

**THE NATIONAL AND INTERNATIONAL ECONOMIC
OUTLOOK FOR THE 1990s**

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Good afternoon! I am pleased and honored to have this opportunity to speak to the members of the Georgia General Assembly. My topic today is the outlook for the national and international economy in the 1990s. Let me emphasize at the beginning, as we prepare ourselves for the decade ahead, how important it is to broaden our perspective. Compared to the past--even 10 years ago--we must give much more consideration to international dynamics when formulating public policy or business decisions. As we move inexorably toward a single global market for goods and services, it is more critical than ever that we incorporate into our decisions and choices the significance of efficiently functioning international trade and capital flows. This implies in particular promoting free and open trade through international negotiations, and I would like to discuss the prospects for this process with you this afternoon. Before I do that however, let me begin with my outlook for the United States and then for our major trading partners.

Outlook for the U.S. Economy

In the 1990s I see a moderation in U.S. economic growth as measured by real gross national product (GNP) relative to what we have experienced in recent decades. We have enjoyed GNP expansion at an annual average rate of nearly 2 3/4 percent over the past 20 years. During the 1990s, though, I think we should expect to see growth closer to 2 percent or even

a little less. My main reasons for this view are, first, a relative saturation of consumer demand here; second, the implications of demographic trends already taking effect in our economy; and, third, greater worldwide competition for investment capital. On the other hand, I view exports as a source of support for expansion as more and more U.S. goods flow to foreign consumers.

Before I elaborate on the particulars of my outlook, I should point out that a key economic variable has been thrown into uncertainty by recent events in the Middle East. That, of course, is the price of oil. From our present vantage point, it is virtually impossible to foresee where oil prices will finally settle when the Persian Gulf crisis is resolved. Thus forecasts are even more difficult. However, it is clear that what is going on in the Middle East will raise costs for many businesses and dampen output. In the near term, these dynamics will work to reduce our nation's overall capacity to produce--that is, the level of GNP we have the potential to achieve. We have suffered a significant supply shock, which, unfortunately, cannot be offset by monetary policy or other public policies that work by influencing demand.

Looking at long-term prospects for U.S. growth, I see other constraints as well. One is that a degree of saturation may have taken hold in consumer demand. First-time purchases of homes and automobiles seems to have peaked among the "baby boom" generation--the large generation born in the decade after World War II and now passing into middle age. The U.S. housing and auto industries have already felt the effects. This slackening of demand is not entirely negative, however, insofar as it mitigates to some extent the inflationary forces that have been troubling for some time. As you know, price pressures, as gauged by the consumer price

index, had been increasing stubbornly even before the run-up in oil prices. The Fed has been trying to hold inflation in check. While progress seems to come slowly, I believe we would be in worse shape had the central bank not pursued this objective.

Aside from these demand-side effects, demographics will adversely influence our economy's capacity to produce. Compared with the recent past, the pool of entry-level labor is shrinking now that the baby boom generation has been absorbed into the workforce. Scarcer supplies of labor, at current levels of output, imply higher costs over most of the coming decade. U.S. industries will need to counter these costs by more investment in labor-saving technology.

Unfortunately, competition for the capital to make those investments is likely to be greater in the coming decade. One source of competition could be the U.S. government's funding needs associated with large fiscal deficits if Congress cannot maintain an effective budget-deficit reduction program. The international economy also provides numerous alternatives for investors. These include emerging opportunities for higher rates of return in Eastern Europe, strong investment demand in Western Europe, and, eventually, I believe, a resumption of profitable credit opportunities in Latin America.

Meanwhile, greater integration of the world's economy should continue to bolster exports for U.S. firms. As I will suggest in a moment, the outlook for Europe is a bit stronger than for the United States, and this disparity suggests healthy markets abroad for U.S. goods and

services. Farther down the road, I also look for a revival of the once-important but now stagnant trade relations between the United States and Latin America as those countries continue to get their economic houses in order. Over time, the Soviet Union and the former communist nations of Eastern Europe may also provide new markets for U.S. goods. Assuming such developments occur, I believe that exports will be a major source of U.S. expansion in the coming decade. However, slower growth in consumption and in the labor force as well as heightened competition for investment funds from domestic and international sources are likely to restrain U.S. growth relative to our experience in much of the 1970s and 1980s.

Outlook for the Industrialized Countries

Let me turn now to the industrialized countries. There I feel the overall capacity to grow over the next decade is fairly strong, especially in Europe and the Pacific Rim. The outlook for the Canadian economy is, like that of the United States, less bright than in the past, in large part because of expectations for slower growth here. However, assuming a continuation of Canada's current mix of fiscal tightening through higher taxes and monetary restraint, that country may make significant progress on its fiscal deficit in the next several years. Success in this regard would improve Canada's prospects in the middle and later years of the 1990s.

