PROFESSOR GALBRAITH: As I say in my written statement, it's particularly a pleasure to testify in front of Chairman Weidenbaum given the very many times when he was Chair of the Council of Economic Advisers that he appeared before the Joint Economic Committee when I was staff director.

I do have a couple of extra documents that I will leave for the Commission's consultation. They are concerned with the very poor performance of the global economic system under the set of institutions that are presently in place. As for the causes of the high trade deficit per se, it seems to me that earlier testimony before this Commission has listed them very succinctly. Professor Blecker, in particular, pointed to the high current level of domestic American incomes and consumption, the foreign crisis and the fall off in our exports as a result of that. And the falling relative competitiveness of our manufacturing sector due in part to the very high level of the dollar at going back, in fact, to the early 1980s.

Like Mr. Mulloy, I favor a long view and I also thought it would be useful to put something on the record that you might not already know. And so I went over across the way to consult with Professor Walt Rostow on where I might find a long-term time series of the British balance of payments. He directed me immediately to a source that enabled me to plot it for you in my testimony going back to 1697.

You can see from this series that -- which is a volume series and there may be some level of adjustment involved in that -- but the United Kingdom was able to run balance of payments deficits for a very long period of time, but beginning in the 1850s it suffered a sustained deterioration in its balance of trade and in the 1920s and 1930s this turned into a crisis situation which was truly not sustainable and which led to the decline in the British position in the world economy that followed the Second World War.

I think the reasons for the British decline in the last half of the 19th century have something to do with the gold standard, something to do with the rise of major industrial competitors, notably the United States. The reasons for its collapse in the 1920s have to do in addition to those factors with the Carthaginian Peace that was imposed at the end of the first World War, the world slump and then again with the return of the gold standard in 1926.

The point of raising this historical analogy is that these elements are present today. They are probably not as serious for us now as they were for Britain in the interwar period, but they are very much in evidence. We ended the Cold War on terms which did not permit our former adversaries to resume economic growth at very rapid rates providing large new markets for our exports. We have permitted -- beginning in the

1970s, accelerating in the 1980s and again accelerating in 1997 -- a crisis of development which once again erodes the potential markets for our advanced industrial exports and we have once again in the last several years seen a rising dollar which will further undermine the competitiveness of our manufacturing sector.

So it seems to me that the analogy is a relevant one although again we are not yet in the situation that Britain faced at the end of this process. We may yet do something about it.

As Professor Blecker already testified, it seems to me that the strong influence of financial interests on international macroeconomic policy has to be counted as a substantial reason why these factors are present today.

As for remedies, I would oppose approaching this problem as a matter to be solved by austerity policy in the United States, that is to say by reduction of imports. I would also be wary about devaluation per se as a solution, although it would be nice if the dollar would fall to a more sustainable and more competitive level. I believe the Commission should oppose higher interest rates as tending to raise the dollar and the trade deficit and finally, with the red light on I will only say that it is time to hire an architect for some new international financial architecture to design international financial and development institutions that can begin to return the world to a situation where the poor countries grow at acceptable rates and provide robust and healthy markets for our exports.

Thank you.

VICE CHAIRMAN PAPADIMITRIOU: Thank you very much.

Professor Morici.