

VICE CHAIRMAN PAPADIMITRIOU: Thank you very much. And now I invite my fellow Commissioners to raise any questions they may have, which I'm sure will be plenty.

Commissioner Thurow.

COMMISSIONER THUROW: Let me start with a question to Wynne Godley.

If you look at the history of countries that have run large trade deficits and gotten into problems on their debts, there's always been a hard landing.

The other problem, of course, is that countries, even when warned, almost never take any preventive actions. The question is what should we do in terms of contingent planning? Let's not argue about what the percentage of a possibility of a hard landing is, but should we be doing any contingent planning to deal with Mexican-style or a Thailand-style debt crisis?

PROFESSOR GODLEY: Yes. I feel in a sense you've answered, I mean, given as good an answer as I can

give in the way in which you formulate the question. You agree, apparently, with my general way in which I've presented the problem. In other words, deficits generate debt and --

COMMISSIONER THUROW: We all agree if interest on international debt is growing faster than the economy eventually you get into trouble.

PROFESSOR GODLEY: Well, nobody else mentioned it. This is not a subject of discussion that I observe in the public discussion for the United States.

But it's taking place. And the United States has very important advantages because its debt is denominated in dollars, but it's not exempt from the rules of compound interest. Unless there is a big improvement, substantial improvement in the deficit, the trade deficit, this is going to catch up.

So your question is how do you think out a strategy in advance. That's what you're asking?

COMMISSIONER THURLOW: Yes. Should we ask the United States Treasury to have a contingency plan for dealing with an American-style debt crisis?

PROFESSOR GODLEY: Absolutely, they should do so. Are you asking me to say how to set it up?

COMMISSIONER THURLOW: Right. I'm interested in that, too.

PROFESSOR GODLEY: I'm only competent to point to a staggeringly large problem in principle. I've given three major headings under which one can operate, but with a certain feeling of helplessness about them.

I very much hope that the response to this emerging crisis, if it emerges, in other words, if there is not some automatic recovery, I very much hope that the response will not be, as I said, to impart an additional deflationary bias to the world and to U.S. production.

That's what I very much hope and I draw attention to the other various possibilities, including, oddly enough, Article 12. Article 12 is precisely designed to deal

with precisely this problem of whether balance of payments considerations are inimical to dimensions of full employment and it's not protectionism. I mean it's not protectionism as understood. It is all in accordance with the principles of GATT and indeed is sponsored by an article in GATT.

VICE CHAIRMAN PAPADIMITRIOU: Follow up questions from Commissioner D'Amato and then Chairman Weidenbaum.

COMMISSIONER D'AMATO: Yes. I've got a question for Mr. Barbera. I'm not sure where you're leading us in this, but I'd like to bring you along for my own purposes. When you talk about this unsustainable -- you used the word unsustainable, as does Mr. Rubin and Mr. Greenspan, but we never really get the full flush of what the results of the unsustainability are. Let me ask you, if we went to 6 percent, 7 percent of GNP as our deficit, what's the consequence? What is bad about that?

You also imply in your testimony that the remedy would be a weaker dollar. I think we talked about the dollar here. There's some variation in people's views on the dollar. If we go to a weaker dollar, what is the result in terms of consumer spending? What is the result in terms of consumer confidence? In terms of the stock market?

DR. BARBERA: I think actually it was Professor Blinder who talked about a weaker dollar, but right now when you think about the stock market, the external imbalance, the lack of savings in the U.S., I think you can frame them in the following fashion. Spectacular optimism explains much of what's going on and it's created a virtuous cycle. The problem with that is, if you take spectacular optimism away and replace it with some cynicism or anxiety or conservatism, that virtuous cycle in each facet becomes a vicious cycle.

The virtuous cycle reflects enthusiastic buyers of U.S. stocks driving the market higher. A

rising market allows U.S. consumers to increase their wealth without savings so you've got very strong consumer spending. Rising stock prices attract foreign flows, because rest-of-world investors want to participate in our market. This drives the dollar higher. A strong dollar and strong U.S. spending mean we have a very large trade deficit. Thus the foreign appetite for stock finances the deficit, so it's a virtuous cycle. The problem is that it produces an ever-growing external imbalance.

But what happens if LINUX came out yesterday at \$30 a share, closed at \$270 a share, has a market cap of \$10 billion with \$20 million in sales, and suppose 200 employees decide that perhaps that's too optimistic.

(Laughter.)

Then the virtuous cycle can become a vicious cycle, skepticism and U.S. stocks fall. A falling market causes people to begin to save again and wealth affects reverse so that consumer spending slows. Falling share

prices disappoint foreign investors and they retreat.

The dollar falls. When the dollar falls, as we all know, the first thing that happens to the trade deficit is it gets a lot worse because of J-curve effects. So now we've got a widening deficit with a falling dollar.

Dollar weakness, in turn, lifts price. Inflation begins to creep higher.

In that environment, the foreign appetite for assets falls more and you've got to have a substantially higher interest rate to entice the buyer to finance your current account. Slower growth, rising inflation and interest rates with a widening deficit is not a pretty picture.

What you've got now is optimism, enthusiasm.

I wrote a piece in 1989 called "Tulips in Tokyo" when the market was at 24,000. Over the next 18 months I lived a horrible life because the market went up for another 18 months and another 16,000 points. You can't say, therefore, tomorrow we're going to have a reversal

from enthusiasm and optimism to anxiety. But you can do the arithmetic and the last two years are not a reasonable blueprint for the next three years. And that is why I pointed toward the Fed. They may be focused on domestic labor markets in the first instance, but the notion that you should slow the trajectory of the U.S. economy seems to me to go along with Professor Thurow's thoughts. At least it raises somewhat the probability of a softer landing.

COMMISSIONER D'AMATO: Just to follow up, the scenario you lead us through, then, could result in highly abrupt shifts in optimism and behavior and even panic because there's so much emphasis on the market.

DR. BARBERA: Unfortunately, very few markets rise euphorically and then plateau.

VICE CHAIRMAN PAPADIMITRIOU: Chairman Weidenbaum?

CHAIRMAN WEIDENBAUM: I have a question for Professor Godley. The idea of contingency planning

sounds so progressive, but as a former Treasury official, I would not want to be in office the day the Treasury announces or someone leaks the idea that the Treasury is studying the possibility that it would have to deal with a Thai or Mexican-type of financial crisis. How do you avoid scaring the bejeezus out of financial markets around the world?

PROFESSOR GODLEY: I'm sorry. I haven't got an answer to that question. I mean if the process, which I'm describing is -- if I have correctly analyzed it, if it is an implication of the existing trade deficit in combination with present interest rates, as I calculate them, perhaps incorrectly, then you will eventually reach an explosive situation and that is simply under the law of compound interest. That's what happens.

Now the way in which that crisis breaks and how the U.S. Treasury handles it in the world and to the public is right out of my competence. I mean, to say when it will happen and how it should really be handled

as if it were as a matter of public relations, I'm sorry;  
I'm not competent.

CHAIRMAN WEIDENBAUM: Does any other member  
of the panel want to deal with the practical question of  
how do you plan or deal with the question, the issue  
without precipitating the crisis you're trying to avoid  
or wrestle with?

DR. BARBERA: Aren't we a little better off  
as a consequence of being dollar denominated. We can  
have a hard landing, but not quite the kind of crisis  
that you face if you borrow in dollars and print bahts?  
I think there is a distinction where you can talk about  
a hard landing, but not really envision an inability to  
print money. In Asia, you have the wrong printing press.

PROFESSOR BLINDER: I'd like to second that  
and say that's not a small distinction, it's a huge  
distinction. It makes us fundamentally different from  
these other countries. It does not make us immune, as  
Wynne Godley correctly points out, to the laws of

compounding. It does not make us immune to the possibility, indeed the likelihood, that at some point foreign investors start to get satiated or nearly satiated with U.S. dollar-denominated assets. But the issue is to me is the relative likelihoods of the hard landing versus soft landing scenarios for the dollar.

I continue to believe that the relatively soft -- that doesn't mean everybody will like it -- landing scenario which is what we had in the 1980s when the dollar fell enormously from 1985 to 1988, is much more likely than a hard landing, a panicky flight from U.S. dollar assets. That kind of soft landing will cause some people to squirm. It will cause capital losses in a whole variety of portfolios. But I don't think there's a persuasive reason, if we pursue intelligent policies, to think it has to cause a recession in the United States.

VICE CHAIRMAN PAPADIMITRIOU: Thank you.

Commissioner Hills?

DR. LAWRENCE: I would like to say that I think the key issue is really not having a contingency plan for something which you announce. The key question is do you have sound policies? Do you have a Federal Reserve that is able to basically achieve the goals of low inflation and solid growth? Clearly, we have one.

Do you have a fiscal policy which is moving in a prudent fashion? Clearly, we have one. Do you have a financial system which is well regulated? I believe we have one.

So the real issue is for whatever might be happening in the economy, are you pursuing sound fundamental policies? That allows you to grow better and it allows you to weather crises better.

DR. STERN: If I might just add, what this premise was discussion on the debt. Then it went to the question what might trigger a panic. And my statement on this question is whatever we do, we should not wring out the economy, dry it out. And indeed, as Robert has

just pointed out, we have the Fed. We have other sound mechanisms in place and I'm afraid that if the government tries to step in to deal with the excessive exuberance, if you will, of the stock market, which might be the trigger for this doomsday scenario with the debt, that we are, if you will, killing the patient before it catches a cold. And I really feel that we have to be very, very careful about that kind of a doomsday scenario and any policies that we put in place to deal with it.

