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Colby H. Chandler

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COMMENTARY

TOWARD GLOBAL ECONOMIC HARMONY

12 **By Colby H. Chandler**

Nothing is as critical to making America more competitive than what is going on at Howard University. If we rid ourselves of the trade deficit, if we controlled the federal budget deficits, if we stabilized the value of the dollar and interest rates, we still need a skilled and educated work force. Educational development is economic development.

Neither the circular ways of Washington politics nor the apathy of the American electorate should deter us from working to improve our country.

For some time now, many of the people in Washington have been telling us that we are entering a post-industrial age in which the entire country will be populated by lawyers, economists, bankers, accountants, retailers and other suppliers of service . . . a giant Washington, if you will.

America's been told that manufacturing is dying, and that community's would be better off trying to attract new service enterprises rather than factories.

Given that the Eastman Kodak Company is a manufacturing company, you can imagine that notions like that do not sit well with us. And we decided to fight back. We called on three prominent economists — Rudiger Dornbusch and James Poterba of MIT and Lawrence Summers of Harvard — to get their critical assessment of manufacturing's role in the U.S. economy. The result is "The Case for Manufacturing in America's Future" study, which basically answers two questions: Is manufacturing important to the U.S. economy? Is the United States falling behind the competition?

The answer to both questions is an unambiguous yes.



Manufacturing is important in that:

- Manufacturers conduct 95 percent of all private R & D in the U.S.
- Manufacturers contribute 20 percent of added value to the gross domestic product. Their purchases represent another 40 percent of the gross domestic product. And, therefore, their shipments account for nearly 60 percent.
- Since 1970, productivity growth among U.S. manufacturers has exceeded that of other business sectors by ten times.
- Manufacturing workers are among the most highly skilled and educated people in America's work force. This translates not only into high-wage jobs, but into high-wage consumers who themselves have a direct impact on the economy.
- And when manufacturing slides, the downside in other sectors of the economy is more severe. And when it grows, other sectors prosper.

But while manufacturing is important, the U.S. economy continues to lose ground to the competition. In comparison with Japan and much of the industrialized world, our cost of capital is higher; our net national saving rate is lower; the national indebtedness has soared; we are losing market share, even in areas where strength has been perceived — such as in high technology markets and business services; and in a few short years, we have gone from being the world's largest creditor to its largest debtor.

Yet while we are aware that America has a trade deficit, it seems very abstract to most of us. And few of us have stopped to think what it actually means in practical terms.

What it means is that the debate over whether the U.S. is deindustrializing is essentially irrelevant. The fact is, America cannot afford to do away with its manufacturing base.

Massive trade deficits, financed by large inflows of foreign capital, can only be temporary. Eventually, in the 1990s, the U.S. must balance its trade account and even run trade surpluses to pay the interest accruing from our new debtor status.

As all of us know: Running into debt is not as bad as running into creditors.

Candidates for public office in Ar-

gentina and Brazil talk of debt moratoriums. And Mexico's President has said, "The interests of Mexicans come before those of creditors. The priority now will be not to pay, but to return to growth."

I cannot imagine a future U.S. President taking such an approach, but Daniel Burstein in a new book, *YEN! Japan's New Financial Empire and Its Threat to America*, does. In his account, a xenophobic U.S. President takes office 16 years from now and repudiates the U.S. debt to Japan.

The right question we need to be discussing . . . is not whether we are *deindustrializing* but: On what terms will we be *reindustrializing*?

Clearly, America's leash is much longer than Latin American countries facing debt crises. But ultimately we are not much different.

Latin America today runs a trade surplus with the United States, because its debt crisis crushed the region's purchasing power, and because it must earn dollars to meet the demands of its interest payments.

Just like Latin America, the U.S. too will have to run trade surpluses. Hopefully, unlike Latin America, our surplus will be the result of increasing exports . . . not of a deep recession.

Given the limited role that services and agriculture can play, the adjustment must be made primarily through trade of manufactured goods. Indeed, trade in actual services, as opposed to earnings on investment, accounts for no more than one-sixth of the world's trade. And that amount has remained relatively stable, and there is little reason to believe it will increase.

The right question we need to be discussing, therefore, is not whether we are *deindustrializing* but: On what terms will we be *reindustrializing*?

Will we be able to sell our goods at prices comparable to those of other

industrialized countries or will we be forced to become a low-cost, cheap labor country?

As we reindustrialize, will we maintain steady economic growth or will financial and economic strains undermine us?

Will a revitalized manufacturing base be U.S.-owned or will we become the colony of foreign-based multinationals?

Will we be trading goods or trading places with countries whose standards of living are currently less than our own?

To get an idea of what will be needed to chart the most favorable course, let us take a look at some rough numbers.

