MR. CORRIGAN: Thank you, Mr. Chairman.

Good morning to the Commission.

Like others, I'm delighted to be here with you this morning, and I want to start out with my main point right at the outset, and that is, as I see it and in the words of that well known observer and philosopher Pogo, we have met the enemy and it is us.

By that I mean, of course, that as I see it, the primary cause of U.S. external deficits is the large macro economic imbalances in the United States as reflected in very high consumption rates and very extraordinarily low savings rates.

But as others have indicated, these conditions have been magnified and aggravated by macro economic conditions abroad, especially retarded growth in domestic demand in Japan and to a lesser extent Europe, as well as the lingering effects of the Asian and Russian financial crises.

But even allowing for these factors, I think it's fair to say that the core of the problem is largely home grown.

Now, this stress on macro economic factors is not intended to suggest that other factors, such as trade policy, are irrelevant. Clearly they are not, but in the near term changes in such factors by

themselves are unlikely to have a major impact on the U.S. external deficits.

Now, to put this in perspective, Mr. Chairman, I have provided the Commission with a series of charts which I'm not going to go over one by one, but just very briefly, the first one simply illustrates the basic identity that the current account deficit and net foreign investment have to equal each other. (SEE INSERT 1)

Now, as Bill Dudley and others have indicated, there's a lot of noise in these statistics, and I'm sure we'll have some time to talk about that.

The second chart, again, just records in a picture an observation that's already been made, namely, that our net external debt is now approaching 20 percent of GDP, and that this process has been going on for a long, long time. (SEE INSERT 2)

The third chart I don't think has been referred to, and let me just emphasize here very briefly the upper line in that chart shows net investment income which stayed positive for many, many years notwithstanding the fact that we were a debtor nation. (SEE INSERT 3)

Now, that has now turned negative reflecting the cumulative effect of this string of deficits, and I would just observe by way of

perspective that net investment income, which itself is a component of the current account deficit, has gone from roughly plus $24 billion at the beginning of the decade to minus $20 billion now.

What that means, of course, is that given the likely course of our current account deficit in the years ahead, negative investment income is likely to continue to grow appreciably, tending to make the current account deficit progressively larger for any given level of the trade deficit. So that's just another factor that's at work here.

The next chart, several people have talked about, but I think it just graphically illustrates the point that over this past ten-year period, there has been a huge change in the structure of the imbalances, and again, if you look at the top line, which is the private sector net savings balance, and the very bottom line, which is the government sector net savings balance, you can see the dramatic way which those two factors have changed over a relatively short period of time. (SEE INSERT 4)

Chart five just puts the private sector deficit in a perspective by itself, and again, I am sure the Commission is familiar with these data. What I've done there is simply offset against private savings various forms of private investment, including

investment of residential construction added onto the small savings amount that we have in the consumer sector. (SEE INSERT 5)

The next chart, again, hasn't been mentioned specifically, but here I think what is really quite important in terms of where we are right now is to just look at the gap between real domestic final sales in the last couple of years versus GDP, and of course, what that's saying is that over the last couple of years real domestic final sales has been growing at five and a half percent even as the real GDP is growing at a very robust rate of four percent, and that's just, I think, a graphic illustration of how much further that imbalance between savings and consumption has been accentuated over the past couple of years, and that, again, is just shown in a different way in chart seven, and you've heard a lot about that. (SEE INSERTS 6 AND 7)

I do want to talk a little bit though about chart eight, and again, several people have made this observation, but I do want to stress that on the whole, I believe it is fair to say that export performance in the United States, even in merchandise terms -- in other words, excluding services -- on the whole, I think it's held up rather well, especially given the

Mexican crisis in 1995 and the Asian crisis in 1997-98. (SEE INSERT 8)

Indeed, as shown in that chart, U.S. exports as a percentage of non-U.S. world exports have been rising over time and are now about 14 and a half percent of the non-U.S. world total of exports. To me that flies in the face of the suggestion made by some that the external deficit problem reflects some underlying lack of competitiveness on the part of U.S. exporters or the systematic exclusion of U.S. exports from foreign markets.

