

VITAL SPEECHES

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MAY 1, 2001

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A Call for Transformational Leadership

THE UNITED STATES AND JAPAN

Address by DAVID M. ABSHIRE, *President Center for the Study of the Presidency*

Delivered to a joint conference, A Call for Transformational Leadership: The United States and Japan, Sponsored by the Center for the Study of the Presidency, The Inamori Foundation and Center for Strategic and International Studies, Tokyo, Japan, February 28, 2001

Our conference today follows one on the art and character of leadership that Dr. Inamori and I chaired two years ago at the Center for Strategic and International Studies in Washington. The initiative was inspired by Dr. Inamori's book, *For People and For Profit*. More specifically, that CSIS conference focused on leadership, creativity, and values in a variety of areas, including politics, the business world, and even sports and entertainment. In all these areas, we looked at the character dimension, and the following week a number of U.S. Members of Congress joined in these discussions.

Today's follow-on conference in Tokyo focuses on some practical problems for U.S. and Japanese political and business leadership, within our respective countries and between our countries. Remember our two nations, with the world's largest economies, command close to 40% of the global GNP. We bear special responsibilities to the world community.

In my comments today, I would like to draw attention to a particular kind of business and political leadership that is urgently needed today. This is "transformational leadership" a term coined years ago by Professor James MacGregor Burns, a famous American Presidential historian. The term is used in contrast to "transactional leadership." Good transactional leaders are managers of what they have in hand and make limited incremental progress on modest goals, making best use of given resources. What Burns calls transformational leaders, on the other hand, have a teaching role. They elevate, motivate, define values, offer vision, and creatively produce reform and at times revolutionary developments in the face of unusual opportunities and challenges.

In my country, Abraham Lincoln was a transforming leader who preserved the Union and ended slavery; the two Roosevelts were also transformers; the first, Theodore, through what is called the Progressive Movement, and the second, Franklin Delano, through the New Deal social safety net and later wartime leadership. The Roosevelts' transformation involved centralizing power and giving the

Federal Government a larger role in society. This was needed at the time.

By contrast, in different times, Ronald Reagan transformed our Federal government by decentralizing power, seeking a smaller Federal government with more reliance on governors of states, mayors of cities, and the private sector using the creativity of the market economy. In the earlier part of the last century, we needed to centralize more of government. Toward the century's end, with the information revolution in both American government and business, more decentralization was possible, and far more efficient. The central government had become too bureaucratized, regulated, and rigid. Capturing some of Reagan's style, even Clinton called for smaller government and such things as welfare reform.

The Roosevelts and Reagan were men of their times understanding different sets of needs and challenges at historical turning points. Transformational leadership recognizes, understands, and seizes upon the special historic requirements and opportunities.

In Japan, transformational leadership came collectively in 1868 with the Meiji Restoration and careful study of the West for models of modern government. The second wave of transformational leadership came in 1945, in part imposed by Douglas MacArthur and the occupation. The *Zaibatsu* were broken up and hereditary status ended. Restructured industries recognized the opportunities open to them as world trade became more free and they moved towards the production of high-tech goods — to sell to other industrial democracies. They supported the honing of MITI as a centralized driving force behind the export trade boom. Looking back, this was a period of remarkable collective leadership during which the monumental security pact with the United States also became a stabilizer for the Asian-Pacific area. I would argue that this wave of leadership gained momentum over the next 30 years, under business and government leaders, in terms of developing new standards, a quality approach, and comprehensive strategic planning.

This worked well in its time, but euphoria set in, the boom ran out and the bubble burst. The Japanese economy has been stalled for a decade now, investment in Japan is flat, productivity is weak in the food, construction and distribution sectors and there are problem banks. The high cost of energy, raw materials, and labor in Japan encourages Japanese corporations to move more production abroad. And all the while Japan's population is rapidly aging. The talk 15 years ago of Japan being Number One has long since vanished. Yet, Japan has some of the world's greatest corporations and most productive workers.

My argument today is that the leadership challenge to Japan, as indeed it is to the United States, as I shall later argue, is to develop a new wave of transformational leadership. Second, both of us should develop transforming ways in which the two largest economic powers can better work together for global economic health and security.

In the past, we have learned from each other — the Japanese with the Meiji Restoration turned to best business and industrialist practices from the West. Post-war Japanese businesses learned from Professor W. Edwards Deming and others a new level of quality approach. This approach produced a new genre of Japanese companies, like Toyota and Sony. In the 1980's lagging American corporations, such as Procter and Gamble, Motorola, and General Motors, studied premier Japanese companies to improve their competitiveness. But those days are now over, and we cannot rest on past achievement.

