

**THE CHANGING GLOBAL ECONOMY**  
**Remarks by Robert P. Forrestal, President**  
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Good afternoon! It is a pleasure and an honor for me to have the opportunity to speak to the Georgia Council on Economic Education. I have been a Council trustee for three years, and I have been proud to be associated with David Martin and all of the rest of you during that period. I believe that this organization has done an excellent job of raising the level of understanding of economics in Georgia, and I am not alone in this opinion. The Georgia Council has achieved a reputation among educators throughout the country as one of the most active and innovative councils in the nation. Such acclaim is particularly gratifying at a time when we are grappling with numerous problems in our schools here. Thus, in addition to conveying specific information about economics to Georgia's teachers and students, the Council also sets an admirable example of quality that other parts of our educational system can emulate.

I know that in the past several years, the various centers for economic education around the state have experienced an increased demand for materials on international economics and have included discussions of this subject in summer workshops. Clearly, events of enormous magnitude are taking place in the international economy on a fairly regular basis, and I would like to share with you some of my thoughts on the changing global economy and the implications these changes might hold for the United States. The central theme of my remarks will be the melding of the world's individual markets into a single marketplace of global proportions. I believe this process will prove beneficial to the United States along with all other market participants. Nonetheless, I am gravely concerned about a renewed wave of protectionism that could engulf the global market before its full potential is realized. A closely related issue is the low U.S. savings rate relative to our investment and financing needs, a disparity which has turned us into the

world's largest debtor.

Thus, addressing our insufficient savings and our protectionist tendencies represent two challenges for U.S. leadership in the global market. If we are to exercise world leadership in stemming the latter, clearly what is called for is a different type of leadership than the military and economic roles we have played so often in the past. Instead, at this point in time I think we have an opportunity--and an obligation--to provide the world an example of how a nation can free itself from a parochial, culture-bound worldview and attain a truly global economic and political perspective. In our case, such a process of evolution entails shedding the remnants of the traditional U.S. isolationism that I feel contributes to our penchant for protectionism and, to a certain extent, our tendency to save too little as a nation. I would like to talk about these challenges and suggest ways we might meet them. First, however, let me begin by describing some of the opportunities I foresee in today's increasingly linked international marketplace.

### **Opportunities in the Global Market**

As those of you who teach economics are well aware, a single market of global proportions is replacing the more fragmented international trading system of the past, and this bodes well for the future. In general, as more countries join the international trading community, production of goods and services can be redistributed among market participants so that each country is better able to exploit its unique comparative advantages. When a country diverts its energies from products it does not make as well as other nations and emphasizes instead the things it does best, it increases its efficiency in using labor and materials. The net effect of such structural shifts in a worldwide market would eventually be to raise the incomes of everyone involved. For this reason we can expect the rate of growth in the world's wealth to accelerate as countries like Taiwan and Korea--and, coming along behind them, Thailand and Indonesia--assume a

greater role in world trade.

Two areas in which the pace of economic integration has been extraordinary in the past year or so have been the Eastern Bloc countries and the European Community (EC). The nations of Eastern Europe and the Soviet Union want and, I believe, will move toward the political and economic self-determination their Western European neighbors already enjoy. As they do, they could provide fertile markets for outside goods and services as well as sources for labor, materials, and technical innovations. Equally important, their emergence from isolation may mean that the world can begin spending less of its energy and resources arming for war and more on raising living standards.

Of course, the process of change in the communist bloc may not be smooth in either an economic or a political sense over the next few years. For one thing, these countries have no experience with market mechanisms. They also lack convertible currencies and the financial infrastructure to interact effectively with outside countries. They have no money and capital markets to funnel savings into investment, for example, nor do they have effective central banks to keep price pressures in check. They need an infusion of capital to get started as well. With the exception of East Germany, though, none of them has backers able to supply the level of assistance required. Additionally, let us not forget that our hopes outstripped reality last year in China. Still, I feel the move toward market and political liberalization is inevitable in the long run in China as well as the rest of the nonmarket economies. There is simply no way to eliminate the weaknesses from their systems of production without fundamental reforms.

A second important European story has been the EC's progress toward market integration at a rate that would have seemed impossible even two years ago. It seems more certain than ever that in the first few years of this decade Europeans will draw together into a market with more consumers than in this country. This development will

have a major impact on the future course of business in Europe and among the EC's trading partners, including the United States. Most immediately, the dismantling of barriers to shipping and selling goods should open this large market for the kind of retailing to which we are accustomed here. Our industries are geared toward large manufacturing runs that supply products to nationwide retail outlets and distributors with numerous local accounts. It seems likely that post-1992 Europe will tend toward a similar market structure, and this shift should prove advantageous to U.S. producers. Also, freer flows of capital within the EC will probably hasten the consolidation of industries there. We should see large new firms join the ranks of the multinationals. Such pan-European giants promise to raise the level of competition in Europe and eventually in this country as well, benefiting American consumers.

