeconomic measures by surplus countries. The trend was reinforced by the clause calling for "additional actions" to achieve the common objective of "world economic growth". The "locomotive" role for Japan was not explicitly stated, but, at least, the phraseology employed was not to discourage the expansionists in Japan as well as in foreign countries. The Mainichi Shimbun interpreted the summit outcome as an affirmation of growth policies premised on positive fiscal management in order to attain the government's GNP target of 3.5%.

The macroeconomic discussions further revealed the interdependency of the world economy in which all summit countries were bound. Further economic policy coordination was promoted by an agreed strengthening of the multilateral surveillance system.²⁷⁶ The controversy had continued since the last summit. Japan, along with the UK and West Germany, had opted for loose management of macroeconomic policy coordination without any coercion. The US and France had hoped for more strict rules to discipline economic policy fully using objective indicators. A too extreme surveillance of economic management could be unrealistic and even counter-productive by provoking charges of domestic intervention and an erosion of economic sovereignty. The US shifted its attitude toward a milder rule-setting of economic management. The result was the rather loose multilateral surveillance for policy coordination in the communiqué. It would improve, with the assistance of the IMF, "the surveillance of their economies using economic indicators including exchange rates, in particular by:

The commitment by each country to develop medium-term objectives and projections for its economy, and for the group to develop objectives and projections, that are mutually consistent both individually and collectively; the use of the performance indicators to review and assess current economic trends and to determine whether there are significant deviations from an intended course that require consideration of remedial actions.

It was agreed that the G-7 meetings in January, April and September were to review this multilateral surveillance. Also the "performance indicators" contained domestic demand growth to judge whether the members' economies were balanced or not. A change of economic policy to rectify any deviance would be enforced by "peer group pressure". No penalty was attached to punish the deviant economy.

Despite the loose framework of the agreement, the outcome was significant for a country like Japan that was not immune to pressures emanating from the outside. Indeed, Japan's 6 trillion yen package was deemed as a creation of "peer group pressure" stemming from the G-7 meeting in Tokyo. The addition of domestic demand to the "performance indicators" could be utilized to exert extra pressure on Japan to take a supplementary step in case it could not achieve the stated domestic growth. In short, the sophistication of the multilateral surveillance system to better coordinate macroeconomic policies at Venice meant further integration of the Japanese economy into the international political economic system represented by summitry, and gave Japan greater international responsibility in managing its economy in harmony with other economies.

Agriculture was an issue that attracted heated discussions over how to improve on the OECD agreement.²⁷⁷ The problems caused by world-wide overcapacity of agricultural

production had been dealt with at the OECD meeting. Not happy about the agreement, the US and Canada pushed for a betterment of the framework produced at the OECD conference, including cuts in agricultural subsidies. The US reportedly proposed setting up an agricultural ministerial meeting to solve the problem. The Europeans were adamantly opposed to the North American suggestions. Japan was not an exporter of agricultural products, but did not want to see its less competitive farmers threatened by liberalization of its agricultural markets. Especially for the LDP, farmers were a faithful electoral stronghold and still wielded disproportionate influence over the government's agricultural policies. A deal was struck in the communiqué; it set the "long-term objective ... to allow market signals to influence the orientation of agricultural production, by way of a progressive and concerted reduction of agricultural support, as well as by all other means", thus, satisfying the needs of the North Americans, but added the condition that obliged "consideration to social and other concerns, such as food security ... and overall employment", reflecting the agricultural-sensitive wishes of Japan and other summit countries. The Japanese, moreover, succeeded in putting the requirement that "a concerted reform of agricultural policies" be "implemented in a balanced and flexible manner" -- a care shown for the vulnerable Japanese farmers. Nevertheless, a reduction of agricultural protection agreed to at the summit reinforced the power of agricultural free traders in Japan. Zaikai leaders began campaigning for agricultural protection reforms. Both the Mainichi and Asahi thought pressure would be mounted on the Japanese to liberalize its agricultural market as a consequence of the summit declaration, and predicted enormous hardship. Though it was hard to define the precise role played by the Venice summit, internal and external dissatisfaction about Japanese agricultural practices subsequently would accumulate to the extent that the government-set production price of rice in Japan would be lowered for the first time since the end of World War II.

