MS. COLLINS: Thank you very much, and also thank you for the opportunity to address the Commission on the issue of trade deficits.

I, too, have four points that I'd like to make, and I'll do my best to stay in the five-minute timeframe.

The four points, let me just go through them individually. The first one is that a session that focuses on the impacts of the trade deficit on the U.S. macro economy may suggest that for some reason the trade deficit has a causal role in the other key aspects of macroeconomic performance that we care about.

And, in particular, in my view, the most important macroeconomic performance variable is growth rates because of their direct effect on the standard of living -- and I'll come back and mention those points as I go along.

So, my first point, then, is that in some ways that's perhaps a misleading way to phrase the issue, because there's no simple causal relationship between trade deficits and a country's economic growth or, for example, its inflation rate.

And to try to illustrate that point, in my handout I've distributed two graphs which show the relationship between trade deficits in the U.S., as a share of GDP, since 1960, and in the upper one, the annual GDP growth rate, and in the lower chart, the relationship between trade deficits and the inflation rate. **[See Insert 1]**

And the clear point I think that's made by this graph is that there is simply no correlation in U.S. history between those variables. The U.S. is as likely to have very strong growth performance in years in which the trade deficit -- the trade balance is in deficit as it is to have strong growth performance in years that the trade balance is in surplus.

A similar point can be made about the relationship between the U.S. experience with trade deficits and inflation. Statistically, there is simply no correlation between those variables. Again, I think the chart makes the points admirably. The U.S. experience with high inflation was actually at intermediate ranges of the U.S. trade deficit -- or trade balance from this period of history.

And I say a little bit more about the fact that statistically there's actually a small negative correlation, but it's not very strong.

And, so the first point, then, is that there is no simple causal relationship. It's other factors that are driving the key things that we care about and also are driving the trade deficit.

The second point that I would like to make is that in fact the current U.S. scenario is one that includes extremely strong performance on many, many dimensions and also includes a large trade imbalance, a deficit, which is forecast to grow before it shrinks.

The point is that that scenario is not inconsistent with the continued forecast of very strong economic behavior, and I'll come back to some of the risks in a moment and touch on some of the points that the previous speaker raised.

But, very simply, the U.S. economic growth rate, its performance in terms of job creation, have been extremely strong, and if you look, as well, at correlations in other countries, you see again that there is no presumption that trade deficits would be associated with poor performance in those dimensions. And over time, the strength of the U.S. employment growth has affected many dimensions of the labor force, and so concerns that I think were widespread some years ago that the strong economic performance was concentrated among higher income groups or perhaps those workers with the highest skills are no longer as relevant today. In fact, average real wage growth has increased strongly, and there has been some strong improvement at the lower skilled and lower income levels, as well.

And, so that strong growth performance seems to be, I think, the best way that we know to try to help all levels of the U.S. workforce, and that has not been hindered or squandered by the fact that the trade imbalance has been quite large.

I also have to mention that the U.S. trade imbalance, the deficits, are part of the strong improvements in the global economy in recent years. In fact, the increased health, the recovery in many countries from the currency crisis is very directly related to the fact of a strong U.S. economy, which is providing world demand for products.

And that brings me to the forward-looking section, which is the third point I'd like to make, and that has to do with whether there are risks looking forward associated with this large trade imbalance.

The forecast, as I mentioned briefly before, are for continued strong growth and for the trade deficit, perhaps, to deteriorate somewhat before it improves. My best guess -- and, here, I'll be more explicit than I am in the written comments -- my best guess is that the scenarios looking forward are ones that do not require any macro intervention or any kinds of interventions to deal with the trade deficit, although it’s certainly true that one cannot predict all of the possibilities that might happen in the future, and there certainly is some possible potential for the type of hard landing that Dr. Preeg discussed.

Let me move on quickly. Does that mean that there are never reasons for concern about trade imbalances? No, clearly there are reasons. My best assessment is that we should not be so concerned about the macro consequence at the moment. U.S. investment growth has been strong, and although private savings has declined, the national savings rate has actually been improving strongly, as well. So, those are things to monitor. They’re not reasons for concern at the moment.

