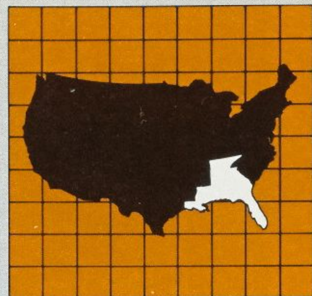
Economic Review



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The Southeast in a Global Economy

The Impact of Foreign Trade and Investment

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Federal Reserve Bank of St. Louis

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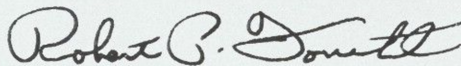
Economic Review

Special Issue

Dear Reader:

A strong belief that the consequences of growing world economic integration are vital to the Southeast prompted the Federal Reserve Bank of Atlanta to sponsor a conference late last year entitled "The Southeast in a Global Economy." At that conference in Atlanta we focused on the forces bringing about closer international economic relations, effects of globalization, and strategies for doing business in world markets.

Following our custom, we are sharing with readers of the *Economic Review* most of the presentations delivered at the conference. The resulting articles in this special issue offer a mosaic of perspectives and opinions, fittingly capsuled by speaker Stanley W. Black, III, a University of North Carolina professor who discussed how global markets have affected the Southeast. "Trade," as Professor Black put it, "is a great harbinger of civilization."



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Introduction

"It's a Small World" seems more fitting now than ever before. Americans watch live television broadcasts, transmitted via satellites, of events occurring around the globe: presidential summits, musical concerts, and disasters in progress. By punching a few buttons, we can call up on our computer monitors today's developments in the financial markets of the world. And, by dialing a telephone, we can talk directly to people in virtually any country.

Global integration is spreading through industry after industry. International firms are manufacturing a multitude of products in the United States, many of them produced in the Southeast. In turn, southeastern manufacturers are venturing overseas. This "globalization" is also evident in international banking, real estate services, financial markets, transportation, and communication.

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At the same time, some Americans are pressuring Congress to pass legislation restricting imports that are claiming an ever-larger share of the U. S. market to the detriment of domestic manufacturers. And, political leaders in other countries are continuing their efforts to control products coming across their boundaries.

This special issue of the *Economic Review* shares the thoughts, research, and advice of many of the experts who spoke at a conference called "The Southeast in a Global Economy" sponsored by the Federal Reserve Bank of Atlanta in November.

"The impact of import competition is as real as the foreign-made goods on our retailers' shelves, and as visible as the headlines in our morning newspapers," as Atlanta Fed Research Director Sheila Tschinkel observed in the conference's opening remarks. "Who among us has not read about the prospect of $150 billion merchandise trade deficits and been dismayed by reports that we have become a net debtor nation for the first time since World War I?"

But import competition has a positive side, she added, explaining:

"Here in the Southeast, we have seen foreign manufacturers put Americans to work in the region's automobile and machinery plants and we have watched as foreign interests sank millions of dollars into the high-rise buildings that have helped revitalize our downtown areas.

"Foreign nations constitute multi-billion dollar markets for southeastern goods ranging from farm products to telecommunications equipment. And imports, for all the furor they have created, clearly have helped dampen inflation."

Ms. Tschinkel pointed out that an integrated global market "can mean more efficient use of scarce resources, which should encourage a higher standard of living worldwide. For consumers, lower prices mean higher real incomes because their purchasing power is strengthened even as they enjoy a more diversified choice of international goods and services."

The Atlanta Fed divided "The Southeast in a Global Economy" into subtopics to permit closer examination. A presentation by Stanley W. Black, III, Lurcy Professor of Economics at the University of North Carolina, will begin this special issue as it opened the conference, focusing on the forces that are integrating the economies of many nations into a world economy.

The next contributor, Terry Calvani, acting chairman of the Federal Trade Commission, describes the FTC's role in protecting international trade flows, stressing the United States' benefits from free and fair trade.

Roger Kubarych, vice president and chief economist at the Conference Board, an organization that performs research for some of this country's largest companies, eschews sweeping trade restrictions while declaring, "There clearly is no level playing field in international trade."

Henry Schechter, deputy director of economic research at the AFL-CIO, agrees that the playing field is not level, saying Americans cannot compete with products fabricated in less developed countries by workers earning 50 or 75 cents a day.

Paul Meek, a consultant to central banks and a retired monetary advisor at the Federal Reserve Bank of New York, addresses broader impacts of the global economy on international finance. He describes international effects of the United States' federal budget deficits, interest rates, and foreign exchange rates.

Since our intent was to provide a thought-provoking forum offering diverse perspectives, the views expressed in these presentations do not necessarily reflect those of the Atlanta Fed or the Federal Reserve System.

The remaining presentations from the conference will be published in the January issue of the *Economic Review*.

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Integrating Forces In the World Economy:

How Have They Affected the Southeast?

Stanley W. Black, III

We in the Southeast have a long experience with international trade. In the 18th and 19th centuries, the Southeast was an exporter of agricultural products such as cotton, tobacco, indigo, and rice, and an importer of manufactured goods, trading primarily with Europe. Therefore, the region favored low tariffs, one of many points of contention leading to the Civil War. The relatively low cost of waterborne trade meant that transatlantic trade ties were often closer than national trade ties.

Transport costs fell dramatically over the next 100 years, but internal transport costs, by road and rail, fell even more dramatically than external transport costs. For these and other reasons, including relatively high tariffs up until World War II, the internal integration of the U.S. economy proceeded more rapidly than its integration with the rest of the world. Foreign trade's share in the U.S. economy, measured by the share of exports in gross national product, or GNP—which may have been as high as 12 percent in the colonial period—fluctuated between 5 and 10 percent, falling gradually to less than 4 percent in the 1950s and 1960s.

During the postwar period, the dollar gradually became overvalued, as the European and Japanese economies recovered their productivity. This kept the prices of traded goods, such as agriculture and manufactured products, low relative to the prices of nontraded goods such as services and construction. Increasing balance of payments problems led to the devaluation of the dollar in 1971 and the subsequent downward float in 1973. In the 1970s, the cheaper dollar stimulated exports, while rising oil prices pushed up the costs of imports. The share of foreign trade in the U.S. economy doubled from 6 percent to 12 percent between 1970 and 1980.

Declining transport and communication costs have contributed to these trends, as documented in a recent paper by Richard Cooper.[1] Transatlantic and transpacific air fares today are roughly one-tenth of what they were in 1939 in dollars of constant purchasing power. Freight transportation costs have fallen as well. Communication costs have declined even more dramatically, with satellites providing virtually instantaneous worldwide communication by television or telephone

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at a fraction of the cost formerly required by cable.

Capital Movements

In recent years, foreign capital again has begun to play an important role in U.S. economic growth. From 1980 to 1982, plant and equipment expenditures by direct foreign investors accounted for 11 percent of plant and equipment investment by nonfinancial corporate businesses, excluding farms.[2] These funds act as a source of jobs coming into the economy and are particularly focused in the Sunbelt, especially the Southeast.

On the other side of the ledger, direct investment abroad by U.S. corporations fell in 1984 to only one-third of the level of foreign direct investment in this country. This may reflect the increasing difficulty American firms have had selling abroad with the strong dollar. At the same time, the substantial foreign investment in the U.S. economy reflects the strong markets foreign firms have been finding here for their goods, as well as a desire to forestall protectionist pressures by producing goods here.

Migration

The U.S. economy has been built on immigration. Current problems relate to difficulties in absorbing large numbers in specific areas such as south Florida, exploitation of illegal immigrants by unscrupulous employers, and the general issue of whether we can hope to control our borders, especially in light of a population explosion in Mexico.

Simple economics tells us that to maintain our standard of living we need to have some limits on immigration, while common sense tells us that maintaining our culture also implies some limits. Clearly, the irresistible force of a higher income is what pulls people into our country. The evidence shows that most immigrants soon become net contributors to the economy, so the economic limits on immigration presumably are rather high. But there seem to be socio-cultural limits as well, although I do not feel qualified to discuss them.

Costs and Benefits of Integration

Trade as a Shock-Absorber. Through trade, we absorb foreign shocks such as oil price fluctuations, swings in other commodity prices, and the troubles of our Mexican and Central American neighbors. At the same time, foreigners absorb shocks from our economy, the world's largest. As the Canadians frequently remind us, this is like sleeping with an elephant. Foreign trade acts as an automatic stabilizer to our economy. When a boom pulls in imports, it holds down inflation. And when imports fall in a slump, part of the burden of falling demand is met by foreign suppliers.

Wider Choices. Trade brings us more types of goods at lower cost, which improves consumer welfare and raises what economists call X-efficiency in domestic production. This X-efficiency is what the British don't have and what the Japanese do—that is, the most efficient operation of a plant with given human and technical resources.

Added Uncertainty. Along with the breadth of choice come foreign sources of shocks including, in today's environment, fluctuating exchange rates and commodity prices. This increased uncertainty bears costs for risk-averse consumers and managers.

Higher Standard of Living. Without foreign trade, we would be a lot poorer on average. Productivity, the source of our standard of living, is substantially higher in our export industries than in our import-competing industries. Data from the 1981 Annual Survey of Manufactures suggest that an industry with a 20 percent higher export share pays 5.34 percent higher wages on average.[3] Data on 1978 import penetration ratios in manufacturing industries, calculated by William Cline, suggest that an industry with a 20 percent higher import penetration ratio pays 3.3 percent lower wages on average.[4] Transferring labor from low-wage, low-skilled jobs in import-competing industries into higher-wage, higher-skilled jobs in export industries is the process through which increased foreign trade raises the standard of living. The Southeast, as a low-income region to start with, cannot afford to close off such an important source of increased productivity.

Social Costs of Change. The difficulty is that transforming low-productivity workers into higher-productivity workers requires expensive investments in education and training, particularly in the younger generation of workers coming up through school. Southeastern states seem to be realizing this and investing more in their public education systems in recent years, but this has been a long-neglected problem in the region.

The older generation is more difficult to retrain. This requires a reasonable program of adjustment assistance to trade-displaced workers, focused on moving them into new employment.

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Failure to make these investments in our human capital brings inevitable pressure to resist change by resorting to protectionism, thus locking us into a low-level equilibrium trap.

Constraints on Economic Policies

Macroeconomic Policies. In the halcyon days of the early 1970s, floating exchange rates appeared to release domestic monetary policy from the "external constraint" in countries like West Germany and the United Kingdom, leaving more freedom to pursue domestic macroeconomic objectives. The United States also acted with more freedom from balance-of-payments worries after the 1971 devaluation and the floating of the dollar in 1973.

In retrospect, all this extra freedom resulted in what might be pronounced a mixed blessing, as policymakers seemed to feel it allowed them more freedom than was actually the case. Even with floating rates, it is necessary to convince foreigners to lend us the excess of our imports over our exports. Neglecting such elementary truths, policymakers placed too much of a burden on exchange-rate fluctuations to restore external payments imbalances during the 1970s. And the effect of domestic policies that such nations as the United States and the United Kingdom followed with this new freedom were not particularly admirable. It's not so easy to escape from the external constraint.

"Trade is a great harbinger of civilization, while warfare is its destruction."

Microeconomic Policies. Economic integration with the rest of the world means tax policies and regulatory policies need to be harmonized to some extent, or else trade is distorted by differences in taxes or regulations. Of course it is possible that the differences simply reflect varying preferences for pollution or safety or for the quality of public services. In that case, a familiar public finance theory called the Tiebout model predicts that people will simply move to the jurisdiction that provides the environment they prefer.

Internationally, it seems more likely that the firms will move, instead of the people, leading to the problem of policy competition. When countries compete for industries by lowering taxes or pollution standards, they may wind up with the same industries as before but with fewer public services and lower standards than they would have preferred if they could have negotiated an international cooperative agreement on harmonized policies. The same phenomenon affects international banking and lies behind the Eurocurrency markets.

Avoiding Conflict. Trade is a great harbinger of civilization, while warfare is its destruction. The European Economic Community was not created simply because it might promote intra-European trade, but because a community that bound together both France and Germany offered the best guarantee against a renewal of ancient hostilities that had torn Europe apart three times in 100 years. Americans should remember that hard-won wisdom and avoid cutting off the few commercial ties we retain with the Soviet Union. We also should remember it as we consider whether it is more important to try to isolate those with whom we disagree than to continue trading with them.

I seem to be concluding here that trade is foreign policy. For the purpose of this conference, it might be more useful to conclude that trade is domestic policy. I believe my arguments also would support that statement. A healthy domestic economy requires a healthy foreign trade.

But our foreign trade today is anything but healthy. The current account deficit, $101 billion in 1984, is expected to reach $120 billion this year, or about 3 percent of GNP. Some look on this with equanimity, and accuse us Cassandras of being mercantilists. They argue that the United States can sustain capital inflows amounting to 3 percent of GNP indefinitely, and that this country is now a natural capital importer. But the domestic counterpart of that capital inflow is the federal government deficit, now running about 5 percent of GNP. Few believe the federal deficit is sustainable at that level.

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The other side of non-sustainability is the trade deficit's inexorable pressure on domestic industry and agriculture. Import-competing industries like textiles and footwear have mounted impressive campaigns for protection, although their problem is the dollar's high value, accounting for the lion's share of the increase in our trade deficit since 1980.

Domestic industry eventually will obtain a protectionist response from Congress unless something else relieves the unsustainable pressure on the balance of payments. That something is a decline in the value of the dollar.

Why Is the Dollar High?

Between 1980 and its peak last February, the dollar's value rose over 80 percent relative to the currencies of 10 industrial countries in the Federal Reserve Board's trade-weighted index. By mid-September the dollar had gradually declined some 12 percent from the peak, and by October 1 it had fallen another 6 percent. What led the dollar to rise so much and then to decline?

The primary reason for the dollar's strength, in my view, is the decline in inflation that began in 1980 in response to changes in monetary policy put into place in 1979 and confirmed by the election of 1980. During the 1977-1979 period in which the dollar fell, the U.S. inflation rate rose above the average foreign rate for the first time in post-war history. The crucial 1981 reversal of that ominous trend and the continuation of low inflation ever since has inspired renewed confidence in the future value of the dollar.