History has turned another page, and we are in the 21st century looking ahead. I will focus now on some specific leadership challenges for my country. The classic work of our brilliant speaker Paul Kennedy, *The Rise and Fall of the Great Powers*, reminds us that great power and resources can be squandered. There is certainly a continuing surge of challenges to the new President. As we cross the threshold of incredible opportunities in outer space and the genome and information technology, we are accompanied by their darker consequences. These include volatile finance, terrorism, and rapid demographic change, which have combined to produce disarray and unpredictability in the post-Cold War world. They shrink the time available for decision-making while increasing serious chances for missteps. Short-term answers can detract from long-range policies. For example, half of American national prosperity has been driven by past Cold War federal investment in basic research. Increased productivity, driven by information technology, has enabled us to grow without inflation.

In the future, our capacity to control short-term political, military, terrorist, or financial crises will depend upon our long-range investments in our scientific foundation and in our educational system. In both areas, we lag.

The United States is fortunate, in that it moves into the 21st century fortified by the budget surplus made possible by the end of a draining and dangerous Cold War as well as fiscal discipline and new information technology. There is a widespread view that we are in an extended era of good feeling and budget surpluses, in which steady transactional or incremental leadership is sufficient. This is not so!

We live in a dangerous and challenging world. Today, the new American President has a freedom of action both domestically and abroad that can rapidly erode. We are the preponderant power, the only superpower, but our privileged position can be squandered in the absence of a coherent grand strategy that helps shape the strategic environment, rather than simply reacting to it. The information revolution, where we lead the world, brings us both new strength and new vulnerabilities. There is a danger of a global financial crisis getting out of hand, and our zero savings rate, dependence on foreign capital and current account imbalance are lurking vulnerabilities in an economic downturn. Technology is spinning ahead of policy comprehension, and, as I noted, our commitment to basic research is waning while the digital divide, especially between big and small business grows even wider.

U.S. foreign interventions are four times as many as they were at the end of the Cold War. Our national security machinery has not been able to adequately anticipate and mold, rather than react to, the strategic environment. The machinery has not been configured for today's borderless but conflict-ridden world. Our North American homeland could now be in danger from miniaturized weapons of mass destruction, as well as large intercontinental missiles.

Problems in our inner cities will affect new generations, as education often languishes and too many children are left behind in the K through 12 years. An aging population is increasingly dependent upon inadequate, insecure, and unproductive Social Security and Medicare systems. The United States, as does Japan, urgently needs balanced and fair campaign finance reform. The times call for dynamic transformational leadership in these key areas.

Transformational leadership can come if the President successfully puts together coalitions of creative lawmakers at the center of the political spectrum as typified by U.S. Democratic Senator John Breaux and Republican Senator Chuck Hagel. Both Senators have worked very closely with our Center for the Study of the Presidency and the Center for Strategic and International Studies.

Domestically, President George W. Bush's first weeks in office are unparalleled in the entire history of the American presidency for reaching across party and ideological lines, and civility has been restored in Washington. Even liberal Senator Ted Kennedy has commended parts of

Bush's educational approach. Of course, political coalitions will vary for different issues, but coalitions we must have.

Internationally, George W. Bush seems to have inherited his father's famous skill at "telephone diplomacy," with his many calls to heads of government including Prime Minister Mori. Though he may not be a great public speaker like Roosevelt or Reagan, he makes up for this with his unusual strength in private and small group communications, which he conducts with personal courtesy, careful listening, and with humility. In this vein, he has cautioned the Army Band not to play "Hail to the Chief" too often. That same Presidential humility must accompany the awesome American power deployed around the world to support allies, promote stability and help keep the peace. But whenever tragic mistakes are made, as off the waters of Hawaii recently, investigation, restitution and apologies must become the mark of U.S. leadership.

Now, I turn to our strategic partner: Japan. Here, I first commend and draw on the 1998 CSIS U.S.-Japan 21st Century Report, under the leadership of former President George H.W. Bush and Kiichi Miyazawa, Japan's current Finance Minister.

Dr. Inamori and I had the honor of initiating this endeavor. The report contained this crucial statement, "For many years, Japan has promoted its industrial development by means of bureaucratic control and a system of coordination within industries. Having now entered a new developmental stage, however, in which the creation and supply of a diversity of knowledge-intensive goods and services will be the bases for economic development, Japan fully and immediately should implement free market principles, ensure complete transparency, and open its markets to both domestic and foreign suppliers. Increased competition and the resulting rationalization and efficiency will benefit Japanese consumers." This statement was signed both by the Japanese and the American participants. It is a challenge that demands transformational leadership.

