Good Morning! I have been asked to discuss trends in the global economy that will influence the climate of international business in the 1990s. It is gratifying to be part of a gathering called an "International Legislative Forum." Here decision makers are meeting for a dialogue on what must be considered a foremost economic trend that will carry us into the next decade—namely, the internationalization of world markets and economies. With regard to this country I should say re-internationalization, because through much of our history we Americans were traders, intent on keeping the doors of other countries open for our products. As the frontiers expanded, however, we found ourselves rich enough in labor and resources to be self-sufficient, a blessing that also had the ill effect of making us somewhat self-indulgent, thinking the rest of the world needed us more than we needed it. Only in the 1980s, through the indelible impressions made by the rise and collapse of oil prices and the ballooning of the trade deficit, did the consciousness of the U.S. business community return to the reality that events outside our own borders resonate increasingly within them. That broadening frame of reference reverberates through the other major economic trends I would like to highlight for you today. These are the trends toward more balanced growth in the American economy, realignment of trade patterns worldwide, and renewal of creativity in the American workforce.

My views on these trends contradict the gloomy outlook of many observers. However, I believe we need to focus on the historically resilient and innovative nature of the American economy. Doing so forces us to look for the seeds of new growth within the difficult adjustments required by unprecedented conditions. We have witnessed in
recent years a unique set of social transitions. The troubling side-effects of those changes in the context of certain economic imbalances have combined to cause some to lose hope just when hope is most appropriate. Instead, we should keep in mind the strengths our system has revealed in the past, strengths that warrant an attitude of patient optimism for the future. In my opinion, that future is one in which our renewed involvement in world markets will be supported by positive developments in our domestic economy.

**Trend Toward Balance in the U.S. Economy**

The first development—greater balance in the U.S. economy—is closely tied to our leading role in the world economy, though on first glance it may not seem so. While American business thinking has only recently begun to re-internationalize, much of the rest of the world has for some time looked to us as the engine of growth, pulling the market economies of the world up toward our own level. Growth here has traditionally had a stimulative impact on others, as the United States increasingly absorbed products from the rest of the world. At times, though, we have become carried away with our short-term emphasis on growth, and the result has been severe imbalances in our own economy. Therefore, one of the most positive trends that could emerge now would be toward more balanced growth in the U.S. economy.

The imbalances that call for correction are apparent when we break down macroeconomic barometers like GNP and the CPI and look instead at the economy’s component industries and major sectors. We also see imbalances when we survey the various regions of the country. In recent years the service and construction industries have done quite well, and their strength has carried with them cities and regions enjoying rapid population growth and, hence, requiring new houses, offices, stores, and entertainment facilities. At the same time our goods-producing sector—manufacturing,
farming, and mining (particularly oil-drilling)—first soured and then in many cases took a nosedive. This has hurt rural areas and certain states most intensely. Given the very decentralized nature of American politics, such local dislocations are given voice in calls for protectionism and farm aid that would be quite harmful to economic growth in the aggregate. Thus it is vital, not only for us but for the world, that the imbalances giving rise to such proposals be corrected. Fortunately, two recent pieces of legislation suggest that the groundwork has been laid for such a correction.

The more recent is the new tax package. While it may bring in its wake short-term unevenness as the business community adjusts to its provisions, this act should in the long run result in more efficient allocation of capital. Investments made under the current system with an eye to tax savings—a situation that has led to the current glut of office buildings among other things—will be replaced by application of resources to projects inspired by the demand of the market. When we add to enhanced efficiency of investment the potential latent in our excess factory capacity, now about 20 percent of total, and the unused energies locked in the 7 percent of our workers who are unemployed, we come out with the elements for continued growth, given continued consumer demand. We should expect that demand to come from the maturing baby boom generation, now beginning to hit full stride as participants in the market. Also, for reasons that I'll touch on in a moment, we might expect to see increased demand for our products from abroad.