Unfortunately, the industry with which I am most familiar and which plays a keystone role in our economy--financial services--is being kept from gearing up for the global market in an optimal way by anachronistic regulations. The major European banks are allowed to engage in activities from which U.S. banks are prohibited--underwriting corporate securities, for example. With the relaxation of barriers in 1992, EC banks will also be able to cross international boundaries more easily than banks here can enter other states in their own country. By denying our banks opportunities to diversify their products and expand geographically, we may be hampering their ability to grow to world-class size.

Multinational corporations are attracted to banks that can offer "one-stop" convenience for a full array of services--from loans to insurance and underwriting equity issues--as well as the capacity to handle sizable transactions. Those big international players may take their business to foreign banks if U.S. banks remain strapped by lack of uniformity in state and national banking laws and by our failure to complete the task of bank deregulation in this country. Specifically, I think it is urgent for Congress to

dismantle the so-called Glass-Steagall restrictions that prevent banks from providing the types of services now offered by brokerage houses and investment banks and to move directly to nationwide interstate banking. To set the stage for broader banking powers, however, lawmakers also must reform our deposit insurance system, which now goes far beyond the original intention of protecting the savings of individual depositors and actually encourages excessive risk-taking among bankers. Together, such reforms would strengthen U.S. banks and allow them to better serve their customers seeking to transact business overseas.

In sum, I believe the events taking place in the European Community and Eastern Bloc nations symbolize the progress toward a global marketplace that ultimately holds the promise of greater and more sustainable growth worldwide--not to mention the incentive to achieve renewed progress toward financial services industry deregulation in this country.

### **Dangers to the Emerging Global Order**

However, the process of globalization faces numerous tests before it can be fully accomplished, and I would like to describe two of the major forces working to the detriment of greater market integration at the present time. One is our low savings relative to our financing and investment needs. The second is a resurgence of protectionist sentiment in this country and abroad.

For a variety of reasons--including spending patterns associated with the unusual demographic phenomenon known as the "baby boom"--our savings rate as a nation has been at a relative low point. Consumption by both households and the federal government has been growing rapidly. We have had to borrow heavily from abroad--to the point that we have become the world's largest debtor--to meet our investment and financing needs under these circumstances. The inward flow of foreign capital helped



alter exchange rates in the mid-1980s to the disadvantage of U.S. products being sold on world markets. As the dollar reached a peak against the currencies of our trading partners in 1985, the gap between imports and exports widened to record levels, creating sizable trade surpluses for some of our trading partners--Japan, Germany, and newly industrialized countries like Taiwan and Korea in particular.

Even though these surpluses arose largely as a result of domestic U.S. developments, they have fostered a resurgence of protectionist sentiment that is a second danger to the continued advance of globalization. I have heard people say several times in recent weeks: "The cold war may be over, but the trade war has begun." Last year the United States fired a salvo that sharply escalated trade tensions when it passed trade legislation with a provision for punishing a "hit-list" of supposedly unfair trading partners. Emotions also run high in other parts of the world. Some people fear that the EC market opening could stall at the Atlantic Ocean. Since the basis of the emerging global economic order is international trade, it goes without saying that the process of market integration would be severely hampered by a new round of protectionism. Historically, protectionism has tended to spread and escalate as countries whose products were discriminated against threw up their own barriers in retaliation.

Nonetheless, there is a large enough constituency for the backward step of protectionism that I believe we stand at a crossroads in the development of the global market. In this light, the United States faces two important challenges. One is to address our savings deficiency with its attendant exacerbation of trade imbalances. The second is to exert leadership by renouncing the use of protectionism in our own international trade relations. Thus I would like to round out my remarks this morning with a few thoughts on these challenges.

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### **Addressing the Problems of Low Savings and Protectionism**

Although they may not seem related at first glance, I feel that our low savings rate and our susceptibility to protectionism in many ways share some common roots. These are the unique position in which the United States found itself at the end of World War II and, beyond that, our traditional isolationist tendencies.