COMMISSIONER HILLS: It sounds to me like our witnesses are very much in favor of the market and espousing strong policy to support the market which I find gratifying.

I'm interested in your views about increasing domestic savings as that would be one way to deal with the deficit issue. And although many have said that our low savings rate is a problem for which we have not found a solution -- I think that Professor Blinder alluded to the fact that it is a tough assignment -- I

wonder if any of you, if Professor Blinder would like to address that more fully since we gave him so short a time. I'd be particularly interested in Professor Lawrence's notion about increasing domestic savings.

PROFESSOR BLINDER: I think that while it's not true that we've tried every conceivable tax gimmick to induce more savings, we've come close. In my view, they've all been something between modest failures and total failures. I don't think tinkering with the tax code is going to do any good. It would be nice if it would. That is, of course, the reason why we mainstream economists in the 1980s kept saying the way to raise national savings is get the government to save more, because we don't know any way to get the household sector to save more. I'm still more or less of that view. I think one thing that has some ray of hope, but I wouldn't oversell it as more than a ray of hope, is greater education about the benefits of 401(k)s and other tax-sheltered accounts. Not that these things are unknown,

but this kind of knowledge takes a long time to diffuse. There are a number of corporations that have found that when they put in educational programs for their employees, the employees start saving more, they start taking advantage of the 401(k)s to a greater extent than they previously had. It is possible that a government program, an educational program eventually would sink in and induce more saving.

It's also the case, of course, as has been mentioned by several others, that when the stock market comes tumbling down, if it does, that's going to induce more saving. But I don't think we should try to use that as a public policy to get the American consumer saving more.

DR. LAWRENCE: In the lines of education, but going one better, I thought that President Clinton had a very intriguing proposal in his last budget which was the construction of universal savings accounts in order to sort of kick-start basically the entire U.S.

population in having a savings program and indeed, matching contributions which private citizens would make in addition to providing them with some start for that savings. That would be one effort, it seems to me, to try to get a lot of people to think about savings and to have the experience of savings where currently they don't.

But I also think that the emphasis really has to be on national savings. And there fiscal prudence and a fiscal budget policy play a very, very critical role. I think we are in a much stronger position today because of the way in which the federal budget has moved.

I think it has been a really terrific change over the last year that everyone has agreed on the importance of looking at an on-budget surplus and in a sense taking the Social Security funds that are being generated and not spending them. And I think in addition, if you actually look at the budget proposals that the Administration has put out, these are a constructive way to raise national

savings. Looking out into the out years, that proposal leads to significant increases in the share of GDP going into government savings.

COMMISSIONER HILLS: Are you of that view, Professor Blinder?

PROFESSOR BLINDER: Oh, yes. I thought your question was addressed to private savings, where I'm not very optimistic. Yes, I think the way we know to increase national savings is do more public saving. It works.

COMMISSIONER HILLS: Are you of the view that our statistics are correctly kept, that the 401(k) which now exceeds the amount that private sector has in home ownership is not counted as a private saving in the same fashion as other countries do.

PROFESSOR BLINDER: I'm not sure I understand what you're referring to. The 401(k) savings goes into personal savings.

COMMISSIONER HILLS: Right.

PROFESSOR BLINDER: Unless I'm mistaken.  
I'm not quite sure what you are referring to. The  
capital gains?

COMMISSIONER HILLS: The earnings on those  
accounts.

PROFESSOR BLINDER: Oh, the capital gains do  
not count.

COMMISSIONER HILLS: Isn't that odd?

PROFESSOR BLINDER: Yes, it is.

COMMISSIONER HILLS: Are you aware of any  
studies that would quantify the impact that that would  
have?

PROFESSOR BLINDER: I don't have the numbers  
in my head, but a number of people have sort of totaled  
it up and estimated the impacts. The odd thing is, as  
Mr. Barbera reminds me, not that capital gains are not  
counted, but that the taxes you pay on the capital gains  
are counted. Not counting the capital gains is quite  
clean; that's what's done across the national income

accounts. They're meant to measure flows of current production and the income generated thereon, not revaluations of existing assets. Like it or not, that's at least consistent across the whole panoply of national accounts. The oddity comes in taking in the taxes that you pay, but not the gains which generated the tax liability.

COMMISSIONER HILLS: I'd be happy to have anyone else opine on the savings issues or on the way we keep the statistics and particularly whether we should recommend a change in policy in terms of how we account for the capital gains and how we deal with the taxes on the gains. Are there views on that?

PROFESSOR GODLEY: I just wish to comment.

If the argument is developing that the solution to this problem is to increase saving, particularly in the context of increased saving plus tight fiscal policy which has a surplus from the government accounts, this is only -- I mean I put it, I think, very strongly --

that is only going to improve the balance of payments through the mechanism of reducing domestic output. It's by deflating domestic output that the improvement to the balance of payment is going to occur. And the scale of the deflation that would have to occur is extremely large. It's the foreign deficit. I don't accept at all that improving saving, taken by itself, is a sufficient way to handle this whole issue. It's got to go with expenditure switching. In other words, it's got to be combined with some measure, some way of increasing -- reducing import shares and/or increasing export shares. It's completely insufficient, working through this famous identity, to point out how nice it would be if savings went up and nothing else happened except balance of payments improved on the other side.

COMMISSIONER HILLS: On the other hand you would find it nice, to use your words, if savings, private savings were increased?

PROFESSOR GODLEY: No, I don't think --

COMMISSIONER HILLS: Oh, you don't? You're not in favor of that?

PROFESSOR GODLEY: I'd give a very conditional agreement to that under existing circumstances.

COMMISSIONER HILLS: Thank you.

PROFESSOR GODLEY: Yes.

VICE CHAIRMAN PAPADIMITRIOU: Commissioner Becker?

COMMISSIONER BECKER: Thank you. I have three questions for each of you. First, for Dr. Blinder. Your comments towards the end, just a bit ago, about the 401(k) intrigue me. And I would ask you first, are you familiar with the Solidarity Fund that exists in Quebec? Let me just explain it to you a little bit. Because we encourage, as much as we can, savings for workers, a way to do this, obviously, is with pre-tax dollars and let them accumulate towards some later date.

In Quebec, the trade union movement was able to secure through the legislature a provision that allowed the creation of what they called a Solidarity Fund to which any worker can contribute, regardless of the size of their company or the job they have. pre-tax dollars, similar to a 401(k) or 457 here in the United States. And the purpose of the fund is to build a private source of investment capital. And in three short years, they built the largest source of private investment capital in Canada through that means.

Now, we're blocked from doing that in the United States, probably through the lobbying of banks and other financial institutions, but I would be curious as to whether you would favor this and how the rest of you might feel about that.

PROFESSOR BLINDER: I'm not sure I quite know what you mean. You mean the funds that are gathered up in these tax-free accounts go into one specific fund directed by --

COMMISSIONER BECKER: By the people within the trade union movement and from outside the trade union movement, there's some kind of a balance in there so it meets all the fiduciary responsibilities and oversight by government. It is a fund that's similar to a 401(k), here in the United States, but it's designed for private investment capital in order to build industry within Quebec.

PROFESSOR BLINDER: So the fund has particular investment objectives. I don't know of any barrier to doing something like that in the United States if workers that belong to a particular union or any other affinity group decided that they wanted to allocate their 401(k) monies to such a fund. I mean, there may be something I don't know about. But I don't know of any barriers to doing that.

COMMISSIONER BECKER: It was just a short question. I thought perhaps you might have been familiar with this because of your comments on 401(k).

The second question I would like to direct to Dr. Barbera referring to your comments, the article that was included in your written testimony on Barrons, and what you're talking about with regard to the foreign countries sinking in a morass of foreign debt that they can't deal with.

And my question is whether you would favor debt forgiveness for these countries, these small developing countries so that a couple of things could be accomplished with that. First of all, it would reduce their debt. It would give them the economics to trade with the United States and possibly lower the deficit in a very real manner. I would extend this question to others who would want to comment on it.

DR. BARBERA: I wrote that in September of last year and obviously that was at the peak in terms of the Asian crisis and the argument I was making at the time was independent of what was a very strong set of domestic economic circumstances I argue that the U.S. was

supposed to, de facto, become the global lender of last resort and ease, and ease somewhat aggressively because those economies largely had dollar denominated debts and did not have a printing press that printed dollars, so that we needed to print dollars in order to take some of the heat off of those economies.

The Fed did ease three times and as most of us are happy to report a year later in most of those economies now we've actually had rather spectacular recoveries. The numbers coming out of Singapore and Korea have been very good. And so I think rather than debt forgiveness, the fact that we were willing to ease, essentially change U.S. domestic monetary policy with an eye focused on rest of world trouble was a big step in the direction of trying to help them out.

COMMISSIONER BECKER: I am not an economist, obviously, but I recall a period of history in which I was becoming very active during post-World War II when the Marshall Plan was created and we virtually produced

and gave to the European countries in order to restore them to stability. We walked away from most of that debt and most people in my age group at that point felt that was a very healthy thing to do, from the standpoint of helping these emerging countries, some enemies, some friends, and helping our economy in a strong way.

Would anybody else have thoughts on that?

PROFESSOR GODLEY: Nobody is going to forgive the United States' debt, are they? And that's the big problem, the United States having a debt.

DR. LAWRENCE: I think I would comment, I think you're absolutely right with respect to the Marshall Plan. What was a critical complement to the Marshall Plan was that the countries themselves adopted appropriate policies. In fact, we stimulated them to work together in order to reconstruct their economies, so that the money was spent wisely.