The other piece of legislation that bears upon our discussion is Gramm–Rudman–Hollings. While this act may not bring about balanced budgets—indeed, while it may in the end be employed as little more than a political maneuver to shift responsibility for particular spending cuts to automatic ones, it epitomizes the nation's desire to end growth in the federal budget deficit. This is a vitally important step. Federal budget
deficits have long been a fact of life and are not in and of themselves evil. The deficits of the eighties, however, were unique in several respects. They occurred not only during the recessionary years early in the decade but continued in a historically unusual, if not unprecedented manner into the recovery and expansion periods as well. Furthermore, these deficits reached an all-time high for the post-war era as they settled into the range of 4 to 5 percent of GNP. They also contributed importantly to today's imbalances in our trade position and consequently in our manufacturing and farming sectors.

To understand how our current imbalances are a result of fiscal deficits, it is necessary to look back to the tax cut of 1980 and the increase in defense spending. As federal revenues diminished relative to spending, the U.S. government had to borrow increasingly to make up the difference. It became clear that our domestic pool of savings was insufficient to provide the necessary funds to support both private investment and government financing needs. The shortfall drove up interest rates on investments here, attracting the attention of foreigners with excess capital to invest. In Japan, for instance, people save at a rate of 16 percent compared to our 5 to 8 percent. Countries like Japan, Germany, and the OPEC nations also had hefty trade surpluses. These countries have thus become major players in the U.S. bond market. In the process they bid the dollar to great heights as they scrambled for greenbacks with which to purchase government securities. By June of this year, about 22 percent of our over two trillion dollar debt was owed to foreign parties.

The high dollar made our products expensive overseas and so reduced sales while making foreign goods cheaper here—a double whammy from which several American industries have yet to recover, despite the equally dramatic slide in the relative value of the dollar since February last year. Where U.S. business was hurt abroad as the dollar climbed, the economies of some of our major trading partners are now suffering as the
dollar falls. The real winners in the dollar's roller coaster ride were the newly industrialized countries of Taiwan, Korea, Hong Kong, and, in our own hemisphere, Brazil. Those nations gained increased exposure for their products and now cling to market share because their currencies have not fluctuated as much relative to ours as Japan's and Germany's have. This has had the effect of accelerating the trend toward their incorporation into the world economy, making them forces that cannot be ignored as we look toward the end of the century.

Statistics from the most recent two months suggest that we may at long last have turned the corner and begun the move toward more symmetry between imports and exports. While I don't expect the trade deficit to disappear in the next several years, the trend should be toward more balance in international markets. We cannot allow this subject to pass, however, without noting a true danger posed by misunderstanding of the trade deficit's causes. It is true that certain sectors of our economy have been hurt by the gyrations of the dollar and the foreign competition heightened by its rise. Agriculture has been hardest hit, losing price competitiveness at the same time that some former importers of our foodstuffs, notably China and India, themselves emerged as net exporters of grain. Plant closings in textile towns across the South remind us that the adverse effects of less expensive foreign production are immediate and painful. After the recent mid-term elections there have been disturbing rumblings of renewed efforts to pass legislation protecting such troubled industries from foreign competition. The irony is, of course, that those two industries in particular have been protected for years, and protection was not only unable to save them but may have accelerated their weakening. That fact alone should underscore the futility of artificial barriers to trade. It will be a tragedy if Congress, instead of imposing the discipline of a tax increase or budget responsibility, resorts to this fallacious tactic. In the internationalized environment ahead we must seek ways to reorient labor and capital resources away from
endeavors that can no longer compete and steer them toward more feasible pursuits.

Realignment of Trade Patterns

The second major trend that will influence our activities in the nineties, the realignment of trade patterns, has been under way for some time but picked up momentum during the first part of the present decade. I would like to consider that realignment by comparing the outlooks for the various geographical regions of the globe. Europe in the short term looks fairly positive. Next year should bring a resurgence in growth, especially for Germany. The oil price decline has been an even more positive factor for Europe insofar as energy costs weigh heavily on economic activity and European nations lack the domestic energy sources we have in the States. Europe's share of U.S. trade remained at a consistent 24 percent over the ten years just ended, and I expect that to continue. The danger Europeans face over the longer term is again the self-inflicted one of protectionism. European Economic Community reluctance to participate more fully in restructuring tariffs will, if present tendencies continue, isolate those countries more and more unto themselves, a development that would lead to stagnation. Such a scenario would also have the effect of throwing the balance of international trade even more into the Pacific Basin, a trend already well established in the global trade picture.

