

FOR IMMEDIATE RELEASE

JANUARY 18, 1977

Office of the White House Press Secretary

THE WHITE HOUSE

TO THE CONGRESS OF THE UNITED STATES:

The world economy has come a long way from the gloom and uncertainty of two years ago. Despite many divisive economic pressures, international cooperation has not broken down but has, in fact, improved. U.S. initiatives to strengthen international economic cooperation have led to real progress. Our major allies and trading partners have cooperated with us and have reciprocated our desire for strengthened economic ties.

At the Economic Summit in Puerto Rico, in the OECD, the IMF, the GATT and in numerous other meetings in 1976, we joined with our major trading and financial partners and with other nations to whom developments in the larger economies are of primary importance, in forging compatible approaches to the difficult problems that beset our economies. We concurred that first and foremost we must place our economies on a path of sustained growth without inflation. That is the essential ingredient to further and lasting reduction in unemployment. We also strengthened our common resolve to avoid trade restrictive measures and to negotiate a more open international trading system. We reached a consensus on appropriate means to assist countries needing financial help as they work toward economic stability. We also agreed to make constructive efforts to deal with the problems between developed and developing nations.

The United States can be proud of its leadership in these areas. International economic cooperation is stronger today than at any time since the Second World War. We have learned the importance of industrialized democracies taking into account the likely impact of their actions on other nations as they develop their economic policies. In an interdependent world, a nation which disrupts the economies of its trading partners does so at its own eventual peril.

We have also come to realize how mutually supportive action benefits all countries. Accordingly we and our partners have improved arrangements for assisting countries in special need as they work to stabilize their domestic economies. The United States has worked very closely with several of our friends and allies in supporting their efforts to resolve their economic difficulties. We have constructed a strong framework for cooperation with other industrialized democracies to manage future possible disruptions of oil supplies and to reduce dependence on oil imports. We have attempted to promote a more constructive relationship with the developing nations. This new relationship will enable us to enhance their economic prospects as a part of a common effort to improve the world economy and to give them a greater share in the responsibilities for, and in the management and benefits of, an orderly and prosperous international economic system.

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More specifically, substantial progress, together with lingering problems, mark developments in several areas.

Monetary Affairs

In 1976, member nations of the International Monetary Fund successfully concluded the first general revision of the Articles of Agreement since the Bretton Woods Agreement of 1944. In effect, these amendments replace the old exchange rate system based on par values with one permitting countries to establish floating exchange rates, either individually or jointly. The new system will oblige member countries to promote exchange stability by fostering stable economic and financial conditions and to avoid disruptively influencing exchange rates or the international monetary system. Under the new system, Special Drawing Rights will replace gold as the unit of account in the Fund.

The amendments creating this system were formally accepted by the United States and will become effective upon similar ratification by the requisite number of member nations. At that time, the Fund will have new and broader responsibilities for overseeing the international monetary system and for developing principles that will help countries meet their financial obligations. The effect will be to promote expanded trade and growth through a more efficient and realistic exchange rate system.

The United States also proposed the creation of a Trust Fund, managed by the IMF, to provide assistance on concessionary terms to low-income Fund members. Resources are now being realized from profits on sales, over four years, of 25 million ounces of IMF-held gold.

International Trade

Although the recession and large balance of payments deficits of the oil consuming countries led several of them to move in the direction of new restrictive trade policies, on the whole, considerable success has been achieved in maintaining an open world trading system. The growth of world trade resumed in 1976, following a decline in 1975 -- the first since World War II.

On January 1, the United States joined other developed countries in establishing a Generalized System of Preferences for imports from developing nations. These preferences apply to more than 2,700 tariff items, giving duty-free access to the U.S. market to qualified developing countries and affording these nations the opportunity to diversify their exports and to increase their export income.

The Multilateral Trade Negotiations in Geneva, among more than ninety nations, made progress in several areas. The United States proposed a formula for cutting tariffs, and a number of other measures covering tropical products from developing countries, import safeguards, and quantitative restrictions. Considerable progress was made on a product standard code, and work was started on improving the GATT framework for international trade and on a code for government procurement.

This international cooperation in furtherance of open trade was complemented by U.S. action in resolving several domestic complaints of trade injury. The responsible

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actions of this country strengthened the resolve of our trading partners to resist pressures for import restrictions, thus contributing to brighter prospects for U.S. exports and to an orderly and open international trading system.

