

A HISTORIC HANGOVER

By

Edward W. Kelley, Jr.

Member

Board of Governors of the Federal Reserve System

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From our earliest days we have had a long history in this country of periodic self-flagellation, and we are certainly in one of those periods right now. U.S. competitiveness in the world economy is the issue and the focus is our huge trade deficit. The media are having a field day. We are getting it every day on network television and the daily newspapers, but quite beyond that, some of the most responsible analysts in this country have picked up the theme. U.S. News and World Report has had two cover articles in the last several months, one entitled "Will Your Next Boss Be Japanese?" and the other "Is Our Economy Coming Apart?" The Wall Street Journal had a feature article entitled "Decline of the West" and, the Houston Chronicle, when I was home recently, had a full-page entitled "Portrait of Decline." A recent New York Times had a feature story entitled "When Main Street Belongs to the Japanese." This situation has been analyzed and opined upon endlessly and it certainly is complicated, multifaceted and describable in many different ways.

A national debate is a healthy thing, but the danger is that it can get destructive. If we were to talk ourselves into a lowered level of national confidence, or even beyond that, some type of hopelessness, we could easily lash back

very destructively in the form of severe protectionist legislation or some bilateral slap at an ally that might do much more harm than good. I think there is some danger of this. Why are we so negative? An objective look at the facts just doesn't warrant it, because on balance our economy is really doing quite well. Let me explore a theory with you for a minute that I think just might explain part of it.

In all of this analysis, I believe there is one underlying condition that's largely been ignored. I believe that deep in our national consciousness we think that we are still supposed to dominate the world, and clearly, we're not doing that. If we are not doing that, this line of reasoning follows, then we must be failing and we are in a decline. Now where does this sense of failure come from?

My thought is that we have given ourselves a historic hangover. And that that historic hangover arose from a very strong drink of dominance that we experienced in the years after World War II. Let's remember those days.

Coming out of World War II the industrial world lay in ruins, except for the United States. The United States was untouched. But even more than that, it was stronger than ever due to the war effort that we had just mounted. We had a massive industrial capacity, a huge skilled workforce, the beginnings of a superb service sector, tremendous agricultural efficiency, and, not one other nation could come close to us. The operative word for this

condition is hegemony. Webster defines hegemony as "the predominant influence of one nation over others." At that time, we had it - hegemony.

Our response to this situation was wonderfully idealistic and also practical. Over the succeeding twenty years, we caused the world to be rebuilt. Not alone by any means. All the peoples of the industrialized world participated, each in their own way. But we paid outright for much of it, we financed virtually all of the rest, we encouraged and aided in innumerable ways, and we built our foreign policy around it.

This was a wonderful thing for the world and ourselves. It created a long boom under stable conditions. There was an enormous gain in the standard of living, and, it probably prevented the depression that was so widely expected after the war. For about twenty years, more or less, we did dominate - economically and politically.

But by 1965 the world was rebuilt. The industrial countries were strong and vigorous again, and the world had definitely changed. But we did not change our world view. Hegemony was still in in the middle '60s, and as evidence of that, I give you the fact that Vietnam was heating up right around that time period, and until it started to go so badly, it was widely supported. I think that shows that our world view had not evolved. That's when our historic hangover began and much of it continues today.

This hangover hurts us in two separate sets of ways. First, it adversely affects a large body of our national

policy. And, second, it has caused us to fall into a certain kind of complacency in our industrial and business community. Let's look at each one of these.

First, the policy effects. I think the major areas here are in economics and defense. In economic policy the hegemony fantasy is really dying hard. As an example, take the exchange rates. As recently as from the early '80s well into 1985 - hardly two years ago - we allowed the dollar to go way too high and we were proud of it. And, as we know very well, that proved to be highly disadvantageous, to say the least. Now, today, our reaction to the trade deficit problem is really a hegemony hangover. Not that the trade deficit isn't a serious thing. It was \$148 billion in 1986 and that is very serious, and we certainly must address it. However, we've allowed it to give us a national inferiority complex. We're saying that all of a sudden we are uncompetitive. We are lazy. We are sloppy, and, we are on the skids to second class status.

That is nonsense. There is absolutely overwhelming evidence to the contrary. Indeed, one of the major reasons for the deficit is our strong and vigorous economy that has made us such a desirable market for all of the products of the other countries of the world. But our trade policy has had a terrible time coming to grips with the fact that we are in a world that is playing hardball. We just have not wanted to change our ways of doing things. We are finally beginning to wake up, and now, as we talked about a

moment ago, we are in danger of some overreaction in the protectionist direction.

Defense. After World War II we said to our allies, "we'll handle it." After all, we didn't want old enemies to rearm and we didn't want those struggling economies that we were trying to help to be burdened with taking care of their own defense needs. Besides, Russia was not nearly as severe a threat in those days as they have become more recently. Thus, the rebuilding economies were free of that defense cost and we carried it all.

