A new global framework for business

The following are excerpts from a speech given by Philip Caldwell, vice-chairman and president of Ford Motor Company, to the World Affairs Council at Los Angeles Hilton on Thursday, Jan. 18, 1979.

... Not only are we beginning a new year, but we are entering what I believe may be a critical period in this country's approach to world economic affairs.

... In response to these pressures, there is emerging a new international framework for business, one based more firmly than ever on a struggle for national competitive advantage and for bigger individual shares of the worldwide pie. This is particularly true of the developing countries, where efforts are being redoubled to bolster national economies, to acquire trade advantages or simply to avoid being left behind. Old allegiances and patterns of national behavior are being swept aside in a rush to create new economic realities.

What I would like to talk about today are the dimensions of this new international framework, the problems we face in increasing our share of world markets and the steps I believe we must take to make America more competitive in international trade.

The Japanese model

And if 20 or 30 years seems far in the future, consider what Japan, with a population not much more than half of ours, has accomplished in less time. For the Kennedy round of the General Agreement on Trade and Tariffs negotiations beginning in 1962, Japan was treated as a developing nation....

While it is true that oil imports account for a major part of that problem, the fact is that our trade balance in manufactured products has dropped from a surplus of nearly $11 billion as recently as 1976 to a deficit of $8 billion in 1978. That is the clearest measure of our real problem in international trade.

Germany and Japan are completely dependent on imports of oil. But they have nevertheless managed to achieve trade surpluses. Relatively high productivity growth and low inflation have enabled them to offset their increased payments for oil with increased exports of industrial products.

... At the end of World War II, we were the undisputed leader in almost every field...

Our products and our systems are not necessarily the best anymore, and we are no longer the only or most logical supplier of many types of sophisticated equipment. To take only one startling example, the United States last year — forthe first time in recent memory — imported more machine tools than it exported. Only in a few industrial commodities such as aircraft and computers and, of course, in agriculture have we maintained anything like our earlier lead.

... In productivity, the annual increase in output per hour of work, the situation is no better. For the past 10 years, the United States has had an average improvement of 2.2 percent a year. In Japan, the improvement was 6.6 percent a year. In West Germany, it was 5.3 percent a year. Productivity is the real engine of our economic system — it's the only element that raises our standard of living in real terms.

... Clearly, the new international framework for business calls for a mighty effort by the United States to protect and enhance its economic interests throughout the world. The key question is: What must we do to regain competitive strength and reassert our leadership? A critical step would be more widespread recognition by the American people that we do have a real and urgent problem. The United States must increasingly rely upon raw material imports of many kinds in the future. We will have to pay for imports with more exports of manufactured goods....

Japan's exports make up almost 12 percent of its gross national product. In Germany, the ratio is more than22 percent. In the United States, however, the ratio is less than 7 percent. Each percentage point improvement in the U.S. ratio would be worth more than $20 billion in trade. If that improvement were based on more exports of American-manufactured goods, it would add 500,000 jobs to our economy. In Germany and Japan, foreign trade has been a vital factor in avoiding large-scale unemployment.

America, a service economy

The fact is that the United States has become essentially a service economy, with too little emphasis on expanding manufacturing capacity to serve developing hard goods abroad. Our civilian employment has increased by 15 million or 20 percent, over the past 10 years, but nearly all of this increase has been in service industries and government. Manufacturing now accounts for less than 25 percent of all U.S. jobs. In effect, we have become an economic "colony" for much of the industrialized world, exporting agricultural products and raw materials, and importing manufactured goods. If we continue in that direction, we will not have the sinews for a vigorous well-balanced economy — or for a strong national defense effort, if that should become necessary.

... Strengthening our nation's ability to compete in world trade ... certainly has to rank very high if the United States is to maintain its overall capability in international affairs and provide an effective means of increasing living standards in the U.S.

One step would be to reexamine current and proposed government regulations... Long-range research and engineering have had to be curtailed so that near-term government demands can be met. There is much innovation involved in this effort, but for the most part it neither improves our productivity nor gives our products a competitive edge in other countries.

Even more important steps in the longer term would be government measures to expand the capital base for investment in U.S. industry...

... To sum up, I believe that we in America have not yet fully recognized the worldwide economic revolution that is altering the basic terms of international trade. The emerging economic framework I have described makes it clear that we must have a strong, balanced and growing economy — in real, not inflationary, terms — if we are to be effective in the world. That isn't just a business interest, but a national interest of major concern.