

James K. Galbraith - Short Biography

James K. Galbraith is Professor at the Lyndon B. Johnson School of Public Affairs and at the Department of Government, University of Texas at Austin, where he teaches economics and a variety of other subjects. He is also a Senior Scholar with the Jerome Levy Economics Institute and Director of the University of Texas Inequality Project.

Galbraith's most recent book, ***Created Unequal: The Crisis in American Pay***, is sponsored by The Century Foundation and was published in August, 1998 by The Free Press. ***Inequality and Industrial Change: A Global View***, co-edited with Maureen Bemer, will be published in 2000 by Cambridge University Press.

Galbraith holds degrees from Harvard and Yale (Ph.D. in Economics, 1981). He studied economics as a Marshall Scholar at King's College, Cambridge in 1974-5, and then served on the staff of the U.S. Congress, eventually as Executive Director of the Joint Economic Committee in 1981-82. He was a guest scholar at the Brookings Institution in 1985.

Galbraith is national chairman of Economists Allied for Arms Reduction (ECAAR), an international association of professional economists concerned with peace and security issues.

Galbraith writes a column for the ***Texas Observer*** and a column for ***TheStreet.com***, and is a contributor to ***The Nation***, ***The American Prospect***, ***Challenge*** and other periodicals. His many Op-Ed pieces have appeared in ***The New York Times***, ***Washington Post***, ***Boston Globe***, ***Newsday*** and other major newspapers on many occasions. He is a commentator for Public Radio International's ***Marketplace***. He has co-authored two textbooks, ***The Economic Problem*** with Robert L. Heilbroner and ***Macroeconomics with William Darity jr.***, as well as ***Balancing Acts: Technology, Finance and the American Future*** (Basic Books, 1989).

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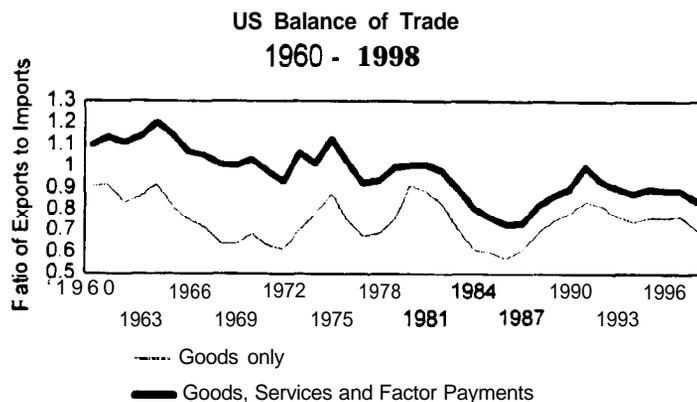
**Comments on “Causes, Consequences, Impacts and Solutions to the U.S. Trade Deficit”
by James K. Galbraith, Professor, Lyndon B. Johnson School of Public Affairs and
Department of Government, The University of Texas at Austin, and Senior Scholar, Jerome
Levy Economics Institute, before the Trade Deficit Review Commission, Washington DC,
December 10, 1999.**

Chairman Weidenbaum, Vice Chairman Papadimitriou, Members of the Commission. It is a pleasure to appear before you today to make these brief comments. Let me note that when Chairman Weidenbaum was Chair of the President’s Council of Economic Advisers and I was Executive Director of the Joint Economic Committee, we **invited** him to **testify** so frequently that one of my staff colleagues on the Republican side complained that the calendar would look neater if we simply noted the days when he was not appearing. I suppose I should have known that the tables would eventually turn.

I believe the Commission has already received detailed and competent technical testimony, most notably from Professor Blecker and Professor Kregel, with which I generally agree. I will not repeat their arguments here. But let me restate the obvious point made by Professor Blecker. The present high level of the United States trade deficit results from a combination of three factors: high domestic incomes, foreign economic crisis, and falling relative competitiveness of our traded-goods sector. The latter is due, in part, to chronic and deliberate over-valuation of the dollar originating in the early 1980s, and made again a serious problem by the collapse in Asia in 1997, as well as the sustained weakness of the **euro**.

To put our recent experience in perspective, I have computed two indexes of exports of divided by imports for the years 1960 to 1998. These are reported here as Figure 1. The thin line is a ratio of export volumes divided by import volumes of goods, while the thick line shows the nominal ratio of exports and imports in the current account. Both recovered somewhat from the low levels of the early 1980s, but are again deteriorating. This figure is broadly similar to Figure 1 a from Professor Blecker’s testimony? though of course because of the rising overall importance of trade, the decline is more dramatic when placed in relation to GDP.

Figure 1.



Churchill's motives for following his policy were plain. He was a Tory Chancellor, and he responded to the interests of the City. London was then the financial capital of the world. Banks and financial interests generally favored a strong pound at a fixed parity; this was thought to assure the strength and stability of the nation as a whole, and it would promote capital inflow and the position of the pound as the hegemonic reserve currency. But unfortunately, poor nations cannot finance rich ones indefinitely. And when they stop doing so, which they did beginning with the *Creditanstalt* crisis in 1930 and quickly spreading to Latin America and other prominent debtor nations, the world centered on British financial hegemony collapsed.

Do I see a parallel here? Of course I do. The United States emerged as the world's dominant power following the second World War. We **waged**, and won, an exhausting struggle of military competition – mercifully without pushing matters to the ultimate war – against the Soviet Union. Victory came in the 1980s. But the cost of winning it was a distortion in our industrial structure, and a sharp erosion of our competitiveness in many mundane markets, especially for automobiles and heavy machinery. And the peace was, like Versailles, Carthaginian. We did not take the difficult and expensive steps that could have placed our former adversaries and their former satellites on the path of strong and sustained growth, including growth of demand for our exports.

Our situation is not yet as grave as Britain's in the inter-war years. But like Britain after 1920, we are under the spell of the financiers, whose faith is in the God-almighty dollar, in the strength and power of our financial institutions, in our capacity not to produce and trade but to deal and speculate. And so with high real interest rates and the strong dollar we have suffered a vast and comparable increase in our terms of trade, well-documented in Professor Blecker's Figure 4. In 1985, an effort was made to correct the situation, but it did not endure. The terms of trade started once again to rise in the early 1990s, and they have been rising ever more sharply in the past two years. The beginning of this movement is associated with the rise in interest rates in the 1994-95 time frame, and the recent upsurge with the collapse of our Asian trading partners.

In the present situation, then, we are running large and increasing trade deficits, on the assumption that our credit will remain good in the world. This may, indeed, be true for a long time. Indeed, it is not necessarily a bad thing for us to absorb imports at a very high rate, and issue dollars which might in principle be used to rebuild financial reserves abroad and eventually to finance purchases of our exports. But so long as those dollars are instead being recycled to us, in the form of interest payments or even simply for speculative purposes, the situation will not correct itself. Rather the American bubble will deepen, and the world economy, deprived of the means to renew itself through capital investment, will sink further into depression.

So much for causes, consequences, and impacts. What about solutions?

It is very obvious that the United States cannot reverse its fortunes now merely by depreciating the dollar *per se*. As my father once wrote to President Kennedy, you cannot effectively devalue the currency that serves as a standard. Other countries will simply follow suit. I agree that a falling dollar should not be resisted, but it is far from being a solution in itself. What you must do, therefore, is work to improve the balance of relative incomes.