However, the dollar has risen much more than can be accounted for by differences in inflation alone. This is made clear by the fact that the real or inflation-adjusted value of the dollar rose over 70 percent between 1980 and February 1985. The explanation lies partially in expectations of future inflation rates, which also have ebbed dramatically from 1980. But the 1981 shift in the mix of monetary and fiscal policy is another major factor.

For better or worse, until 1981 monetary and fiscal policy in the United States generally worked in tandem, expansionary together or contractive together. Beginning with the 1981 tax reduction and the ensuing buildup in defense spending cuts, U.S. fiscal policy has become steadily more expansionary, as measured by changes in the cyclically adjusted budget deficit. By contrast, monetary policy began its anti-inflationary course in 1981, pushing the economy deep into recession in 1982 after interest rates soared.

"Domestic industry eventually will obtain a protectionist response from Congress unless something else relieves the unsustainable pressure on the balance of payments."

The combination of expansionary fiscal policy and contractive monetary policy has kept real interest rates high in the United States, as the federal government required an increasing share of the total funds in credit markets to finance its deficit.

With floating exchange rates, the normal response to this increased demand for credit has been to encourage capital inflow from abroad, putting upward pressure on the value of the dollar. The counterpart of the capital inflow in the balance of payments is a current account deficit made possible in large part by appreciation of the dollar.

Of course, other factors also have been at work. Tax reductions and a low-inflation climate have induced a sharp rise in foreign direct investment in the United States. Foreign fears of protectionist legislation can also help explain this fact, however, since protectionism has been rising along with the dollar. U.S. investment abroad, and bank lending to foreigners in particular, have been reduced sharply because of debt-repayment problems in the developing countries. The debt crisis itself began in 1982, brought on by the strong dollar and declining oil and commodity prices. Capital flight from debtor countries has swelled the capital inflow further, continuing the dollar's appreciation. Finally, in the exchange market as in other asset markets, everybody loves a winner. The expectation of a rising dollar undoubtedly has been significant in bringing capital into dollar assets.

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When Will The Dollar Fall?

The dollar's 12 percent decline from February to mid-September can be explained largely by declining U.S. interest rates as the economic expansion has slowed sharply, reducing the private sector's demand for credit. Commercial and industrial loans at large commercial banks that report statistics weekly have declined 2.7 percent from March through August. Credit market borrowing by the nonfarm corporate sector fell 30 percent in the first half of 1985 from its 1984 level.

If a recession strikes, both interest rates and the dollar can be expected to skid farther as private credit demands fall even more sharply, allowing interest rates to fall and the capital inflow to shrink. At the same time, the current account should improve as imports decline.

"After four years of vainly fighting off protectionism and refusing to change the monetary-fiscal mix that had led to the problem, the administration suddenly decided the market may not always be right after all."

A preferable scenario for a decline in the dollar relates to a shift in the mix of monetary and fiscal policy. Some have argued that expansionary fiscal policy combined with tight monetary policy was a major reason for the dollar's strength, and reversing that combination should require smaller capital inflow and weaken the dollar, even without a recession. However, the possibility of gradually reducing the government budget deficit without throwing the economy into recession probably escaped us a year or two ago.

Monetary policy already has become more expansionary in 1985 as the fiscal stimulus now almost entirely leaks abroad. It is hard to imagine phasing a further step-up in monetary growth so carefully in conjunction with gradual fiscal contraction that it will allow the effects on the economy to offset each other. That requires fine-tuning beyond the practices of the 1960s.

Standing in contrast to that kind of fine-tuning is the bill recently passed into law that would require arbitrary reductions to bring the deficit down to zero by fiscal 1991. This proposal, as I understand it, would punish the economy with spending cuts and tax increases in the likely event of a rise in the budget deficit induced by a slowdown in growth.

A more appropriate policy stance would be to seek a gradual reduction in the cyclically adjusted budget deficit, allowing the automatic stabilizers to play their role as needed. This undoubtedly would require attacking some of the budgetary sacred cows that got us into this mess in the first place. With a stable medium-term path for fiscal policy, monetary policy could then play an appropriate counter-cyclical supporting role.

The Group of Five Statement on Intervention. On September 22, the finance ministers of the five largest industrial countries met in New York and agreed to cooperate in actions to "encourage" what was called "orderly appreciation of the main non-dollar currencies against the dollar"—in other words, depreciation of the dollar. The announced reason was that "exchange rates should play a role in adjusting external imbalances. In order to do this, exchange rates should better reflect fundamental economic conditions than has been the case."

For the U.S. government, this is a major change from the policy in place since early 1981. The previous policy was based on the assumption that the market was almost always right. When the loose-fiscal, tight-monetary policy mix pushed the dollar up and strangled domestic industry, the Reagan administration found itself hoisted with its own petard. After four years of vainly fighting off protectionism and refusing to change the monetary-fiscal mix that had led to the problem, the administration suddenly decided the market may not always be right after all.

As one who believes that intervention can play a useful role in a floating exchange rate policy, I welcome this battlefield conversion. But before they climb into the same foxhole I'm in, I'd like to be sure we're on the same side. According to my line of argument, the dollar has been high primarily because of fundamental factors such as the administration's fiscal policy, no doubt with some bandwagon effects and other factors added on.

A change in intervention policy without a change in the fundamental factors keeping the

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"I doubt that sterilized intervention alone can produce a lasting, significant fall in the dollar unless it is accompanied by either a recession or a significant change in fiscal policy."

dollar up is what I call using intervention as a substitute for monetary and fiscal policy. We may have gone from an intervention policy that is "do nothing" to one that tries to "do everything." I doubt that sterilized intervention alone can produce a lasting, significant fall in the dollar unless it is accompanied by either a recession or a significant change in fiscal policy. By this late date, it may not be possible without the recession.

If the administration continues to pretend that its budgetary cows are sacred when everybody else's are going to be made into hamburger, I don't believe markets will accept that the fundamental factors really have changed. In that case, the markets will wait until the U.S. economy has run out of gas before letting the dollar drop of its own accord. While the dollar dropped a noticeable 6 percent by October 1, it didn't move much in the next month on a trade-weighted basis.

To conclude, I welcome the change in intervention policy as a refreshing switch from dogmatism to pragmatism. But I fear it may be used as a temporary palliative to avoid more fundamental policy changes that could lead to a healthier trade picture. The evils of protectionism can be fought only with real weapons, not with mirrors.

NOTES

[1]Richard N. Cooper, "Growing American Interdependence; An Overview," prepared for a conference at the Federal Reserve Bank of St. Louis, October 11-12, 1985.

[2]Lois Stekler and Peter Isard, "U.S. International Capital Flows and the Dollar: Recent Developments and Concerns," Board of Governors of the Federal Reserve System, April 11, 1985.

[3]Data on average hourly wages w_i and exports as a percent of shipments x_i for 20 industries yields a regression of $w_i = 5.86 + 0.175\, x_i$ with an elasticity of 0.267 at the mean. Data from 1981 *Annual Survey of Manufactures* (Washington D.C.: U.S. Government Printing Office).

[4]Data on import penetration m_i and average hourly wages w_i yields a regression of $w_i = 9.31 - 0.1334\, m_i$ with an elasticity of -0.1647 at the mean. Import penetration data from William R. Cline, *Exports of Manufactures from Developing Countries* (Washington D.C.: The Brookings Institution, 1984), Table A-5.

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The FTC's Role In Ensuring Free Trade

Terry Calvani

We are all more conscious today of foreign competition than we were 20 years ago. I would like to discuss two generally accepted truths about competition. First, the markets for many products are becoming more international, so monopoly and market power are harder to attain and less substantial as threats. Second, imports are nonetheless subject to political constraints and limitations such as import quotas or voluntary trade restraint agreements negotiated with foreign governments that may be invoked at any time. How should the antitrust agencies factor these political uncertainties into our otherwise objective calculations of competition and market power?

Let me expand on that question a bit. Markets have become increasingly international since World War II. The Federal Trade Commission (FTC) helped shape this climate of opinion, and has in turn been influenced by it. In our merger analyses we carefully consider international competition. We allow mergers, even between large firms, as long as imports are available to keep the market competitive. Similarly, in our intervention program we point out to other agencies the benefits of free international trade. Obviously, international competition analysis concerns more than foreign production; business leaders recognize that the rules of the game may change suddenly as political variables come into play.

The Basis for FTC Involvement

Just how does the FTC become involved in international trade issues in the first place? It happens in two ways. Trade issues may be part of a merger analysis that reaches us in the ordinary course of business. Or they may be issues we single out, on our own initiative, for presentation to other agencies as part of our advocacy program.

The field of mergers first brought international trade to our attention. Section 7 of the Clayton Act bans anticompetitive mergers—defined as those whose effect "may be substantially to lessen competition, or to tend to create a monopoly."[1] These anticompetitive effects cannot be assessed in a vacuum, of course. They must be measured for particular products and within particular geographic markets. A key concept is the geographic market, which refers simply to the zone of effective competition within which, due to shipping costs and the like, firms are able to compete with one another.

In some cases the relevant geographic market can be international, when goods from foreign

The author is acting chairman of the Federal Trade Commission. The opinions expressed in this article are the author's own, and are not necessarily those of the commission or any other commissioner.

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countries enter the United States and compete economically with similar products manufactured here. In recent years this has become true for a great many products.[2]

Once a particular market is shown to be international, a merger between two U.S. producers obviously may be of less antitrust concern than it would be otherwise. The presence of foreign competition will tend to check the market power of the merged American firm, restraining its ability to raise prices to consumers. Other things being equal, a merger in these circumstances is less likely to "substantially lessen competition," and therefore is less likely to violate Section 7.

The commission has had several occasions to apply this analysis in recent years. In one instance we examined a merger between two domestic producers of an industrial chemical. The firms' share of the domestic market was above the threshold for antitrust challenge, but their share of the worldwide market was much lower, so we decided not to file a complaint.[3] Similarly, we decided against a complaint in a merger involving manufacturers of a certain precision machine component, when, again, there was a well-developed export industry in other countries.[4]

"The presence of foreign competition will tend to check the market power of the merged American firm, restraining its ability to raise prices to consumers."

The FTC also deals with international markets in the context of our intervention program. Under this program we appear in proceedings before other courts and agencies, not as a litigant, but as a concerned neutral party with special experience and perspective to add. In that capacity we typically file a brief, although we have made oral arguments and cross-examined witnesses in the past.

One important group of interventions generally brought before the International Trade Commission (ITC) and the Commerce Department involves international trade. The two agencies have an overlapping jurisdiction in this area and, between them, possess many powers to limit imports into the United States. The Commerce Department has the initial responsibility for determining whether improper dumping or importation of subsidized goods has taken place.[5] If it finds either of these practices it refers the matter to the ITC, which determines whether domestic industries have been materially injured as a result. Antidumping duties and countervailing duties may be imposed as remedies in such cases.

The ITC also can determine whether "unfair methods of competition" are being used in import commerce, and may order offending goods be excluded from the United States altogether.[6] Finally, under the "escape clause" in our tariff policy the ITC can determine if rising imports have substantially injured a domestic industry.[7] If so, the ITC can recommend the President adopt adjustment assistance for workers in the industry, higher tariffs, or import quotas.

These powers are great. If the agencies apply them mistakenly, however, they could harm consumers by excluding or restricting low-priced imported goods. Therefore, our intervention program ensures potential costs to American consumers are weighed carefully by other agencies in considering whether import restraints are appropriate.

We don't recommend free trade in the abstract. That's not our proper role, and in any case the ITC and the Commerce Department are familiar with those concepts. Rather, we use the research capabilities of our Bureau of Economics to provide concrete data on specific cases, often data that formal litigants in the case will not have brought forward. We are then acting, in a sense, as a representative of the general public.[8]

We try to think systematically not only about the desirability of a trade restraint in general, but also about the costs and benefits of particular forms of restraint. We have developed an interesting, useful methodology in these briefs. For each proposed restraint we calculate the likely total costs to American consumers. We also calculate the net cost to the economy by

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deducting from this consumer cost any increased government tax or tariff revenue and any increased profits for American industry. Finally, we consider the adjustment costs that would result if protection were not provided and workers therefore had to find new jobs. We perform these computations for periods of one and five years, then sum up the costs and benefits.

General Policy Views

From its experience with these individual projects, the commission has formed four general policies on international trade: (1) international competition is desirable; (2) competition should be carried out in an environment of free and fair trade; (3) private complaints to the ITC should not be used to harass competitors; and (4) if free trade must be restricted, the restriction should be done in a way that minimizes the net costs to society.

Let me review these principles. First, competition across national boundaries is desirable.

"Just as internationalization has been a great boon to competition, private attempts to stifle international trade can cause great harm to competition."

Second, this international competition should take place in a fair market, free not only of artificial impediments but also of artificial subsidies. Subsidies distort the marketplace and harm allocative efficiency by encouraging the production of too much of the subsidized product. They also cause unwarranted harm to competitors of the subsidized firms. For these reasons most industrialized nations have signed the international Agreement on Subsidies and Countervailing Measures, which provides for countervailing duties in such cases.[9] We understand that policy and will not oppose domestic relief against subsidized imports.

"The worst approach (to restricting foreign competition) is a quota, which sets an absolute limit on units of the import that can enter the country (and) leaves little check against market power."

Third, complaints to the ITC, whether charging subsidization or something else, must be justified on the merits. Firms sometimes file such complaints not in good faith, but to impose delay and litigation costs on foreign rivals. I consider this a serious matter. Just as internationalization has been a great boon to competition, private attempts to stifle international trade can cause great harm to competition. I urge my colleagues to treat this abuse of process as a form of non-price predation—in other words, as an antitrust offense. The commission recently issued a complaint charging U-Haul with abusing bankruptcy court processes to injure a rival and maintain its own market power.[10] Abuse of ITC process ought to have similar antitrust consequences.

Finally, we recognize that nations sometimes must restrict the flow of imports. There is more than one way to do this, however, and I think it should be done in a way that minimizes harm to consumers. There is a definite order of preference in the techniques that may be used in dealing with excessive imports.[11] The best way is to give adjustment assistance to injured firms and individuals, such as the costs of retraining. This course doesn't affect the costs or quantity of the imported product, so it doesn't distort the efficient operation of the market. This avenue is used with caution, however, because it might distort the efficient operation of the labor market by encouraging workers to remain in a declining industry longer than they should.

