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# THE CHALLENGES OF OUR

# INTERDEPENDENT WORLD ECONOMY

Remarks by Robert P. Mayo, President
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to the Midwest-Japan Association

I am honored to have been chosen to chair the eleventh meeting of the Midwest-Japan Association. Over the years that I have attended the meetings of the Association, both here and in the United States, I have developed a deep respect for our discussions as an effective forum for a frank, constructive exchange of views on the economic issues that confront our two nations.

Permit me to build on that tradition by sketching briefly some of the issues that, in my view, confront us today.

First, the issues that confront both of our nations as members of the global economic system.

We live in an interdependent world. The experience of the past decade or two has demonstrated decisively that all nations, regardless of the political or economic system they espouse, share the benefits of economic growth, stability, and prosperity--and the pains of economic setback. For more than a quarter of a century during the postwar years, we have moved together along the path of a rising standard of living, some faster, some a bit slower, but all in the same direction forged by the economic interdependence that increasingly became an integral part of the world economic scene. Together, we confronted the evils of inflation. And together, we confronted the setback of recession.

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As painful as our most recent experiences may have been, I think it is important to appreciate the fact that it was the spirit of cooperation, born out of the growing awareness of our common objectives, that prevented the common setback we experienced from turning into a common disaster. One needs to look only a historically brief distance back, to the 1930s, to the economic, political, and social storms spawned out of the failure of nations to face adversities jointly for us to appreciate the difference between then and now. We have all learned the lesson. We met the adversities jointly: Industrial nations cooperated in the restructuring of the international monetary system when the old system began to hold the threat of disrupting the commercial interaction among us. Rather than lapsing into trade-protectionist policies that proved so destructive in the thirties, the nations of the Western world extended their joint effort to further dismantle barriers to free trade by launching the Multilateral Trade Negotiations as an extension of the previously successfully completed Kennedy Round. We have engaged in many facets of the so-called North-South dialogue in an effort to find solutions for problems besetting our less fortunate neighbors, the developing countries of the world.

As a result of these, and many, many other such joint efforts that have characterized an enlightened approach to our common goals, we have created an environment where each nation's determination to tackle its domestic problems carries with it benefits for all. As a result, we have weathered the fury of the storm. The once-rampant inflation that threatened to engulf our economies in a destructive sprial is waning. The precipitous decline in economic activity in virtually all nations of the free world that once threatened to under-

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mine the economic bases of our societies has been reversed. The world is poised on the way to recovery and new growth.

But while we have weathered the worst of the storm, we are obviously not altogether out of it. While the worst of the inflation is apparently behind us, price rises in many countries are still uncomfortably high. While we have moved from the trough of the recession, the recovery of the world economy as a whole has been slower than initially anticipated. Indeed, the world economy appears to be hesitating in much needed expansion beyond the recovery to date. It needs that difficult final thrust to push it into calmer waters.

In this situation, while mindful of the economic interdependence that has characterized the world's course of economic events in the past, it is, I feel, incumbent upon every member of our great family of nations to do its share in contributing to that final thrust--for its own selfish benefit, as well as for the benefit of all. And, I believe, it is particularly incumbent upon those members of the family of nations who, by the sheer size of their economy, may have the greatest impact on the course of economic events in the world as a whole. And here, your country and mine, the two largest economies of the free world, must shoulder that responsibility together!

Two years ago, when I attended these meetings and traveled through a number of countries in the Far East and Southeast Asia, we were just starting to show some feeble signs that we had started to emerge from recession. In my meetings with the members of this Association, and with government officials here and the other countries, the message I received was loud and clear: "We are counting on you in the United States to help

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us pull through, we need your markets, we need the impetus that your own growth and inspiration will provide for our economies." I carried that message with me to the councils of U.S. economic policymaking in which I have been privileged to participate; I carried with me the increased awareness of the responsibility we bear. I think it is fair to say that over the past two years we have done our fair share in stimulating our economic growth--for the sake of improving our own conditions, but also mindful of the impact that such expansion would have on the rest of the world. Our recent rate of economic growth, as measured by the real rate of growth of our Gross National Product, has exceeded by a substantial margin our average historic rate of growth as recorded over the past 10 years.

All industrial nations must do their share in contributing to that final thrust that is apparently needed to launch the world economy on its course to full recovery and new prosperity, and for the easing of the problems that have been hampering that recovery so far. We need your bold economic initiative--for our own sake, as well as for the common cause of the rest of the world. The industrial nations must expand their economies not only in order to improve their own prospects but--perhaps most importantly--to provide an impetus for growth for the world economy as a whole.

The main channel through which economic impulses are transmitted among countries in this interdependent world is, of course, international trade. I need not emphasize to any of you here in Japan how important one's country's exports can be for its well being! For many countries throughout the world today the export market represents the main means

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of providing stimulus to their economies without rekindling domestic inflationary pressures. For many others their inability to export a sufficient amount of goods had saddled them with large balance-of-payments deficits that they find increasingly difficult to finance in international capital and money markets. The resulting erosion in the credit standing of some of these countries has, in turn, given rise in recent months to concerns about the financial integrity of the private financial institutions of the industrial world that have been heavily involved in financing these countries' past deficits.

Underlying these international trade issues as they confront individual countries is the global, all-pervasive balance-of-payments issue, arising from the sharp rise in the price of oil imposed by the OPEC nations. The higher price, combined with the world's heavy dependence on oil as a source of energy--and the inability to reduce that dependence at least in the short run--has resulted in the tremendous increase in the revenues of the OPEC countries as a group. Indeed, the increase was such that for many of the countries in the group, it exceeded their capacity to spend it on goods and services from the rest of the world. The direct result of this has been a large OPEC current account surplus, estimated at some $40-45 billion in 1977.