Over the past decade, the share of U.S. trade oriented toward Asia has grown from one-fifth to one-third. The shares of Europe, Canada, and Latin America all remained at about the same levels over the decade, Asia's gain coming at the expense of the oil-producing countries. Low-cost labor and increasing levels of quality combined to allow Japan, Taiwan, Korea, Hong Kong, and Singapore to capture that share of our foreign purchases, and we can expect labor-intensive manufacturing to continue to shift toward the East, particularly in light of the fact that there are even cheaper sources of labor—
Thailand and China—on the horizon.

Japan is of particular interest since the newly industrializing countries look to Japan as a model. As an island nation short on the resources demanded by industry and one that also has a large population crammed into a small space, Japan is constrained by geography to continue exporting to this country more than it imports. It must purchase energy and raw materials from abroad and is dependent on exports for the foreign exchange to make those purchases. Since little can be done to change those basic conditions, we can expect Japan to continue to run trade surpluses vis-a-vis the United States, though we would hope that as their economy recovers from its current sluggishness the Japanese might purchase more of our products and narrow our own deficit somewhat. As Japan goes, so will go the emerging industrial forces of the Pacific. Taiwan, a densely populated island short on resources, is remarkably similar to Japan, and along with Korea, Taiwan is becoming a factory for Japan in much the way that Japan served as a factory for the United States in the fifties, sixties, and seventies.

Energy costs are another basic thread in the pattern of international trade, and like Europe, the Asian nations have benefited from lower oil costs. Oil-exporting nations, by contrast, have suffered. I hope that oil prices will not be the factor in the next ten years that they have been in the past decade, and right now, it appears that they won't. Market forces—reduced consumption through more efficient fuel use and the development of alternative sources of energy—drew an economic wedge into the cartel of oil producers, and political bickering finally split the remaining cohesiveness—apparently beyond repair.

This development has mixed implications for the third major group of nations, the LDCs. Low oil prices and population pressures will continue to beleaguer Mexico and
several other Latin American countries that once were growing markets for U.S. exports. The parallel problem of the debt owed to foreign banks, many of them in the United States, will also loom in the background for these nations. The initiative that led to the recent compromise refinancing package for Mexico is an encouraging sign, though. The International Monetary Fund will again and again be called upon to structure similar deals for other LDCs with debt problems. On the other hand, oil-importing LDCs are in much better straits with the recent decline in prices combined with the downward trend of interest rates in the last two years. If Brazil can hold the course that has brought her through the difficulties faced earlier, she could emerge as one of the bright spots in the 1990s. Any movement from under the crushing loads of debt on the part of similarly situated Latin America nations would increase demand for U.S.-made consumer products as well as new American machinery needed to replace aging factory equipment.

Aside from the internal dynamics of each of these countries, much of the evolving pattern of trade will be determined by the success of international agencies like the IMF. Mexico has joined the General Agreement on Tariffs and Trade, and we have had encouraging signals of interest from two non-market economies, China and the Soviet Union. The upcoming round of GATT talks will shed considerable light on the way international events will evolve in the nineties. At this point I may be guilty of superimposing my hopes on my extrapolations, but a considerable degree of balance could be returned to the international trade scene if GATT were extended to cover service industries like insurance, hospital management, and data processing—potentially some of our most profitable exports. With direction from GATT and continued pressure on our part, intellectual properties also could be better protected so that, along with earnings from our books and musical compositions, American research and development efforts—an extremely valuable and undercompensated export—might be returned to us together with the inflow of products they inspire.
Renewal of American Creativity

