

COUNCIL ON INTERNATIONAL ECONOMIC POLICY  
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FACT SHEET

INTERNATIONAL ECONOMIC REPORT OF THE PRESIDENT

The fourth International Economic Report of the President, together with the Annual Report of the Council on International Economic Policy, was signed by the President and submitted to the Congress today. The Report describes the Administration's international economic policies, reviews the international economic events of 1975, and studies the major international economic issues to which the Administration's policy responds.

The commencement of economic recovery in 1975 from the most severe post-war recession was the single achievement of the Administration's economic policies, overshadowing even the major related economic issues of high energy costs and international monetary reform. The United States was the bellweather nation in the gradual world economic recovery and used its leadership position to work for new trade agreements, new food, energy and commodity relationships, and the reform of international lending and credit institutions.

Highlights of the progress achieved by the United States in its international economic position in 1975 are listed below.

PROGRESS IN 1975

- The U.S. economic recovery began in the second quarter with real GNP rising at a 3.3 percent rate, following a first quarter decline at a 9.2 percent annual rate. In the third quarter the rapidly recovering economy expanded at a 12 percent rate. This rate slowed in the fourth quarter to 5.4 percent.
- Inflationary price increases, still high by historical standards, moderated from the 1972-74 rates. Consumer prices in the United States rose 9.1 percent and wholesale prices rose 9.2 percent. Higher prices for energy and energy related materials contributed significantly to these price rises.
- The trade balance, in deficit by \$2.3 billion in 1974, reversed dramatically in 1975 to produce a record \$11.1 billion surplus. This \$13.4 billion swing was the largest in our history. Exports of manufactured goods grew at a 11.7 percent annual rate. Agricultural products continued their important contribution to U.S. exports with total foreign sales in 1975 at a record \$22 billion level.

- During the course of the year the dollar appreciated in terms of nearly all major foreign currencies. On a trade weighted basis, the value of the dollar at the end of 1975 was 5 percent above the close of 1974, and also about 5 percent above its level at the beginning of generalized floating in March 1973.
- Responding to the economic demands and needs of the less developed countries, the United States set forth some 40 specific initiatives at the UN Seventh Special Session in September 1975. The IMF partially responded later in the year through a major liberalization of its Compensatory Finance Facility. Other U.S. proposals remain under discussion.
- The passage of the Energy Policy and Conservation Act represented the first important step toward implementation of the comprehensive national energy policy called for by the President in January 1975. Internationally the Administration pursued its energy policies in a number of forums, with particular focus on the International Energy Agency's implementation of its International Energy Program. It also submitted to Congress the agreement reached with all other OECD members for a financial Support Fund designed to encourage cooperation in energy and economic policy.
- The United States negotiated a long-term grain sales agreement with the Soviet Union in order to regularize that country's previous unpredictable and massive interventions in the U.S. grain market.
- The President met with the heads of the governments of France, Federal Republic of Germany, Italy, Japan and the United Kingdom at Rambouillet, France, where agreement was reached on new cooperative efforts in the areas of world trade, monetary matters, and raw materials, including energy.
- Work toward major reforms in the international monetary system went forward throughout the year. Early in 1976 the IMF's Interim Committee reached agreement on amendments to the IMF Articles of Agreement with respect to quotas, exchange rates, and the role of gold. These negotiations produced the first major revision of the international monetary system since the Bretton Woods Conference.
- The United States continued to provide strong leadership at the Multilateral Trade Negotiations in Geneva, with the Discussions gaining momentum throughout the year. The goal is to reach by 1977 a successful conclusion to these negotiations to reduce trade barriers and improve the world trading system.
- While establishing methods to monitor the flow of foreign investments into the United States, the U.S. policy on international investment remains fixed in the belief that a free

market system without artificial barriers or incentives leads to the most efficient allocation of capital in the world economy.

## CHALLENGES TO PROGRESS: NEW AND OLD

### 1. Agriculture Trade and Food Reserves

--The long-term international food policy objectives call for freer trade, increased production of agricultural products, and a reduction in the rate of population growth as the best means of dealing with the world's food problems. In response to more immediate short-run problems, the United States has pledged \$200 million to the International Fund for Agricultural Development, provided that donations by other countries raise the total to at least \$1 billion. Domestically, the Administration is pursuing a policy of full agricultural production.

The United States proposed to the International Wheat Council the establishment of an international grain reserve system consisting of 30 million tons of food grains.

### 2. Raw Materials Supplies

--The falloff in demand for industrial raw materials in 1975 shifted world concern away from the shortages problems of 1973 and early 1974. This rapid shift in focus highlights the cyclical nature of raw material markets and prices and the consequent impact upon developing countries dependent upon certain commodity exports for foreign exchange earnings. Though the United States is a resource-rich nation and also has established a viable materials recycling industry, it remains dependent on imports for its supply of a number of essential industrial commodities. This has led to an interest in commodity agreements for both price stabilization and supply access. Through 1975 the Administration studied commodity agreements generally and for six selected nonfuel minerals. It concluded that the United States' free market policy did not preclude the maintaining of its position of willingness to consider participation in commodity agreements on a case-by-case basis.

### 3. Energy Supplies

--The interdependence of the world's economies is nowhere more evident than in the supply and price of energy supplies, particularly oil. Awareness that energy issues fully engage the economic and political interests of both consuming and producing nations grew throughout the year. The consuming nations have begun the process of forging a cooperative energy program through the International Energy Agency, while consuming

and producing nations from both the developed and developing world have commenced a dialogue in the Conference for International Economic Cooperation. Though international concern is now focused on petroleum, it is obvious that the development of alternative, non-fossil, energy resources and technology will become increasingly important to all nations.

#### 4. Sound Economic Growth

--Though concern continues about the problems of inflation and unemployment, the underlying fact is that the U.S. economy is steadily growing healthier. Domestic and international economic policies are intended to keep the country on an upward path. Another measure of the underlying strength of the economy are the large number of potentially serious economic problems that did not materialize in 1975: there was no financial crisis, the recession did not snowball into cumulative depression, the price of bread and gasoline did not rise to a dollar as direly predicted, and the economic difficulties did not produce corrosive social unrest. The essential Administration policies to achieve sustained economic progress call for strengthening the private sector through Federal budgetary restraint and the refunding of budget savings to taxpayers by means of tax cuts. Further, it views programs to cushion unemployment as only temporary remedies as it seeks to restore the vitality of private industry where five out of six American workers are employed today in good, productive jobs. Finally, it seeks to promote healthy economic growth and a vigorous private economy by eliminating those government policies and institutions that raise prices or interfere with competition.

These policies focus primarily on the economy of the United States, but the Administration clearly recognized that the country's range of economic interests do not stop at its shores. It is providing leadership to the other major economies of the world in their recovery from recession and in their priority efforts to achieve sustainable, non-inflationary growth.

#### OTHER ISSUES

--Other sections of the Report examine East-West trade, international investment patterns, labor comparisons, the multinational corporation, export promotion and controls, air transport and ocean shipping, the impact of technology transfer, international environmental problems, and the developments in 1975 of a Law of the Sea.