Western Europe could grow at a 3 to 4 percent rate on average during the coming decade. One primary source of this expansion should be the lowering of remaining restrictions on the movement of goods and services within the European Community, or EC, after 1992. Direct savings will occur from the elimination of remaining trade barriers among the 12 EC countries.

The removal of such restrictions should foster greater competition across and within borders, spurring more efficient production. Moreover, we are likely to see more mergers and acquisitions in a variety of industries, suggesting new economies of scale and attendant gains in efficiency. Certain countries--Germany in particular--could also show higher rates of growth resulting from their investments in Eastern Europe. However, none of these developments will come easily or quickly. Much discussion remains on the question of unifying monetary systems in Europe and on the numerous details of the 1992 economic integration. Some countries, like Spain, Portugal, and Greece, whose economies are not as highly developed as those of Germany and France, for example, may not participate as fully in the short-term gains of an economically integrated Europe. Indeed, these countries may feel some antagonism toward efforts of their stronger partners to promote economic development in Eastern Europe.

Japan has relatively energy-efficient industries, which should allow better absorption of higher petroleum prices in spite of that island nation's dependence on imported energy. The aging of the Japanese population will gradually slow growth potential there, however. Moreover, trade surpluses are likely to persist in spite of some progress toward alleviating structural problems in their domestic markets and non-tariff barriers that discriminate against foreign producers. Such imbalances could aggravate the kind of tensions that were the focus of talks between U.S. and Japanese negotiators earlier this year.

Outlook for the Developing Countries

Elsewhere along the Pacific Rim, the newly industrialized countries of Taiwan, South

Korea, Hong Kong, and Singapore could display an even higher capacity to grow than Western Europe. These nations will continue developing new sources of labor in China, Thailand, Malaysia, Indonesia, and they may also capitalize on emerging opportunities in Viet Nam and Cambodia. For both cultural and geographical reasons, this latter group of developing Asian nations represents natural markets for Japan and the newly industrialized countries, enhancing their already profitable penetration of U.S. and European markets. In addition, these countries do not struggle under the debt burdens that beset many developing countries elsewhere, and more of their income can therefore go to productive investments at home.

The outlook for the other developing countries is mixed. Internal political instability could continue to plague Cambodia, Burma, Pakistan, Sri Lanka, and the Kashmir in India. Economies in the Soviet Union and the former communist nations in East Europe have great potential to improve after making some fundamental adjustments. These countries need to resolve how they will make their currencies convertible and evolve functioning markets for capital, labor, and consumer and capital goods. In addition, their future business leaders have much to learn about doing business in a capitalistic manner. Joint ventures with established companies from outside might speed up the learning process. As the process of making these kinds of structural and conceptual changes proceed over the next several years, though, economic disruptions are likely to flare up and fray the patience of people who have already suffered a good deal of privation. Thus, the road will be a difficult one, but I am hopeful that, as the decade wears on, we will see real improvements in many of these economies.

I am also optimistic about our neighbors to the South. In fact, Latin America appears more promising to me now than at any point in the past ten years. For one thing, the region's national leaders are now mostly elected in contrast to the military-backed dictators of the recent past. These leaders are also adopting economic readjustment policies that, while painful in the present, hold tremendous promise for the future. Reforms are being built on the region's considerable natural and human resources and on an industrial base which is sizable, though to a large extent inefficient and in need of modernization. Privatization and fiscal reforms are already showing signs of rejuvenating the Mexican economy, and other countries appear to be moving in the same direction. To consummate such reforms, though, greater investment will be needed, and the foreign debts of many of these nations inhibits the flow of capital to productive ends. For this reason, Latin American nations and their creditors will have to continue working to reduce these debts, both public and private. government earlier this year.

In Africa, the prospects are considerably bleaker. A number of African countries have heavy foreign debt burdens, and civil disorders continue to disrupt economic development. Much of the continent produces basic commodities for which markets are likely to remain weak. Moreover, there are no obvious "partners" who might step forward with investment assistance as Germany and Japan might in other regions. One shared resource that could work to the advantage of African, as well as some Latin American and Asian countries in the 1990s, is the dwindling rain forests. As we work out solutions for mutual concerns like global warming and ozone depletion, the rain forests' oxygen production, not to mention the potential medical and scientific value of as-yet-undiscovered species of plants and animals they contain, are assets that

can only increase in value. There is a pressing need to evolve market mechanisms for valuing these assets, which have long been taken for granted as free to the taker. I acknowledge that this is a complex issue with a range of scientific, economic, and social implications. Still, I believe the next decade will be a period of increasing environmental awareness. Thus I have some optimism that developing countries may receive some form of compensation as an incentive to conserve their irreplaceable natural assets, and this could enhance their economic prospects.

In sum, the outlook for the industrialized economies is for continued growth in the coming decade, ranging from moderate in the United States and Canada to strong in Western Europe and the Pacific Rim. The developing nations are not likely to grow much during the early 1990s, though they are making significant adjustments, especially in Latin America, that should bolster their competitiveness in the future.