East-West relations and disarmament were the areas where Japan played an important intermediary role.²⁷⁸ Nakasone reiterated his position that a "global" approach should be applied to dismantle nuclear weapons, argued for Western solidarity on the issue of disarmament and threw his support to the European-proposed "double zero" option in the INF talks. Reagan wanted to obtain a unanimous endorsement for his INF proposal and stressed his desire to abrogate the INF in Europe completely. The summiters basically consented to accept the "double zero" option, but differed on how the negotiators should proceed on other issues such as the short-range nuclear forces (SNF). Kohl, Mitterrand and Thatcher opposed a totally denuclearized Europe, fearing an adverse effect on security. Reagan tried to relieve them of the fear by assuring them that the top American priority would be given to maintaining the security of Europe even after all the INFs were removed. When the discussion stalled, Nakasone broke the ice by putting emphasis on the necessity to stand behind the US. Fanfani concluded that the statement should be published to demonstrate Western unity. On completion of the section on East-West relations, the Japanese were vindicated in that the published document was based mainly on the Japanese draft.

The yen-dollar exchange rate and the Gulf War were the issues of primary concern to Japan.²⁷⁹ Stabilization of the yen's value was crucially important for Tokyo, though the attention and urgency it received was somewhat abated compared with the Tokyo summit. On the monetary issue, the Louvre accord in the February G-7 meeting was reconfirmed at Venice. The statement made clear that "[g]iven the policy agreements reached at the Louvre and in Washington, further substantial shifts in the exchange rates could prove counter-productive to efforts to increase growth and facilitate adjustment" by "reaffirming" the summit's "commitment to the swift and full

implementation of these agreements". It was much better than the outcome of the Tokyo summit where no favorable agreement was reached, but it was nothing more than giving higher authority to what had already been created. The BOJ contended that the cooperative system to promote stability on exchange markets was established by the institutionalization of periodic multilateral surveillance reviews, but market forces decided otherwise. In hindsight, the summit did not have a long-term effect on the prevention of a further fall of the dollar. Money markets did not react erratically to the summit result, but the absence of such concrete measures as pledged joint intervention to strengthen the dollar persisted. The dollar was to nosedive to the 120 yen-level at the end of 1987.

Japan felt increasingly uneasy about the escalation of the Gulf War. In the wake of the US Congressional outcry against the Japanese "free ride" on the Gulf security provided by the US, the Japanese were ready to shoulder a non-military burden, but imposition of any military role would invite a political stir. To the relief of the Japanese delegation, American lobbying for sanctions against the conflicting parties in the War through an embargo of weapons met French assistance. American desires to distribute the military burden and to get support from the Six for the US military presence in the region did not materialize. The declaration did affirm the unity of the Seven on the Persian Gulf passage issue, but fell short of specifying any common strategy to assist the US operation. As far as the declaration was concerned, it was consistent with the long-cherished Japanese Middle East diplomacy that tried to strike a balance between relations with Iran and Iraq. Though the outcome was fine for protecting Japan's interests, Nakasone proceeded to propose sharing the role of resolving the issue. Concretely, he said that Japan would pursue peaceful means to settle the conflict through economic cooperation in the Persian gulf area and by sending a Japanese representative to mediate between the warring parties. The result did symbolize the decline of American political leadership in the multilateral fora. But Japan was to pay for the price of tentatively shelving the issue as time went by.

The increased presence of Japan at the summit was marketed by its offer of a number of initiatives, though a few were aborted.²⁸⁰ The Japan-North American alliance took the initiative in promoting free trade principles in the communiqué by pushing for including the phrase that set a ministerial-level meeting of the GATT Uruguay Round in 1988. The communiqué, however, did not refer to the exact date for the ministerial meeting of the MTNs. On the North-South problem, Japan attempted to take some initiatives as well. Some countries did not like the focus which the Japanese aid policy attracted because it was not only Japan but others as well that had been making efforts in the field. But the communiqué acknowledged that "in the light of different contributions of our countries' official development assistance, we welcome the initiative of the Japanese government in bringing forward a new scheme which will be the provision of resources from Japan to developing countries." Less successful was Nakasone's suggestion that the experts from each nation should get together to work on the solution of the accumulated debt issue before the IMF meeting in the fall. It was not mentioned in the official document.

Nakasone's pet project at Venice was the feasibility study for the Human Frontier Science Program (HFSP).²⁸¹ It involved bitter bureaucratic in-fighting between MITI and MOF. MITI had planned the project over one year with a view to developing basic science. It was an ambitious project that would cover the theme of leading-edge science and was intended to compensate for a lack of creativity often seen in Japanese scientific technology. The problem, as always, was the opposition from the tight-fisted

MOF that did not want to allocate 1 trillion Yen to this massive 20-year plan. It remained to be seen whether the project would take off smoothly or not, but the legitimacy the Seven granted to the MITI's proposal significantly enhanced MITI's negotiating position to draw enough funds from the MOF. Summitry's function as legitimizing a contentious or divisive proposal carried much weight in a society like Japan where authority assured by legitimacy is highly valued.

