

**PUTTING PREEMINENCE ON THE LINE:
AMERICA'S LONG-RUN POSITION IN THE GLOBAL ECONOMY**
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For Corporate Weekend, Florida State University
September 24, 1988

Good afternoon! I am honored by your invitation to speak to this distinguished gathering. It is a pleasure for me to join you during this weekend set aside for sharing perspectives on how the academic and business communities can better work together. I will try to contribute to your dialogue on cooperation by expressing my thoughts on the direction of the global economy and in particular on this country's role in that evolution. America's role will, in my opinion, be one of leadership toward higher and, at the same time, more equitable living standards worldwide. Some of you will be on the cutting edge of these developments since the partnership in research and development between the corporation and the university remains a crucial element in this nation's leadership of the free market.

I recognize that looking ahead to continuing U.S. leadership is a somewhat contrarian position to take at this point in time. A strong current of negative sentiment about America's future seems to have surfaced in the last year or so. One prominent place this pessimism emerges is among current best sellers and new releases, where we find a number of books setting forth gloomy economic and political scenarios for the United States. The ill tidings in The Great Depression of 1990 attracted enough attention to make the book a popular success. A more recent book, ominously entitled The Decline and Crash of the American Economy, picks up a similar theme. Its author suggests that this country's economy has been in decline since the early 1970s and is now on the brink of a fatal collapse. Economist Gary Schilling has just published a book entitled After the Crash: Recession or Depression.

Perhaps the most compelling of these books is The Rise and Fall of the Great Powers by Paul Kennedy, a study of great scholarly breadth. Kennedy's thesis is that throughout modern history the world's leading nations have all reached peaks of power which they could not sustain. He suggests that the United States is passing from the position of preeminence it attained in the 1950s and is destined to be replaced by another nation with a more viable economy—perhaps Japan or China. The reason Kennedy gives is what he calls "imperial overstretch." Like Spain in the sixteenth century or Great Britain in the first half of this century, he believes America has more extensive military commitments than its economic development can support.

Aside from the intrinsic interest of the arguments in books like these, it is noteworthy that the American public is buying them in great numbers. We seem ready to be convinced that as a nation we are losing our grip on events and slipping toward some sort of mediocrity. Dramatic events like the October crash of 1987 no doubt feed this foreboding. More importantly, many people are properly concerned that we seem unable to control the federal government spending that has turned our country into an international debtor.

I believe, however, that the notion we will soon fall behind other countries might well arise from a perspective that overreacts to momentary fluctuations and misreads long-term trends. Working from some of the same basic observations used by the authors I have mentioned, one can draw strikingly different conclusions. It is true, for example, that the United States no longer maintains the singular economic dominance it held in the years after the end of World War II. Other countries have narrowed the gaps between their economies and ours, though none have overtaken us in any of the broad measures of economic strength. I would like to suggest, however, that this is not a sign of failure on our part. Rather it should be taken as evidence of our success in promoting a uniquely American vision of world economic and political relationships.

This afternoon I would like to develop this more positive scenario for you, working around three basic themes. The first is America's commitment to the strategy of encouraging international free trade as a replacement for colonialism in the post-World War II period. The second involves broadening the definition of "leadership" to encompass intangibles like social progress and environmental protection that take on more prominence in the agenda of an advanced industrialized state. The third is the evolving incorporation of nonmarket economies like China and the Soviet Union into the global market. This latter possibility should diminish the threat of conflict and thereby free up constructive resources by lessening the economic burden of defense. Let me turn now to each of these historical developments.

America's Postwar Strategy: Replacing Colonialism with Comparative Advantage

In comparing the United States with the "great powers" of the past, a fundamental distinction must be drawn in the way America has conducted its economic and political leadership. Rather than building a system of colonial markets for our own enrichment--as did all of the great powers discussed by Paul Kennedy, from Spain to Great Britain--we have attempted to structure a world market based on evoking the comparative advantage of all participants. Some refer to the period after the Second World War as the pax americana, a time in which American military might enforced a relative lack of armed conflict worldwide. It could more accurately be called a pax economica under American stewardship. This modification of terminology properly shifts the emphasis from the threat of force as the basis of international relations to the open offer of economic partnership that I think characterizes U.S. philosophy.