The next best approach is to put a tariff on the import, which raises the price of the imported

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good and diverts demand to domestic products more expensive than a free market would support. Consumers are harmed by this, but only to a limited extent. A tariff will raise the price of an import by a specified amount, and the imports are available at that higher price. They thus will tend to set a ceiling on the prices that domestic firms can charge.

The worst approach is a quota, which sets an absolute limit on units of the import that can enter the country. Supply of the import cannot expand in response to a price increase by domestic firms, no matter how large. This leaves little check against market power. Moreover, a quota will tend to skew imports toward the most expensive models of the product in question. If there are only a limited number of import slots, and excess demand, it makes sense for a foreign producer to fill the slots with the most elaborate and high-profit model. This could be seen clearly in the fully equipped Japanese cars imported during the heyday of "voluntary" quotas, for example.

If a nation is determined to use a quota, however, there is still a right and wrong way to go about it. The right way is that, once the quota's numerical size has been decided, the available "slots" should be auctioned off to the highest bidder. The surplus value of those slots will at least be captured by the U.S. government. The alternative is to permit the slots to become a windfall to certain foreign manufacturers. They may get rich from it, but none of that value accrues to the U.S. economy.

The Political Variables

So far I have been describing a fairly rational and tidy intellectual process. The commission advises other agencies on the consequences of import restraints, and reviews mergers with an eye on import competition if this is relevant. The reality is, of course, somewhat less tidy. And here we reach the issue with which I began. The legal environment for imports is partly the result of a political process. Tariffs, quotas, currency values, and voluntary restraint agreements can rise and fall; foreign trade is a system with many potential variables. The antitrust agencies must grapple with these uncertainties and find a way to incorporate them into our analysis.

These political uncertainties were present in the FTC's best known international case, the GM/Toyota venture. The two firms organized a joint venture—legally a partial merger—to produce small cars in California using American workers and Japanese management techniques. At the time we were considering this venture, Japanese auto exports were subject to a "voluntary restraint agreement," a sort of politically negotiated quota. To understand the auto market we had to anticipate how that quota might change in the future.

Ultimately I concluded that the joint venture should be approved because it would benefit consumers regardless of what happened to the restraint. If the quota remained, the venture was desirable because it would increase the domestic supply of small cars. If the quota were ever relaxed, on the other hand, the increasing supply of small cars could discourage any collusion, including that attempted through the joint venture.[12]

"I am troubled by the prospect of a firm using imports to justify a merger before my agency and then seeking to have them restricted by the International Trade Commission."

The Antitrust Division's current merger guidelines also address this question of political uncertainty.[13] They state that the division will not exclude a foreign firm from the market entirely just because its output is subject to quotas. Rather, the firm will be included up to the ceiling permitted by the quota. In addition, the quota may be "amended" for purposes of antitrust calculations upon a clear showing that it is likely to be revised, or that its effects will be dissipated by offsetting supply responses from firms in countries not subject to the quota.

This is a start in the right direction. Quotas are presumptive ceilings on foreign competition, but the presumption can be rebutted. This still

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leaves many questions of application to be resolved, of course. It also leaves questions on issues other than quotas, such as tariffs or exchange rates.

Let's explore those questions, beginning with quotas. Does the United States have a quota on the product involved? Is the quota self-adjusting, perhaps as a percentage of sales? If not, is there a disposition to change it? Is the quota effective in limiting imports? A single world quota probably is effective, but national quotas sometimes can be evaded through triangle trades. (The goods can go to a third country, and can then be transferred or can free up production from that country to the United States.) Assuming that triangle trades are theoretically possible, does the product lend itself to that treatment? Is it a more or less fungible commodity like crude oil, where one country's production can substitute for another's? Or is it specialized for a particular national market, like automobiles, that are less readily diverted? If the product is specialized, is that due to national tastes that might be overcome through advertising? Or is it due to national legislation, such as our special automobile standards that exclude vehicles not specifically built for the U.S. market? Or is it specialized due to a need to mesh with the manufacturer's existing service network, which might again be a barrier to transshipment?

These and other questions will apply to voluntary restraint agreements, since the foreign government is then an independent factor in the calculus. Will that government continue to abide by the agreement? Will its export industries press it to find loopholes? What if there is a change of government? How likely is that to happen?

The tariff area is no simpler. Will Congress impose a tariff? Modify an existing one? By how much? What if the next election goes differently? And what of the Commerce Department and the ITC? Will they impose countervailing duties or dumping penalties? Will the reviewing courts go along?

The non-legal, business aspects of the trade infrastructure are equally complex. Here, too many factors will affect the future importance of foreign competition. What are exchange rates going to do? What will happen to interest rates in the United States and in the producing country? Will commerce continue to flow unimpeded, or will it be affected by military actions? (This is a non-trivial question for goods such as oil, chromium, or diamonds whose production is concentrated in unstable regions).

And finally there are the jurisprudential questions. Should the commission consider these issues on its own initiative? Should it ask the parties for briefs? Who would have the burden of proof? Must a party before the commission take consistent positions? Or can a party argue that a merger should go through because imports will keep the market intensely competitive, and then go to the ITC and complain that these same imports are harming him and should be limited?

And What Are the Answers?

I believe there are answers to these questions, at least at a certain level of generality. To be sure, the commission should not try for universal answers, since most cases will depend on their own particular facts. Indeed, we should be cautious about trying to answer these questions at all. We are administrators, not seers. For these reasons we should indulge in a general presumption that future trade conditions will be much like present ones.

However, we have a duty to decide even difficult cases as best we can, assessing the relevant facts as well as we are able. When the facts are sufficiently suggestive, therefore, we should set aside the presumption of continuity, and make our best estimate of future conditions. This may lead us to conclude that foreign competition will be more or less important in the future than it is now. Consequently, it may lead us to augment or to discount this factor from what the present "objective" numbers may appear to show.

Some special rules may apply in the jurisprudential area. Frankly, I am troubled by the prospect of a firm using imports to justify a merger before my agency and then seeking to have them restricted by the ITC. I wonder if we might be able to apply a rule of "election of remedies." This is a familiar principle in other areas of the law, which states a person may have a choice between different remedies and may select whichever he pleases, but may not select more than one. A party to a contract, for example, can obtain mandatory performance or damages for breach, but not both. Here, perhaps, a party can respond to international

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competition through merger or through import restraints, but not necessarily through both.

Conclusion

The FTC is aware of the growth of international trade. We will evaluate merger cases against that background. (We will also assess against that background other cases involving market power, such as monopolization suits, although these are far less common.) In making these assessments we normally will take the international trade environment as a given. We also recognize, however, that trade barriers are political factors that can vary over time. When necessary, we will consider these factors and make our best estimate of future conditions, which may lead us to either augment or discount the role of foreign competition. Through this process we hope to make the most accurate assessment of the economic world and, ultimately, the best and most just decisions we can.

NOTES

[1]15 U.S.C. §18.

[2]This is due to the confluence of several factors: transportation systems have improved; the global culture has become more homogeneous; more countries have reached a technical level that allows manufacturing; more central governments have decided to subsidize export industries; and the world financial system has developed to handle this flow of business. Markets are not international for all products, of course. Some are held rigorously close to home by shipping costs, such as concrete, or by immobility, such as office rentals. Services seem to travel less well than manufactured goods, since it is often impractical to move the people involved. As a result, service industries such as hospitals, rail transport, or schools, generally will be examined within national or local markets only.

[3]By contrast, an interesting minority of merger cases appear to be permissible when viewed solely in a domestic context, but reveal problems when examined in an international market. The commission recently saw one such merger involving a basic industrial commodity. The acquiring firm was merely an importer of the commodity, and so, when it bought a domestic producer, it appeared it would not affect concentration in U.S. production. Closer examination showed, however, that the acquiring firm was a major producer overseas and a likely potential entrant into this market, so the merger probably did have competitive consequences. As with ordinary domestic mergers, a key element in the analysis is the probable foreign supply response to a limited but still significant and nontransitory price increase.

[4]A somewhat atypical case of this sort was the GM-Toyota venture. The commission initially was troubled by this project, since it brought together the largest U.S. and Japanese automakers. We insisted that safeguards be included to limit the size and duration of the joint venture and ensure that it would not become a conduit for the exchange of price information between the principals. With these changes, we let the venture go forward. The best interpretation of this record, I think, is to say the commission believed foreign cars were a significant factor in the U.S. market; that shipping costs were low enough, relative to product value, to make many carmakers effective competitors in the United States; and that our restrictions would keep the joint venture a small enough part of this market to avoid competitive problems.

[5]19 U.S.C. §1671, 1673 *et seq.* A preliminary hearing is held at the ITC before the matter is first sent to the Commerce Department.

[6]See 19 U.S.C. §1337. The President has discretion to disapprove an order under this statute.

[7]See 19 U.S.C. §2251, *et seq.*

[8]In 1982, for example, the domestic steel industry filed antidumping and countervailing duty petitions against European competitors. The industry claimed European countries were subsidizing their steel firms by, among other things, subsidizing the price of the domestic coal they were required to use. Our staff argued, however, that a subsidy making this coal competitive on the world market, and equal in price to foreign sources the steel firms were prohibited from buying, would have no effect on downstream competition in the production of steel, and therefore would not justify a countervailing duty. There may have been a subsidy in coal, in other words, but not in steel. The Commerce Department agreed on this point although finding other improper subsidies for most major producers. The case was eventually settled before a judicial resolution of that issue.

[9]See 19 U.S.C. §1671, *et seq.*

[10]AMERCO/U-Haul, Inc. (No. 9193, June 24, 1985).

[11]The commission has discussed this ranking in several interventions. See, for example, Brief of FTC, Non-Rubber Footwear, Investigation No. TA-201-55 (ITC 1985); Brief of FTC, Carbon and Certain Alloy Steel Products, Investigation No. TA-201-51 (ITC 1984).

[12]The Justice Department had to face a similar issue in the LTV steel merger. That merger exceeded the guidelines for certain categories of steel in the domestic market, and a question was whether foreign imports would solve the problem. But imports from some of the most important steel-producing areas—Japan and the EEC—were already subject to quotas and voluntary restraints, and so couldn't increase in response to a price rise here, unless the quotas were changed. Nonetheless, two factors eventually led the Antitrust Division to approve the merger. First, LTV arranged to divest plants causing the most troublesome overlap. And second, the presence in the market of third-country producers not subject to quotas helped to lower the concentration index sufficiently, even without postulating any change in other nations' quotas. See U.S. Department of Justice, Press Releases Concerning Proposed Merger of LTV Corporation and Republic Steel Corporation (February 15, 1984 and March 21, 1984).

[13]See Merger Guidelines of Department of Justice, 2 Trade Reg. Rptr. (CCH) Para 4490. For a discussion of the new guidelines see "Foreign Competition and Relevant Market Definition" under the Department of Justice's Merger Guidelines, Antitrust Bulletin 299 (Government Printing Office, Summer 1985).

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Efficiency and Competition: Is the U.S. Handicapped?

Roger Kubarych

What are businessmen saying about the internationalization of markets and what questions do they ask? Clearly, they first say that the dollar is too strong. Why? Because it undermines their competitiveness. Every businessperson in this country realizes that all the effort, all the hard work, all the technical advances any well-run company can put together in a year can be wiped out by exchange rate changes in a week.

It's a monumental, back-breaking effort for any kind of company to achieve a 10 percent improvement in efficiency, yet a 10 percent change in the exchange rate in a week is rather ordinary these days. And so exchange rate changes outweigh anything that can be done in the company to improve competitiveness. U.S. business people are at the mercy of these unpredicted and unpredictable movements in this important currency relationship, and they feel threatened and vulnerable.

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Market share can be lost because of the change in competitiveness, particularly in Third World markets where the loss is permanent. In fact, there's a fear of irreversibility among U.S. businesses, a fear that a prolonged period of overvaluation of the dollar permanently undermines the nation's position even after the exchange rate adjusts back to more reasonable levels.

The theory behind that is simple. During the period when the dollar is overvalued, foreign companies make profits that are plowed back into their businesses. In particular, these profits go toward increasing market share. Our businessmen have a sense that we've done permanent damage to America's export capacity by tolerating this long period of an overvalued dollar.

Obviously, that high dollar also pulls in imports artificially, and many companies believe this trend to be both undesirable and possibly irreversible. Of course, the extent and permanence of the impact depend on the particular product.

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Finally, businessmen complain, perhaps a little less legitimately but still with quiet forcefulness, that a prolonged period of overvaluation undermines the profitability of their otherwise well-run operations abroad. If the dollar goes to sky-high levels, common sense says that if you have an operation in Belgium or Germany, earning Belgian francs or German marks, then those profits are not worth as much. Considering the extent of American companies with major world-wide operations—and Coca-Cola is probably as good an example as you can name—earnings are undercut and the shareholders' wealth is hurt when the exchange rates get away from the fundamentals.

"U.S. businesspeople are at the mercy of these unpredicted and unpredictable movements in this important currency relationship, and they feel threatened and vulnerable."

Such complaints, many of which I feel are legitimate, did not change policy thinking in Washington significantly until about two months ago.

Another category of complaints from American businesspeople stems from the concern that foreign exchange rates are too volatile—that not only are the rates wrong, but that they fluctuate too much. Excessive volatility makes planning impossible. It's difficult to go through an elaborate planning mechanism, since scenarios must be based on certain exchange rate assumptions. Abrupt rate changes can wipe out those plans instantaneously. In such an environment, the planning process becomes less credible and, really, not very effective.

A broader, more practical complaint that we hear from a lot of chief executive officers is that volatile exchange rates tempt a company to start playing around in the financial markets when it should be concentrating on production. Managers start thinking that the driving force in a company's profitability is not what it produces, but what the cash advantage may be. The sense of superficiality worries the top leaders of American business.

Finally, an allegation tied in with most complaints is that trade is unfair. Of course, trade is unfair in many ways, and one businessperson's unfairness is another's opportunity. You have to view this with a certain amount of discretion. But clearly there is no level playing field in international trade, and I don't think anybody familiar with international business will claim that one ever existed.