In fact, and again, this point has been made taking account of services where the U.S. has a particularly strong comparative advantage, U.S. exports are a powerful force in the U.S. economy.

Now, on the import side, again, I think it's also important to stress that while imports in some way are the key to the current problem, but in saying that we must recognize that U.S. consumers are the big winners rising from the very open and highly competitive nature of our economy, and indeed, as I think most of you know if you have any doubt about that, just do a little window shopping for almost any consumer good here in New York City compared with virtually any other major city in the world.

Now, I'm going to skip over the charts that basically deal with the stocks and flows of capital that have been used to finance the current account deficit over recent years, which have been touched on by several people, but I do want to emphasize particularly on the last set of charts that relate to capital inflows from Europe and, in particular foreign direct investment coming in from Europe which dominate that last series of charts two points very quickly.

Number one, prior to recent years, European capital flows in the United States were relatively modest. So part of what we may be seeing here is a catching up, particularly with regard to direct investment, we must, I think, appreciate the fact that those very big increases that you see in 1998 and especially 1999 basically reflect a number of very large mergers and acquisitions by European companies, and I think one should take them with a bit of a grain of salt and certainly not, in my judgment, interpret them as a trend. (SEE INSERTS 9, 10 AND 11)

Now, these historical data are interesting, but they don't tell us a great deal about the future. We do know, however, that over the past three years, in particular, the environment for financing the U.S. external deficits has been about as good as it gets.

We also know that barring a major adverse change in the economic environment, the U.S. deficit will remain large for the foreseeable future.

Taken together, these two considerations suggest that financing the current account deficit may be somewhat more difficult in the future than in the past.

But having said that, it is important to also recognize that so long as we in the United States keep our economic and financial house in order, I believe the United States can probably maintain modest current account deficits for a long, if not indefinite, period owing to the unique and dynamic features of our economy and the dollar's position as the dominant reserve currency.

Thus, the goal should be to engineer a gradual reduction in the current account deficit which, as noted earlier, necessarily implies a narrowing of the domestic savings gap while preserving an environment in which foreign investors will be willing to finance the large transitional deficits at reasonable terms.

That leads me, Mr. Chairman, very briefly to the following policy imperatives.

First, the margin of error in our macro economic policies is thin.

Second, whether it's done the easy way or the hard way, domestic demand growth must moderate.

In these circumstances I believe that the general subject of major and broad based tax cuts should be off the table, and that the policy and political focus should be placed squarely on debt reduction and reaffirming an ironclad framework of spending limits, at least until the current imbalances in our economy are plainly on the mend.

Third, we as a nation must resist "beggar thy neighbor" attitudes, whether in the form of creeping protectionism or national introspection. Consistent with this and whether the argument is made on economic, political, or geopolitical grounds, I can think of few things that are more important on the policy agenda than prompt action to bring China into the World Trade Organization.

Finally, we should keep our current economic good fortune in perspective. After all, it was not that long ago that the conventional wisdom said that Japan was destined to displace the United States as the world's dominant economy.

Even more to the point, it was only about 20 years ago that the United States economy itself was in dire circumstances, that after years of sub par

performance or calling into question the future economic role of the United States.

