THE BENEFITS OF AN OPEN ECONOMY

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We are in the midst of a vibrant, some even say booming, U.S. economy. Economies of countries worldwide are improving as well. Yet one issue has emerged that is both striking and troublesome: Within some quarters, there is renewed opposition to free and open trade.

We recently saw an example of this in Seattle during the world trade talks, where various economic and political forces worked to impede progress toward opening more doors to global trade. And I suspect the heated debate over open trade will only intensify in the coming months.

As strong as world economies are right now, the United States is running a sizeable current account deficit. This deficit is giving some people concern regarding our policies that encourage open trade. And it is true that against today's backdrop of an improving world economy, there are economic differences among the world's people. Some critics claim free trade is the cause of these differences, and they question the wisdom of open markets.

But my message to you this evening is this: Such reasoning is shortsighted. The United States and the rest of the world have benefited greatly over recent decades from embracing free trade. We in the United States have worked hard to open our markets to the rest of the world and to expand our universe of trading partners. Now is not the time to back away from our commitment to free trade.

The State of The Economy

There is no question that our nation's economy is strong—even booming. During the third quarter, GDP grew at an annual rate of 5.7 percent. Fourth quarter GDP is estimated to approach 5 percent, a momentum that should literally launch us into the new millennium. Our personal consumption has stayed consistently above 6 percent, while business fixed investment has grown at double-digit rates. Sales of new and existing homes, while showing signs of slowing, remain solid. Unemployment has sunk to 4.1 percent, its lowest mark in 30 years. And the performance of the U.S. stock market continues to amaze us. Yet, core inflation was just 1.9 percent last year, its tamest level in decades.

Yes, to put it simply, the U.S. economy is sound, and the outlook is good.

Of course, there are imbalances in any economic picture which necessarily complicate our view of the horizon. For example, the consumer savings rate continues to slip. An interesting reflection of this is owners' equity share of household real estate, which now stands at 55 percent, down from about 65 percent in just the past ten years. Household debt as a share of disposable personal income has reached 99 percent, a new historic high. On a broader scale, gross private savings less gross private domestic investment in the United States is now a negative 3 percent of GDP, down from its long-run average of a positive 2 percent. Corporate debt is once again rising to historically high marks, cresting above 70 percent of GDP. Private-sector debt as a share of GDP is nearly 145 percent, another all-time high. The increasing amount of leverage within our economy is reflected in our current account deficit, which is expected to exceed $300 billion in 1999, nearly 4 percent of GDP.

If these imbalances were to get out of hand, of course, they could undermine our confidence in our economy and affect the economic outlook. But the fact is, imbalances are an inevitable part of a large economy. It's no mystery that we need to remain alert to these trends and to keep our engines tuned for our economy to run smoothly.

The Current Account Balance and Free Trade

As I said earlier, some critics point to our current account deficit and see only harm coming from it. They question the wisdom of open markets and free trade, and they argue that the United States should not act as the "consumer of last resort" for the rest of the world. They warn of a growing danger for certain sectors within our economy, and they claim that having opened U.S. markets to the rest of the world we are undermining our economic growth and paying for other countries' prosperity with American jobs.

Ironically, many of these same people question whether the rest of the world can continue to feed our appetite for imported goods and meet our need for international credit.

These kinds of fears, by their very nature, encourage protectionist sentiment that call for closing our doors to international trade and the protection of jobs.

But doing so would be a grave mistake. Like bleeding the patient, closing our doors to trade would do far more harm than good.

Throughout history, even before Adam Smith wrote his famous The Wealth of Nations some 200 years ago, economic thinkers have repeatedly shown that open trade helps countries systematically raise their levels of wealth and income. Issues of job displacement and transition represent legitimate concerns. But as world trade has expanded we have dealt successfully with these issues, and in the end, added to both wealth and jobs.

Let's take a moment to consider some key facts.

In 1947, one of the first postwar trade agreements was the General Agreement on Tariffs and Trade, or GATT, the predecessor of today's World Trade Organization. GATT reflected the leadership of the United States in an expanding system of world trade. Since then, the average tariff in the United States has shrunk from about 20 percent to just 5 percent. Most of these gains have been passed on to consumers, raising our standard of living. Also since 1947, the United States has remained perhaps the wealthiest, most innovative, and most successful nation in the world's history.