Several positions that we as a nation have consistently taken support this view. For one thing, however hotly we debate among ourselves, we have led the battle against protectionism by lowering our own ratio of import levies collected on dutiable items from over 50 percent in 1930 to around 5 percent. This is a battle we must continue to

fight, I might add, as Congress has once again moved to increase textile import barriers. We must oppose protectionism because we know that any one nation's desire to shore up uncompetitive industries can lead to retaliatory moves by other nations and ultimately distort trade throughout the world. We also understand that trade surpluses amassed through mercantilist policies contributed to the collapse of several great powers of the past by giving rise to inflation and causing economic stagnation. America has wisely rejected this philosophy of trying to maintain trade flows in a way that is most advantageous to countries that already have the lead in economic development.

Instead of adopting self-centered protectionist and mercantilist stances, we have worked toward institutionalizing the ground rules of trade through international agreements such as GATT, the General Agreement on Tariffs and Trade, and other forums for multilateral negotiation. In so doing, we have helped create an environment in which competitors could grow in strength to the point where they became able to challenge our position of preeminence. We have been willing to put our preeminence on the line because competition in an open market, whatever challenges it might pose, is the only path to better living standards for ourselves and the rest of the world.

Taiwan and South Korea stand out as tangible reflections of the success of this strategy. These two Pacific-rim nations, both left impoverished after the world war and anticommunist struggles, were not exploited as imperial or economic colonies by a dominant America. Instead their comparative advantages--particularly their sizable pools of inexpensive, disciplined labor--were sought out by manufacturers from this and other countries seeking to reduce their production costs. This expansion of manufacturing led to the development of local products, and both countries now export their own items, along with those they assemble for American and Japanese firms. Thus Taiwan and Korea have arrived as successful partners in the international market. They are no longer referred to as "developing nations" but as "newly industrialized nations."

Like Japan and West Germany--other obvious beneficiaries of pax economica--they challenge American leadership in producing goods that at one time would have been exclusively ours.

Our disavowal of exclusivity is an expression of the philosophy that has underwritten America's postwar strategy. We have nurtured broad competition in global markets because it allows each country to bring its comparative advantage to the table, thus increasing the market's efficiency around the world. One would search the historical record in vain, I believe, for another great power that has encouraged less powerful countries to carve out for themselves a share of the available wealth. Thus I feel that to view the United States in the same light as the colonial powers when looking for symptoms of decline and fall sets up an false analogy.

Reevaluating "Leadership"

My second point to counter the perception of America in decline involves redefining the concept of leadership to reflect contemporary realities. The traditional benchmarks of military numbers and economic statistics are less able to capture the full range of qualities that identify leadership in the sophisticated societies of today. GNP and productivity growth measures can tell us how much workers produce, but they give little information about how people live outside the workplace. Prodded by the social activism that is a vital part of our system, Americans have pressed toward improvements in the quality of life that few other nations have undertaken. Those who believe America faces imminent collapse often look back to the 1950s and early 1960s as the golden age of American world leadership. Yet a more sober evaluation would remind them that in that so-called golden age a majority of people--women and ethnic minorities--were still excluded from full participation in the system. Through the following decades, society has demanded that these groups be granted equal rights, and the momentum from the effort to secure those rights carried over into concern for consumer protection and

environmental issues.

We were willing to bear certain short-run declines in productivity to make these adjustments. In so doing, however, we have added enormously to our future productive potential. The inclusion of women and minorities at all levels of our workforce, though it is far from complete, holds forth the same promise of enhanced creativity and dynamism that the addition of various immigrant groups has provided us in the past. This country's use of diversity has always been one of its unique sources of renewed strength. In addition, we have improved the quality of life by providing safer products and a more healthful environment.

Many of our competitors in the global marketplace have yet to wrestle with these issues, and none have gone to the lengths that we have in all these areas combined. Economic gains, though, will increasingly allow a greater share of their resources to be diverted to activities beyond subsistence. Likewise, the educational levels of their people are rising. As these trends gain momentum, our competitors will inevitably be called upon to address basic issues whose costs have already been factored into America's balance sheet. In this way, as in nurturing competition based on comparative advantage in the global market, we have expressed a long-term vision at the expense of short-term costs, but that is what leadership is all about.