Open and Closed Cases

Certainly, there is a broad appreciation by businessmen and women the world around, that the U.S. market is the most open. You can go to Malaysia, you can go to Greece, you can go to Chile, and you ask businesspeople to name the world's most open market, and generally they answer the United States.

"Volatile exchange rates tempt a company to start playing around in the financial markets when it should be concentrating on production."

There is no argument about this; it is a reality. The question remains, however, precisely where we stand in the openness spectrum. Just look at the statistics. I recommend a booklet called *Japan 1985, An International Comparison,* which is chock-full of interesting and useful statistics. It makes a strong case against Japan's unfair trading practices. It points out that 84 percent of Japanese-made wrist watches are exported as are 78 percent of microwave ovens. The figure is lower

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for bicycles, only 13 percent. Japan exported $33 billion worth of motor vehicles in the most recent year for which they have data, and imported only $619 million worth of vehicles. That's a pretty dramatic picture, although I will grant that the structure of economics can be different. For instance, the Japanese still look at the share of manufactured goods imported into Japan as a share of total imports, excluding oil, which means you'll see that Japan's ratio is only 47 percent. If you do the same calculation for Germany, which doesn't produce any oil either, the number rises to 73 percent.

I would argue, even to businessmen who don't want to hear it, that Japan's trade restrictions themselves are not our fundamental problem. The Japanese system of "zaibatsu" involves setting up administrative roadblocks to new products. Every U.S. company has a war story about trying to sell something in Japan that Japan did not manufacture when we were trying to penetrate the market.

"Even if we eliminate all of Japan's direct and indirect controls, our problems will not end if the exchange rates are wrong."

All of those war stories seem to have the same ending—our manufacturers were stalled until the Japanese companies were able to develop and manufacture a similar product. By that time, we had lost the advantage of timing. And so we encountered delay, administrative distortion, all of the little things we do not handle well. Such obstructions are difficult to quantify, yet they occur frequently.

Even if we eliminate all of Japan's direct and indirect controls, our problems will not end if the exchange rates are wrong. Japan will have incentives to import more—but not necessarily from the United States. Even if Japan cancelled all of its controls on beef, how much beef would be imported from the United States at 250 yen to the dollar? None. Now at 180 or 190 yen to the dollar, which we're not too far from now, American producers would get a real crack at additional beef sales, if Japan removed those controls. So, things go hand in hand. Sophisticated businesspeople realize these days that we must deal with exchange rates before we start talking about trade practices.

Businessmen and women also know that Europe is not exactly "Simon Pure." Italy, for example, does not import Japanese cars. That diverts much of the Japanese effort to the world's most open market for cars, which happens to be our nation's. We see the world is interrelated in various ways.

Finally, and probably most fundamentally, our business community is perplexed and dazzled by the opportunities and the worries concerning less-developed countries (LDCs). There are many kinds of LDCs, but all of them boast lower labor costs than the United States. And that's a reality every American business must confront.

Flocking to Foreign Shores

Many major U.S. companies, with wide-scale publicity, have set up subsidiaries and manufacturing facilities in low-wage areas because they feel they must do it. A cold-blooded economist would say they are right—that there is no God-given right for the American worker, performing the same task with similar skills and possibly less education, to earn 10 times as much as a Korean worker.

The economist will also say that, as the Korean worker becomes more productive, his standard of living ought to rise. That should offer opportunities for other businesses to sell to the Korean workers more furniture for their new houses and all of the other things that a rapidly growing productivity and standard of living should afford. But that's not happening.

The newly industrialized countries of Asia have not expanded their demand as fast as they've expanded their exports. Thus, we have a major, and I think dangerous, problem dealing with the trading practices of what you might call the step-children of Japan.

Other groups of LDCs, particularly in Latin America, are in the throes of an adjustment process that puts us on hold in the short term.

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It's hard to lecture Brazil, for example, about the openness of its markets and its receptivity to U.S. products at the same time Brazil is desperately trying to earn foreign exchange to repay the banks because it borrowed too much. There is no easy way of handling such situations, I think the best way to cope is to spread out that debt burden. The second best way is to force down U.S. interest rates.

The Budget Deficit

That brings us to the final problem—and I think the U.S. business community is increasingly aware of its importance. In trying to cure our international trade problems and put ourselves on a more solid international footing for the next 15 years, we have to cut the federal budget deficit.

That huge deficit represents a tremendous drain on our limited savings capacity and is a major factor in keeping interest rates high. In turn, this becomes a primary reason for the overvalued dollar. In order to set things right and put the American business community in a fair position to compete, we must bring that budget deficit down.

That won't solve the problems of Japan's unfairness, which we'll have to keep working on, probably for many years to come, but if we do not start by correcting our homemade problems, we lose any leverage to change their policies, too.

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Global Economics: A Call for International Solutions

Henry B. Schechter

The U.S. economy's evolution to more significant integration in the world economy was shaped by post-World War II conditions and new institutions designed to foster international development. When World War II ended, the United States had a backlog of deferred consumer demands, accumulated savings, and increased basic industrial production capacity. That combination, plus millions of young people leaving military service to establish households, stimulated economic activity to satisfy pent-up domestic demands. The economy also provided sufficient output to implement assistance policies to countries whose capital resources had been depleted by warfare.

A number of institutions were established to foster international economic growth and stability. The United Nations Relief and Rehabilitation Administration helped to provide food, shelter, and other necessities. The International Monetary Fund (IMF) sought to maintain orderly international monetary exchange arrangements, facilitate trade and increased output, and provide loans to help member countries make adjustments needed to deal with balance of payment problems. A sister organization of the IMF, the World Bank, and subsequent multilateral public regional banks, were created to make loans—generally for longer terms than the IMF—for agriculture, infrastructure, utilities, and other facilities and activities to support long-term economic development.

Post-war rebuilding and expansion of civilian production facilities in many countries was aided by this country's Marshall Plan, President Truman's Point Four program of technical assistance for economic development, and the Economic Cooperation Administration. During the 1970s, multilateral public banks made loans to finance increased agricultural productivity, gradually reducing dependence on the United States for food supplies. As they regained their own growth momentum, other industrial countries also made loans and grants to aid developing countries.

The 1950s and 1960s

This country enjoyed an international trade advantage for the first two post-war decades because its industrial plants and equipment

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remained intact during the war, while Europe and Japan lost a good deal of their industrial capacity. The United States realized a modest merchandise trade balance surplus ranging between $1 billion and $7 billion annually during the 1950s and 1960s and achieved a slightly lower positive net balance of investment income. The positive balances for merchandise trade and investment income more than offset sizable outflows for military and economic aid and travel by Americans, so that in most of those years there was a moderate positive balance on current account.[1]

In response to strong domestic and international economic demands, investment and economic growth increased in the United States—except for relatively minor business cycle adjustments—through most of the 1950s and 1960s. At the end of 1969, the U.S. unemployment rate hit a post-war low of 3.5 percent. Other countries had made significant strides in the increasing industrial capacity, however, and by 1968-1969 our surplus of exports over imports fell to less than $1 billion a year. We experienced merchandise trade deficits during most of the 1970s and in every year from 1976 to the present.[2]

The 1970s

Throughout most of the 1970s, investment income receipts from abroad were substantially greater than the income payments from U.S. investments to foreigners, so in most years the net positive investment income outweighed the merchandise trade deficit and the total U.S. current account balance remained positive. However, in 1977 and 1978 we saw a negative balance on current account of about $15 billion a year; in 1979 and 1982 there were small negative balances. In 1983, the current account deficit rose to $41 billion.[3] In 1984, it was almost $102 billion, and probably will be greater in 1985, when the merchandise trade deficit should reach about $150 billion.[4]

International Lending

For the first 15 or 20 post-war years, the developing countries depended heavily on loans from public national and international sources, but private banks in industrial countries also began to expand their international lending.

As debt-financed improvements in infrastructure and energy-generating capacity occurred, developing countries could increase their mining, and in some cases refining, of raw materials such as copper, tin, aluminum, iron, and coal for export to industrialized countries. They could also begin to manufacture products for export and for consumption by their expanding populations. A few extracted their own oil as an energy source but many more, along with most industrialized countries, were oil importers.

"This country enjoyed an international trade advantage for the first two post-war decades because its industrial plants and equipment remained intact during the war while Europe and Japan lost a good deal of . . . capacity."

U.S. private capital financing, in the form of bank loans to governments and private borrowers and direct investment by corporations and individuals, financed a good deal of the mineral extraction and manufacturing undertaken in developing countries. The U.S. net international investment position abroad rose from $58 billion in 1970 to $147 billion in 1982. Total U.S. assets abroad had grown to $839 billion by 1982; they mostly were privately owned and included $222 billion in direct investments. Foreign assets in this country totaled $692 billion.

By the end of 1984, U.S. assets abroad totaled $915 billion, but foreign assets in the United States grew to $886 billion and the net U.S. international position shrank to $28 billion.[5] This year, the U.S. net investment position has become negative. As foreign ownership of U.S. assets continues to increase, so will the required dividend and interest payments to foreigners.

The negative merchandise trade balances that this country experienced during the 1970s and 1980s were accompanied by a long-term upward

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movement in unemployment rates. Thus the cyclical troughs of unemployment have been 3.5 percent in 1969; 4.6 percent in 1973; 5.6 percent in 1979; and apparently 7 percent in 1985. Similarly, the cyclical unemployment peaks have been 6.1 percent in 1971; 9 percent in 1975; and 10.7 percent at the end of 1982.[6] This is not a matter of demographics, since the post-war Baby Boomers' population bulge has passed the age of entry to the labor force, and more frequent, earlier retirement of men tends to offset the entry of women. The continuing secular uptrend in unemployment reflects an increasing economic imbalance, an imbalance related to income levels and distribution.

As incomes in general rose in the United States after World War II, the real incomes of families practically doubled—some slightly less, some slightly more. Those in the upper 20 to 40 percent developed a great deal of discretionary income. Since the mid-1960s, the income distribution has moved toward greater inequality, skewing toward the upper end. Thus, in the quintile distribution of aggregate family income, the share going to the two highest quintiles increased from 64.3 percent in 1966 to 67.3 percent in 1984.[7] This redistribution was due partly to changes in the relative tax burden borne by different income groups, affecting their capacity to save and earn investment income, and a secular rise in interest rates, both of which worked to the advantage of higher income households.

The International Economy

While this redirection and changed distribution of income contributed to uneven growth in the U.S. economy, the situation worsened as this country increasingly became a part of the international economy. The global trend is indicated by the growing importance of international merchandise trade to the U.S. economy. In 1960, exports amounted to about 4 percent and imports about 3 percent of gross national product (GNP), producing a moderate trade surplus. By 1984 total U.S. international merchandise trade, measured as a percentage of GNP, rose to 15 percent. Yet an excessive trade deficit emerged, not a surplus; imports equaled 9 percent, but exports only 6 percent of GNP. The United States has suffered a merchandise trade deficit in each year since 1975, reaching a record $123 billion in 1984.[8]

The world's income distribution, though, is much more skewed than the distribution in the United States.[9] In 1984, the United States received imports from about 100 countries. On a bilateral basis the biggest U.S. trade deficit was with Japan, with trade barriers and the overvalued dollar affecting the flow. The dollar value problem is also significant in connection with trade deficits vis-a-vis Canada, Western Germany, and other Western European countries. However, significant deficits in trade with countries such as Korea, Taiwan, Brazil, and Mexico reflect, in addition to some trade barriers, extremely low wages that produced low-priced goods for export to the United States. Much of that wage differential was captured by producers, exporters, importers, and distributors. Low wages prevailed not only in the larger developing countries, but also in smaller ones such as Singapore and the Dominican Republic. Those two countries in 1984 accounted for U.S. imports of $4.1 and $1.1 billion, respectively, and each contributed over $400 million to our trade deficit.[10]

"The United States has suffered a merchandise trade deficit in each year since 1975, reaching a record $123 billion in 1984."

A large part of the world has been ready and anxious to sell to the United States but has been in no position to buy goods of equal value. The income levels of the vast majority of developing countries' inhabitants could not provide a market to absorb more of the output from either their own economies or from the United States. The international economy, therefore, cannot have free trade and sustained, balanced economic growth. Because of the international world economy's imbalance, U.S. producers increasingly have lost domestic and international market shares for various products to producers in countries with undervalued currencies, trade barriers,

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and excessively low wages that greatly restrict marketability of U.S. output in those countries.

During the 1970s, America's international financial role expanded. Nondeveloped oil-producing countries benefited from inflated oil prices, beginning with the 1973 price hikes, and accumulated large surpluses of hard currencies, primarily dollars. The surplus funds were invested in securities, bank deposits, and real estate of the leading industrial countries. Those countries' leading banks then undertook to recycle the dollars by making loans to developing countries around the world, with large U.S. banks playing a prominent role.

"Because of the international world economy's imbalance, U.S. producers increasingly have lost domestic and international market shares for various products."

The OPEC oil price shocks in 1973 and 1979 helped to set off inflationary pressures in industrial as well as developing countries. Toward the end of the 1970s and in the early 1980s, the United States adopted tight monetary policies to fight inflation, generating high interest rates. In 1981, the United States also reduced budgetary expenditures for social programs, which combined with high interest rates to reduce economic demand. The U.S. economy in that year went into a deep recession that continued through almost all of 1982 and spread to other industrialized countries as demand fell off for products exported to this country.

Economies of developing countries, especially larger Latin American countries, also suffered from a decline in U.S. demand for agricultural, mineral, and manufactured goods. Those nations decreased exports to this country even as their debt service payment requirements increased, because interest rates on their adjustable rate loans were rising. Swelling unemployment and a deficit trade balance precipitated the combined debt and economic crises in Latin America. Economic declines in the United States and developing countries fed upon each other, as each experienced slumping demand from the other for its exports.

The second series of significant oil price boosts in 1979 further increased the borrowing needs of the non-oil producing developing countries. At the end of the 1970s and into the 1980s, under the transmitted influence of U.S. tight money policies, interest rates remained high in the leading Western industrial countries. The U.S. economy also transmitted to the rest of the world the weakened demand effects of its 1981-1982 recession.

What followed highlights the interdependence of different national economies in a world economy that has become much more integrated. Both industrialized and less developed countries that had been shipping a good deal to the United States faced drastic declines in their export trade. Consequently, Latin American production for export was reduced and unemployment rose significantly.