Assuming our debt to the rest of the world is \$500 billion, at 10 percent interest, we will have to run a trade surplus of \$50 billion just to keep the debt from growing. Given that our merchandise trade deficits have been running \$150 billion of late, that means a \$200 billion turnaround is required — most of which would have to come from the trading of manufactured goods. That means we need a 75 percent increase in our GNP growth rate, and manufacturing's share of GNP will have to grow from 20 to 23 percent.

This is quite a scenario, yet it is what we must do . . . just to stand still.

If we are to do what is necessary to bring some vibrancy to our economy, we must strive for even more.

Managing a successful adjustment will depend on three elements:

- Sound U.S. economic policies — most importantly, a substantial increase in U.S. saving to finance investment.
- Improved market access abroad.
- Growth abroad.

Increasing national saving inevitably takes us to the federal budget deficit . . . which is a form of dissaving.

The politicians in Washington talk about the deficit, but no one does anything about it.

Twelve years ago, a president came to give us "a government as good as its people." He used zero based budgeting as governor to control spending. In his four years, deficits went from \$29 billion to \$64 billion.

Eight years ago, another president

promised to "get government off our backs" and a balanced budget amendment. He was tough enough to deal with Congress and tough enough to make the difficult decisions. In his first four years, deficits went from \$146 billion to \$196 billion.

Three years ago Congress got into the act and passed the Gramm-Rudman-Hollings Deficit Reduction Act to cut spending across the board if the deficit was not reduced substantially each year. At first this worked, and the deficit was reduced from \$221 billion to \$155 billion. But in the last two years, Congress has altered its formula, and the national debt and interest costs continue to rise.

Our federal budget chefs have no easy chore, for each works from a different political recipe and each serves a different constituency. But when it comes to the nation's economic sustenance, the best politics is no politics.

By not serving up the right medicine in the right doses in year's past, we have only made matters worse.

One might ask: What about President Reagan's budget cuts and program eliminations? While he cut \$5 billion here and \$10 billion there, the interest costs on the federal debt grew every year as well — at increments of \$15-to-20 billion. Today the annual interest on the national debt is higher than the federal government's entire budget in 1972!

America must work towards a balanced budget with spending cuts *and* revenue increases sharing in the pain.

Could we balance the budget through cost management alone? Mathematically, yes. Philosophically, yes. But politically, no.

No one likes new taxes . . . revenue enhancements . . . user fees . . . or, as new OMB Chief Richard Darman humorously referred to them at his confirmation hearing, ducks.

It is my hope that when they come, they will reward saving and investment rather than consumption and debt. A 5% value added tax alone — which exempts food, health and housing costs — could give us up to \$80 billion a year towards deficit reduction.

But there are those who are fearful of doing anything. While they may want a balanced budget, they do not

want their pet programs cut or their taxes raised.

Whether one picks up a copy of the conservative *National Review* or the more liberal *Atlantic*, those more fearful of change than debt are asking the question; "Is the deficit really so bad?"

For those of us in manufacturing the answer is unequivocally "yes".

Failure by our political leaders to act today means a tomorrow with higher interest rates (which are al-

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ready too high), less investment (which is already too low), and probably an overvalued dollar (when a lower one is needed to encourage exports).

In other words, failure to produce a deficit reduction will make it difficult for American manufacturers to produce.

American know-how and marketing power used to dominate world markets. Today we are being muscled by a host of energetic competitors.

Japan, now the world's number two industrial power, is gaining ground . . . and rapidly moving toward a *de facto* trading bloc with the newly industrialized countries of the Pacific Rim — Taiwan, South Korea and others. And the harmonization of Europe in 1992 into one market poses yet other challenges.

These developments seem to portend the emergence of three trading blocs, of which North America will be one, that will wield enormous economic clout.

Does this mean easier market access and perhaps global economic harmony, or does it mean more trade barriers and the equivalent of a nuclear trade war? Might not internal lib-

eralization and external protectionism go hand-in-hand and further isolate the United States?

To improve the odds that American goods will have markets abroad and to pacify protectionist passions, U.S. trade policy must pursue at least four efforts.

■ The U.S. must keep its markets open, because it is good morality and it is good economics. As one Federal Trade Commission study shows, the cost of U.S. protectionism is nearly \$10 billion a year.

■ The U.S. must push aggressively to not merely resuscitate the GATT system — the General Agreement on Tariffs and Trade — but to transform it and the way we trade. GATT in brief says that a country must treat all other countries the same. This has afforded Korea with a "developing nation status" which allows it to maintain high tariffs and barriers, while competing in other more open markets.

And while GATT has led to the elimination of tariffs in most industrialized nations, they have been replaced in many instances by non-tariff barriers — complicated inspection and distribution systems, government subsidies of national industries, and product regulation. This has led to bilateral sector-by-sector trade negotiations among nations.