The Importance of Negotiating Free and Open International Trade

As we survey developments in the world's economies, the growing importance of foreign trade activity stands out. In the United States, for example, the share of both imports and exports has grown substantially over the past forty years. Exports, which were just over 7 percent of GNP in 1947, ran about 14 percent of total GNP last year. The share of imports in GNP rose from 4 to 16 percent during this period. Even more than the United States, some of the most successful economies over the past several decades--Japan, West Germany, and the newly industrialized countries of the Pacific Rim--have consciously sought to enhance their foreign trade sectors as a strategy for growth. This increased emphasis on trade activity points

toward the emergence of an economic order that more and more transcends national boundaries in favor of a single global market. I view this trend very positively. In my opinion, this integrated market for goods and services should work to equalize disparities in living standards that now exist between rich and poor nations. By making a wide range of products available to more people at lower prices than ever before, the global market promises to improve the living standards of people everywhere.

It is for this reason that the nations of the world must continue to work for elimination of all barriers to free trade through multilateral forums like the General Agreement on Tariffs and Trade (GATT). Many formidable problems remain. In the United States, no less than in our trading partners, substantial lobbies still work against the elimination of subsidies that benefit their industries. In agriculture, for instance, the efforts of vested interests impede progress on reducing the broad range of quotas, subsidies, and duties that distorts the world market for farm commodities. Such pressures make it difficult to reach compromises in other areas of concern for the United States, such as the issue of greater protection for intellectual properties like patents and copyrights.

Whereas the comparative advantage of the United States used to rest primarily on commodities and mass-produced manufactured goods, today our edge lies increasingly in doing the basic and applied research that leads to the development of new products. Many of these products may sooner or later be manufactured abroad. In my view, we all have a considerable stake in ensuring that new technologies are licensed and distributed in a way that adequately

rewards the firms undertaking the risks associated with such research and development. Some developing nations object to this stance, arguing that such arrangements make it too expensive for most of their people to benefit from technologies that have advanced the practice of medicine, for example. Clearly, multilateral negotiations must remain the primary vehicle for resolving questions like agriculture, intellectual properties, and other issues. Yet it is difficult and time-consuming to bring 95 different points of view on trade relations into harmony, which is what the GATT attempts to do. Indeed, it is particularly frustrating now, when an important deadline in the Uruguay Round of GATT has passed without an agreement emerging. I am hopeful that all parties will push toward compromises on the agricultural and intellectual properties questions as soon as possible. In that way, even though the work has not been completed on time, the basis for a resolution to these crucial issues can still be laid in the very near term.

The desire to bring about a quicker reduction to some international barriers to trade has led to bilateral and regional negotiations in some parts of the world. As long as these bilateral or regional discussions aim toward the same ultimate objectives as the GATT, I feel they can contribute toward greater openness in worldwide trade as well. The Free Trade Agreement signed by the United States and Canada last year, for example, eliminates trade restrictions over time and also sets up mechanisms for resolving any future disputes through bilateral commissions. In this way, the agreement focuses on opening channels for the exchange of goods and ideas. To me, the U.S.-Canadian accord--and, for that matter, the discussions between this country and Mexico as well as continuing negotiations among the nations of the European Community--should be viewed as model programs that offer opportunities to try out free trade

concepts in smaller, less complex situations. The success which I believe they will enjoy will then strengthen the arguments for dropping barriers among a broader range of countries such as the GATT signatories.

For this reason, I am enthusiastic about the U.S. government's "Enterprise for the Americas" initiative. Aside from providing opportunities to reduce some of the official debt owed to the United States and encouraging domestic and foreign investment in the region, the concept also suggests steps for liberalizing Latin American-U.S. trade flows. One key objective is to establish the groundwork for a free trade zone encompassing North, Central, and South America. This proposal, coming at a time when developments in Eastern Europe and the European Community are commanding widespread attention, underscores the desire of the United States to engage in dialogue at numerous levels--bilateral, regional, and multilateral--with one single, overriding objective. That is to create a global economic environment free from all restraints to international commerce. As I see it, that kind of role is vital for the United States to pursue.

Conclusion

In conclusion, the outlook for the U.S. economy in the 1990s is for moderate growth while the other major industrialized economies should perform on average somewhat better than the United States. I am hopeful that this positive scenario will afford us the opportunity to make renewed progress toward resolving the debt crisis that hampers greater development in much of Latin America and Africa. Doing so will bring these countries closer to full partnership in the

international economy. I am optimistic, too, that the nations of the world can make the realization of a free, open, and all-encompassing global market the vision that replaces Cold War hostilities. The United States, along with the other participants in this new economic order, must work toward this goal by pressing forward on all fronts with negotiations to lower the remaining barriers to international economic cooperation.