The direct counterpart of that surplus has, of course, been the current account deficit that the rest of the world outside OPEC must jointly bear. It is a joint burden that can be reduced <u>only</u> by worldwide reduction in the consumption of oil, by a reduction in the price of oil, or by increased OPEC consumption of other goods and services. Clearly, on all counts the near-term prospects of improvement are not

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good. Thus, the oil-consuming world--you, we, and the rest of the industrial world as well as the poor, developing countries--is thus confronted with that deficit now and for the foreseeble future. And for any one country that reduces its deficit, or runs a surplus, there will be, most assuredly and with certainty, some other country, or a group of countries, whose deficit will increase.

The most pressing question in this interdependent world is who is going to shoulder that deficit and the burden of financing it. Will it be the developing countries, for many of which the ability to finance their deficits has already been stretched to the breaking point? Or will it be the industrial countries whose economies and financial structure is far superior? In principle, the answer is, I think obvious. In practice, however, this has not been the case. Some of the world's strongest economies--West Germany, Switzerland, the Netherlands--and indeed--Japan--have been running large surpluses on the current account, shifting the pre-determined overall burden of the deficit to others. The strains resulting from these trends for the entire world economy have been enormous--and must be faced if we are to jointly overcome this problem--as indeed we must.

A reduction in these surpluses, indeed, an assumption of some deficits, is a matter of great urgency in this interdependent world if we are to realize all the promises that the future holds for us.

The path toward that goal is, of course, a more vigorous expansion of your economy, and an exchange rate policy consistent with these goals. We and the rest of the world have been gratified by steps in that direction already taken by your government both in the area of

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monetary and fiscal policies, and on exchange rates. We also appreciate your concern about inflation, concern that has been providing an important constraint on your action in the past. But I sincerely hope that these concerns on the part of your government and on the part of each of you as business leaders will be balanced against legitimate concerns arising from our joint global responsibilities.

So far, I have focused in my remarks on issues that confront both of our countries as members of this interdependent family of nations. Permit me now to narrow my focus somewhat, and say a few words on issues that confront us bilaterally, your country and mine.

In a way, these issues are an extension, or a subcategory if you wish, of the broader issues that I have just discussed.

The U.S. economy is into the third year of a relatively strong recovery. The vigorous growth of the economy has been "sucking in" imports at an unprecedented rate. At the same time, our exports have been hampered by the sluggishness of recovery abroad. As a result, our 1977 trade deficit is now estimated at between \$25 and \$30 billion, and this year's current account deficit at between \$16 and \$20 billion. Putting it in terms of the global consideration that I have just discussed, we shall be, in effect, shouldering almost a half of the oil-related deficit of the entire world.

A deficit of this size, inevitably, creates many problems in various sectors of the U.S. economy directly affected by sharply rising imports to our country. Our government, guided by a strong sense of global responsibility, has resisted the pressure to deal with these problems by measures that would tend to restrict a free flow of

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trade. For example, our government has rejected the demands for tariff protection of the hard-pressed U.S. shoe industry, and instead, put into effect a program of financial assistance for workers that have been dislocated by imports, and for the affected industries. Our courts have rejected the demands of our hard-pressed television and electronics industries for countervailing duties on imports from countries that provide their exporters with special tax advantages. So far, we have maintained a basically free-trade posture.

But with the growing deficit, the pressures multiply. Unless we receive support in our effort to aid the world recovery from countries that are in a position to lend that support, we shall increasingly be courting the danger that the protectionist pressures in our country will gain an upper hand--and will plunge the world into a trade tariff war to the detriment of us all.

We need your cooperation in moderating our trade deficit.

In our trade with you, we have had a deficit in every one of the last 10 years. So far this year, that deficit amounted to almost $5 billion, with almost a billion of it recorded in the month of August alone. While our exports to you have risen by about 10 percent this year, your exports to us rose by well in excess of 20 percent.

We recognize, of course, that your export performance is in large part a reflection of the dynamism, ingenuity, diligence, and marketing abilities of your industries and people. As consumers, we value the contribution your products have made in enriching the American standard of living, and spurring competition in our own industries. But all of us recognize that it was the relatively free access to our markets that has enabled your industrial virtues to flourish there. What we ask of you

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today is to enlarge our opportunities to sell to you--as freely as we have so far let you sell to us. We are looking forward to your economic expansion to stimulate your demand for our products. Beyond that, there are still many barriers that have hampered our penetration of your markets such as, for example, the high tariffs on computers and film. We would like to see an increased effort on your part to do away with these obstacles, and to, indeed, take positive steps for promotion of our exports to you so that the life of your consumers may also be enriched by the greater availability of American products--just as the lives of our consumers have been by the availability of your products, and so that our accounts are brought into a better balance.

Second, we would welcome self-restraint on the part of certain of your industries in taking undue advantage of free entry into our markets. The orderly marketing agreements that we have already negotiated with a number of countries on shoes, TVs, and other particularly sensitive items may be a short-term answer to this pressing problem, at least until more basic adjustments within a framework of free-trade principles are made.

These are trying times we live in. These are times that place great demands on us as businessmen and as government officials for the assumption of burdens that transcend our personal, corporate--indeed national--self-interest. I have shared with you today my thoughts on these issues. I have spoken to you openly--as one indeed feels free to speak to good and true friends. I hope that these meetings will provide an opportunity for a full, open discussion of these issues in the spirit of friendship and the sense of common goals that have characterized such meetings in the past.

Thank you

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