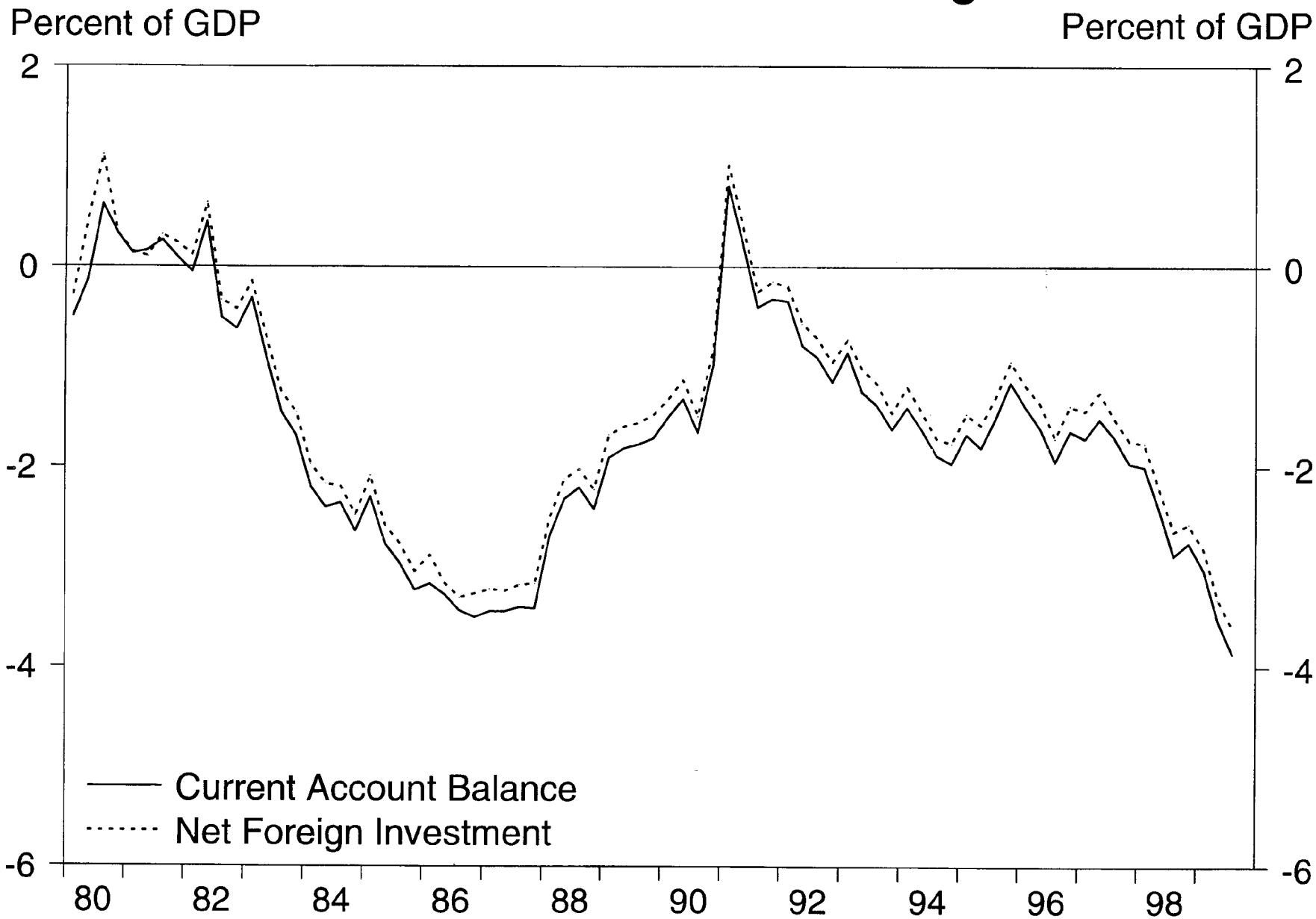
Thank you, Mr. Chairman.

CHAIRMAN D'AMATO: Thank you, Mr. Corrigan.

Mr. Kubarych.