Those intellectual properties are the products of a unique resource possessed by this country, a resource that is mined from a vein of creativity running deep into the roots of our American culture. The renewal of that creativity is the third major trend I see as a significant factor in the near future, and it is a development that will answer the challenges to industry posed both from within and from outside. Much has been made of the admirable productivity of some of our trading partners. I too was impressed on my recent trip to Japan with the loyalty and productivity of the Japanese work force, qualities that were once the boast of America as well. As we analyze the matter, we might point to several determinants underlying Japan's productivity aside from the challenge of rebuilding and modernizing in the postwar era. A powerful force has always been a deep-seated work ethic and a sense of obligation to the employer that has been repaid with more job security than workers here enjoy. Japan's isolation until the mid-nineteenth century also promoted a cultural homogeneity, a sharing of values that contributes to productivity in the aggregate by minimizing friction in labor relations while facilitating worker participation in the decision-making process through such vehicles as quality circles.

In the fifties, when males of one race dominated decision making here, the American workplace was more similar to present-day Japan's. The intervening years have witnessed one of the great revolutions in American society, the simultaneous integration into the mainstream work force of women and minorities. The enormity of the transition often escapes us because we are so bound up in it, but the proper perspective to take is that in effecting this change, the United States once again achieved something without parallel in world history—and something that will ultimately enhance our productive output and competitiveness. The social consciousness raised by
the civil rights and equal rights movements was manifested in legislation that affected our industrial sector, and the impetus to correct society's problems carried over into regulation of workplace and consumer product safety as well as environmental protection. These measures improved the standard of living of our citizens. Whenever legislation is used to promote change, however needed, it also brings some costs. With respect to business this transition was attended by some experimentation and resultant inefficiency; it has brought in its wake alterations in management style and production techniques that are frequently criticized by those who see only the present costs rather than the possibilities arising from change. To them we might answer that the impact of the two-income family and the expansion of ethnic markets are already positively affecting the present. The rapid development of the service sector is due in no small measure to the need to purchase services that were formerly taken for granted as wifely duties. The increase in consumption allowed by a broader base of income earners has been one of the ingredients spurring the growth we have enjoyed.

Even more important, however, is the vitality that these newly incorporated elements bring for the future of our economy. As their absorption into the workforce becomes more thorough, we can expect contributions of the type that our pluralistic society has always received in return for its tolerance of diversity. This year of Liberty has been one in which our attention was focused on our tradition as a land of immigrants—people who brought ideas rejected by the older, more hidebound societies; people who brought a fresh and industrious will to succeed that catalyzed the socio-economic system they sought to join. From 1901, when they were first awarded, to 1935 the Nobel Prize in physics was primarily the domain of Europeans, going to Americans in only four years; but in 33 of the last 50 years, the descendants of Europeans in America—and also Americans with names like Ting and Yang—have won or shared the award. A similar pattern has emerged in the other Nobel scientific categories, chemistry and
physiology. It was this creative energy applied within an economic system that rewards ideas, as does no other, that made the United States the leading manufacturer of ideas in the world. Having now assumed a leadership role in making the sociological adjustments required by the forward momentum of industrialized society, we will reap the benefits toward the end of the century. I foresee a renewed competitive advantage springing from the creativity generated by the amalgamation currently under way.

**Policy Implications**

The forces at work in bringing balance to the American economy, realigning the patterns of global trade, and renewing creativity in our workplace suggest several courses in which public policy could evoke the positive potential of each trend while defusing some of its latent dangers. In the latter regard, I return to a theme I have emphasized already. We must resist the temptation to take the politically expedient route of protectionism in favor of the more difficult but also more realistic tasks of returning balance to the income-expenditure flows of the federal government. Unless the Congress can really come to terms with spending limits, the only responsible fiscal policy alternative is to increase taxes—a move that requires more courage than we have seen demonstrated in recent years. Doing nothing would also be a policy decision, albeit by default, and one with the serious negative consequence of an outward drain of capital to service our foreign-held debt. This represents a particularly irresponsible course of action because it imposes its consequences on future generations who obviously have no part in the decision. As they grow older, those children of debt will be forced to consume less and save more in order to repay the money their parents, lacking the discipline to save enough or to cut public spending, borrowed.