Bringing Nonmarket Economies into the Global Market

A third reason that America's long-term position gives me cause for optimism is related to the visible successes of pax economica in fostering global market competition. These successes in the industrialized countries and parts of the third world are exposing the contradictions in nonmarket economies like those of China and the Soviet Union. The recent gestures toward more openness by both those countries have been no accident. Their people know that they are not doing as well as their capitalist

neighbors. When I visited China a while ago, an English-speaking cab driver said to me, "Just look at North and South Korea, East and West Germany, China and Taiwan--it is easy to see who ended up on the right side."

I believe that the regimes of Deng Xiaoping in China and Mikhael Gorbachev in the Soviet Union represent watersheds in history. Though it will take a long time, the movement of those countries toward more capitalistic economies will not be reversed, in my opinion. For innumerable reasons, state planning simply cannot deliver the goods and services people seek. Internal pressures are therefore compelling China and the Soviet Union to allocate more of their GNP to raising living standards. That movement has to squeeze the amount--an inordinate amount in the case of Russia--left for defense spending, and suggests that in the future the threat of armed conflict may diminish.

Recall that the inability to meet military obligations is the reason historian Kennedy gives for the imminent decline of the United States as a great power. Viewed from this perspective, the potential displacement of battlefield preparedness by marketplace competition holds obvious positive implications for our assessment of American leadership. Again, our commitment to comparative advantage created the environment in which the two dominant economic systems in the contemporary world could be pitted against one another, and ours is winning. Aside from gaining new markets and sources of goods in the opening socialist states, the rest of world should be able to shift resources to a great degree from defense to personal consumption. This change would bode well for the sale of many U.S. products.

Challenges to the Pax Economica

Having developed this optimistic view for you in contrast to the darker pictures others have painted, I do not want to leave you with the impression that a rosy future will fall to us without a great deal of work. The changing shape of the world's economy

poses numerous difficult challenges to the continuing success of the pax economica as I have outlined it above.

For one thing, furthering the development of an open global market depends on the extent to which all market players are willing to support free trade. This means that we cannot waver in our commitment by indulging in protectionist fantasies. It also implies that we must press forward in negotiating tariff and nontariff barrier reductions around the world. The recent free-trade-zone agreement between the United States and Canada is a good model of a healthy direction for international trade. I trust that our friends to the north will put the finishing touches on it and not reverse directions. I would like to see this sort of agreement hammered out with other nations.

Bilateral agreements of this nature should not replace multilateral agreements like GATT, however. Special agreements among a small number of countries can pose an obstacle to the extension of world trade. Some analysts foresee this possibility as an inherent danger in the greater economic integration of Europe scheduled to occur in 1992. At that time, the countries of Europe will move further toward becoming a single market, one of sufficient size and scope to create a significant counterbalance to U.S. economic power. Such an economic union would be the realization of a dream shared by American political and economic thinkers as well as by Europeans in the aftermath of World War II. By standardizing regulations and unfettering the flow of capital, European unification holds forth the prospect of accelerating the development of the global market.

The possibility remains, however, that Europe could close inward and adopt a unilaterally protectionist stance. The difficulties we have experienced over agricultural subsidies and the tendency of individual nations to limit imports of certain products in the past could be magnified when European countries begin acting even more in concert. Should this happen, I can envision a world divided into trading blocs. We might

see Western Europe and eventually Eastern Europe and perhaps the Soviet Union trading more or less as a bloc, while a second large bloc would include the United States, Canada, Latin America, and the Pacific Rim nations. This would be an unfortunate reversal, limiting choices for consumers in all markets and undoing much of the progress that has been made.

For this reason, multilateral forums like GATT take on renewed importance. The Uruguay round will be an important test of the free market philosophy. These discussions aim to extend the kind of trade agreements that now cover manufacturing to agriculture and services, two very sticky areas of negotiation. It has been hard to wean agricultural production from the subsidization it receives in the United States and elsewhere. Meanwhile, more favorable treatment of services would allow advanced economies like that of the United States to receive fairer and more evenhanded compensation for some of their most important products. Unfortunately, less developed countries feel little sense of urgency in untangling copyright laws or further expanding the international options of financial firms. For our part, I must acknowledge that there are matters that we have yet to think through. What would be the implications, for example, of allowing foreign banks that are essentially government monopolies to operate in the United States? Or again, are we prepared to have lawyers certified by foreign bars practicing in this country? While these issues may not be decided in Uruguay this time, we must be prepared to discuss them in both bilateral and multilateral negotiations.