The problem is it's largely still true today - over twenty years after that notion became obsolete. Today, our defense bill runs about 6-1/2 percent of Gross National Product. Great Britain does a pretty good job, their's is 5.3 percent. But most of our other allies spend less than 1/2 of the rate of their Gross National Product that we in the United States do. Japan spends one percent of its Gross National Product on defense. We all have a pretty good idea of how much of a presence we have militarily along the Pacific rim, and in the Persian Gulf, former Secretary of the Navy Lehman estimates that we are spending about \$40 billion a year to ensure that we keep those seaways open. Japan gets 60 percent of its oil through those seaways and they have no naval presence there. The United States gets less than 10 percent and I've seen estimates as low as 6 percent. Now, why do we do this? I can only assume that we nationally assume that it is still our duty.

If one imagines the defense burden as being spread evenly across all of the western allies at a level of, say, 4 percent of Gross National Product, the United States would save about \$100 billion a year. Imagine what we could do if we were to free up that much of our national budget. Very recently this situation has begun to be addressed in Congress but it is still far from a policy shift in this direction.

The second set of adverse effects has occurred in our industrial efforts where we also have a historic hang-over. You see, rebuilding the world meant creating competitors, and those competitors had to scratch to survive and prosper. They had to be efficient. They had to be innovative. They had to have low labor costs, high quality products and advanced technology. The survivors of those tough years were wonderfully successful, with our help. And now, we have to compete with them.

During those same years, what was happening in the United States? We became, and still are, a high cost nation. How did that happen? Well, for twenty years we were almost forced into it and, indeed, we could afford it. There was no effective competition. There was lots of business. From 1948 to 1968, world trade grew at a real rate of 7 percent per year, and, industrial production grew at a real rate of 6 percent a year - far, far higher than any other sustained period in history. The big concern of our business community was to get the work out and the result was what you might expect. We got fat.

We built a huge regulatory infrastructure. I remember from my days of being active in the trucking industry that one of the major assets of the company, and one of the major expenses, was route rights. In order to obtain and hold the privilege of delivering a certain product to a certain location, we had internal staff, outside lawyers, and hired lobbyists. All of this existed to influence an entire bureaucracy at both the state and national levels that was set up solely to control route rights.

Labor costs skyrocketed. Our union settlements were huge because the most costly thing of all was a strike. In many instances we allowed our staffs to become far larger than we have since found they needed to be. We under-invested in modernizing and cost cutting because we were so aggressively expanding capacity.

Why did we let that happen? It was a rational response to the pressures of the time, and, under the circumstances that existed then, we could afford it. Now, belatedly, the chickens have come home to roost and we are fighting back hard. We are deregulating. We are modernizing. We are merging. We are restructuring, and, we are bargaining hard with our trade partners. The dollar has fallen rapidly and is back near its 1980 level.

Now all of this is messy, it is causing a lot of pain and a lot of disruption. But we have to do it, we are doing it, and it will work.

Is this a pessimistic assessment of what's going on in this country? By no means. I am extremely optimistic about

our future. Today we have the strongest economy in the world in spite of all these things we've been saying, and, in spite of the media. We are creating new jobs, and they are good jobs, by the millions. We have a 56 month expansion going and counting. As far as the future is concerned, we have some extremely important basic assets. First of all, we are effecting a transition from the old "smokestack" emphasis to an "information based" economy. Secondly, the service sector is where the future is going to have its emphasis, ours is growing fast and we have a big lead over everybody. The world is moving in an entrepreneurial direction and we have an unmatched entrepreneurial tradition. The same with management. Good management is going to be key in the world of the future and we have a management depth across this economy that is unmatched. When I say that, I include Japan.

Indeed, the whole point of discussing this historic hangover idea is to show that we are not over the hill. That this situation has rational historical roots that grew out of our success, not our failure. We can handle this situation if we understand it, both for what it is, and what it is not.

I think we do ourselves a disservice when we accept hegemony as a national benchmark for performance. We cannot dominate the world today and that's a clear fact. But further, we should not want to dominate the world. World

peace, if we are ever going to build it, is going to happen when everybody has their heads up and their stomachs full.

So I say, let's turn this old attitude on its head. Let's be proud we don't dominate. After all, we created the conditions for the peoples of the world to recover, we're still helping where we are needed in a great many places, and so we should be. It's been a very successful effort and one of our finest national episodes.

So, let's have pride in the past and let's use that as a stepping stone to the future. Let's ask ourselves what is reality today and what are appropriate responses to that reality.

We don't have to dominate to lead. We always have been, are, and will remain leaders in the world community.

We don't have to dominate to excel. We are the strongest and best nation in the world, and there is no reason not to remain so.

So, let's cure our hangover and get on with it.