And I think likewise there is scope for debt relief as the Administration has participated in this

global initiative, HIPIC, for highly indebted developing countries in which debt relief is being provided, but it's not provided simply because countries have very large debts. It's provided in addition because they're willing to take the relief and to use it with appropriate policies in which they don't take the money and spend it increasing their defense budgets, but rather invest the money and spend it on other social purposes as well.

So I think there is role for that. It tends to be the smallest, least developed countries. It's not going to be a huge boost to the United States' economy, but it is a move in stimulating those economies to develop and grow.

DR. STERN: If I might add, I completely agree with Robert Lawrence again on this and I think that that is an enlightened policy. Just to build on a point made earlier even though it might not be that impactful, relative to the entire U.S. economy or the U.S. trade deficit, it may again have significant impact on certain

of these indebted countries which in their desperation will ship out any goods they can at any price they can and, therefore, have a disproportionately damaging impact on particular sectors or industries in the United States. And going back to my theme which is to target government energy to the problem areas, in order to properly use our government power, I think that this HIPIC is a good example that impacts back on the politics of our trade deficit. It might help in particular industries which are particularly sensitive which, if they are not assisted either through the escape clause actions or through worker adjustment assistance or other matters, will instead turn to trying to address policies that are less targeted and may not be as positive or constructive.

COMMISSIONER BECKER: Mr. Chairman, I have one more question to ask at this time, and it is directed to Dr. Stern.

VICE CHAIRMAN PAPADIMITRIOU: Go ahead, go ahead, finish it.

COMMISSIONER BECKER: Dr. Stern, I don't want to debate the NAFTA situation with you. I know you've considered this a success by any measure and you so stated it at different times.

I want to focus, though, on what you were referring to in the steel wire rod case.

DR. STERN: Yes.

COMMISSIONER BECKER: You're an expert in dealing with trade cases, and I understand the desire to protect this mechanism that allows us to deal with those cases, but I'm concerned about the inadequacies of that method. I know that we have commitments out of the government and our negotiators took a strong position at the WTO not to let this be watered down or weakened in any way. But concerning the process that we have now, it's very expensive for companies to process trade cases.

And in fact, it takes hundreds of thousands of dollars for companies to process trade cases. That almost, in and of itself, excludes a large amount of small employers

in the United States from ever seeking relief under the provisions of anti-dumping, under the current laws that we have.

Senator Arlen Specter has tried several times to introduce a bill and get it moving that would allow injunctive relief on unfair trade or dumping cases to be processed by worker representatives within the federal court system. I was wondering how you feel about that yourself or if anybody else would have any thoughts on that?

DR. STERN: In my presentation, what I was focused on was Section 201, the escape clause -- that is on the books.

COMMISSIONER BECKER: I know.

DR. STERN: And your question goes to the anti-dumping laws. Indeed, the reason why the escape clause action is such a preferential channel for import-sensitive industries is because it is less expensive to pursue than the dumping laws. The dumping laws are very

beneficial to the lawyers who, and law firms who work in those areas. They are very, very time consuming. In contrast, under the Section 201, the Commission's decision has to come out within six months, and the President has a deadline within which he must act. In addition, you can, in Section 201, the escape clause, deal with all sources of imports that are injuring the industry even though there may be a multitude of sources. In the steel wire case, there are as many as 30 different sources of countries supplying the United States. In contrast, with the dumping laws, you have to bring a dumping complaint individually against each country and each product line. That adds to this cost that you were referencing.

In addition, the dumping laws, as you know, according to the changes that have gone on over the years in Congress, are now subject to a multitude of court reviews. There is first the Court of International Trade that looks at the International Trade Commission and

looks at the Department of Commerce and then on top of that there's the Court of Appeals which looks at the Court of International Trade Review. And on top of that, ultimately there can be the Supreme Court. That also adds to the high legal expenses of pursuing the dumping laws. It is for that reason that I have taken the opportunity to underline today how important the escape clause is and how valuable it is, both as a public policy as well as a policy for the individual industries and workers that are impacted. I think it has been neglected, and it is for that reason I throw light on it today.

Senator Specter has introduced legislation which would add to the complexities of the dumping laws and presently at this point I would again urge that the government spend its time and energy legislating and implementing laws that are already on the books, especially when they are better and less costly for the economy and for the individual petitioner.

The International Trade Commission has an office that works with individual industries and companies, as you were referencing, Mr. Becker. It works with firms that cannot afford to pursue the case through the private bar. And the Commission is equipped to do that and does stand ready to do that.

COMMISSIONER BECKER: But at least in some of the cases that came up, would it not be advantageous to be able to get injunctive relief in court to stop something like this?

DR. STERN: I don't know which specific cases that would be and I'm just not equipped to give you my judgment on hypotheticals.

COMMISSIONER BECKER: Okay.

DR. STERN: I just would have to go back and look at those cases.

COMMISSIONER BECKER: Thank you.

DR. STERN: And if I might just say something on the NAFTA. I have always said that both the

critics and the proponents have exaggerated both the cost and the benefits of the NAFTA. That is the point that I was trying to make here, that one has to look very carefully at one's rhetoric. Otherwise, things get oversold.

COMMISSIONER BECKER: I started to ask the question on NAFTA and then I switched over to the dumping case because I thought you might be able to offer some ideas on going through federal court. But the fact is, I think I would maybe like to do this now.

There is a Business Week article, December 6th, two pages on General Electric's pressuring and forcing suppliers to shift their operations to Mexico or be cut out of the General Electric chain. I would like to submit this into the record for consideration. That deals deals right with the point that I was going to go into of companies forcing change, forcing their suppliers and other entities to move to Mexico, shifting operations down there and shutting down in the United States, not

to upset normal flows of trade but to move because it's just cheaper to shut down domestic operations and import back. It gets to the heart of your statement of NAFTA being a "success by any measure" and I just wondered if you would include this a successful part? (SEE INSERT 1)

December 6, 1999

SECTION: THE WORKPLACE; COST-CUTTING;

LENGTH: 1819 words

HEADLINE: Welch's March to the South

BYLINE: By Aaron Bernstein in Washington

HIGHLIGHT:

As GE pressures suppliers to shift to Mexico, unions dig in

BODY:

One of General Electric Co. CEO John F. Welch's favorite phrases is "'squeeze the lemon,'" or wring out costs to maintain the company's stellar profits. In the past year, the lemon-squeezing at GE has been as never before. In a new, superaggressive round of cost-cutting, the company is now demanding deep price cuts from its suppliers. To help them meet the stiff goals, several of GE's business units -- including aircraft engines, power systems, and industrial systems -- have been prodding suppliers to move to low-cost Mexico, where the industrial giant already employs 30,000 people. GE even puts on "'supplier migration'" conferences to help them make the leap.

GE's hard-nosed new push could spark other companies to emulate its tactics. The supplier crackdown is reminiscent of a similar attempt by former General Motors Corp. parts czar Jose Ignacio Lopez de Arriortua. His efforts largely failed in the face of stiff supplier resistance. But if GE succeeds, other companies could be inclined to try again. GE officials at headquarters in Fairfield, Conn., say the business units are simply carrying out Welch's larger campaign to globalize all aspects of the company. Says Rick Kennedy, a spokesman at GE Aircraft Engines (GEAE): "'We're aggressively asking for double-digit price reductions from our suppliers. We have to do this if we're going to be part of GE.'"

GE's efforts to get suppliers to move abroad come just as World Trade Organization ministers start gathering in Seattle on Nov. 30. That timing could help make the GE moves an issue at the talks, where critics will be pointing to just such strategies -- and the resulting loss of U.S. jobs to low-wage countries -- as the inevitable fruit of unregulated trade. GE's 14 unions hope to make an example in Seattle of the company's supplier policy, arguing that it's paving the way for a new wave of job shifts. They plan to send dozens of members to march with a float attacking Welch. PALTRY WAR CHEST. The campaign by GE's unions, which bargain jointly through the Coordinated Bargaining Committee (CBC), is also the opening salvo of bargaining talks over new labor contracts to replace those expiring next June. Because GE's unions are weak -- fully half of their 47,000 members at the company belong to the nearly bankrupt International Union of Electronic workers (IUE) -- they'll have a hard time mounting a credible strike threat. Instead, the CBC is planning a public campaign to tar Welch's image. They plan to focus on likely job losses at GE suppliers. The unions also suspect that GE may move even more unionized GE jobs to Mexico and other countries once it has viable supplier bases in place. "'ge hasn't moved our jobs to Mexico yet because our skilled jobs are higher up the food chain,'" says Jeff Crosby, president of IUE Local 201 at GE's Lynn (Mass.) jet-engine plant. "'But once they have suppliers there, GE can set up shop, too.'" His members from parts supplier Ametek Inc. picketed the plant on Nov. 19 to protest GE's pressure on Ametek to move to Monterrey, Mexico.

Although it has never openly criticized Welch before, the AFL-CIO is jumping into the fray this time. Federation officials have decided that Welch's widely admired status in Corporate America has lent legitimacy to a model of business success that they insist is built on job and wage cuts. "'Welch is keeping his profit margins high by redistributing value from workers to shareholders, which isn't what U.S. companies should be doing,'" charges Ron Blackwell, the AFL-CIO's director of corporate affairs. Last year, the AFL-

CIO proposed a bold plan to spend some \$ 25 million on a massive new-member recruitment drive at GE, but the IUE wasn't willing to take the risk. So the federation is backing the new, less ambitious campaign that focuses on traditional tactics like rallies and protests. STRONG TIDE. GE's U.S. workforce has been shrinking for more than a decade as Welch has cut costs by shifting production and investment to lower-wage countries. Since 1986, the domestic workforce has plunged by nearly 50%, to 163,000, while foreign employment has nearly doubled, to 130,000 (chart, page 74). Some of this came from businesses GE sold, but also from rapid expansion in Mexico, India, and other Asian countries. Meanwhile, GE's union workforce has shriveled by almost two-thirds since the early 1980s, as work was relocated to cheaper, nonunion plants in the U.S. and abroad.