In the present, we wander without a clear course. We tread perilous ground engaging in the type of tit-for-tat that the past several months have witnessed in our
trade relations with Canada, our leading trade partner, and each threat of new textile import barriers brings suggestions from officials in textile-producing LDCs that it may be difficult for them to buy American planes and helicopters. It was just such a contest of moves and counter-moves that helped push the world toward the Great Depression of the 1930s. I believe we have come too far toward internationalization, and we know too much to retrace that unhappy course.

Instead, it is critical for us to continue expanding our vision to include all the opportunities held out by the evolving international order rather than to overreact to the short-term imbalances. Since the end of World War II it has been the strategy of our country to encourage free-market economies as alternatives to the types of government-controlled economies that led to hostility in the past. We rebuilt former enemies into trading partners in the belief that participation in competitive markets would help prevent a return to naked aggression or tyrannical domination. That farsighted strategy has borne fruit in forty years of relative peace and a world-wide standard of living that is much higher than anyone would have predicted at the end of the Second World War. The spirit of cooperation rather than confrontation continues to inform our relations not only with former enemies but also with the newly industrialized countries. Our role as "engine of growth" has meant some sacrifices on our part, and it will continue to carry the responsibility of championing freer rather than more restricted markets. I believe that as we move toward the 1990s the industrializing countries will assume more of their own responsibility for keeping the exchange of goods and services as well as labor and capital as unrestricted as possible and remove at least some of the pressure from us.

Our spirit of international leadership continues to face a severe test from the debt of the less developed countries. Thanks to the diligent efforts of the IMF and American banking leaders, we need no longer refer to the situation as a crisis, but it remains a
grave danger to our own economic stability as well as that of our neighbors. The concept evolved in negotiations with Mexico—additional loans which will allow continuity of service on pre-existing debt—offers the most reasonable near-term solution and holds the most promise for progress toward an ultimate return to more stable economic conditions. It is clear in the Mexican situation that the alternatives to the compromise package are intolerable. Further austerity measures imposed upon Mexico's already hard-pressed citizens could easily lead to social unrest and political upheaval. Default on outstanding loans would be an economic nightmare sending shock waves through world financial centers. I believe commercial banks must come forward with the additional funding called for by these recent initiatives so that we can put the world's financial system back on a sound footing and renew healthy growth throughout the global economy.

In order to foster the dynamic pluralism that promises a renewal of the American creative spirit, another important policy consideration for leadership as we approach the nineties is the encouragement of small businesses. Small businesses are frequently headed by women and increasingly by racial and ethnic minorities. Providing almost one-third of all private sector jobs and about twice that share of net new jobs, small firms remain of vital importance as the proving ground for entrepreneurial innovation. At a time when our thinking can too easily fixate on the giant corporations, policy makers should assist smaller enterprise by bolstering vocational training programs and by putting additional resources into expanding managerial and marketing know-how. I would welcome a similar initiative on the part of the IMF to make funding available for small-scale entrepreneurs in the developing countries. Attention to the small business person at home and abroad allows the economy to build and regenerate from the bottom up, providing the basis for larger scale growth and integration.

Finally, it is necessary for us to continue to internationalize at an even more rapid
pace. Financial markets are quickly becoming intertwined; post-Big Bang London and Tokyo in the 1990s will be more like the New York of today with firms from abroad making large investments in domestic markets and vast amounts of money crossing between currencies around the clock. Americans must shed the insularity that has been a luxury in the past but will be an increasing burden in the future. We must learn to understand that even small cultural differences between nations can make big differences in business dealings. We will, I'm convinced, because we have met difficult challenges in the past and emerged even stronger as a nation from having done so; and I am confident that we are poised at the threshold of a new burst of energy that will propel us into the next decade with our position of leadership in tact.