Another stumbling bloc to market development is the debt of the less developed countries, or LDCs. These massive, and at present unpayable, commitments are stalling market evolution in countries that were once among our best trading partners. New flows of capital in the direction of these Latin American, African, and Asian countries are essential to prevent any further erosion in their economies. Aside from helping to avert political upheaval, regaining the path to growth would bring large populations of

producers and consumers back into the market. I am hopeful that some combination of the numerous thoughtful proposals now under consideration will bring progress on the LDC debt front.

Of course, the United States has its own debt to contend with. While we have been able to maintain a long-run vision in encouraging the development of the global market and our society's human resources, we have been shortsighted in financing our recent consumption through excessive deficit spending, both as individuals and as a government. This situation has come about because foreigners with relatively higher savings rates have stepped forward with the funding we lacked. Part of this debt can be attributed to the maturation of the large baby-boom generation into its household-formation years. At this point in the life cycle of any age cohort, aggregate debt quite naturally increases as people buy their first homes, furnish them, and finance other large purchases. Therefore, a portion of our debt will tend to resolve itself as baby boomers turn to saving for their retirement. Nonetheless, we cannot ignore the need to take quick action to balance government spending. Perhaps it is true that there's no more slack in the budget--in other words, that all the cuts that society will accept have been made in the last eight years. If so, however, I believe we must be prepared to pay more in taxes to support the government services we as a society desire. Further reliance on foreign financing of our debts could have adverse effects on our economic development and seriously undermine our international leadership. Even if this were not a problem, it is not acceptable to defer the repayment of our debts to our children, who could suffer decreasing growth in their living standards as they foot the bill for our spending spree.

Another area in which we are shortchanging future generations is education. It is intolerable for a nation as rich as ours to countenance the erosion of our educational institutions to the point where high school graduates cannot even locate our chief international competitors on a globe. We must invest in transmitting the fundamentals

to our children--not only the traditional fundamentals of geography, math, and written communication, but the fundamentals that will be required for survival in the 1990s and beyond. These include sufficient understanding of foreign languages and cultures to facilitate building new business abroad. We are already well behind the competition in cultivating such skills. Our ability to survive in the global market which we have helped to create turns on our resolve to address this weakness.

One other weakness in our society threatens the realization of a free market on a global scale. That is the crisis in ethics currently infecting our business community. As I have described it for you this afternoon, America's postwar leadership has depended as much on the moral imperatives of fairness and equality as on economic and military might. If we allow ourselves to drift away from those norms of civilized behavior, the international balance will inevitably tip toward the law of the jungle. All of us--business leaders and educators alike--must do a better job of teaching that the amorality of narrowly defined self-interest is out of step in the kind of market environment we have encouraged over the past four decades. As a society we have always elected to limit self-interest when its pursuit would undermine the competitive basis of the market. In recent decades, we have broadened that philosophy by shaping a new international order, one which is based on participation by the developing economies as well as those that are already industrialized. We have done so despite the sometimes painful adjustments required in domestic industries.

Now we must apply that same vision and foresight at the microeconomic level. As individuals, we must show young workers through our words and actions where to draw the line between personal gain and responsibility to the principles that have brought this system of international partnership into being. Otherwise our fellow players in the international market will quite understandably withhold the trust necessary to conduct business with us. All that we have accomplished could unravel.

Conclusion

Finding solutions for our crises in education and ethics will not, of course, be a quick and easy matter. Like protectionism, LDC debt, and our own financing shortfalls, these are issues that demand short-term action and long-term vigilance. However, they are no more grave than many of the situations we have successfully managed in pursuing our global vision over the past four decades. That vision has survived the Cold War, some localized hot wars, social upheavals, and worldwide inflation. I see no reason to accept the belief that it is failing us now. Indeed, I hope to leave you with the sense that we are just entering upon the time when any realistic measure of the success of American leadership toward constructing a free market of global proportions can be made. Far from losing ground in the global marketplace, I believe we can still look forward to seeing our comparative advantages--our creativity and our ability to manage resources, among others--more fully rewarded as remaining barriers to free trade are dismantled and new countries join the competition. In all of this change, the United States will not cease to be a great power. Rather, I believe it will remain a great power among what we should hope will be many great powers. The United States will always be unique in history, however, as the great power that chose not to rule the world but to lead it toward economic equality.