Second, I draw on the recently concluded U.S.-Japan Dialogue on Competitiveness, under the auspices of the U.S. Council on Competitiveness and the Keizai Doyukai. In a recent session in Washington, organized by John Yochelson, I benefited from the superb analysis of Harvard University Professor Michael Porter, as well as such esteemed Japanese participants as Yotaro Kobayashi. He noted appropriately that "you learned from us, then we from you, and you from us again," and he said correctly that Japan had "much unrealized potential." There was also a call for Japanese business leaders to take a much larger role for the regeneration of the Japanese economy,

as Paul O'Neill, our new Secretary of the Treasury, has recently noted.

I think this latter point is a key one. I believe that one of the secrets to regeneration of the American economy was the result of tested business leaders who as CEO's transformed their own corporations, and who subsequently went into government service at the Cabinet level. Much of Clinton's economic success is attributable to his placing Goldman Sachs Co-chairman Robert Rubin first as head of his White House National Economic Council and later as his Secretary of Treasury. Rubin knew capital markets. President Bush has four CEO's in his Cabinet, as he seeks to pioneer change in defense, social security, and competitiveness.

This model of government, if applied to Japan, would find serving in the Cabinet business leaders, such as Shoichiro Toyoda, who runs the best car company in the world, and our late friend, Akio Morita, who built Sony worldwide. To spur the next Japanese revolution, I suggest bringing brilliant transformational business leaders into the Cabinet.

We Americans sent Dr. Deming to Japan to teach quality approach, and he did so well that your companies out-competed ours. We then went to Japan to learn from you, and we even created a Baldrige Award on Quality in the United States. As Japan seeks to initiate a new wave of reform and renewal, it should examine U.S. best practices and decentralized management, and indeed our more decentralized government. This takes a new wave of leadership. As Michael Porter's research shows, where Japan has open competition it does well; where it tries to manage its competition, it does not. The United States success in the last century was based upon knowing when to move from the greater centralization of the Roosevelt eras to the decentralization and deregulation of the Reagan era.

Now, let me turn to the joint challenge facing these two economic powers and their responsibilities to global economics and security. Of course, I cannot over-emphasize that the Japanese-U.S. alliance is more than a bilateral alliance. It is the bedrock of security, the anchor of stability for the Asian-Pacific region. We are working together, and I believe that under the Bush Administration, we will not see the kinds of "Japan passing" that is covered in our Presidential case studies.

But it is on the economic field where we need a better alliance. We must establish contingency plans and seek ways to preempt a mutual economic downturn that could become global. The greatest danger is that a U.S. downturn could coincide with a lack luster Japanese economy — in other words, almost 40% of the world's GNP would

be in trouble while there are also financial problems in China, Russia, Indonesia, and the Southern Cone of Latin America. As I have noted, the United States has vulnerabilities that are not a huge problem during high growth rates but could be a huge problem in a serious downturn. I refer again to our imbalance of payments, flat savings rate, and dependence on foreign capital and high consumer debt.

Dr. David Mulford, a former Under Secretary of the Treasury who has handled more debt settlements than anyone in history, will address this contingency.

Every issue I have raised illustrates the need for leadership – leadership for reform and renewal and leadership for crisis management. As I have worked with a team of scholars that put together over 76 case studies on past U.S. Presidential successes and failures, I have found time and again that “trust” becomes the key value in national leadership. It has been called the “coin of the realm,” which is a personal trait. In other words, character is essential. Character moves beyond the individual and be-

comes externalized as trust. Trust is a key ingredient that transforms leadership. The two Roosevelts and Reagan had the character to build trust. That trust will surely grow between the politicians and the people in both the United States and Japan if each has balanced campaign finance reform.

In the recent dialogue I chaired, Democratic Senator Breaux and Republican Senator Hagel noted that the make-up and organization of the new Bush Cabinet will provide clear direction and clear commitments. As I noted, the new Secretary of the Treasury, Paul O’Neill, says he wants to work through Japanese business leaders. So, I think we have the early signs that in the most important relationship in the world — between the U.S. and Japan — Japan has a steady, trusting, and willing partner. Together we are learning from the past and moving forward to a mutually better future. But we must both think anew. We must require and support leadership that transforms our two great countries. If we do, world security and economic health will be ours.

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