After the meeting, the fact that Japan rode through the strenuous Venice summit without any ostensible "Japan-bashing" drew some relief from the government.²⁸² Some even commented that Venice was the best of all summits and could be graded at 90 points out of 100. Zaikai, by and large, welcomed the institutionalization of the surveillance system and the consensus on exchange rates. But some leaders expressed pessimism that the yen would not stabilize easily, since no specific step to halt the rise of the yen was adopted at Venice. An expansionist business leader called on the government to take drastic steps to improve domestic demand through fiscal stimulus. All agreed that the international pledges at the summit should be steadily put into concrete actions. By contrast, the opposition stuck to its negative views on the summit's outcome. The parties were unanimous in displaying dissatisfaction at the handling of the INF and Gulf War issues. Komeito and the DSP did not give any credit to the government and decried the absence of concrete prescriptions for various problems. The Communists condemned the Prime Minister's remark at the meeting that he would seek abolishment of the small-lot tax-free saving system (Maruyu) in order to accelerate consumer spending.

Though Nakasone was not damaged in the way he had been after Tokyo, the issue of the Maruyu annulment and his approval of placing 100 INF warheads in Alaska against those in Siberia gave the opposition and part of the media good ammunition to assail his summit diplomacy. Nakasone was unmoved. Reporting back to the Diet on the outcome of the Venice summit, he declared his view that Japan should become a "genuine international nation commensurate with its international status" by delineating Japan's elevated international status and responsibility. Then, the Prime Minister proceeded to implement his major international pledges. A 2.08 trillion yen supplementary budget which was part of a 6 trillion yen economic package passed the Diet, overriding opposition votes. The tax reduction plan totaling 1.54 trillion yen was approved too. After intense haggling, the Maruyu tax system was abrogated as of April 1, 1988. The Cabinet-proposed JFY 1988 budget was directed to stimulate the economy with a 20% increase in public-works expenditures and to help the poor nations with a 8.5% rise of Japan's ODA.

The Venice summit evoked the unanimous editorial view that Japan should take more positive steps in the management of the international political economy.²⁸³ The multilateral surveillance system strengthened at Venice was embraced by three dailies (all except the Nihon Keizai) and Japan was urged to implement policies consistent with the assessment of the surveillance. The Yomiuri and Mainichi were especially strong proponents of this step. The agreement on exchange rate stability satisfied the Yomiuri but did not receive praise from the Nihon Keizai. The latter was suspicious about the effects of the agreement and warned that Japan should not be complacent about its escape from "Japan-bashing" but should work more assiduously on structural economic transformation by overcoming pressures from vested domestic interest groups. The Asahi sounded supportive of the Nihon Keizai's opinion; it even proposed a constructive response to "Japan-bashing" by heralding it as an imperative for shouldering a greater responsibility in world economic management. The problem was not only with Japan,

according to the Asahi and Mainichi. Both believed that the US budget deficit should be substantially cut. The Mainichi wanted the commitment on deficit-reduction to be more specific while the Asahi hoped that the US would take such measures as a tax increase and disarmament. The Yomiuri was the most content with the achievements at Venice while the Nihon Keizai was more ambivalent about them. The Asahi rated unusually highly Nakasone's efforts to solidify Western unity by taking leadership in drafting the East-West declaration. All major newspapers took a wait-and-see attitude on how the agreements at Venice would be put into practice.

The Venice summit mirrored Japan's growing importance and commensurate responsibilities in the world. Unlike the second Tokyo summit, things generally went as had been anticipated, thanks to a series of pre-emptive initiatives Tokyo had decided to take prior to the summit. As a result, the worst case scenario of collective "Japan-bashing" did not happen. Subsequently, Nakasone's political position was not profoundly impaired even though his remarks did trigger a temporary outcry from his political foes. To achieve the over-all gain at Venice, Japan was aided by its strengthened economic place in the world and the relative slide of US economic power. Still, its leadership was constrained by its ambivalence on security issues. For example, on the Gulf War issue, Japan was put on the defensive. Furthermore, a move toward the "locomotive" theory, though never explicitly pronounced, was discernible at the summit in Italy. Diverging from the summits run by fiscal conservatives, expansionist policies to stimulate domestic demand with a view to cutting trade surpluses were allotted to Japan. Tokyo was to enact and implement the package it presented at Venice. Like some of the preceding summits, Venice did have some effect on the macroeconomic management of the Japanese economy.