INSERT 1

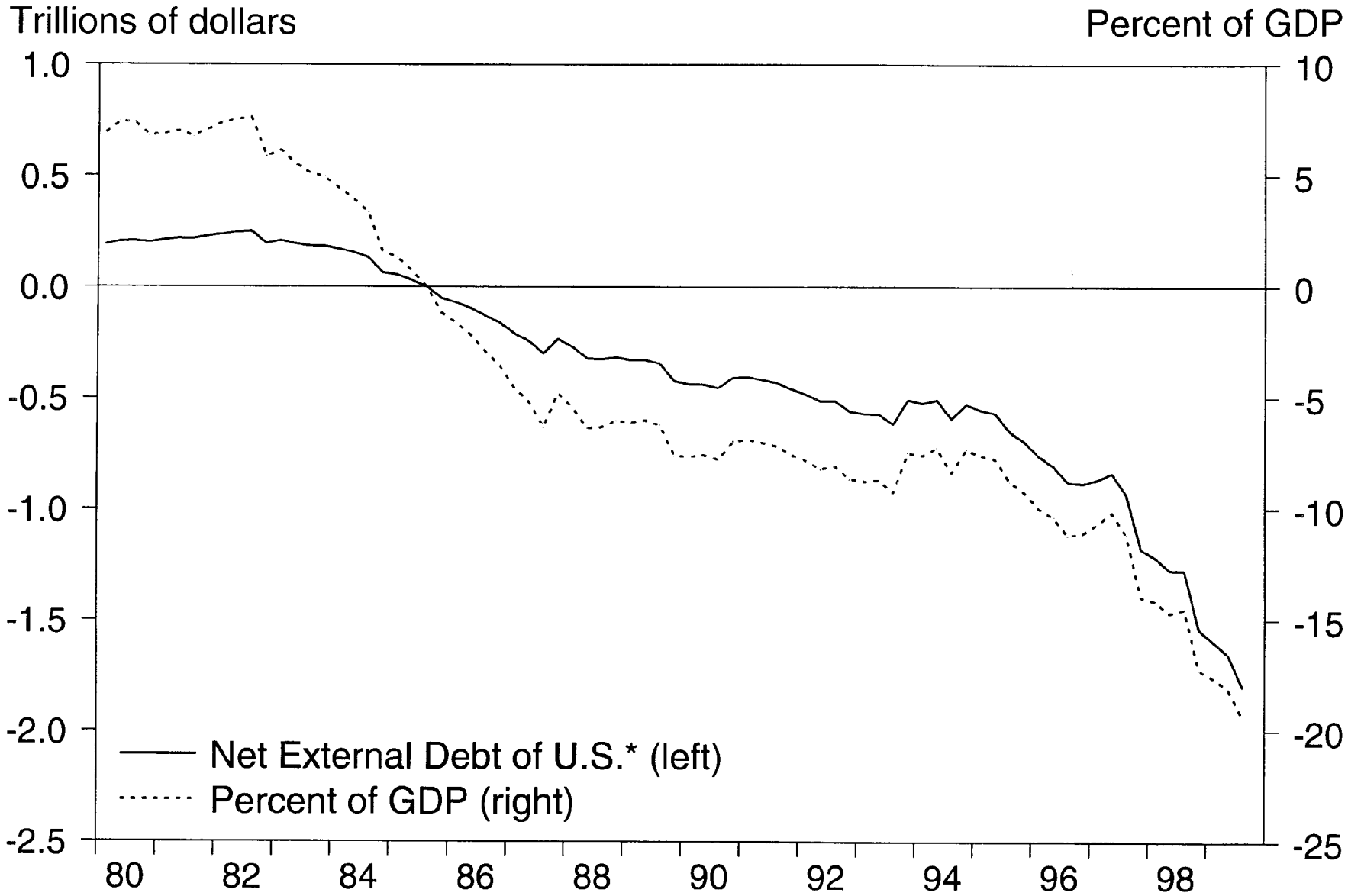
Chart I: Current Account and Net Foreign Investment



Source: Department of Commerce.

