

Exports, 'Solid and Strong' Can Pull America Out of Recession

Courtesy International Herald Tribune

By C. Fred Bergsten

Indeed, export-led growth offers a way out of the recession. There is no world recession. Most of Asia and Continental Europe continues to expand, providing growing markets. The dollar's exchange rate is low enough to make U.S. industry price-competitive in most markets.

We have already glimpsed the potential benefits from trade improvement. It provided almost half of all U.S. growth for 1990. A concentrated effort by American industry to exploit present trade opportunities, supported by new government initiatives, could brighten the economic outlook considerably.

The present turnaround has two unusual characteristics. One is bad news: the unavailability of the usual policy instruments to restart the economy. The fiscal deficit will rise further for a year or two as lower tax payments and higher welfare spending result from the economic turnaround, but new fiscal stimulus is out of the question in light of the enormous budget deficit.

Neither should we expect the Federal Reserve to rescue the economy with easy money, despite recent drops in interest rates. The Fed must worry not only about underlying inflation but about the dollar.

To cover the large external deficit, the United States must borrow about \$10 billion monthly in new money from the rest of the world — and avoid any net withdrawals from the \$1.5 trillion stock of liquid foreign assets already in America. Yet U.S. interest rates have already dropped below those in every key money center abroad, and a further sharp reduction could produce a dollar free-fall.

Markets would then push interest rates up sharply to attract the essential capital

inflow as in 1978 and 1987 — worsening the recession and leaving the U.S. financial system more fragile.

The other unique characteristic of the present situation, however, is fortuitously good news: that the world business cycle is unsynchronized for the first time since the 1960s.

As the U.S. economy began to flag at the end of the 1980s, the German and Japanese economies accelerated. Growth in Asia, Continental Europe and perhaps the oil-exporting countries will continue to boost trade prospects. The major countries in Asia and Europe, unlike the United States, are still in a position to stimulate via both fiscal and monetary policy if necessary (As Germany is doing in connection with unification).

So the market is there — if Americans have the wit to sell to it, and despite all the gloom about U.S. competitiveness, the evidence is that they do. The external deficit in real GNP terms has already declined by 80 percent, or almost \$120 billion, from its peak in 1986. Exports expanded at a rate of more than 14 percent during 1987-89, while imports grew only half as fast. The export surge slowed in 1990 but was still twice as fast as the rise in imports.

Moreover, the export boom of the past four years has ranged across virtually the entire spectrum of manufacturing industries, suggesting a recovery of American competitiveness.

A sustained trade boon could contribute about \$50 billion annually in real economic growth for America for the next three years. This would boost total output by more than a full percentage point per year.

If the domestic economy clearly can provide such export expansion, can the world economy accept such improvement in the U.S. trade balance?

Recent history suggests it can. From 1987 to 1990, America's share of world manufactured exports rose by about 0.6 percentage points annually, and its share of world imports of manufactures dropped by about 1 percentage point annually. The other industrial countries not only survived but most experienced a pickup in their economies as they shifted to domestic-led expansion. Three more years of similar recovery of market share would still leave America's share of world markets for manufactured exports below the 1980-81 level.

The key is whether firms producing in the United States, including those headquartered abroad, will be sufficiently agile to achieve such a shift, even with the incentive of a sluggish home market and a cheap dollar.

The government can help in several ways. First, it must ensure that the dollar does not rebound in the short run and prematurely undermine American price competitiveness.

Second, the United States must make a clear commitment to avoid a repeat of the 1981-85 neglect of the dollar that so damaged U.S. exports.

At home, the U.S. government should sharply increase the size and scope of the Export-Import Bank and its other export-promotion programs.

The administration and Congress should jointly develop legislation to eliminate excessive national-security and foreign-policy controls on exports.

Finally, export-led growth should become the focus of U.S. trade policy. The United States needs increased market access in the sectors where it is most competitive. It is thus essential to conclude a successful Uruguay Round of international trade negotiations.

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