Welch's supplier squeeze may accelerate the trend. In his annual pep talk to GE's top managers in Boca Raton, Fla., last January, he again stressed the need to globalize production to remain cost-competitive, as he had done in prior years. But this time, he also insisted that GE prod suppliers to follow suit. Several business units moved quickly to do so, with GEAE among the most aggressive. This year, GEAE has held what it calls 'supplier migration' conferences in Cincinnati, near the unit's Evendale (Ohio) headquarters, and in Monterrey, where an aerospace industrial park is going up.

At the meetings, GEAE officials told dozens of suppliers that it wants to cut costs up to 14%, according to documents about the Monterrey meeting at Paoli (Pa.)-based Ametek, whose aerospace unit makes aircraft instruments. The internal report, a copy of which BUSINESS WEEK obtained, says: 'ge set the tone early and succinctly: 'Migrate or be out of business; not a matter of if, just when. This is not a seminar just to provide information. We expect you to move and move quickly.''' Says William Burke, Ametek's vice-president for investor relations: 'ge has made clear its desire that its suppliers move to Mexico, and we are evaluating that option. We have a long relationship with GE, and we want to preserve it.'

GEAE officials argue that heightened competition leaves them no choice. Jet engines sell for less than they did four years ago, says Kennedy, the unit's spokesman. Almost all GEAE's profits have come from contracts to maintain engines already sold. And that business is getting tougher, with rivals such as United Technologies Corp.'s Pratt & Whitney laying off thousands of workers to slash costs. 'This company is going to make its net income targets, and to do it, we will have to take difficult measures,' says Kennedy.

Still, even some suppliers don't see the Mexico push as justified. They point out that GEAE's operating profit has soared by 80% since 1994, to \$ 1.7 billion on sales of \$ 10.3 billion. GE, they argue, is leading the cost cuts. 'It's hard to give away 5% or 10% to a company making so much money when most of the suppliers are marginally profitable,' says Barry Bucher, the CEO and founder of Aerospace International Materials, a \$ 30 million distributor of specialty metals in Cincinnati. Nonetheless, Bucher says he's looking into a joint venture in Mexico in response to the demands from GE, his top customer.

The unions, for their part, worry that GEAE will follow in the footsteps of GE's appliance unit. To remain competitive in that low-skilled, low-margin industry, GE Appliances has slashed its workforce nearly in half at its Appliance Park facility in Louisville, to some 7,500 today. Much of the work has been relocated to a joint venture in Mexico. Union leaders have tried to stave off further job shifts by offering concessions. In early November, the company agreed to a \$ 200 million investment in Louisville in exchange for productivity improvements and lump-sum payments instead of wage hikes for its members. 'We hope GE will see this as a solution they can adopt in jet engines and elsewhere,' says IUE President Edward L. Fire.

Labor's new campaign may embarrass Welch and even prompt GE to tone down its demands on suppliers. But it won't rebuild the union's clout at the bargaining table the way a serious organizing drive might have done. Until that happens, Welch probably has little to fear from his restive unions.

DR. STERN: I'm sorry. I don't understand the success by any measure. Are you --

COMMISSIONER BECKER: This is what I have as a quote from you, "NAFTA has been a success by any measure." This was an article that you had written on the vindication of NAFTA a few years back.

DR. STERN: The NAFTA has been a success by any macroeconomic measure, and I think it has helped, for example, during the peso crisis. I think it helped block trade barriers which I think, absent NAFTA, the Mexicans would have thrown up against us.

COMMISSIONER BECKER: It is in the eye of the beholder, so to say "a success at any measure" is quite an extensive statement.

Thank you.

VICE CHAIRMAN PAPADIMITRIOU: Commissioner Wessel.

COMMISSIONER WESSEL: First, a quick comment about Dr. Stern's or the last discussion with Commissioner Becker on trade laws and that is there are some who are losing faith in our trade laws, especially as you talk at length in your testimony about steel wire rod. I believe the decision is still sitting on the President's desk ten weeks after the deadline under the law so there are some who question how well it works for some of the people that it was intended to help.

I'd like to turn to the intersection of trade policy and the trade deficit and your comments on NAFTA as a success or where the quotes, et cetera, came from, number one. And number two, after the Uruguay Round or during the consideration, I believe, it was a U.N. body that indicated that I believe the overall benefits long term were expected to be in the neighborhood of \$200 billion to the world economy over a period of time, which in terms of the world economy is somewhat of a marginal benefit.

The International Trade Commission released a study some weeks ago on the anticipated accession of China to the WTO and indicated in their study that the trade deficit was expected to increase as a result of China's accession.

So when you gauge all of this together in a rising trade deficit that this Commission was created to understand and report on, how successful do you think our trade policy has been over the last couple of years? Should, if, in fact, we're questioning the sustainability of the trade deficit, should we be moving forward with the accession of China to the WTO, if a neutral body anticipates that it will increase the deficit, or should we really have some kind of strategic pause as we look at our trade policy and determine whether one of the underlying tenets of it should be a more aggressive approach on addressing the trade deficit as part of our trade negotiations?

DR. STERN: You're asking me?

COMMISSIONER WESSEL: I am asking each of the panelists and would appreciate Dr. Lawrence, as well.

DR. STERN: Well, I think that -- I am not a member of the Administration and I think defending any one of the policies should be left up to the Administration since I have certainly not been privy to them. And what I have tried to do in my paper is, in fact, go forward and look beyond, instead of look at the past, and say what is doable, what is politically sustainable in order to maintain what I consider an important key of American prosperity which is open markets and competition.

So as far as trade policy fitting into that the key is that to the extent that we have the largest trade deficit in the world, we also have the most prosperous economy, which is the envy of the world. And the prosperity relates to virtually no inflation, high productivity, the kind of investments which have been generated, particularly in the 1990s, from the trade

deficit that you've heard from all your panelists. So to that extent, you could say an open market has been beneficial and that has been the overarching trade policy of this Administration. The President said we must compete, not retreat, and it has worked. So I would give the President an A plus in that area.

Now you've asked about specific negotiations. I see trade policy having a variety of instruments. Trade negotiation is only one. There's also enforcing the trade laws which I just had a dialogue on. There is also trade intelligence gathering and data gathering which I don't think is being done as well as it could be. There is the promotion of trade and exports.

There are a variety of tasks, so when you ask, "Is our trade policy successful?" I think it really requires a much more thoughtful discussion.

As for trade negotiations which is one aspect of trade policy, as I said, do the doable. And

I can elaborate on that, but I think I've spent enough time and you should hear from the other folks.

DR. LAWRENCE: I think what I'd like to do is make a fundamental distinction which actually is where economists and normal people maybe part company.

(Laughter.)

I think that most economists would suggest that the aggregate trade balance really reflects spending patterns of a nation and as such trade policy, certainly in an economy that is very close to full employment like ours is, doesn't have a major effect on the trade balance. That doesn't mean to say that trade policy is ineffective. What trade policy can affect are the terms at which we trade with other countries. We can get higher prices for our products, for instance, if we can open foreign markets. That's very good for us. Similarly, if we remove import barriers, actually, we get benefits for our own consumers. So the terms at which we trade, the prices we pay, the prices we earn are all

heavily influenced by trade policy, but the aggregate trade balance will really reflect the balance of savings and investment. And only to the degree that you see a link between the trade policy and saving and investment can you really use the trade policy to affect the trade balance.

Now that's point one. Point two is that bilateral trade balances are again going to be influenced by trade policy. When we signed the NAFTA we definitely could have had an impact on our bilateral trade with Mexico. But one has to be very careful in moving from a bilateral deficit which may or may not change to implications about the aggregate deficit. For instance, in the case of China, the Chinese are going to be able to sell us now, given our agreement, a lot more textiles, looking out over the future. The question is how many of those would come at the expense of domestic production and how many would come at the expense of other competitors of China around the world? So one has to be

very, very careful then in moving, as many do carelessly, in a one-for-one way from an implication for a bilateral trade deficit with one country to the aggregate deficit as well. So those are two very fundamental points that I think I would like to stress.

Now with respect to the actual study vis-à-vis China that was done, a lot depends on what is assumed about how we would have treated China had it not entered the WTO, particularly with respect to textiles. One scenario is that we would have continued to hold the Chinese to quotas while other countries would have been free we have agreed to remove the multi-fiber arrangement for countries around the world who are members of the WTO. So the question then is had we done this for all the other countries would we have been able to sustain a distinctive treatment of Chinese textiles using quotas.

If we had been able to do that, then presumably our imports from China would have been lower than were we to remove those quotas. The study, in particular, assumes

that when China joins the WTO, it automatically gets this quota relief; but if China does not join the WTO, it would not get such relief and that's really what drives that particular result.

Alternative assumptions would suggest that by and large most of the opening is taking place on the Chinese side as they adapt commitments and so we are going to see a lot of stimulus to exports from the United States. And in fact, from a U.S. standpoint, what is striking about the China WTO agreement is that we have been able to get some very important reservations with respect to safeguards, with respect to the treatment of anti-dumping when it comes to non-market practices as they exist in China, extending those to 15 years. I think, on balance, what we have is a very good agreement.