"The U.S. economy . . . went into a deep recession that continued through almost all of 1982 and spread to other industrialized countries as demand fell off for products exported to this country."

The Latin American countries cut back their own imports severely, pursuant to economic adjustment programs negotiated with the IMF. Agreement with the IMF on such a program almost invariably was a prerequisite before private banks would participate in credit extensions or debt restructuring programs. Austerity programs that the IMF negotiated with Latin American debtor nations restricted imports, which restrained

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the demand for U.S. products and contributed to growth of this country's huge negative merchandise trade balance. Resulting unemployment contracted the U.S. market, making it difficult for debtor countries to increase exports needed for exchange to service debts, or to attain sustained economic growth.

"As recessions in the industrialized countries and the developing countries fed upon each other, workers bore the brunt of economic adjustment through unemployment and underemployment."

As recessions in the industrialized countries and the developing countries fed upon each other, workers bore the brunt of economic adjustment through unemployment and underemployment. There has to be balance between production capacity and purchasing power in domestic economies, and in the international economy as a whole, if the national and international economies are to achieve sustained recoveries and stable growth.

Help Wanted

While economies have become more internationalized, no qualified institution has been created or designated to deal with the problems arising from that change. There is a need to deal with certain macroeconomic policies of industrialized nations that can spawn and influence debtor countries' economic adjustment programs. Fiscal and monetary policies of the leading industrial countries, and their resultant interest rates, no doubt have an effect upon the exchange rates, interest rates on loans received, and trade positions of less developed countries. High interest rates resulting from U.S. domestic monetary policy designed to bring down inflation, caused European countries to adopt somewhat restrictive monetary policies and to keep their interest rates higher than desired to counteract the outflow of capital to this country.

Consequently, developing countries have suffered from high interest rates on their loans. On the other hand, the resultant high value of the dollar has helped them sell exports in the United States, and elsewhere, in competition with U.S. producers. And the United States is suffering from a massive, growing negative trade balance, which contributes significantly to an economic slowdown and contraction of the largest market for products from developing countries.

The whole quagmire of misaligned exchange rates and the abnormal trade imbalance cries out for an international solution. It highlights the contrast between our significant progress in developing an international economy and the lack of international institutions qualified to address the intertwined exchange rate and trade problems. While the IMF is charged with encouraging exchange stability and exercises "firm surveillance" over the exchange rate policies of its members, it does not provide a forum for negotiating the alignment that will promote greater balance for international trade and economic growth.

"While economies have become more internationalized, no qualified institution has been created or designated to deal with the problems arising from the change."

In the absence of such institutional innovations, the central bank of each country will continue to give its paramount concern to domestic economic problems. Furthermore, as has been suggested recently by European and Third World officials, there is a need for international discussions on monetary policy that

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parallel discussions for modified trade agreements. Since the two types of policies necessarily interact, it is essential that negotiations on the two be coordinated. The necessary international consultations and negotiations might be undertaken under expanded auspices of the IMF, the Organization for Economic Cooperation and Development, or in a special forum created for the purpose.

U.S. Competition

If the foregoing remedies are adopted and implemented, they would encourage more stable exchange rates and increased international trade. With respect to less developed industrialized countries, however, the serious competitive pricing gap with the United States and other advanced industrial countries will not be closed because of a huge wage gap. In many developing countries wages amount to only a minor fraction of those paid for comparable work in the United States.[11]

"The whole quagmire of misaligned exchange rates and the abnormal trade imbalance cries out for an international solution."

Price competition by U.S. producers with producers in low wage countries would require such low wages in this country that it could cause an economic contraction and a significant reduction in the standard of living. Allowing low-wage products of many developing countries into the United States without any restriction would mean increased unemployment. The long-term upward trend in our unemployment rate over the last 15 years already has inspired long and deep recessions that slow economic growth considerably.

The U.S. economy was able to grow over the past century because, as industrial productivity improved, the increased income was distributed widely in increased wages as well as profits. Unionization helped this process, as the country became increasingly industrialized. Broad distribution of income, therefore, permitted a balance between production and purchasing power that fostered further investment and balanced economic growth, although business cycle adjustments interrupted periodically when temporary imbalances developed.

The international economy lacks an income distribution that fosters balanced economic growth. Continued U.S. adherence to free trade policies would continue the secular trend toward progressively greater contractions of the economy. The worldwide recession of 1981-82 illustrated the effect of a U.S. economic contraction on other developed and less developed countries.

U.S. Labor

Against this background, the U.S. labor movement has advocated import quotas for various products that would permit less developed countries a margin of growth without overwhelming our economy.

Advocates of pure free trade claim that workers who lose jobs because of imports should go elsewhere to seek work, arguing that growth requires both labor and capital resources to be continually reallocated to their most efficient uses. In a more formal statement of this thesis, it has been said that unions and benefits for the unemployed do not allow labor "to clear the market." In other words, labor should be treated as a commodity. That notion was outlawed in the United States in 1914 when the Clayton Antitrust Act was enacted with the declaration that "labor is not a commodity," exempting unions from legal characterization as a trust. The growth of unions in the United States during most of the intervening 70 years helped provide an income distribution to foster a balanced economy that grew over the long run. In countries under various degrees of military dictatorship, whether politically of the right or left, true freedom of labor organization and bargaining rights is not permitted, suppressing a force that contributes to national and international balanced economic growth.

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NOTES

[1]*Economic Report of the President, February 1985*, table B-98, "U.S. International Statistics," (Government Printing Office), p. 344.
[2]*Economic Report*, p. 344.
[3]*Economic Report*, p. 344.
[4]*Economic Indicators, August 1985*, prepared for the Joint Economic Committee of the Congress by the Council of Economic Advisors, table on U.S. International Transactions (GPO, 1985), p. 36.
[5]U.S. Department of Commerce, *Survey of Current Business*, table 2 (GPO, June 1985), p. 27.
[6]U.S. Department of Labor, monthly releases on unemployment.
[7]U.S. Department of Commerce, Bureau of the Census, *Money Income of Households, Families, and Persons in the United States: 1983* (GPO, 1983), pp. 11, 60, and 459.
[8]Basic data from *Economic Report, 1985* tables B-1 and B-98, pp. 232 and 344, and *Economic Indicators*, p. 36.
[9]See *World Development Report, 1985*, published by World Bank, table 28, pp. 228-9.
[10]U.S. Department of Commerce, Bureau of the Census, *Highlights of U.S. Export and Import Trade*, FT 990, tables 5 and 8 (GPO, December 1984), pp. B24-6 and C28-30.
[11]Comparable hourly compensation costs in the United States and about 30 foreign countries, for all manufacturing and selected individual manufacturing industries, are estimated from collected information by the U.S. Department of Labor, Bureau of Labor Statistics, Office of Productivity and Technology. The figures are available upon request.

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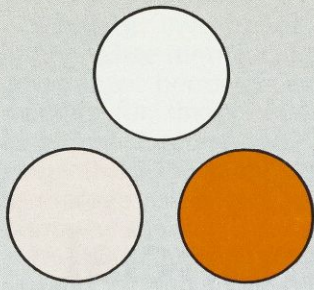

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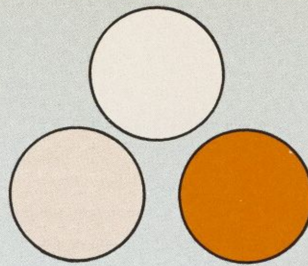

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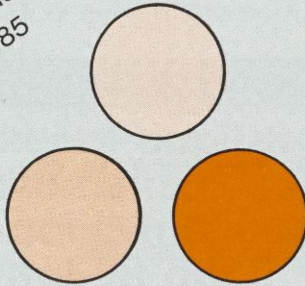

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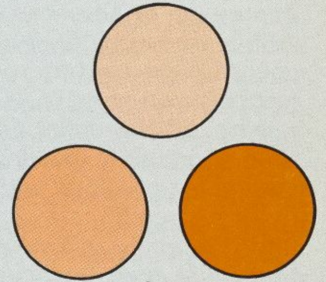

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International Financial Integration: Implications for Monetary Policy

Paul Meek

When the Group of Five decided in September to intervene forcefully in the foreign exchange markets, it was news. The U.S. government at last was ready to recognize that the dollar's exchange rate mattered to the United States as well as to the rest of the world. The impact of an overvalued dollar was already clearly visible at home in the loss of manufacturing jobs and the depression in American agriculture. And it was visible abroad in the overdependence of other countries on exports to the American market for their own growth.

Why did the dollar rise to such heights at a time of a rapidly growing deficit in this nation's current transactions with other countries? The dollar's strength can be ascribed only to an unprecedented inflow of capital to this country that more than financed our large balance of payments deficit. This inflow reflects both the serious imbalance in our own domestic economic policies and the rapid integration of the world financial system.

I want to examine that financial system and how it interacts with national economic policymaking. My theme is that we need effective U.S. leadership and international cooperation to achieve adequate growth without inflation.

The author is a consultant to central banks and a retired monetary advisor for the Federal Reserve Bank of New York.

The mobility of capital increases the risks involved in policymaking, but we cannot let our fears freeze us into inaction. The world economy can slide all too easily into financial turmoil, self-destructive protectionism, and economic stagnation.

The International Financial System

The present financial system rests firmly on the dollar as the premier international currency. About two-thirds of all official foreign exchange reserves are held in dollars. The markets for dollar assets are far and away the most liquid in the world; they are linked through the foreign exchange markets to both national money markets and the offshore markets denominated in deutschemarks, Swiss francs, and yen.

U.S. financial institutions and markets energize this financial system; they provide businessmen, portfolio managers, and central banks with credit and a wide range of asset choices as well as the techniques for managing interest-rate and foreign exchange risks. But dollar markets extend well beyond our own shores. Commercial banks of many nations bid for dollar deposits throughout the world and relend the funds attracted. These banks convert dollars into other currencies on demand and offer deposit facilities in the other major currencies as well.

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Similarly, investment bankers underwrite intermediate-term securities for corporate and government borrowers and maintain secondary markets for these issues. They also arrange long-term interest rate or foreign exchange swaps that allow corporations and governments to manage risk better or to reduce the cost of borrowed funds.

The importance of offshore deposit and loan markets to the international financial system can hardly be overstated. The Eurocurrency market constitutes a banking system without reserve requirements, one which can pay higher interest rates for deposits in most currencies than regulated domestic banking systems. This natural advantage permits offshore banks to price loans to borrowers at lower rates than prevail in domestic loan markets. By lending at a mark-up over the rates they pay on deposits, banks pass on the risk of interest rate fluctuations to the borrower.

"The mobility of capital increases the risks involved in policymaking, but we cannot let our fears freeze us into inaction."

The Eurobanking system expanded rapidly in response to emerging credit demands in the world economy in the 1960s and 1970s. After the first oil shock, banks syndicated loans to governments on a grand scale, recycling OPEC deposits to industrial countries needing to pay for oil. As the 1970s moved on, banks reached out to developing countries in increasing volume, helping them to maintain imports and economic growth at a faster pace than their own resources would have allowed. As reported by the Bank for International Settlements (BIS), net new international bank credits rose from $40 billion in 1975 to $160 billion five years later, when the deep recession of the early 1980s drastically scaled back lending.

In the last few years international bond sales have risen as bank lending declined. Industrial countries have become chief borrowers as developing countries were squeezed out of the world credit market. Last year, securities offerings raised $84 billion in net new money, about equaling the reduced volume of new bank credit. New issues this year are running about 50 percent higher than last.

As detailed in the BIS annual report, banks are active borrowers, extending the maturities of their liabilities to compensate for stretching out their sovereign credits. Floating rate notes are a favorite means of improving the match with their assets, as are fixed rate issues converted to a floating rate basis through interest rate swaps. Corporate and government issuers also are active, often repaying bank debt with the proceeds. Borrowers frequently used multiyear currency swaps to convert liabilities from the currency in which borrowings are most attractive to dollars or another currency.

Japanese and European investors sought out high-quality bonds from industrial countries in the active markets of New York, London, and Tokyo. Savings generated by world economic recovery fueled the integration of world markets and investors' demand created a borrowers' market. Highly regarded corporate and sovereign borrowers could obtain intermediate-term funds at historically low spreads above U.S. government issues. Insistent Japanese demand for U.S. government securities fostered active secondary markets in both London and Tokyo, while making a success of several foreign-targeted issues sold by the U.S. Treasury.

The international financial system adapted rapidly to recent economic turbulence. Futures contracts in U.S. and British government securities facilitated rapid portfolio changes and let dealers maintain functioning markets even when prices were volatile. Futures contracts in foreign exchange also brought in many new participants to share the risks of rapid movements in rates.

Banks have joined investment bankers in developing interest rate swaps and extending the term of foreign exchange swaps, which helps to integrate domestic and international debt markets and increase their own efficiency. Bank credit lines in the form of note issuance and other credit facilities eased the growth of the international debt markets.

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"The international credit explosion of the late 1970s fanned the spread of inflation and affected wage contracts, pricing decisions, and consumer attitudes in many countries."

Telecommunications make the global village a reality in the finance field. Traders turn to computer screens throughout the world to follow the federal funds rate and the latest U.S. economic data. Economists present the implications of new developments for interest and exchange rates almost immediately over the information networks. Key international currencies trade virtually around the clock. Investors can tap an active secondary market in U.S. Treasury securities at almost any hour, facilitating portfolio shifts in this most liquid and widely held of debt securities. Finally, automated systems keep abreast of ownership changes that mirror asset decisions and the distribution of marketable debt.

Policymaking and the International Financial System

How is the world different these days for policymakers? First, big swings in credit flows to sovereign governments can exert a powerful influence on the world economy through their impact on national economic policies. Secondly, the increased mobility of capital makes U.S. monetary policy even more important to the world's economic performance. Yet, given the buildup in U.S. foreign liabilities, that same mobility poses bigger risks to policymakers.

On the first point, by the late 1970s the competitive outpouring of credits to sovereign governments had undermined financial discipline for a large number of countries. The International Monetary Fund (IMF) had little clout. Even today its loans of $40 billion compare with $1.4 trillion in credits outstanding in the Euromarkets. The international credit explosion of the late 1970s fanned the spread of inflation and affected wage contracts, pricing decisions, and consumer attitudes in many countries. Monetary policymakers were slow to realize the extensive change in business and consumer behavior. Consequently, monetary growth, economic activity, and inflation ran well ahead of their forecasts.