The United States has a long history of isolationism. This theme has surfaced many times in U.S. history--as the Monroe doctrine in the early 1800s, in Henry James' novels depicting Americans as pure and innocent in contrast to corrupt, immoral Europeans, and in the affection for rugged individualists like cowboys and frontiersmen. These remain an important part of our popular culture and advertising. In the modern U.S. economy this isolationism has been evident, until recently at least, in our unblinking focus on our own large domestic markets and widespread indifference to exporting opportunities. Isolationist sentiment also inspires current threats to close our market to foreign producers whom we see as acting in ways that are somehow "unfair" to U.S. interests. In this way, we blame other countries for our trade difficulties and view them as "bad."

Ironically, vestiges of isolationism persisted in the postwar period even though our leadership in NATO, the Marshall Plan, the United Nations and the like involved us in more international commitments than ever before. In the 1950s we were actively engaged in assisting even former enemies recover economically and supporting an unprecedented military presence around the globe as leader of the Free World's resistance to the advance of communism. However, the very degree of our dominance in many of these efforts made it seem as if the rest of the world needed us more than we needed it. At the same time the extreme tensions of East-West relations polarized our attitude toward the rest of the world, making us view the communist nations and much of the developing world with hostility and suspicion. In this respect our involvement in foreign affairs did not serve to make the United States as outward-looking as many European and Asian countries.

In addition, of course, the war did not destroy our productive capacity as it did the factories and infrastructure of other industrialized nations. Thus, we had no rival in economic power for a quarter of a century. The United States enjoyed unprecedented prosperity as we met pent-up demand in our own market and helped repair the damage abroad. Our wealth stood in sharp contrast to the economic ruin elsewhere. Yet, the very privation of the recovery period established patterns of economic behavior that have been helpful to countries in Asia and Europe in recent years. The concept of thrift and an almost physical aversion to inflation was stamped indelibly onto the minds of people there. While our trading partners directed their often meager savings toward investments that enhanced their productivity, Americans built a culture of consumerism in our booming economy. We consumed well beyond our willingness to save and now have wound up as the world's biggest debtors. It is this difference in savings that in large measure accounts for the ability of countries like Germany and Japan to give us such stiff competition in automobiles and to take over consumer electronics.

We have agonized over the apparent slippage in our competitiveness in the last decade, but we have not yet fully acknowledged how much the world has changed. Europe as well as many parts of Asia have returned to more normal conditions, and they are vigorous competitors in terms of resources, technology, and capital. Also, advances in communications and transportation have made physical distance more and more irrelevant. Even communist states have been unable to withstand the breakdown of insulation that was possible before technology began to bring the entire world as close as the nearest telephone. Yet Americans cling to an unrealistic picture of the world, seemingly under the illusion that the 1950s never ended. More importantly, our traditional inward and rather self-righteous focus is keeping us from recognizing the key role our choices about spending and saving play in regard to our persistent trade imbalances.



I have drawn a rather fatalistic picture of economics grounded in historical and cultural traditions. This view does not necessarily leave the United States painted into a corner with no escape, however. We need not depart from our historical foundations, but we must redefine our perspective on the world and bring it more into line with current reality. We need to seek out the positive side of our self-image as a nation--the unique model we provided and still provide of a truly better way in terms of personal freedom and equality of economic opportunity. This model drew millions of immigrants to our shores and more recently inspired much of Eastern Europe's transformation. We exerted this influence not through proselytizing but by the example of our success.

What we need today to reassert our leadership is not to return to the material and military dominance of the 1950s, which was surely atypical. Instead we should seek ways to offer new visions and examples for the rest of the world to emulate. We need leaders to articulate ideas comparable to the Marshall Plan and the Peace Corps, but relevant to today's resources and needs, leaders who will reaffirm our long-standing commitments to free trade as the surest path to higher living standards for all. And, just as in the past we relied on immigrants to invigorate our society, we should be open to ideas from abroad. One idea that I would like to begin "importing" immediately is the importance of savings.

### **Conclusion**

Let me conclude these rather broad observations by reemphasizing that the global economy is changing in ways that will ultimately serve the best interests of more of the world's people than ever before. We stand at an historic juncture. The Cold War is indeed over, and it is over in large measure because of U.S. leadership in resisting the dead-end political and economic alternative of communism while championing the spread of free markets and free societies. However, by making us accustomed to seeing the world in terms of allies and enemies, the Cold War no doubt helped to polarize our

thinking about the world outside. Let us not transfer those old patterns of political hostility to the economic arena of trade. Let us not be so quick to blame others for our own shortcomings and punish them through protectionism. Instead, we need to take stock of our own household and address domestic problems like inadequate savings that underlie so many international disparities and strains. In this way, we can lead the world beyond this century of destructive conflict and into an era of healthy competition and improved material well-being for people in all countries.