COMMISSIONER WESSEL: But in terms of looking -- now that we have the specifics, and the ITC as you point out was done prior to the deal being negotiated, are you suggesting a dramatic impact in the

balance of trade or are you saying it's going to be fairly marginal, that it will be more a question of the composition of trade?

DR. LAWRENCE: I would expect that with time it could turn out that our bilateral balance with China would be affected. It's very problematic to construct that scenario because we are going to remove quotas on the textiles of China's competitors and that was ignored in the study. So I don't know. I have not done a study of my own. I'm simply suggesting that to jump from a study which looks bilaterally to draw implications for the overall balance is to make a big leap and I think one has to be very careful in making that leap, and I don't think it is warranted from the study to draw implications for the aggregate balance.

COMMISSIONER WESSEL: Any of the other panelists?

DR. BARBERA: If you say the trade deficit or the surplus is a function of relative spending and if

we're talking about curtailing U.S. spending in an effort to have some improvement in the deficit, obviously for that to be comfortable for the globe, you're supposed to have someone else pick up the slack. So you've got to have some acceleration in spending and activity around the rest of the world.

When I look at the last 18 months and the Administration's efforts, I would give them high marks -- first, Treasury Secretary Rubin and now Summers -- in terms of browbeating the Japanese. You're supposed to have insisted that Japan have a recovery without a plunging currency and then an export led recovery. The recovery has been tepid to date, but it has occurred with the yen strong and without much improvement in trade so that the rest of Asia has had a chance to recover under the umbrella of a strong yen. It remains to be seen if Japan can continue to recover with a strong yen in place.

VICE CHAIRMAN PAPADIMITRIOU: You're the last one, okay? You don't mind, do you, Commissioner Angell?

COMMISSIONER ANGELL: I can pass.

VICE CHAIRMAN PAPADIMITRIOU: One more minute.

PROFESSOR BLINDER: I would just like to address Commissioner Wessel's question directly about whether we should be more aggressive in our trade policy. I think not. I think we're more than sufficiently aggressive in our trade policy. We are the big, rich guys and gals on the block, and I think we ought to be setting a good example for the world and fostering greater trade, not restricting it.

We're in danger in this country, and in many other countries, to sort of succumbing to mercantilistic fallacies. You hear it all the time. Exports are great, imports are bad. Well, exports are great, but so are imports. I'm probably wearing some imports right now.

And I have lots more at my house, as all of us do. And we get them cheaper. And what I, as an upper income person, get more cheaply I don't much care about. But working people that can't afford the higher luxury end items benefit from this greatly. And it's a two-way street. We benefit from exports, and we benefit from imports.

I'd like to endorse 1000 percent what you heard from Bob Lawrence before about trade policy. It's about micro-allocative things, such as shifting the gains from one industry to another, not about the overall multilateral trade deficit.

And then, finally, one last point. Since the well-being of the workforce is so often brought up in this context, one of the worse things I can imagine doing for the U.S. workforce is putting in place a set of policies -- they wouldn't only be trade policies, but could include trade policies -- that would effectively lock us in to the 1990 industrial structure as we go

forward. Just think about what would happen if we were still producing the 1979 or 1959 bill of goods. It's a potential catastrophe for American workers to protect exactly what we do now and resist change. Change doesn't only come from trade, it comes from a whole host of sources.

We are fortunately in this country pretty good at adapting to change, by world standards spectacularly good. It's one, though not the only, reason why we're doing so well right now and I would hate to see anything interfere with that.

VICE CHAIRMAN PAPADIMITRIOU: Thank you. Commissioner Angell? Let me come back to you, please.

COMMISSIONER ANGELL: He wants to answer, that's fine.

VICE CHAIRMAN PAPADIMITRIOU: Okay.

PROFESSOR GODLEY: I want to say one sentence which is a little bit like a protest, that if the strategic predicament which I put to you has a

validity of even a conditional kind and you accept that, I want to make just the observation that none of the comments that have been made in the last, roughly speaking 40 minutes have in my opinion any substantial bearing on that predicament at all. They have their own validity, but they don't bear on this problem which is, as I see it, the strategic problem, associated with the trade deficit.

VICE CHAIRMAN PAPADIMITRIOU: Commissioner Angell?

COMMISSIONER ANGELL: Yes. Mr. Chairman, I will address questions to three of the panel members beginning with Mr. Godley.

I really find it amazing that you are so aware of compound interest on America's indebtedness abroad. It seems to me that we're somewhere around one and half trillion of net obligations that we now have.

I testified to the Joint Economic Committee about five weeks ago, suggesting that number would probably rise to

4.3 trillion by 2009 and that would be 30 percent of GDP, as compared to our current net external obligations of 17 percent of GDP.

But let's suppose that we're borrowing from the rest of the world at something like 7 percent interest, and I'm very happy to use your compound interest on that number. I presume you're aware that U.S. non-residential capital spending has risen from 9 percent of GDP in 1990 to 14 percent of GDP in the third quarter of 1999 -- an absolutely remarkable shift of U.S. resources and the capital goods spending that increases labor productivity.

Now let's suppose, I think it's higher, but let's suppose the rate of return on these nonresidential capital goods would be 14 percent. Now I think it's much higher, but even if it's only 14 percent, would you apply the same law of compound interest on that 14 percent that you would on the 7 percent, and would you then tell me

how much wealthier Americans would be in say 10 years with compound interest?

PROFESSOR GODLEY: Well, I can't see -- I wouldn't -- I happen not to think that the rate of interest is anywhere near as high as the 7 percent you say, but nevertheless that would weaken my position.

I don't see that there is any cumulative imbalance that arises from the fact that there's been a high level of investment that has a high rate of return. The level of domestic investment doesn't generate any internal process of imbalance, whereas the fact that the United States is having to borrow from abroad and is having to pay interest to foreigners on its debt at an exploding rate, that does generate a cumulative explosive situation which actually has to be at some stage reversed.

I mean the two -- I can't regard the two cases as being parallel.

COMMISSIONER ANGELL: In other words, it has to be reversed because you say it has to be reversed.

Okay, I have a second question --

PROFESSOR GODLEY: No, excuse me. It has to be reversed because it means that the balance of payments deficit would be rising at an explosive rate relative to the trade deficit and, therefore, I mean after --

COMMISSIONER ANGELL: Professor Godley, I have that compound interest in my \$4.3 trillion net obligations estimate for 2009.

PROFESSOR GODLEY: What that means is that the United States is having to borrow from abroad at an increasing rate.

COMMISSIONER ANGELL: That's right and we get to invest in new technology capital goods that have an enormous rate of return and thereby the equity market -- equities are claims on these real capital goods -- so the U.S. equity market is naturally pulled higher.

I'd like to ask you another question. Let's suppose that someone would have listened to your, what I think are, strange ideas on Article 12 of WTO, and you really just want to cut off the imports. Let's suppose that over the last four quarters to the third quarter of 1999 we had implemented such a procedure and would thereby shut out \$200 billion worth of imports over those four quarters. Do you think the U.S. economy would have been better off if we had shut out \$200 billion worth of imports?

PROFESSOR GODLEY: No.

COMMISSIONER ANGELL: Thank you. I'm glad that you agree.

Before I ask a question of Robert Lawrence, I do want to say congratulations just as Alan Blinder has. I really feel encouraged when I hear economists; you say there are ordinary people and economists. You know, I think, Robert, ordinary people are going to become

economists because economic thinking does make such sense and I really appreciate what you've said.

Now I also want to commend you, the President and the Secretary of the Treasury for the strong dollar policy. In my opinion if we depart from this strong dollar policy, then those that would like to see a lower equity market values are going to get their wish. In other words, if you'd like to see equity prices cut in half, I think it would be a good idea to move away the strong dollar policy.

Now there's one. I'm going to pick at Robert Lawrence at one thing you said. I don't know what you were thinking about when you said it, but you said the real interest rates were higher in the 1980s. Now we did not have tips in the 1980s to give us some kind of concrete measure of real interest rates. My impression is that U.S. real interest rates are around 4.25 percent on say five year Treasuries at this period of time and I'm expecting that number to rise; that is,

I'm expecting that if we do not get an increase in saving that U.S. real interest rates will rise even farther.

Now you said that monetary policy when I was there in the 1980s was very tight, and monetary policy isn't so tight today, and yet you refer to real interest rates. If you look back at real interest rates, wouldn't you say that it can be a good thing for monetary policy to be tight and to have real interest rates high enough to change, over time, the American households' preference for saving versus spending?

DR. LAWRENCE: I tried to be quite careful in the way I phrased things in the testimony and what I was really describing was the marginal contribution, if you will, of the 1980s policy on interest rates, I believe it is a fair characterization to say that what we did have in the 1980s, certainly at the start of the 1980s, and what drove up the value of the dollar was a mix of policies which gave us larger budget deficits and

tight monetary policy. So that is a mix of policies which I believe leads you to higher real interest rates.

By contrast, I believe that it's fair to say that what we've had in the 1990s is much tighter fiscal policy. Indeed, if you look at the contribution to the expansion, actually provided by government expenditures, if you compare the 1980s and the 1990s, it's very striking that in the 1980s we had a significant contribution of that expansion come from government spending. It wasn't social. It was defense, but it was government spending, nonetheless.

By contrast, in the 1990s, we see minimal contributions to the expansion of government expenditures. We see a much tighter fiscal policy and I believe again at the margin that has the effect of leading to lower interest rates.

Now the ultimate configuration of the absolute levels of interest rates in the periods was not

something that I was talking about, so that's a more complex thing.