INSERT 2

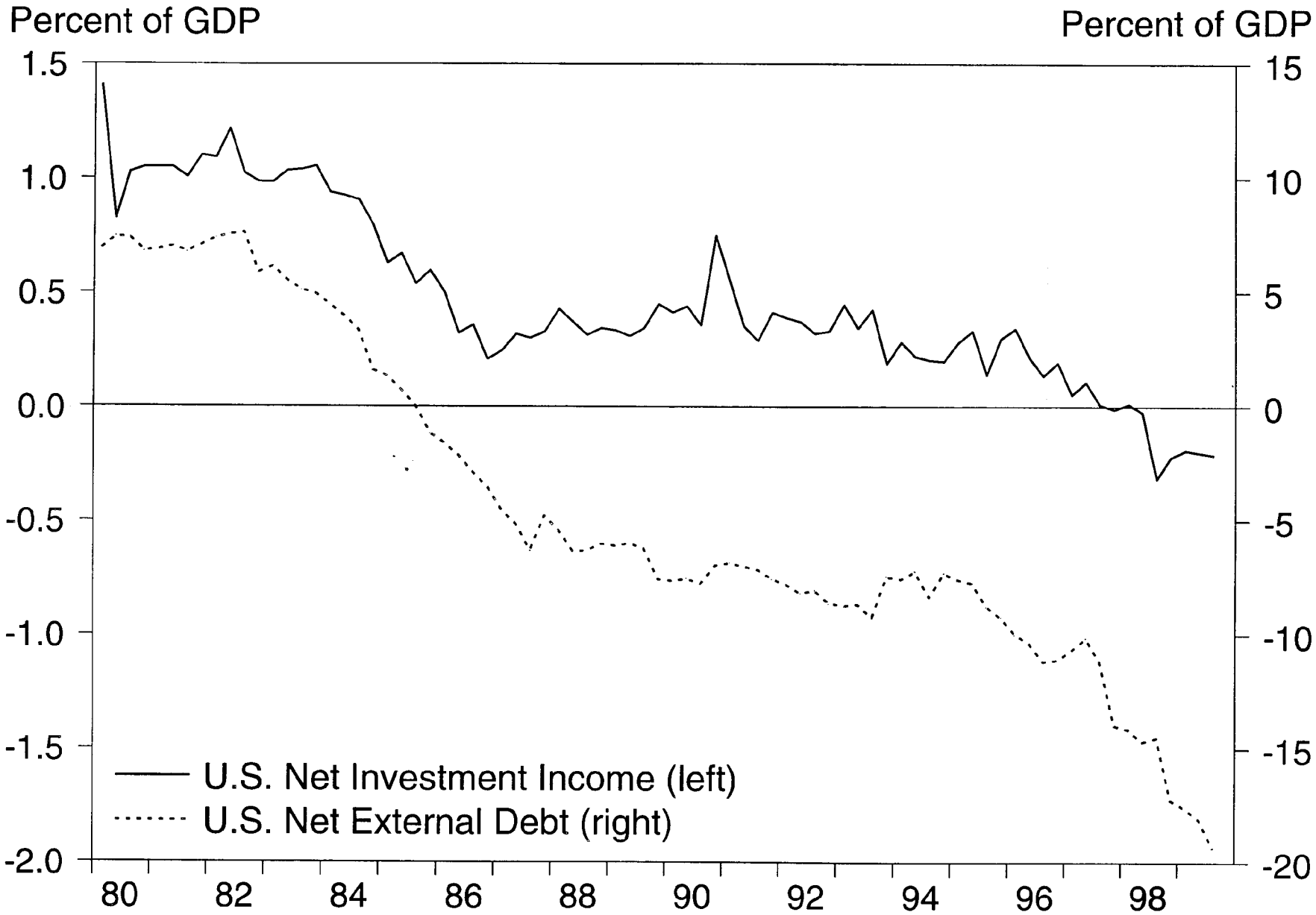
Chart II: U.S. Net External Debt



* U.S. assets abroad less foreign assets in the U.S. at market value.
Source: Federal Reserve Board. Department of Commerce.