When governments turned to fighting inflation, the resultant tightening of monetary policy and high interest rates affected industrial countries first. The flow of international credit did not subside immediately, however; bank lending kept rolling after the second oil shock as developing countries borrowed still more to pay the even higher oil bills while trying to maintain growth.

"The international financial system can no more be left to manage itself than domestic systems. The present system . . . allows human enthusiasms and depressions to overreach themselves."

Only as the deep recession in the industrial countries cut demand in world markets and commodity prices broke sharply did banks and overextended developing countries confront the full burden of future debt service. Loans to developing countries fell from $84 billion in 1981 to merely $14 billion last year, and most of that was extended as part of various refinancing packages. In the belt-tightening, developing countries drastically cut imports, one source of the United States' deteriorating trade picture.

The international financial system can no more be left to manage itself than domestic systems. The present system, like most national financial systems, allows human enthusiasms and depressions to overreach themselves. But

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national policymakers have yet to develop clear, coordinated strategies for dealing with excessive swings in high-powered credit to sovereign governments.

We are all too apt to see the world through national glasses. Recall how most U.S. economists decried the exuberantly expansive U.S. fiscal policy set in motion by the administration in 1981. In retrospect though, this policy, for all the dangers it poses over the long term, provided the vital spark to production that enabled the world financial structure to survive the disinflation then in process. The United States stepped into world credit markets to finance the growth touched off by the burgeoning federal deficit. It replaced the developing countries as an outlet for world savings and thereby spurred economic recovery. Without that fiscal stimulus, a disastrous cycle of international debt repudiation and financial distress might well have devastated world trade and output as happened in the 1930s.

Nonetheless, our loose fiscal—tight monetary policy mix left a legacy that must be faced. We have already accumulated huge debts to the rest of the world and experienced a steep appreciation of the dollar. The United States dissipated in short order the net creditor position built up over the previous 70 years. Gerald Corrigan, president of the Federal Reserve Bank of New York, has projected a $500 billion net debtor position by 1990.

To be sure, the decline in inflation, the high level of real interest rates, and the strong economy permitted us to attract foreign private capital on such a scale that the dollar appreciated through early 1985. But this year we have learned—like the United Kingdom and Switzerland before us—that maintaining an overvalued exchange rate ultimately undermines economic growth and the industrial base.

Integration of the world financial system strengthened the reach and power of U.S. monetary policy but also added to the risks faced by policymakers. The mobility of capital ensures that the Federal Reserve's disinflationary policy strongly affects foreign markets, exchange rates, and economic policies. But the need to finance the large current account deficit is a source of vulnerability to the United States as Treasury Secretary James Baker seeks to renew U.S. leadership in the economic sphere.

Integrated financial markets react much more rapidly to information on the world economy or official policies than do markets for goods and services. The availability of 24-hour markets in foreign exchange and U.S. government securities, as well as in futures and options, permit participants to change their asset portfolios rapidly at little cost. Traders in both asset and foreign exchange markets respond quickly to incoming information, whose predictive power is often modest—for example, knee-jerk reactions to surprises in weekly money supply data. More importantly, traders and investors in these integrated markets try to spot a trend and ride it. Both the dollar's depreciation in the late 1970s and its appreciation since exemplify the human tendency to go too far first in one direction and then in the other.

"The United States dissipated in short order the net creditor position built up over the previous 70 years."

National policymakers in most other countries are all too familiar with the harsh disciplines that financial markets can impose on nations perceived to have overly expansive policies. Potential capital flows have grown beyond the ability of central banks, individually or collectively, to sustain currency relationships that appear untenable to the market. The scale of capital outflows from Latin America in 1981 and 1982, for example, foretold the inevitability of harsh domestic measures even before the availability of international credits ran out.

In conducting monetary policy, the Federal Open Market Committee must always bear in mind the speed with which market perceptions of the dollar can change. A rapid depreciation could increase domestic prices if the world economy was strong. Yet there are downside

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risks in sustaining interest rates and the dollar at levels that may keep world growth well below its potential.

The World Situation

Policymakers face a difficult challenge in managing the world economy. The IMF calculates that industrial countries need to maintain real growth at their productive potential of about 3 percent if developing countries are to reduce their external debt ratios significantly over time. Growth in these countries could then be at 4.5 to 5 percent annually, diminishing further the risk of a country defaulting.

The question is whether growth in 1986 will be strong enough. In 1985 the slowdown in industrial country growth to about 3 percent has been accompanied by a decline of 11 percent in non-oil commodity prices. Growth in Latin American and African developing countries is projected at less than 2.5 percent for the year.

The first reason for doubt springs from the lack of zip in our own outlook for 1986. Even if we do grow at 3 percent in real terms, the external stimulus may be small. Our trade deficit seems unlikely to exceed by much the record $150 billion forecast for 1985. The country has reached the political tolerance limit for displacing domestic agriculture and industry through an overvalued exchange rate. If the dollar declines further in foreign exchange markets, the lower stimulus to world growth will come through operation of the price system, a result much to be desired. But further protectionist moves also seem likely.

Treasury Secretary James Baker is to be commended for recognizing the importance of restoring the dollar to a more viable level, improving American agriculture and industry's opportunities to compete. Given the risks of future overshooting on the downside in the exchange rate, it seems prudent for the United States to build up a $20 to $30 billion reserve in foreign currencies. Such a reserve should be employed cooperatively with other countries only if the dollar begins to drop steeply or becomes clearly undervalued. However, we know from experience that intervention cannot substitute for balanced domestic policies that keep demand within bounds.

A second handicap to necessary growth in the world economy is developing countries' limited access to new credit. The fact that international business is finding credit readily available for leveraged buy-outs and restructuring balance sheets seems unlikely to provide the same impetus to world demand in the near term as sovereign credits to developing countries. Secretary Baker appears to be on the right track in trying to persuade bankers that net new lending is in order for developing countries pursuing appropriate domestic policies.

All told, growth at a 3 percent pace in industrial countries for 1986 may not support adequate progress in the developing world. How can official action improve the outlook?

The most popular answer around the world is that the United States should cut its fiscal deficit. Such action would remove the burden on American monetary policy to maintain real interest rates at levels needed to finance the country's excessive consumption. The resultant decline in interest rates and rise in credit flows could encourage investment worldwide and reduce the debt service charges now restraining growth in many countries. Moreover, the dollar's decline in exchange markets would help stimulate the United States' economy.

"We know from experience that intervention cannot substitute for balanced domestic policies that keep demands within bounds."

The prescription is sound, but progress is agonizingly slow. The President expresses rhetorical interest in the goal, but has not given Treasury Secretary Baker adequate leeway to make real progress. The gap between receipts and expenditures seems certain to remain much too wide as long as military spending cannot be touched nor taxes raised.

American policymakers argue now, as in the late 1970s, that other countries should adopt

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more expansive fiscal policies. European unemployment hangs around 11 percent even while governments strive to reduce fiscal deficits. Japan and several other countries of east Asia have been overly dependent on exports to the United States for their growth. Surely these countries could stimulate their own economies with little fear of kindling inflation, since inflationary expectations are not widespread. The case for more stimulative policies abroad is plausible, especially if the United States begins to reduce its own deficits; but, we should not expect too much from this effort in 1986.

"The gains on inflation are hard won and we should be no more anxious than our European and Japanese friends to let the inflation genie back out of the bottle."

What are the possibilities for flexible use of monetary policy while we await some sensible action from the administration and Congress? Could other countries spur expansion? Until early 1985, the stumbling block was the strength of the dollar. Still worried about inflation, most industrial countries were reluctant early in the year to see their currencies depreciate further against the dollar after its peak. Generally they have brought their interest rates down with ours in 1985. If the dollar is still overvalued by 15 to 20 percent, as most commentators think, cutting their rates relative to ours would strengthen the dollar and increase the trade account drag on the U.S. economy. The Bank of Japan's recent efforts to bolster the yen by raising domestic interest rates must indicate the importance they attach to keeping American protectionism at bay—it is not a policy designed to bolster either their domestic economic outlook or that of the world.

Is there room then for the Federal Reserve to ease up a bit here while Congress and the administration gather courage to do what is indispensably necessary? The gains on inflation are hard won and we should be no more anxious than our European and Japanese friends to let the inflation genie back out of the bottle. But is there much risk? The high prices of the late 1970s have brought forth an increased supply of most internationally traded commodities. The vigor of growth in the narrow measure of the nation's money supply, M1, would argue against further monetary ease. But monetary policy would have been disastrous in several recent periods had it been guided solely by that aggregate. The broader aggregates have been behaving reasonably. On balance, a probing move toward ease—say a cut of one-half percentage point in the discount rate—appears warranted to guard against a shortfall in world growth.

Is there a significant risk that the dollar might fall precipitously further because the markets conclude the Federal Reserve is abandoning its concern with inflation? This seems unlikely. The Federal Reserve has built up well-deserved credibility as an inflation-fighter over the past five years. The risk would be even less if we could arrive at an informal understanding with other leading countries that they will lower their rates relative to ours if the dollar declines too rapidly. They have as much interest as we in avoiding the reemergence of an undervalued dollar or a revival of inflationary psychology. And they are more accustomed than we to basing policy on exchange rate considerations.

The greatest need is to reduce the size of the U.S. fiscal deficit. But there does seem to be room for a probing move toward ease by the Federal Reserve. The great virtue of monetary policy is its flexibility. Now is the time to use it, knowing we can reverse direction in short order if the world economy picks up speed too rapidly.

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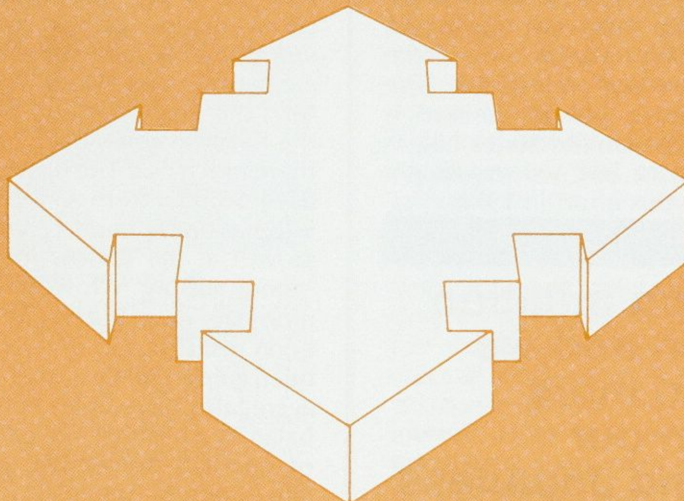

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FINANCE

$ millions

UNITED STATES

	OCT 1985	SEPT 1985	OCT 1984	ANN. % CHG.
Commercial Bank Deposits	1,522,129	1,532,927	1,414,002	+ 8
Demand	329,421	321,895	308,345	+ 7
NOW	107,131	107,531	90,212	+19
Savings	426,536	429,354	358,365	+19
Time	696,603	710,547	695,481	+ 0
Credit Union Deposits	64,834	65,467	57,705	+12
Share Drafts	7,590	6,700	6,159	+23
Savings & Time	57,206	57,832	39,309	+46

	OCT 1985	SEPT 1985	OCT 1984	ANN. % CHG.
Savings & Loans**				
Total Deposits	744,128	737,730	701,480	+ 6
NOW	26,549	25,294	20,365	+30
Savings	177,029	176,318	163,565	+ 8
Time	542,021	537,643	520,264	+ 4
	SEP	AUG	SEP	
Mortgages Outstanding	636,914	632,356	617,574	+ 3
Mortgage Commitments	65,738	67,057	40,705	+61

SOUTHEAST

	OCT 1985	SEPT 1985	OCT 1984	ANN. % CHG.
Commercial Bank Deposits	175,473	177,232	160,606	+ 9
Demand	37,981	36,728	35,450	+ 7
NOW	14,229	14,148	11,429	+24
Savings	52,786	47,960	41,024	+29
Time	72,580	82,437	76,866	- 6
Credit Union Deposits	7,573	7,469	6,447	+17
Share Drafts	712	687	555	+28
Savings & Time	6,588	6,583	5,753	+15

	OCT 1985	SEPT 1985	OCT 1984	ANN. % CHG.
Savings & Loans**				
Total Deposits	98,993	97,788	93,740	+ 6
NOW	3,819	3,932	3,157	+21
Savings	22,479	22,135	20,782	+ 8
Time	72,488	70,445	69,458	+ 4
	SEP	AUG	SEP	
Mortgages Outstanding	92,529	92,186	74,309	+25
Mortgage Commitments	5,182	5,173	4,732	+10

ALABAMA

	OCT 1985	SEPT 1985	OCT 1984	ANN. % CHG.
Commercial Bank Deposits	17,310	17,915	17,102	+ 1
Demand	3,969	3,894	3,726	+ 6
NOW	1,365	1,394	1,063	+28
Savings	3,691	3,722	3,289	+12
Time	8,809	9,320	9,525	- 8
Credit Union Deposits	1,167	1,153	975	+20
Share Drafts	135	135	96	+40
Savings & Time	966	948	853	+13

	OCT 1985	SEPT 1985	OCT 1984	ANN. % CHG.
Savings & Loans**				
Total Deposits	6,518	6,455	5,927	+10
NOW	252	231	166	+52
Savings	1,129	1,103	913	+24
Time	5,180	5,151	4,880	+ 6
	SEP	AUG	SEP	
Mortgages Outstanding	5,753	5,603	4,265	+35
Mortgage Commitments	417	406	177	+136

FLORIDA

	OCT 1985	SEPT 1985	OCT 1984	ANN. % CHG.
Commercial Bank Deposits	64,482	63,972	56,245	+15
Demand	13,871	13,080	12,338	+12
NOW	6,034	5,836	4,683	+29
Savings	22,133	22,158	19,290	+15
Time	24,248	24,380	21,180	+14
Credit Union Deposits	3,357	3,363	2,888	+16
Share Drafts	353	336	283	+25
Savings & Time	2,840	2,875	2,473	+15