Finally, philosophically or actually theoretically, while I believe certainly monetary policy will have an impact on real interest rates, I don't believe in the long run that monetary policy will have an influence on real interest rates. Nominal interest rates, I think, it has its major impact on.

COMMISSIONER ANGELL: Yes. Let me follow up - see if you agree with this general statement. Monetary policy in the 1970s was really very loose, very foolish, very accommodative and said we will toss out as much money as it takes to make the world work no matter how many times OPEC triples the price of oil.

Paul Volcker, fortunately, changed the monetary policy course and did a lot of heavy lifting, and interest rates went to 21 percent and the tax receipts of government came down.

Now in the 1980s, fortunately, we made some wise decisions about deferring income taxes on saving plans. Now it comes back to Professor Godley's compound interest. It hasn't been a wonderful thing to have 401 and all the other kind of deferred income tax that might have promoted more saving, and to have that money growing since 1982 at about a 16 percent annual rate, and now those people are reaching the age where they are required to count that as regular income. So hasn't the government benefited enormously by compound interest and having a wonderful economy with a wonderful equity market that generates huge tax receipts?

DR. LAWRENCE: You're asking me? Well, my own view is one has to be very cautious. Firstly, you have to acknowledge that every time you allowed someone to avoid paying taxes on their savings, you actually resulted in a loss of revenue for the government. So when we talk about savings, we should look at the national perspective, not simply at the perspective of

the individual, and secondly, the serious issue is how much saving you induced at the margin and to what degree people substituted from other vehicles of saving. So I would concur with you that capital formation that has taken place and equity saving has contributed to the prosperity and the economy today, but I think one has to be careful, particularly given the fact that as is indicated in the table in my written testimony here and Alan Blinder's too, the striking feature of the 1980s and indeed the 1990s, unfortunately, has been the decline in private savings.

COMMISSIONER ANGELL: Yes, and my comment would be that the Bush and Clinton tax increases didn't increase national saving. They simply transferred saving from the household sector to the government sector because of their focus on high-income individuals.

I'd like to ask my friend Alan Blinder a question. Alan, I want to find out whether I can get you

to admit something I don't think you probably would want to admit.

You talked about tinkering with the tax code. You know, I tend to believe Alan, that people do what they think is in their best interest. I think the tax laws have a lot to do with what people think is in their best interest to do.

So let's suppose that we adopted the most radical change in the tax system, which I think would be the Americans for Fair Taxation that wants to abolish the income tax, the corporate income tax, all the income taxes and replace it with a 23 percent national savings tax.

My question is do you believe -- whether you're for it or against it -- that adopting that change in the tax laws would alter the household savings rate?

PROFESSOR BLINDER: Not much. I think the evidence is overwhelming by now that what you said about people doing what's in their best interest,

notwithstanding and I don't disagree with that, of course, the interest elasticity of household savings is negligible and so you can do things with the code and in other ways that change the rate of return to savings.

There's no question about that. There's just no evidence that people respond in an appreciable way, households respond in appreciable way to the change in the after tax rate of return.

COMMISSIONER ANGELL: I wish I hadn't asked because I've been in so much admiration of most of what you say.

(Laughter.)

COMMISSIONER WESSEL: Can I ask a quick follow-up question to that? Assuming that the tax changes would be revenue neutral, wouldn't the tax plan that was just discussed, wouldn't that result in a fairly dramatic shift in the burden of taxes among income classes?

PROFESSOR BLINDER: I believe it would, yes. Commissioner Angell didn't ask me whether I favor or oppose this change. I oppose it. What you raise is a major reason why I would oppose it.

VICE CHAIRMAN PAPADIMITRIOU: Commissioner Lewis?

COMMISSIONER LEWIS: I have three sets of questions. One concerns the value of the dollar, one concerns the debt trap that Professor Godley was talking about, and one concerns trade policy in general.

I think, Dr. Barbera, you said a lower dollar will increase the deficit and I think Alan Blinder said that a lower dollar could play a major role in whittling down the deficit, and yet Robert Lawrence said that he is not for a lower dollar and he advocates a stronger dollar. So I guess I'm hearing different things from the three of you.

Could you first tell us why you think a strong dollar obviously causes a deficit --

DR. BARBERA: So does a weak dollar.

COMMISSIONER LEWIS: And I was going to say a weaker dollar will increase the deficit and then could you tell us how you would reconcile what you're saying with what Robert Lawrence said about the stronger/weaker dollar. That's number one set of questions.

And I'd like to know if the four of you agree with Professor Godley's view that we have this debt trap that he's talking about. And then finally, I'd like to ask all five of you what are the purposes of a nation's trade policy, what are we trying to accomplish and what are the goals that we're trying to achieve in a trade policy? And how do you judge whether it's working?

Why don't we start with the dollar?

DR. BARBERA: Yes, I think everyone here would agree, all I was saying was in the short run, if you have a sharp decline in the dollar, the first effect is on prices. And so you have the J-curve effect, and

the price of the imports that you're purchasing go up and over the first year of a sharp fall for the dollar the trade deficit will actually widen.

COMMISSIONER LEWIS: You're assuming that the volume will stay the same then?

DR. BARBERA: Even if the volume falls some, the history makes it pretty clear that the net of the two will cause the trade deficit to widen.

If you think about last year, 1998, in 1998, we actually had a substantial slowing, if you looked at imports from Asia, import volumes went up by 12 percent, but the dollars spent on imports from Asia only went up 3 percent because the prices went down 9. That was a violent J-curve in reverse.

Okay, now this year those prices have begun to rise, including especially oil, and so the nominal numbers look worse than the volume numbers.

COMMISSIONER LEWIS: We can expect, I think, the Asian economies to be improving and we can expect the

yen to keep appreciating. Does this mean that we will have a bigger deficit with Japan then?

DR. BARBERA: In the short run if you have a sharp move in the dollar, you can expect the trade deficit to deteriorate.

COMMISSIONER LEWIS: And when will it start to correct itself?

DR. BARBERA: Over time you have the more profound effects on substitution and the income effects because with rising prices you'll have both a move from imports to domestic and you'll have typically rising interest rates and slowing demand.

Now, on your second question, if I could, whether or not we have a time bomb in terms of --

COMMISSIONER LEWIS: Is there validity to what he's saying?

DR. BARBERA: Right, if you contrast Dr. Godley's view with Commissioner Angell's, I think that Commissioner Angell makes a very good point which is that

you cannot categorically say, that what we've witnessed over the last few years cannot continue over an extended period of time. And actually Dr. Angell quoted some numbers in that regard.

However, when Dr. Angell talked about a weak dollar precipitating a 50 percent decline for the stock market, in other words if you get a weak dollar you're going to get a stock market crash, I think he was implicitly endorsing the notion that these are all interlinked and I would come back to my notion about optimism. If you believe that optimism and a virtuous cycle is a reasonable perpetual forecast, then this can work. If like most people you think there's some limit to optimism you worry that people could all of a sudden decide that things are too rich for my tastes, then a virtuous cycle, just as Dr. Angell said, becomes a vicious cycle. These things have negative feedback loops with as much power as the positive feedback loops have shown us over the last several years.

COMMISSIONER LEWIS: So do you think there's validity to what he was saying -- or not exactly then?

DR. BARBERA: I'm saying that I can't say it's imminently a time bomb, but I don't share the enthusiasm about a nine-year extension of the optimism we've witnessed over the last three years. It is certainly a risk.

PROFESSOR BLINDER: Starting where we just were, the parts of Dr. Godley's view that are playing out the logic of arithmetic are beyond dispute. It seems to me very likely we're on an unsustainable path in terms of our current account deficit. When I say unsustainable path, I usually invoke Stein's law, Herb Stein's law that is, which is that if something can't go on forever, it will stop.

(Laughter.)

It will stop. The question is whether it stops in a kind of a hard landing, a nasty way, collapse of markets, et cetera, or in a more gradualist way. And

I've already said earlier this morning that I think it will stop in a more gradualist way.

It's also crucial, as I mentioned in my opening statement, to take up Commissioner Angell's point, whether this trade deficit is being used to finance consumption, in which case it's not bringing you these bountiful returns, or being used for investment.

Are current trade deficits being used for both -- unlike in the 1980s when it was clearly being used for consumption, so that's a lot better. But it's not the case that we're taking every one of these foreign dollars and investing it in highly productive assets, though we are doing it with some.

I'd like to change the way you phrased the question. You asked whether we, each of us, including myself, favor a weaker dollar. I don't favor it or oppose it, I just think we're going to get it. I think it's a next to inevitable consequence of this very large,

and as I just said, unsustainable relative to GDP trade deficit. So the dollar will come down --

COMMISSIONER LEWIS: But you said that will whittle down the deficit, yet Dr. Barbera is saying it will increase the deficit.

PROFESSOR BLINDER: No, no. In the very short run, it will increase it because of J-curve effects. But a policy maker should ignore the J-curve. The J-curve is as if you're driving a car which has a quirk -- that when you first press the accelerator for a couple of seconds it slows down and then it speeds up.

There's something strange about your gear. That's what the J-curve is. It goes the wrong way for a while, but forget about that. Well, not quite forget about it. If you're driving, you have to watch that. Similarly, you have to understand it when that you see the trade deficit deteriorate, so you don't draw the wrong conclusion. But for policy, I think that's pretty much irrelevant.

Then I'd like to address your last question with a very simple answer. You ask what should be the purpose of our trade policy. To me, the answer is extremely simple. Well, I'm actually going to give two answers, but the first is my 85 percent answer and the second is my 15 percent answer in terms of weighting.