INSERT 3

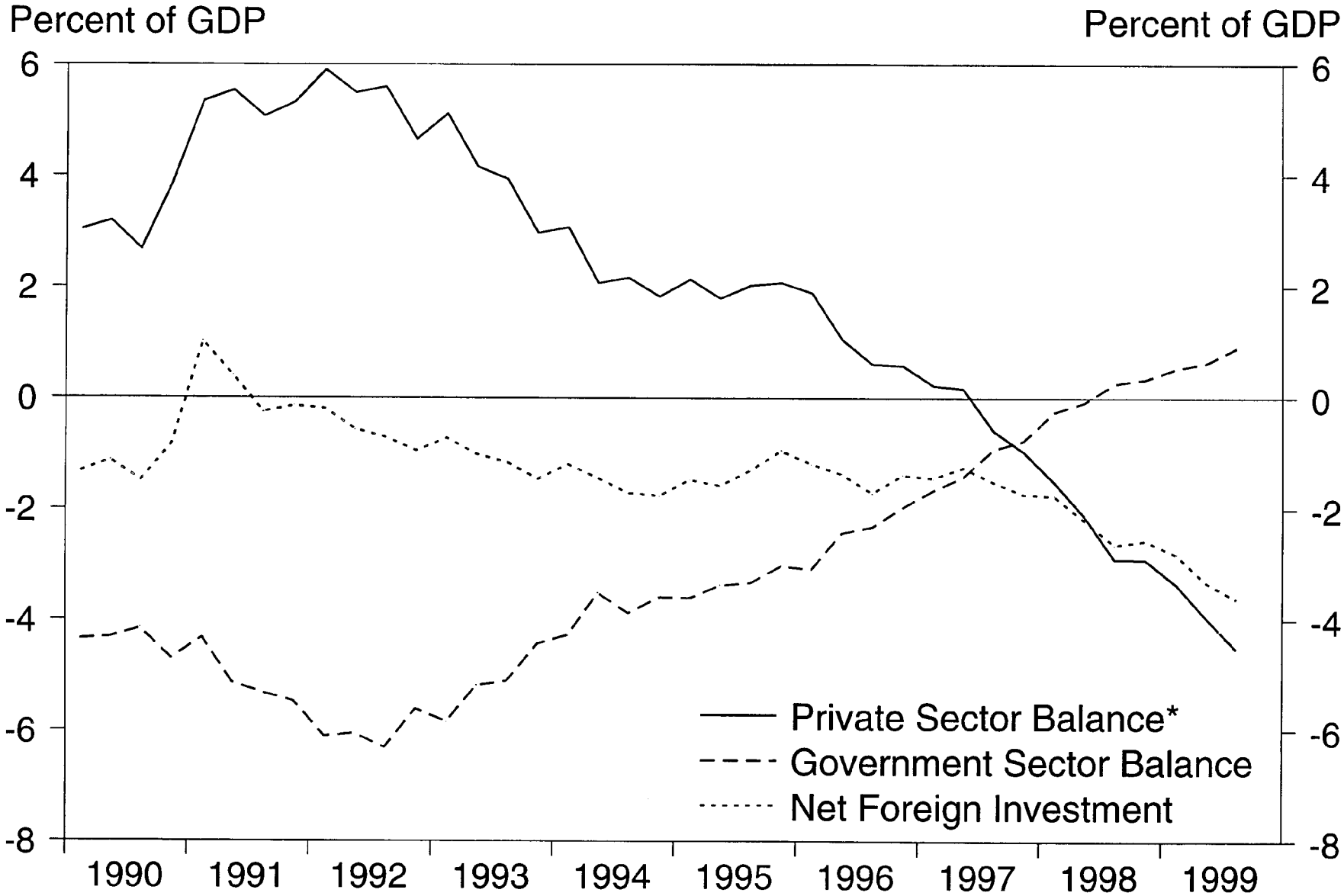
Chart III: Investment Income and External Debt



Source: Federal Reserve Board. Department of Commerce.