	OCT 1985	SEPT 1985	OCT 1984	ANN. % CHG.
Savings & Loans**				
Total Deposits	63,847	63,119	60,049	+ 6
NOW	2,391	2,627	2,184	+ 9
Savings	15,443	15,174	14,238	+ 8
Time	45,452	43,645	42,789	+ 6
	SEP	AUG	SEP	
Mortgages Outstanding	56,652	56,663	43,626	+30
Mortgage Commitments	3,421	3,409	3,009	+14

GEORIGA

	OCT 1985	SEPT 1985	OCT 1984	ANN. % CHG.
Commercial Bank Deposits	27,555	28,305	24,828	+11
Demand	7,681	7,547	7,255	+ 6
NOW	1,921	1,992	1,556	+23
Savings	7,471	7,554	5,917	+26
Time	11,881	12,520	11,517	+ 3
Credit Union Deposits	1,532	1,531	1,373	+12
Share Drafts	117	109	181	+50
Savings & Time	1,433	1,428	1,279	+12

	OCT 1985	SEPT 1985	OCT 1984	ANN. % CHG.
Savings & Loans**				
Total Deposits	8,612	8,445	8,174	+ 5
NOW	505	446	283	+78
Savings	1,887	1,882	1,804	+ 5
Time	6,363	6,256	6,222	+ 2
	SEP	AUG	SEP	
Mortgages Outstanding	10,493	10,426	8,950	+30
Mortgage Commitments	479	483	462	+14

LOUISIANA

	OCT 1985	SEPT 1985	OCT 1984	ANN. % CHG.
Commercial Bank Deposits	28,019	28,222	26,373	+ 6
Demand	5,368	5,332	5,443	- 2
NOW	1,733	1,750	1,499	+16
Savings	6,646	6,663	5,438	+22
Time	14,786	14,960	14,469	+ 2
Credit Union Deposits	272	192	181	+50
Share Drafts	17	18	16	+ 6
Savings & Time	186	184	177	+ 5

	OCT 1985	SEPT 1985	OCT 1984	ANN. % CHG.
Savings & Loans**				
Total Deposits	10,918	10,796	10,773	+ 1
NOW	327	320	267	+22
Savings	2,398	2,356	2,294	+ 5
Time	8,290	8,246	8,348	- 1
	SEP	AUG	SEP	
Mortgages Outstanding	10,279	10,303	9,126	+17
Mortgage Commitments	298	307	568	-48

MISSISSIPPI

	OCT 1985	SEPT 1985	OCT 1984	ANN. % CHG.
Commercial Bank Deposits	13,019	13,205	12,232	+ 6
Demand	2,554	2,455	2,315	+10
NOW	989	975	817	+22
Savings	2,582	2,607	2,304	+13
Time	7,208	7,432	7,110	+ 4
Credit Union Deposits	*	*	*	
Share Drafts	*	*	*	
Savings & Time	*	*	*	

	OCT 1985	SEPT 1985	OCT 1984	ANN. % CHG.
Savings & Loans**				
Total Deposits	2,099	1,929	1,605	+31
NOW	75	61	49	+53
Savings	333	322	283	+18
Time	1,709	1,597	1,448	+18
	SEP	AUG	SEP	
Mortgages Outstanding	2,610	2,544	2,038	+28
Mortgage Commitments	242	267	175	+38

TENNESSEE

	OCT 1985	SEPT 1985	OCT 1984	ANN. % CHG.
Commercial Bank Deposits	25,088	25,613	23,826	+ 5
Demand	4,538	4,420	4,373	+ 4
NOW	2,187	2,201	1,811	+21
Savings	5,145	5,256	4,786	+ 8
Time	13,290	13,825	13,065	+ 2
Credit Union Deposits	1,245	1,230	1,030	+21
Share Drafts	90	89	70	+29
Savings & Time	1,163	1,148	971	+20

	OCT 1985	SEPT 1985	OCT 1984	ANN. % CHG.
Savings & Loans**				
Total Deposits	6,999	7,044	7,212	- 3
NOW	269	247	208	+29
Savings	1,289	1,298	1,250	+ 3
Time	5,486	5,550	5,793	- 5
	SEP	AUG	SEP	
Mortgages Outstanding	6,742	6,647	6,304	+ 7
Mortgage Commitments	325	301	342	- 5

Notes: All deposit data are extracted from the Federal Reserve Report of Transaction Accounts, other Deposits and Vault Cash (FR2900), and are reported for the average of the week ending the 1st Monday of the month. This data, reported by institutions with over $15 million in deposits and $2.2 million of reserve requirements as of June 1984, represents 95% of deposits in the six state area. The annual rate of change is based on most recent data over December 31, 1980 base, annualized. The major differences between this report and the "call report" are size, the treatment of interbank deposits, and the treatment of float. The data generated from the Report of Transaction Accounts is for banks over $15 million in deposits as of December 31, 1979. The total deposit data generated from the Report of Transaction Accounts eliminates interbank deposits by reporting the net of deposits "due to" and "due from" other depository institutions. The Report of Transaction Accounts subtracts cash in process of collection from demand deposits, while the call report does not. Savings and loan mortgage data are from the Federal Home Loan Bank Board Selected Balance Sheet Data. The Southeast data represent the total of the six states. Subcategories were chosen on a selective basis and do not add to total.

* = fewer than four institutions reporting.

** = S&L deposits subject to revisions due to reporting changes.

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CONSTRUCTION

12-month cumulative rate	OCT 1985	SEP 1985	OCT 1984	ANN. % CHG.		OCT 1985	SEP 1985	OCT 1984	ANN. % CHG.
UNITED STATES									
Nonresidential Building Permits - $ Mil.					Residential Building Permits				
Total Nonresidential	68,821	67,822	59,673	+15	Value - $ Mil.	81,324	79,881	74,558	+ 9
Industrial Bldgs.	8,946	8,897	8,159	+10	Residential Permits - Thous.				
Offices	16,994	16,803	14,401	+18	Single-family units	942.6	930.5	932.4	+ 1
Stores	10,921	10,671	9,201	+19	Multifamily units	764.9	758.1	752.7	+ 2
Hospitals	2,250	2,252	1,694	+33	Total Building Permits				
Schools	1,161	1,210	916	+27	Value - $ Mil.	150,146	147,702	134,231	+12
SOUTHEAST									
Nonresidential Building Permits - $ Mil.					Residential Building Permits				
Total Nonresidential	11,468	11,317	9,228	+24	Value - $ Mil.	14,495	14,286	13,968	+ 4
Industrial Bldgs.	1,201	1,189	925	+30	Residential Permits - Thous.				
Offices	2,584	2,525	2,210	+17	Single-family units	195.7	192.9	191.2	+ 2
Stores	2,262	2,207	1,820	+24	Multifamily units	161.9	161.4	176.4	- 8
Hospitals	452	438	322	+40	Total Building Permits				
Schools	155	162	113	+37	Value - $ Mil.	25,964	25,603	23,197	+12
ALABAMA									
Nonresidential Building Permits - $ Mil.					Residential Building Permits				
Total Nonresidential	681	654	745	- 9	Value - $ Mil.	530	523	462	+15
Industrial Bldgs.	71	74	185	-62	Residential Permits - Thous.				
Offices	149	131	99	+51	Single-family units	9.7	9.7	8.3	+17
Stores	155	152	130	+19	Multifamily units	7.6	7.4	7.6	0
Hospitals	49	47	19	+158	Total Building Permits				
Schools	11	13	7	+57	Value - $ Mil.	1,211	1,176	1,207	+ 0
FLORIDA									
Nonresidential Building Permits - $ Mil.					Residential Building Permits				
Total Nonresidential	5,909	5,817	4,566	+29	Value - $ Mil.	8,237	8,105	8,102	+ 2
Industrial Bldgs.	565	565	441	+28	Residential Permits - Thous.				
Offices	1,185	1,123	1,042	+14	Single-family units	103.8	101.7	104.6	- 1
Stores	1,238	1,204	1,035	+20	Multifamily units	97.7	98.1	99.1	- 1
Hospitals	236	236	149	+58	Total Building Permits				
Schools	49	54	48	+ 2	Value - $ Mil.	14,146	13,922	12,669	+12
GEORGIA									
Nonresidential Building Permits - $ Mil.					Residential Building Permits				
Total Nonresidential	1,966	1,999	1,749	+12	Value - $ Mil.	3,070	3,031	2,818	+ 9
Industrial Bldgs.	309	296	170	+82	Residential Permits - Thous.				
Offices	475	546	589	-19	Single-family units	46.5	46.5	43.4	+ 7
Stores	328	318	257	+28	Multifamily units	25.1	24.1	28.0	-10
Hospitals	32	27	49	-35	Total Building Permits				
Schools	19	20	14	+36	Value - $ Mil.	5,035	5,029	4,567	+10
LOUISIANA									
Nonresidential Building Permits - $ Mil.					Residential Building Permits				
Total Nonresidential	1,399	1,399	1,114	+26	Value - $ Mil.	794	805	1,074	-26
Industrial Bldgs.	50	52	30	+67	Residential Permits - Thous.				
Offices	432	410	280	+54	Single-family units	11.8	11.9	15.4	-23
Stores	263	256	213	+23	Multifamily units	7.5	7.9	14.4	-48
Hospitals	62	65	80	-22	Total Building Permits				
Schools	57	56	34	+68	Value - $ Mil.	2,194	2,205	2,188	+ 0
MISSISSIPPI									
Nonresidential Building Permits - $ Mil.					Residential Building Permits				
Total Nonresidential	296	293	246	+20	Value - $ Mil.	334	333	371	-10
Industrial Bldgs.	21	23	15	+40	Residential Permits - Thous.				
Offices	56	50	34	+65	Single-family units	5.9	6.0	6.1	- 3
Stores	58	59	53	+ 9	Multifamily units	2.3	2.2	5.5	-58
Hospitals	16	16	9	+78	Total Building Permits				
Schools	8	8	3	+167	Value - $ Mil.	631	627	617	+ 2
TENNESSEE									
Nonresidential Building Permits - $ Mil.					Residential Building Permits				
Total Nonresidential	1,217	1,155	808	+51	Value - $ Mil.	1,530	1,489	1,141	+34
Industrial Bldgs.	185	179	84	+120	Residential Permits - Thous.				
Offices	287	265	166	+73	Single-family units	18.0	17.1	13.4	+34
Stores	220	218	132	+67	Multifamily units	21.7	21.7	21.8	- 0
Hospitals	57	47	16	+256	Total Building Permits				
Schools	11	11	7	+57	Value - $ Mil.	2,747	2,644	1,949	+41

NOTES: Data supplied by the U. S. Bureau of the Census, Housing Units Authorized By Building Permits and Public Contracts, C-40. Nonresidential data excludes the cost of construction for publicly owned buildings. The southeast data represent the total of the six states.

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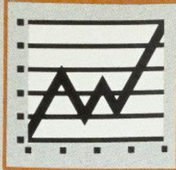

GENERAL

	LATEST DATA	CURR. PERIOD	PREV. PERIOD	YEAR AGO	ANN. %. CHG.
UNITED STATES					
Personal Income ($bil. - SAAR)	2Q	3,190.7	3,159.8	2,989.3	+ 7
Taxable Sales - $bil.		N.A.	N.A.	N.A.	
Plane Pass. Arr. (000's)		N.A.	N.A.	N.A.	
Petroleum Prod. (thous.)	NOV	8,900.7	8,961.0	8,849.5	+ 1
Consumer Price Index 1967=100	NOV	326.6	325.5	315.3	+ 4
Kilowatt Hours - mils.	OCT	183.8	205.7	181.7	+ 1
SOUTHEAST					
Personal Income ($bil. - SAAR)	2Q	388.9	361.9	352.5	+10
Taxable Sales - $bil.		N.A.	N.A.	N.A.	
Plane Pass. Arr. (000's)	SEP	3,836.5	4,945.4	3,856.1	- 1
Petroleum Prod. (thous.)	NOV	1,525.0	1,524.0	1,505.0	+ 1
Consumer Price Index 1967=100		N.A.	N.A.	N.A.	
Kilowatt Hours - mils.	OCT	30.4	34.8	29.3	+ 4
ALABAMA					
Personal Income ($bil. - SAAR)	2Q	42.1	41.8	39.5	+ 7
Taxable Sales - $bil.		N.A.	N.A.	N.A.	
Plane Pass. Arr. (000's)	SEP	120.7	147.8	110.1	+10
Petroleum Prod. (thous.)	NOV	58.0	58.0	53.0	+ 9
Consumer Price Index 1967=100		N.A.	N.A.	N.A.	
Kilowatt Hours - mils.	OCT	4.0	4.7	4.0	0
FLORIDA					
Personal Income ($bil. - SAAR)	2Q	149.8	147.5	138.5	+ 8
Taxable Sales - $bil.	NOV	92.2	91.4	83.0	+11
Plane Pass. Arr. (000's)	SEP	1,635.6	2,270.6	1,708.6	- 4
Petroleum Prod. (thous.)	NOV	36.0	37.0	36.0	0
Consumer Price Index 1967=100	NOV	173.9	173.5	168.3	+ 3
Kilowatt Hours - mils.	OCT	9.7	10.4	8.6	+13
GEORGIA					
Personal Income ($bil. - SAAR)	2Q	72.3	71.6	66.4	+ 9
Taxable Sales - $bil.		N.A.	N.A.	N.A.	
Plane Pass. Arr. (000's)	SEP	1,612.1	1,980.8	1,535.1	+ 5
Petroleum Prod. (thous.)		N.A.	N.A.	N.A.	
Consumer Price Index 1967=100	OCT	333.0	331.4	317.8	+ 5
Kilowatt Hours - mils.	OCT	4.8	5.2	4.6	- 8
LOUISIANA					
Personal Income ($bil. - SAAR)	2Q	49.5	49.7	47.0	+ 5
Taxable Sales - $bil.		N.A.	N.A.	N.A.	
Plane Pass. Arr. (000's)	SEP	260.2	301.7	311.6	-16
Petroleum Prod. (thous.)	NOV	1,347.0	1,344.0	1,326.0	+ 2
Consumer Price Index 1967=100		N.A.	N.A.	N.A.	
Kilowatt Hours - mils.	OCT	4.9	5.9	5.0	- 2
MISSISSIPPI					
Personal Income ($bil. - SAAR)	2Q	23.5	23.8	22.4	+ 5
Taxable Sales - $bil.		N.A.	N.A.	N.A.	
Plane Pass. Arr. (000's)	SEP	31.4	41.2	34.5	- 9
Petroleum Prod. (thous.)	NOV	84.0	85.0	90.0	- 7
Consumer Price Index 1967=100		N.A.	N.A.	N.A.	
Kilowatt Hours - mils.	OCT	2.1	2.4	2.0	+ 5
TENNESSEE					
Personal Income ($bil. - SAAR)	2Q	51.7	51.3	48.7	+ 6
Taxable Sales - $bil.		N.A.	N.A.	N.A.	
Plane Pass. Arr. (000's)	SEP	176.5	203.3	156.2	+13
Petroleum Prod. (thous.)		N.A.	N.A.	N.A.	
Consumer Price Index 1967=100		N.A.	N.A.	N.A.	
Kilowatt Hours - mils.	OCT	4.9	6.2	5.1	- 4