So the 85 percent answer is the one that counts. It should be to raise the standards of living of the American people. That's it. The 15 percent answer comes back to what I was mentioning before. We, being the United States not Bulgaria, have some responsibility for the rest of the world. And that's my 15 percent answer.

COMMISSIONER LEWIS: Do you think that one of the purposes of a trade policy should be to provide an environment in which American companies can compete in the world? Obviously, you do.

PROFESSOR BLINDER: Sure.

COMMISSIONER LEWIS: Do you think one of the

--

PROFESSOR BLINDER: And I might add, foreign companies compete in the United States.

COMMISSIONER LEWIS: Fair enough, of course. Well, that was going to be my second point. To provide competition for American companies so they have to do R&D and so on.

Do you think one of the purposes is obviously strategic?

PROFESSOR BLINDER: I'm not quite sure I know what you mean by that.

COMMISSIONER LEWIS: So we have certain relations with certain countries that are important to us from a strategic alliance point of view?

PROFESSOR BLINDER: To some extent. When I get questions like that, I always feel I'm out of my depth because you start talking about foreign policy issues. I feel more comfortable when I stick to the economic realm.

COMMISSIONER LEWIS: Okay, one purpose should be to provide lower prices for American consumers.

Should one purpose be to provide jobs for American workers?

PROFESSOR BLINDER: Sure.

COMMISSIONER LEWIS: Good paying jobs?

PROFESSOR BLINDER: Absolutely.

COMMISSIONER LEWIS: Thank you.

DR. LAWRENCE: Thank you, it's nice to see you again and to continue our dialogue. The first question had to do with the dollar. The point I was making at the end of my testimony was to layout principles which I felt actually would maximize American incomes, both now and in the future, were it to be necessary to have an adjustment in this current account.

And what I was stressing was that the best ways to have adjustment is through faster foreign growth and more open foreign markets. We are -- our incomes are higher, the stronger are our terms of trade and that's

why I believe that a stronger dollar, everything else being equal, is in our economic interest. That was the statement that I made.

Secondly, when it comes to the question of a debt trap, it is true that if you have borrowed at high interest rates that are higher than the growth rate in your national income in the very long run you're not going to be able to service the debt. However, firstly, let's note that if nominal interest rates were to be 5 percent and the nominal growth rate of the economy was to be 5 percent, an economy could run a current account deficit of 5 percent of GNP forever and it would be perfectly sustainable. So it's the question of the relationship between those interest rates that really counts. It would be an economy which had a current account, the one I've just described has a current deficit equal to 5 percent of GNP. It actually has a balanced trade under that circumstance, so basically you're just borrowing your interest. And it's perfectly

sustainable. So we have to be very wary of getting those numbers correct. There is the rigor of arithmetic, but it's very important to look at the numbers.

It seems to me though that what we're looking at here, certainly for some period of time is not a scenario in which the numbers explode on us. I endorse what Alan Blinder said, you know, if those numbers are going against us in the long run, it will have to be an adjustment. What I would stress is the nature of that adjustment. The way it takes place is very, very important. But I think certainly I'd also endorse what Dr. Barbera said. We are better off for having had this deficit over the last few years. We don't know what the global situation will look like in the short term over the long run. It is likely we will have to adjust. But as indeed --

COMMISSIONER LEWIS: What do you mean when you say we'll have to adjust?

DR. LAWRENCE: In the long run, it is likely that Americans cannot continue to spend at the rates we are spending in excess of our income and what we have seen is not a stable current account, but rather a rising one. That's an important feature and if the current account keeps rising we'll have to see some adjustment.

And I would finally endorse the notion that the central goal of trade policy should be to raise the incomes of Americans. I believe that involves both maximizing the gains to us as consumers and maximizing the gains to us as producers.

What we do see is that we have a restructuring economy today. We have certain sectors of the economy which had been adversely impacted as a result of the configuration of forces, in particular, our manufacturing sector has been hard hit. I believe that as we look out into the future and we think about the kind of adjustment profile that we ought to be seeing, were we to see one in which we have a restrained fiscal

policy and relatively more accommodative monetary policy, that would lead to lower interest rates, that means more construction jobs and jobs for workers who make equipment and it leads to an improved trade account which means more jobs for manufacture workers who produce goods that are involved in international trade.

So I think that when we think about the manufacturing sector and its future, in particular, that the mix of policies are very, very important. We saw in the chart in my written testimony that I gave that the policies of this Administration were quite compatible with growth in manufacturing employment until the Asia crisis hit and I think it is desirable at some time to restore that relationship.

COMMISSIONER LEWIS: Thank you very much.

We've had people say to us that they don't really think interest rates have much of an impact on the strength of the dollar because the currency flows in the trading of

currencies is so much vaster than the impact of interest rates.

Would you buy that or not?

DR. BARBERA: If you compared the mid-1980s experience to the current one, the big difference has been that the ebullience of the stock market and the enthusiasm for either acquisition or investing in equities has caused a great demand for dollar denominated assets without the need to bribe foreigners with significantly higher interest rates.

DR. LAWRENCE: Let me just say, explaining the behavior of exchange rates is something at which economists have not been very successful. And if you go back and you look at the studies, for instance, of the 1980s, their real interest rates, relative long-term real interest rates went some of the way to explain why the dollar rose. But actually in the last six months or nine months when the dollar really went through the roof, economists who have looked back on that period call it

a speculative bubble. They don't know why -- basically, they don't know why it happened. So we have to be very modest in our explanations for exchange rate movements.

COMMISSIONER LEWIS: Thank you.

DR. LAWRENCE: We have very little success in predicting.

COMMISSIONER LEWIS: Thank you.

DR. STERN: I would concur with the consensus that I think you've heard up until now on the debt trap. The arithmetic is beyond any dispute. How we deal with this scenario -- and that's what I see it as, a scenario -- is through the potential role of the dollar, if it becomes weaker. I think that the most constructive way to deal with the scenario would be by other countries becoming more prosperous and consuming more. And that has to do with the terms of trade with regard to the value of the dollar as well as with other countries ability to consume.

So I would not -- I would be very hesitant to have the government step in with -- or you make any set of recommendations based on that scenario. It is a risk, but I think that it is a risk that given the fact that we are using those imports and having to sustain them with the debts that we are accumulating and they are going into productive investment instead of consumption makes it a virtuous cycle at this point and I would not want to arrest it with some sort of a government imposed intervention.

As for your question on trade policy, I firmly believe that you have to look at trade policy as merely a subset of our general economic policies. And the responsibility of our nation's policy makers in the economic realm is to enhance American prosperity, to enhance the ability of Americans to raise their standard of living, to maximize their income. Trade policy impacts and is a tool towards that goal, impacting on both the consumer and on the producer in the United

States. And I think that the key to the prosperity that we have had so far is one that we should continue and that is open markets.

COMMISSIONER LEWIS: If the purpose is as you state -- and I'll get to you in one second -- if as a result of the policies that we have put into place and the laws that we've enacted, we encourage companies to move their plants overseas, we obviously by doing that get cheaper goods back in the United States, but we lose some of the jobs as a result. Would you say that trade policy is working or not working?

DR. STERN: I think that an open trade policy sends a variety of signals to different firms to deal with the changes in competition in different ways. Sometimes it is to become more efficient here at home, to invest in computers and distribution systems which make our workers more productive, so the firms and the jobs do not have to go overseas. If they fail to make those necessary productivity decisions here at home, they

may have other coping mechanisms including going overseas. But trade is just a signal of change, and different industries have to accommodate in different ways.

If the overall impact is that we have a rising standard of living, that wages are increasing, that we have virtually no inflation and virtually full employment, then I think that that trade policy is working. Now it may impact different companies in different ways, but I don't think the government is very good at telling different companies how to accommodate. They can provide a cushion, a temporary escape from the change in very particular industries when examined objectively and that is why I referred to the escape clause. But I would not want to -- that is an exception and it allows, if you will, pressure to come off the political system that tends to be on the political system to resist change. I believe that change is good.

COMMISSIONER LEWIS: Thank you. Dr. Godley, I would certainly appreciate your reactions to what you've heard.

PROFESSOR GODLEY: Well, I completely concede the possibility that what I put forward does crucially depend upon the interest rate assumptions and I've argued this out in my written testimony. I believe it to be the case that the present relevant rate of interest does exceed the growth rate and I've also given reasons why the present system of statistics makes it particularly difficult to ascertain what that is.

So my belief is that the interest rate conditions for the debt trap to exist do hold, but that may not be right. On Alan Blinder's point that he believes in a soft landing, yes, he may believe that, and that sounds innocent, but actually there is a very strong assumption underlying it: either the relevant rates of interest are low and will remain low, and/or the trade account will actually improve, whereas it has been on a

clearly deteriorating trend, for a long period of time, allowing for the business cycle. It seems to me his assumption of a soft landing, or his hope or expectation of a soft landing, is based on a very strong assumption which I would question.

On top of all of that, I would say that in the last resort what we're trying to do is to think out what kinds of policies are in the end appropriate and the design of policies ought always to cover worst cases.

So even if he's right in his expectation I would still maintain it is most important to address the question.

I haven't got the answers, I've got the outlines of some of them. I haven't got the answers, but nevertheless, that's what one should be trying to do, to design policies which meet the worse case that is seriously on the cards.

COMMISSIONER LEWIS: Thank you very much.

And you agree with their view of what the purpose of a trade policy should be?