But the sector-by-sector approach to trade liberalization often produces meager results, and too often causes serious tensions with key allies.

■ The U.S. needs to establish its own trading areas. The recent U.S.-Canada Free Trade Agreement is a good start. We should look to our neighbor to the South, Mexico, and possibly Korea for preferential trade arrangements.

Free trade agreements with these countries would be a dramatic step to opening these markets which will become increasingly rich over the next decade, and provide us a hedge against any movement by Europe to turn its market into an internal one rather than an international one.

■ The U.S. needs to reorient its trade policy more in the interest of its manufacturers.

U.S. trade policy has emphasized services where little is to be gained,

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agriculture where the world is struggling with excess supply, and high technology where only a small portion of our manufactured trade lies.

Returning to our success factors, not only must we seek sound U.S. economic policies and worldwide market access, we need global economic growth.

To a large extent we contribute to this ourselves. Alan Greenspan, chairman of the Federal Reserve, is saying that if the deficit is reduced, he will reduce interest rates. This action would have one of two consequences: either the dollar will fall and make our goods more competitive, or other nations will follow our lead and lower interest rates as well, thereby promoting growth in their own countries. Either way, America — and the rest of the world — wins.

The intractable debt crisis of the developing world is a problem that all trading partners should work to resolve. The debt problem faced by Latin American countries and others not only reduces their economic growth potential, but also limits markets for our products.

As I noted before, negotiating a broader trade arrangement with Mexico is desirable. But there will be little to trade for the U.S. if Mexico does not experience strong trade growth. And growth cannot come as long as Mexico transfers more than six percent of its GNP abroad to meet interest payments. Some solution must be found that allows Mexico and others time to grow and invest, while preserving the rightful long term interests of its creditors.

In the U.S., we need to ask ourselves not whether we should pay more taxes or cut spending. Instead, we need to ask ourselves: Do we want to manufacture quality goods and have increasing economic growth, or do we want to accept status as a low-cost, cheap labor country?

We have a choice. We can trade goods or we can trade places. □

Colby H. Chandler is chairman and executive officer of the Eastman Kodak Company. The above was excerpted from a presentation in March at Howard's School of Business and Public Administration.

B) That the university's financial aid staff be increased to make the process more efficient, and that the staff show more respect for students.

Agreement was reached on these items by Howard University President James E. Cheek and the leaders of the student movement before dawn on March 9 after a lengthy negotiating session. The agreement was witnessed by the Rev. Jesse Jackson, Washington Mayor Marion Barry and D.C. Delegate Walter Fauntroy, among others.

The above points were subsequently reaffirmed on March 15 by the trustees of the university during a special three-hour meeting on campus.

In a statement released for distribution, the trustees noted that they shared the students' "concern about the conditions of the university residence halls" and the other points in the covenant between the university and the Coalition of Concerned Students. They promised to remedy the concerns expressed by the students through appropriate action.

The trustees also expressed regret that Atwater had to resign his board seat and thanked him "for his concern and sensitivity to the students of Howard University and for his efforts to avoid any possible injury to those students who last week occupied the Administration Building."

President Cheek, in a letter to the university community that was also dated March 15, gave a chronology of the events that had transpired during a week of protests and reassured the Howard community.

"A University," he wrote, "is a place where divergent ideas and concerns can coexist. The hallmark of Howard University has been its ability, not only to survive but also to thrive while embracing a community of scholars, intellectuals and students whose diversity of ideas, politics and goals may well be unmatched anywhere else in higher education. . . ."

"Our rapid acceptance of the students' demands is clear substantiation of our unrelenting commitment to student rights, education, comfort and participation in the determination of their destiny.

"I am particularly proud of the academic and spiritual climate that pervades our campus. I say this because, in an era characterized by individual and collective self-aggrandizement, our students, staff and faculty have demonstrated admirable integrity and willingness to sacrifice for the common good. This I admire, for though at times we may disagree on methods and timing, where the welfare of the University is concerned—students, faculty, staff and I are ONE."

On the controversial issue of Atwater's election to the university board, Cheek offered this:

"Contrary to several reports in the news media, I did not nominate Lee Atwater for election to the Board. His name was submitted by the committee to the Board, and the majority of its members voted for his approval. The election of Mr. Atwater came about as a result of our zeal to expand the base of public and private contributions to our university. It was the Board's view, which I supported, that Mr. Atwater would provide a valuable entrée to the world of business and finance. I am of the opinion that history will vindicate our judgement by his future actions—despite his resignation from the Board."

There you have it readers. All of us on the campus, students, faculty, administrators and staff—as well as alumni and friends of Howard—are on this ship together. We must continue to sail on a even keel and keep our ship on course for future generations.

A university's foremost mission is to educate; a teacher's charge is to teach; an administrator's role is to administer; a student's challenge is to learn. On these vital issues, we all are in agreement. □