

PROFESSOR COOPER: We have been enjoined to be brief. I will make just four points and they're largely orthogonal to the points that you just heard.

The first is that the United States exports not only goods and services, let us not forget services, but also pieces of paper, stocks and bonds, and we've become the world's preeminent exporter of pieces of paper. These are claims on assets.

Pressures in the exchange market are determined not only by net purchases of goods and services, but also by net purchases of assets of various kinds and in various forms. That is as much a part of today's world's economy and U.S. economy as is traditional trade.

The second point asks: is this good or bad? Well, in a way we don't have to judge it because it exists and there's not much we're going to do radically to change it. But I would argue that it's a good thing. Real rates of return to capital in the United States are

higher than they are in the other rich countries of the world and they are much more reliable than they are in the poor countries of the world. So the U.S. is a very attractive place to invest. We typically earn, before taxes -- that is, from a social point of view -- somewhere between 15 and 20 percent return on capital.

We typically pay foreigners around 5 to 7 percent on the investments in this country. That sounds like a good deal to me. If we can on balance borrow at 5 to 7 percent and earn 15 to 20 percent and keep the difference, that augments U.S. national income. It's one of the reasons why our savings rate can properly be lower in the United States than it is in other countries.

Third point, is this condition sustainable?

My tentative answer: I don't see why not. It's true that a \$300 billion deficit on goods and services is a big number. But in round numbers, it is only about 6 percent of world savings outside the United States. It is not implausible that the rest of the world would continue to

want to invest 6 percent of its savings in the United States, which accounts for about a quarter of world gross product, and is roughly half the world's marketable equity.

As I observed, the U.S. has relatively high and reliable rates of return compared with others. So I don't find it implausible that the rest of the world would want to put six percent -- you have to add a little bit to allow for some net foreign investment by Americans -- but let's say 8 percent of their savings in the United States indefinitely.

So, from a logical, numerical point of view, the deficit is sustainable.

But will it be sustained? That's my fourth point. I don't have any idea whether it will be sustained. Foreigners can change their mind about investing in the United States for example, if we have a recession or Japan goes into a big boom. Foreigners may decide to invest only 5 percent of their savings in the United States. The consequence of that in today's world would be a depreciation of the dollar. A depreciated dollar will result in some black headlines because that's the way our financial press works, but it will not be entirely unwelcome by American firms and farmers. They can tolerate, indeed would welcome, a modest depreciation of the dollar. My guess is that foreigners will blink long before Americans do when it comes to a depreciation of the dollar. Countries that rely much more heavily on exports, such as Japan or Germany, just to name the two most important single ones, will become much more anxious about their loss of

competitiveness before Americans become anxious about the deterioration of the dollar.

To sum up, I think foreigners might well invest what they're now investing indefinitely, but if they don't I don't think it's a big deal.

VICE CHAIRMAN PAPADIMITRIOU: Thank you very much.

Professor Galbraith.