Commodities and Raw Materials

Major developments in the international commodity area during 1976 included an agreement to expand the IMF Compensatory Finance Facility; adoption by the UNCTAD IV Conference of a comprehensive commodities resolution; continued commodity policy discussions at the Conference on International Economic Cooperation; and efforts to renew the coffee, tin, and cocoa commodity agreements.

The United States strongly supported expansion of the IMF Compensatory Finance Facility, designed to help countries to stabilize their export earnings. In addition, at the UNCTAD IV Conference, the United States proposed the creation of a new International Resources Bank to promote production of raw materials in the developing nations by facilitating investment flows into these countries.

In some respects, however, the approach of the United States with respect to commodity policies differs from that of a number of developing countries. Generally, these countries support commodity arrangements that provide for greater government control of prices and production, as well as common financing of commodity buffer stocks. In contrast, the commodity policy of the United States has three major objectives:

- To ensure adequate investment in resource development to meet future market demands at reasonable prices;
- To examine on a case-by-case basis individual commodities in order to determine how best to improve (where possible) the functioning of individual commodity markets and to determine whether commodity agreements would be useful and appropriate;
- To promote the stable growth of the commodity export earnings of developing countries.

The United States has repeatedly pointed out that artificial increases of prices serve the interests of neither producers nor consumers in both developed and developing countries. Frequently, control of prices and production has led to lower, less stable earnings for producers, mainly because substitute sources are developed or existing sources expanded. Moreover, controls have often initially meant higher prices for consumers, reduced exports, and a decline in the economic welfare of all parties. The United States, while prepared to genuinely consider methods of improving markets for individual commodities, generally supports the use of market mechanisms to determine supplies and prices.

Multinational Corporations and International Investment

In June 1976, the United States approved the adoption of the Declaration on International Investment and Multinational Enterprises devised by the Organization for Economic Cooperation and Development. This agreement affirms the principle of national treatment of multinational corporations (MNC's); recommends guidelines of good

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business practices for the activities of MNC's; and indicates the responsibilities of governments regarding international investment incentives and disincentives.

The United States recognizes that increased investment is a critical element for international economic growth, and that MNC's have contributed substantially to the rise in international investment and productivity. The activities of MNC's, however, have prompted questions about their obligations to both home and host countries and about the reciprocal responsibilities of nations where the MNC's do business. Where possible, the United States is willing to enter into bilateral and multilateral discussions to help resolve these intergovernmental disputes.

The United States welcomes foreign investment in its domestic economy. The Administration's Committee on Foreign Investment in the United States has coordinated overall policy in this area. In 1976, major studies of foreign portfolio and foreign direct investment in the United States were completed and reported to the Congress.

Critical International Economic Problems

We must also be aware that the events of the past year have left an agenda of unresolved problems including:

- (1) the challenge of achieving stable economic growth in industrial and developing nations alike, and reducing inflation, unemployment and excessive public sector deficits;
- (2) the necessity for the United States and other nations to obtain an adequate amount of real capital formation, to create jobs and to increase productivity;
- (3) the major imbalance between oil exporters and oil importing nations, and the directly related increasing debt burden of developing and some developed nations;
- (4) the failure to achieve an agreement among developed and less developed nations on an effective and efficient strategy for increasing prosperity for less developed countries in the context of a common effort to improve the world economy;
- (5) the inadequate progress of the United States and other oil-consuming nations in reducing dependence on oil imports; and the need to encourage domestic development of oil and gas resources, alternative energy sources, and conservation;
- (6) the continuing temptation among nations to use restrictive trade measures and the need to resist such pressures while reducing trade barriers and improving means for managing trade problems.

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This Report traces the progress made in 1976 in dealing with the major economic issues facing the world. Evolving economic and political developments will continue to challenge the leaders of all nations. Because of the vigor of our people and the strength of our system, the United States today, as much or more than in years past, is the pivotal force for building a strong and prosperous world economy. By acting in a manner consistent with the interests of our own people yet remaining cognizant of the interests of other nations as well, I am certain that the United States will continue to provide leadership in solving the critical issues of today and the unforeseen developments of tomorrow.

GERALD R. FORD

THE WHITE HOUSE,

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