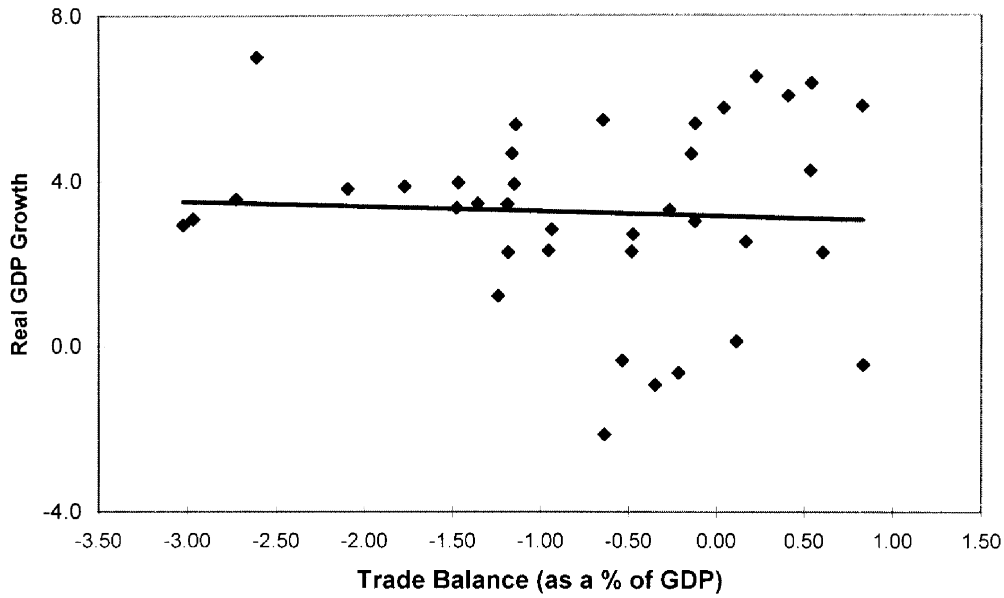
As far as the ability to continue to finance those deficits, I think we see no immediate reason for concern on that front, and the U.S. is in the very admirable situation of having a number of levers that it could bring to bear if the situation were -- as I said, I think this is unlikely -- but if the situation were to turn down in the near future. And, so I see no reason for major adjustments at the moment.

I think the, perhaps, final point that I’d like to make focuses more on some of the micro issues, and the point there is that clearly trade, like other market interactions, creates losers as well as winners. When there are trade deficits, the distribution of those losers is perhaps somewhat different than it would be in other circumstances.

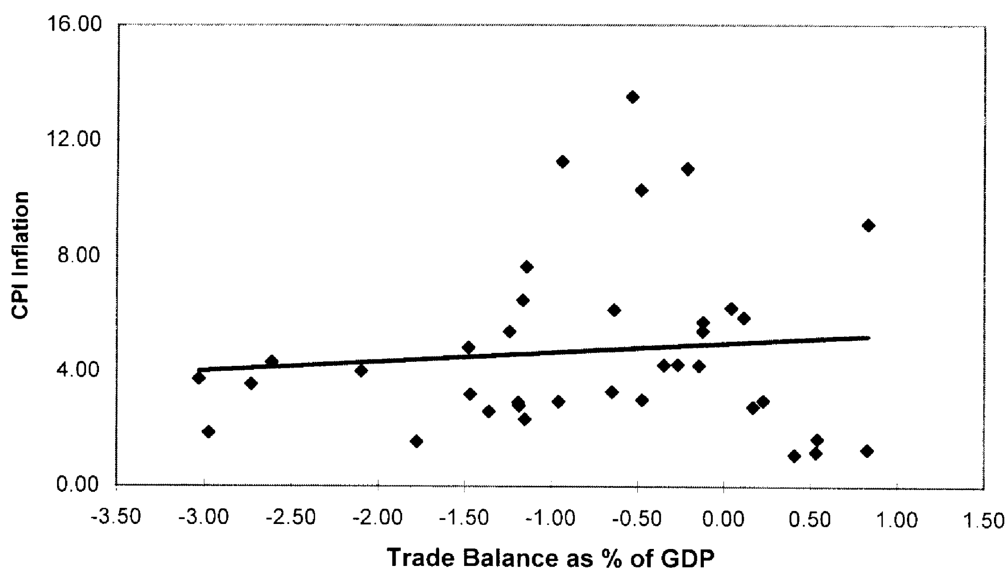
But one of the clear lessons from economic policy -- and I'll finish with one final sentence -- is that in order to deal with concerns, ones need to target policies exactly on the objectives. And if the objective is to help or assist workers who've been displaced, trade policies are extremely poor mechanisms to achieve that objective. Directly targeted labor market policies are much more effective.

Let me stop there. Thank you.

Trade Balance and GDP Growth



Trade Balance and Inflation



CHAIRMAN WEIDENBAUM: Thank you, Dr. Collins.

The third briefer is William Beach, Director of the Center for Data Analysis of the Heritage Foundation.

Mr. Beach.