	NOV 1985	OCT (R) 1985	NOV 1984	ANN. % CHG.
UNITED STATES				
Agriculture				
Prices Rec'd by Farmers Index (1977=100)	126	123	136	- 7
Broiler Placements (thous.)	83,247	81,282	77,280	+ 8
Calf Prices ($ per cwt.)	61.1	60.2	59.4	+ 3
Broiler Prices (¢ per lb.)	31.8	27.7	30.8	+ 3
Soybean Prices ($ per bu.)	4.92	4.85	6.02	-18
Broiler Feed Cost ($ per ton)	182	181	220	-17
SOUTHEAST				
Agriculture				
Prices Rec'd by Farmers Index (1977=100)	111	110	130	-15
Broiler Placements (thous.)	31,302	31,821	29,091	+ 8
Calf Prices ($ per cwt.)	57.3	56.1	54.3	+ 6
Broiler Prices (¢ per lb.)	30.9	26.6	29.5	+ 5
Soybean Prices ($ per bu.)	4.89	5.00	6.09	-20
Broiler Feed Cost ($ per ton)	176	182	211	-17
ALABAMA				
Agriculture				
Farm Cash Receipts - $ mil. (Dates: OCT, OCT)	1,637	-	1,747	- 6
Broiler Placements (thous.)	10,438	10,760	9,568	+ 9
Calf Prices ($ per cwt.)	57.5	55.4	53.4	+ 8
Broiler Prices (¢ per lb.)	30.0	25.5	29.5	+ 2
Soybean Prices ($ per bu.)	5.08	5.01	6.12	-17
Broiler Feed Cost ($ per ton)	171	176	185	- 8
FLORIDA				
Agriculture				
Farm Cash Receipts - $ mil. (Dates: OCT, OCT)	3,272	-	3,701	-12
Broiler Placements (thous.)	2,117	2,014	1,935	+ 9
Calf Prices ($ per cwt.)	61.8	58.7	57.2	+ 8
Broiler Prices (¢ per lb.)	31.0	26.0	29.0	+ 7
Soybean Prices ($ per bu.)	5.08	5.01	6.12	-17
Broiler Feed Cost ($ per ton)	230	230	235	- 2
GEORGIA				
Agriculture				
Farm Cash Receipts - $ mil. (Dates: OCT, OCT)	2,654	-	2,985	-11
Broiler Placements (thous.)	12,565	12,827	11,809	+ 6
Calf Prices ($ per cwt.)	54.2	53.1	47.3	+15
Broiler Prices (¢ per lb.)	30.5	26.0	28.5	+ 7
Soybean Prices ($ per bu.)	5.01	4.84	6.05	-17
Broiler Feed Cost ($ per ton)	180	182	250	-28
LOUISIANA				
Agriculture				
Farm Cash Receipts - $ mil. (Dates: OCT, OCT)	1,041	-	1,023	+ 2
Broiler Placements (thous.)	N.A.	-	N.A.	
Calf Prices ($ per cwt.)	58.0	56.4	54.6	+ 6
Broiler Prices (¢ per lb.)	32.5	28.5	30.0	+ 8
Soybean Prices ($ per bu.)	4.34	5.02	6.05	-28
Broiler Feed Cost ($ per ton)	240	230	255	- 6
MISSISSIPPI				
Agriculture				
Farm Cash Receipts - $ mil. (Dates: OCT, OCT)	1,661	-	1,420	+17
Broiler Placements (thous.)	6,182	6,220	5,779	+ 7
Calf Prices ($ per cwt.)	58.9	57.8	58.1	+ 1
Broiler Prices (¢ per lb.)	33.0	29.5	31.5	+ 5
Soybean Prices ($ per bu.)	4.95	5.07	6.23	-21
Broiler Feed Cost ($ per ton)	144	137	165	-13
TENNESSEE				
Agriculture				
Farm Cash Receipts - $ mil. (Dates: OCT, OCT)	1,581	-	1,368	+16
Broiler Placements (thous.)	N.A.		N.A.	
Calf Prices ($ per cwt.)	53.4	54.6	53.4	0
Broiler Prices (¢ per lb.)	29.0	25.0	28.5	+ 2
Soybean Prices ($ per bu.)	5.25	4.93	5.91	-11
Broiler Feed Cost ($ per ton)	174	178	183	- 5

NOTES: Personal Income data supplied by U. S. Department of Commerce. Taxable Sales are reported as a 12-month cumulative total. Plane Passenger Arrivals are collected from 26 airports. Petroleum Production data supplied by U. S. Bureau of Mines. Consumer Price Index data supplied by Bureau of Labor Statistics. Agriculture data supplied by U. S. Department of Agriculture. Farm Cash Receipts data are reported as cumulative for the calendar year through the month shown. Broiler placements are an average weekly rate. The Southeast data represent the total of the six states. N. A. = not available. The annual percent change calculation is based on most recent data over prior year. R = revised.

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EMPLOYMENT

	OCT 1985	SEP 1985	OCT 1984	ANN. % CHG		OCT 1985	SEP 1985	OCT 1984	ANN. % CHG
UNITED STATES									
Civilian Labor Force - thous.	116,346	115,850	114,250	+ 2	Nonfarm Employment - thous.	99,279	98,675	96,278	+ 3
Total Employed - thous	108,428	107,867	106,262	+ 2	Manufacturing	19,467	19,513	19,673	- 1
Total Uemployed - thous.	7,917	7,984	7,989	- 1	Construction	5,017	5,021	4,648	+ 8
Unemployment Rate - % SA	7.1	7.1	7.3		Trade	23,544	23,499	22,582	+ 4
Insured Unemployment - thous.	N.A.	N.A.	N.A.		Government	16,558	16,073	16,233	+ 2
Insured Unempl. Rate - %	N.A.	N.A.	N.A.		Services	22,375	22,226	21,165	+ 6
Mfg. Avg. Wkly. Hours	40.7	40.8	40.5	+ 0	Fin., Ins. & Real. Est.	5,989	5,994	5,722	+ 5
Mfg. Avg. Wkly. Earn. - $	388	389	374	+ 4	Trans. Com. & Pub. Util.	5,367	5,378	5,272	+ 2
SOUTHEAST									
Civilian Labor Force - thous.	15,403	15,401	15,123	+ 2	Nonfarm Employment - thous.	12,866	12,797	12,486	+ 3
Total Employed - thous	14,301	14,215	13,934	+ 3	Manufacturing	2,293	2,295	2,330	- 2
Total Uemployed - thous.	1,102	1,185	1,188	- 7	Construction	802	799	780	+ 3
Unemployment Rate - % SA	7.3	8.1	8.0		Trade	3,179	3,163	3,042	+ 5
Insured Unemployment - thous.	N.A.	N.A.	N.A.		Government	2,298	2,258	2,216	+ 4
Insured Unempl. Rate - %	N.A.	N.A.	N.A.		Services	2,698	2,688	2,558	+ 5
Mfg. Avg. Wkly. Hours	41.2	41.3	40.8	+ 1	Fin., Ins. & Real. Est.	736	734	702	+ 5
Mfg. Avg. Wkly. Earn. - $	346	347	330	+ 5	Trans. Com. & Pub. Util.	733	731	726	+ 1
ALABAMA									
Civilian Labor Force - thous.	1,808	1,787	1,816	- 0	Nonfarm Employment - thous.	1,407	1,395	1,398	+ 1
Total Employed - thous	1,666	1,642	1,626	+ 2	Manufacturing	348	349	361	- 4
Total Uemployed - thous.	142	145	191	-26	Construction	70	70	66	+ 6
Unemployment Rate - % SA	8.3	8.9	11.0		Trade	295	295	296	- 0
Insured Unemployment - thous.	N.A.	N.A.	N.A.		Government	304	293	295	+ 3
Insured Unempl. Rate - %	N.A.	N.A.	N.A.		Services	236	235	230	+ 3
Mfg. Avg. Wkly. Hours	41.3	41.3	40.9	+ 1	Fin., Ins. & Real. Est.	66	66	63	+ 5
Mfg. Avg. Wkly. Earn. - $	356	353	331	+ 8	Trans. Com. & Pub. Util.	73	73	73	0
FLORIDA									
Civilian Labor Force - thous.	5,263	5,301	5,151	+ 2	Nonfarm Employment - thous.	4,478	4,447	4,273	+ 5
Total Employed - thous	4,981	4,959	4,790	+ 4	Manufacturing	518	516	510	+ 2
Total Uemployed - thous.	280	342	361	-22	Construction	339	335	336	+ 1
Unemployment Rate - % SA	4.6	6.4	6.3		Trade	1,169	1,161	1,123	+ 4
Insured Unemployment - thous.	N.A.	N.A.	N.A.		Government	715	707	669	+ 7
Insured Unempl. Rate - %	N.A.	N.A.	N.A.		Services	1,154	1,148	1,076	+ 7
Mfg. Avg. Wkly. Hours	41.8	41.8	40.7	+ 3	Fin., Ins. & Real. Est.	322	320	304	+ 6
Mfg. Avg. Wkly. Earn. - $	328	332	313	+ 5	Trans. Com. & Pub. Util.	250	249	245	+ 2
GEORGIA									
Civilian Labor Force - thous.	2,875	2,862	2,834	+ 1	Nonfarm Employment - thous.	2,630	2,618	2,528	+ 4
Total Employed - thous	2,683	2,665	2,671	+ 0	Manufacturing	549	547	554	- 1
Total Uemployed - thous.	191	197	163	+17	Construction	156	156	141	+11
Unemployment Rate - % SA	6.9	7.2	6.0		Trade	682	679	633	+ 8
Insured Unemployment - thous.	N.A.	N.A.	N.A.		Government	451	440	445	+ 1
Insured Unempl. Rate - %	N.A.	N.A.	N.A.		Services	485	487	456	+ 6
Mfg. Avg. Wkly. Hours	41.1	41.1	40.7	+ 1	Fin., Ins. & Real. Est.	137	137	131	+ 5
Mfg. Avg. Wkly. Earn. - $	330	330	314	+ 5	Trans. Com. & Pub. Util.	162	163	159	+ 2
LOUISIANA									
Civilian Labor Force - thous.	2,023	2,019	1,964	+ 3	Nonfarm Employment - thous.	1,597	1,594	1,609	- 1
Total Employed - thous.	1,803	1,800	1,776	+ 2	Manufacturing	175	176	184	- 5
Total Uemployed - thous.	220	219	187	+18	Construction	114	114	120	- 5
Unemployment Rate - % SA	11.2	11.1	9.8		Trade	384	381	383	+ 0
Insured Unemployment - thous.	N.A.	N.A.	N.A.		Government	329	326	323	+ 2
Insured Unempl. Rate - %	N.A.	N.A.	N.A.		Services	318	319	315	+ 1
Mfg. Avg. Wkly. Hours	41.5	41.6	41.0	+ 1	Fin., Ins. & Real. Est.	84	84	83	+ 1
Mfg. Avg. Wkly. Earn. - $	432	434	413	+ 5	Trans. Com. & Pub. Util.	114	114	119	- 4
MISSISSIPPI									
Civilian Labor Force - thous.	1,142	1,150	1,093	+ 4	Nonfarm Employment - thous.	856	852	841	+ 2
Total Employed - thous	1,035	1,037	985	+ 5	Manufacturing	221	220	221	0
Total Uemployed - thous.	108	112	108	0	Construction	42	42	39	+ 8
Unemployment Rate - % SA	10.4	10.8	10.9		Trade	186	186	180	+ 3
Insured Unemployment - thous.	N.A.	N.A.	N.A.		Government	193	191	189	+ 2
Insured Unempl. Rate - %	N.A.	N.A.	N.A.		Services	130	129	128	+ 2
Mfg. Avg. Wkly. Hours	40.6	40.8	40.4	+ 0	Fin., Ins. & Real. Est.	35	35	35	0
Mfg. Avg. Wkly. Earn. - $	295	296	281	+ 5	Trans. Com. & Pub. Util.	41	40	40	+ 3
TENNESSEE									
Civilian Labor Force - thous.	2,292	2,282	2,265	+ 1	Nonfarm Employment - thous.	1,898	1,891	1,837	+ 3
Total Employed - thous	2,131	2,112	2,086	+ 2	Manufacturing	482	487	500	- 4
Total Uemployed - thous.	161	170	178	-10	Construction	81	82	78	+ 4
Unemployment Rate - % SA	8.0	8.7	8.8		Trade	463	461	427	+ 8
Insured Unemployment - thous.	N.A.	N.A.	N.A.		Government	306	301	295	+ 4
Insured Unempl. Rate - %	N.A.	N.A.	N.A.		Services	375	370	353	+ 6
Mfg. Avg. Wkly. Hours	40.9	41.1	40.8	+ 0	Fin., Ins. & Real. Est.	92	92	86	+ 7
Mfg. Avg. Wkly. Earn. - $	338	339	327	+ 3	Trans. Com. & Pub. Util.	93	92	90	+ 3

NOTES: All labor force dara are from Bureau of Labor Statistics reports supplied by state agencies.
Only the unemployment rate data are seasonally adjusted.
The Southeast data represent the total of the six states.

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