PROFESSOR GODLEY: Absolutely, but with what I thought was the qualification you yourself introduced. I entirely agree, but you've got in the last resort, not in the last resort, one of the last resorts is that you can keep a full employment policy. You can keep the -- and that is not clear to me. As long as you have what is basically unstable position, which is to put it crudely that -- that the total expenditures does greatly exceed and substantially exceed what the American economy is producing, it requires correction at some stage and as that unravels it's most important that -- what you call trade policies in some combination with exchange rate, you don't call them policies, is such that employment and activity are not seriously affected in this country and in the world.

COMMISSIONER LEWIS: Thank you very much.

VICE CHAIRMAN PAPADIMITRIOU: Commissioner D'Amato?

COMMISSIONER D'AMATO: Thank you, Mr. Chairman. I've got a question for Dr. Stern based on your testimony, but I'd also like Dr. Barbera, if you have a view on this, to talk a little bit about new the paradigm for trade negotiations.

Now you talk about that as -- it seems persuasive that business dialogue, trans-Atlantic business dialogue was useful in trade liberalization on getting governments to do things to liberalize trade.

In the context of the Asian, our relationship with the Asian economies, I don't think we have anything of that nature going on.

And the issue here in my view is openness.

We've asked before --

DR. STERN: The issue is what?

COMMISSIONER D'AMATO: Openness. We talked about our open economy and how good that is and how it has been good for us.

The problem with the Asian economies and our deficits, our large deficits are primarily with Asia is to some extent, large extent, some view the openness of those economies, trade barriers.

There are some who would argue we're highly tolerant of Asian trade barriers, that we spend our time negotiating agreements, particularly with the Chinese, that they don't enforce. I think that in the context of the debate that next year in the Senate on China and WTO, the question of the extent of their closed nature of their society in terms of trade barriers, then the inability of our government to get those barriers down through bilateral means, the issue would be: if we can't do it bilaterally, how in the world are we ever going to do it when they're hiding in this big organization?

My question is, to what extent are the barriers of the Chinese, in particular, attributable to trade barriers. If we're going to increase our deficit with the Chinese when we get into WTO, is that going to

be additional trade barriers or what's the reasoning in that respect?

Is it -- what are the techniques in the new paradigm that we can use to open those economies? Is this Article 12 of WTO really going to be useful? Has it been used? Or should we go back to our own Super 301 which we dropped which, of course, I hoped that we would still have in place. How do we go back? What is the new paradigm to open Asian trade barriers for our exports?

DR. STERN: Thank you. That's a terrific question and let me start by saying that an open trade policy is one which I do think is good for this country, to reiterate. As I said earlier, trade policy is part of economic policy, so you go from economic policy, to trade policy, and of trade policy, trade negotiation is just one aspect.

So we're going now from strategic trade policy to tactics, trade tactics, trade techniques, to use your words. I just want to make that very clear.

Now we're talking about techniques in a negotiating situation. And that is a different set of considerations than in the economic discussions that we've had so far about the general welfare of the U.S. Sometimes you may want to threaten something, including withholding or conditioning the opening or closing of your market, thinking that that may have a tactical capacity to change the position of another country. So that is the assumption behind this discussion of tactics.

The reason why I focused first on the trans-Atlantic business dialogue is because I think that there are more things that we do share in common with the EU countries, and I do believe at chipping away at the achievable because I think there's a tremendous skepticism in this country about what we can achieve in our negotiations. And so I think it's important to have concrete results and so I would continue to do that, recognizing that there are other markets we have to worry about as well.

In Asia, and in Latin America and in the other non-European markets, there are countries which I think that we should quickly harvest low-hanging fruit. Also come up with trade agreements bilaterally. I have felt that this was important and I've argued that it doesn't have to be in any one region of the world. For example, you can go towards Singapore at the same time you go towards Chile. You pull in those countries, if you will, and it again has a concrete gain and it has a gain in terms of the public's trust in our ability of our negotiators to not get "taken" by other countries.

Then we get to the bigger problems that of Japan, that of China. And again, you have different tactics for different countries at different times because we're talking tactics, not an overall strategy that has to be applied to all countries at all times.

In the case of China, I think that we have to recognize that the decision of China to become a member of the WTO or to be in some agreement with the United States has

more to do with geopolitical considerations than with trade considerations. So now we get into another set of considerations which we must not ignore.

When it comes to China and its markets, I do believe that much of their market closure is a reflection of their domestic political need to control. It's a political control mechanism, so these are not market-based decisions being made in China. And yet, we're trying to apply market-based arguments with them.

So I think we just have to be clear in what this "trade negotiation" with China is. It is much more than a trade negotiation; it has geopolitical stakes.

COMMISSIONER D'AMATO: We're talking about a large economic factor here. We're talking about a very, very big deficit, maybe much of which, or most of which is attributable to non-economic barriers or political considerations, as you say. And the question is how do we get at that? I mean what tools do we use, particularly the question will be asked if we're in the

WTO we cannot use bilateral leverage. Will that reduce our ability to actually open these markets?

DR. STERN: Well, that's a very good question. Some think that by the terms of their becoming a member of the WTO and the United States going along with that, the U.S. will have to remove, for example, the Jackson-Vanik Amendment from the law books, to grant most favored nation tariff treatment to bring the U.S., into compliance with the WTO.

The Jackson-Vanik Amendment has nothing to do with these market-opening questions. It has to do with human rights and freedom of emigration. To get to your question: how does the U.S. make sure that if China becomes a member of the WTO and the U.S. is consenting that we can keep them opening markets and keep them on a road of opening markets. That has happened, and we can't deny there has been progress.

I think that the key is to look at what is available in the WTO itself for review mechanisms of each

country including China. There is a review mechanism that periodically occurs in the WTO to see what countries are doing to comply with their commitments and there's a particular review mechanism for countries that are in transition to becoming members of WTO. There's a period after which they have become members that they have to come into compliance. To the extent the U.S. skillfully takes the WTO review mechanisms and multi-lateralizes them, then that gives the U.S. a possibility of leveraging the weight of an organization of 134 countries instead of just the United States alone to examine and pressure China to make its commitments real.

I think there has been no discussion about those review mechanisms and how we can skillfully, tactfully, tactically use that. Yet, I think that it is important to build some political trust among skeptics like Mr. Becker and Mr. Wessel and others about this China deal. I think there should be a lot more attention paid to that particular angle.

COMMISSIONER D'AMATO: Dr. Barbera?

DR. BARBERA: The only thing I would say on a strategic basis I agree with Dr. Blinder. We're supposed to stand to all staunch advocates of free trade.

VICE CHAIRMAN PAPADIMITRIOU: Could you speak up a little bit, please?

DR. BARBERA: I'm sorry. If you think about the policy of containment that we had, was supposed to defeat communism, well, you keep them contained and countries will collapse because of the internal inconsistencies. In effect, that's what happened to Japan. Okay, Japan, we said we're for free trade. They were very much for a protectionist, mercantile system and now if you look at the remains of the day, you've got the services industry, where retailers, banks, brokers are enormously uncompetitive. We've got basic industries that, in fact, survive only at the behest of protectionism. It's been internally inconsistent. It's put an enormous amount of pressure on that economy and

I know it's -- most people always doubt because the rhetoric has been the same for 20 years and there's been no change, but I think actually Japan is changing now, a consequence of a lost decade and so it does -- we've run a 10 year or 20 year experiment and we're definitely on the right side of the debate here.

VICE CHAIRMAN PAPADIMITRIOU: I am afraid this brings the morning session to a close. And I want to thank you, each and every one of you for coming. We appreciate very much your commentary and this will be very helpful to the deliberations of this Commission.

Thank you very much.

CHAIRMAN WEIDENBAUM: I will add my word of thanks and note that the afternoon session will start in this room at 2 p.m. Thank you all.

(Whereupon, at 12:29 p.m., the hearing was recessed, to reconvene at 2:00 p.m., Friday, December 10, 1999.)

A F T E R N O O N   S E S S I O N

2:07 P.M.

CHAIRMAN WEIDENBAUM: Ladies and gentlemen, I'd like to start this afternoon's hearing. For those of you who haven't participated in our sessions before, Congress set up the Trade Deficit Review Commission with a mandate to study the causes and consequences of the trade deficit and then to come up with the necessary policy solutions, so we appreciate your joining us this afternoon in furtherance of our mission.

We operate as a very -- very much in a collegial or group effort so we take turns organizing these hearings. This hearing was organized by the Vice Chairman, Dimitri Papadimitriou, so appropriately enough, I'm going to call on Dimitri to chair this hearing.

Mr. Vice Chairman.

VICE CHAIRMAN PAPADIMITRIOU: Thank you very much, Chairman Weidenbaum. First, let me from the outset, thank each and every one of you, members of the

Panel for agreeing to come and give us your expert opinion and views and research on these important issues of the trade deficit. You have an important challenge, because you are supposed to tell us what the causes and the possible consequences, the impacts and the solutions to trade deficit are, and you have to do all these all in five minutes.

As you see, we have a contraption which resembles a set of traffic lights. When the green light is on, you give us your expert views and testimony. When the yellow light goes on you have to slow down or to summarize and when the red light is on you are in deep trouble because you're in a deficit time position. Of course, you may think that deficit is not a problem so, therefore, you keep going on until all the lights go out.

At any rate, we will begin first with Patrick Mulloy who is the Assistant Secretary of Commerce for Market Access and Compliance, to be followed by Professor Cooper from Harvard, to be followed by James

Galbraith from the Lyndon B. Johnson School, University of Texas at Austin, to be followed by Peter Morici from the University of Maryland and then finally, we will hear from Professor Shaikh from New School University.

So first, Secretary Mulloy.