Since the first GATT agreement, the growth of real GDP in the United States has averaged nearly 3.5 percent per year. Meanwhile, our real per capita GDP has surged from under $10,000 in 1947 to nearly $30,000 today. For more than 180 other countries of the United Nations, average real GDP growth since 1947 has even exceeded that of the United States.

In 1995, noted Harvard economist Jeffrey Sachs and his colleague Andrew Warner studied the effects of trade policies in dozens of countries. Sachs is one of the most respected economists in the world and has served as an economic advisor to countries in Latin America, Eastern Europe, the Former Soviet Union, Africa and Asia. Among the countries reviewed, he and Warner found that developed nations with open economies grew about 2 ¼ percent annually from 1970 to 1990, while developed nations with closed economies grew a meager 0.7 percent. The contrast among developing nations is even starker. Developing nations with open economies grew about 4 ½ percent, while developing nations with closed economies grew less than 1 percent. Countries that switched from closed to open economies saw their growth rates climb on average by more than a full percentage point a year.

In addition to these facts, consider that despite their recent financial woes, South Korea, Singapore, and Hong Kong—countries that have opened their doors to trade—are far wealthier than countries with closed economies. It is no coincidence that these three countries have grown two to four times faster than India, Brazil, and Mexico—countries that have been slower to open their doors to trade.

In Hong Kong, real per capita GDP has soared from a U.S. equivalent of $3,000 in 1970 to $18,000 today. In China, that same measure of wealth has grown from $100 to $800—and most of that increase has come in the past ten years, as China has finally begun to pry open its doors.

In other words, what this information and history show is that trade is good for everyone. The U.S. current account reflects how much Americans have benefited from the world's willingness to meet our demand for goods, to hold our debt, and to invest in our projects. It also reflects how the rest of the world has benefited from our willingness to buy their goods. Indeed, events of the past couple of years have shown how trading partnerships helped developing nations pull themselves out of financial trouble, thus averting a worldwide economic crisis that would have harmed us all.

In short, free trade—a voluntary exchange of goods—benefits everyone. I am confident that our standard of living in the United States would be far lower, and our inflation rate far higher, if we were operating in a trade vacuum.

Free Trade and Prosperity

I am not suggesting that enhancing wealth is the only goal of a society in building international trade relationships. Obviously, other legitimate concerns become intertwined with matters of trade policy—for example, labor rights and working conditions, or the effects of industrial development on the world's environment. These are important issues, without question.

But I would argue that the best approach to addressing these kinds of issues is separately from the trade process but on a parallel path. For example, the relationships between trade and labor standards were studied by the Organization for Economic Cooperation and Development in 1996. The OECD found that trade reforms, if sustained, lead to improvements in labor standards. That is, rising labor standards are the result of economic growth—not the cause—and that free trade is one of the main ways to bring about this result.

My point is that such issues can be most effectively resolved, as incomes and wealth increase, and as nations become more financially able to face such problems. This has been our approach in the United States for roughly the past 50 years. It has worked well for us, and it should work well for the rest of the world.

I also am not suggesting that the act of removing trade barriers, by itself, assures a nation of prosperity. Any society that wishes to improve its economic well-being must first embrace a host of other economic and legal principles beyond open trade. A country must have a legal and market infrastructure in place to handle economic transactions. It must have the rule of law and contracts. Its people must be educated. And its fiscal and monetary mechanisms must work.

In other words, a country must develop certain internal systems. Only then can prosperity flow from negotiating fair agreements with other countries to open markets to new competition. The country then must develop ways of building products, and employing and redeploying resources most productively. And, of course, prosperity requires a system that provides incentives to work, to save, and to invest.

Conclusion

In the future, the United States, as well as nations around the world, will face changes and challenges to our economic well-being. This is a simple fact of life. But our successes will depend on how we choose to react to those events. If we react with barriers to trade, if we engage in a "beggar thy neighbor" policy, we will surely falter. Our incomes will shrink. And our prosperity will suffer, as will that of our neighbors.

On the other hand, if we react with confidence in our market mechanisms, with patience and foresight, we will prosper—both now and in the long run, as we have in the past.

Finally, if I leave you with no other point this evening, let it be that any country that has worked hard to build and maintain its prosperity, or has gone from an underdeveloped nation to a developed one, that country's economy and society have been outward looking. How sad it would be if we let our success convince us that we can afford to abandon our commitment to open trade.