INSERT 4

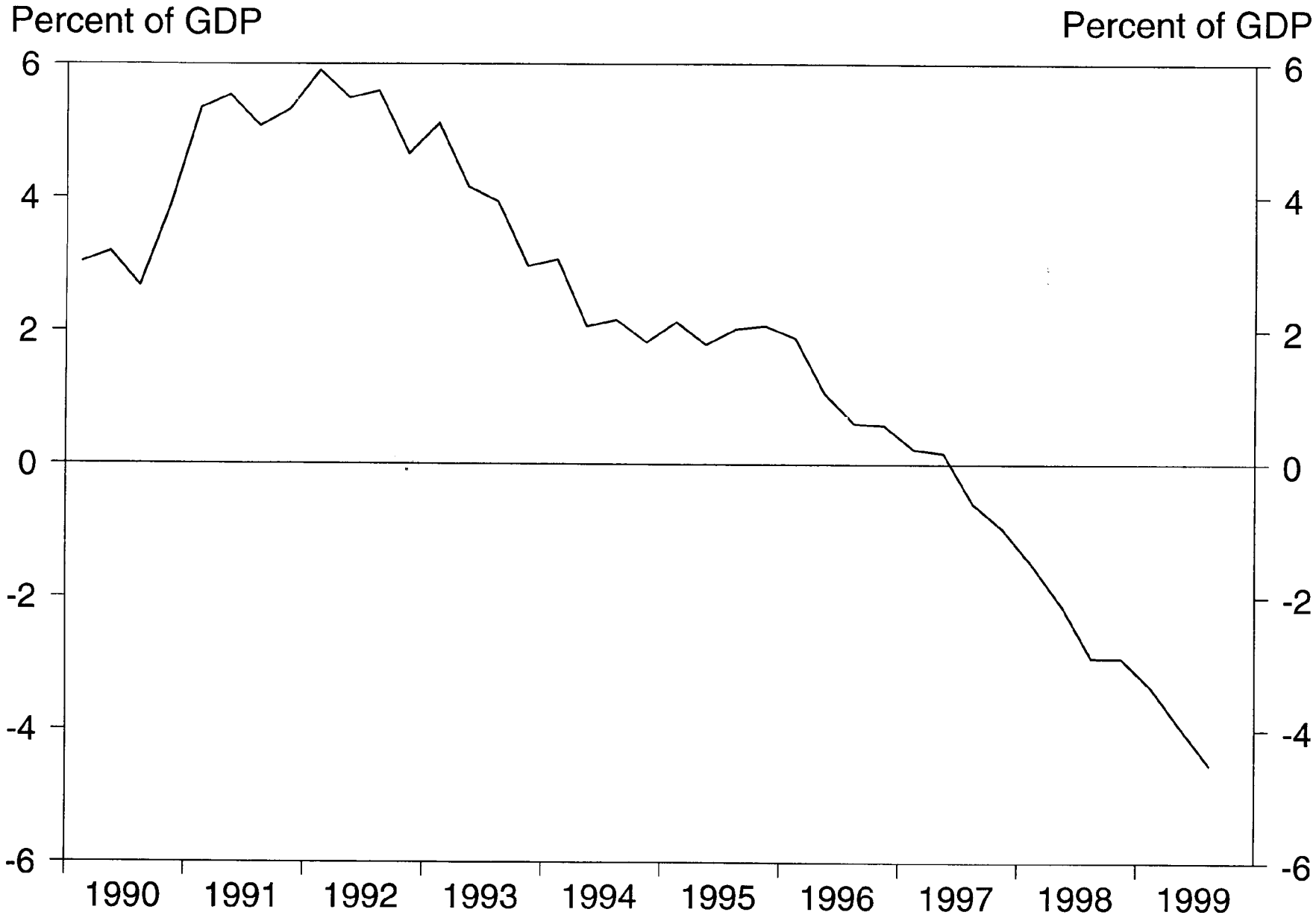
Chart IV: U.S. Balances



* Includes statistical discrepancy.
Source: Department of Commerce.

INSERT 5

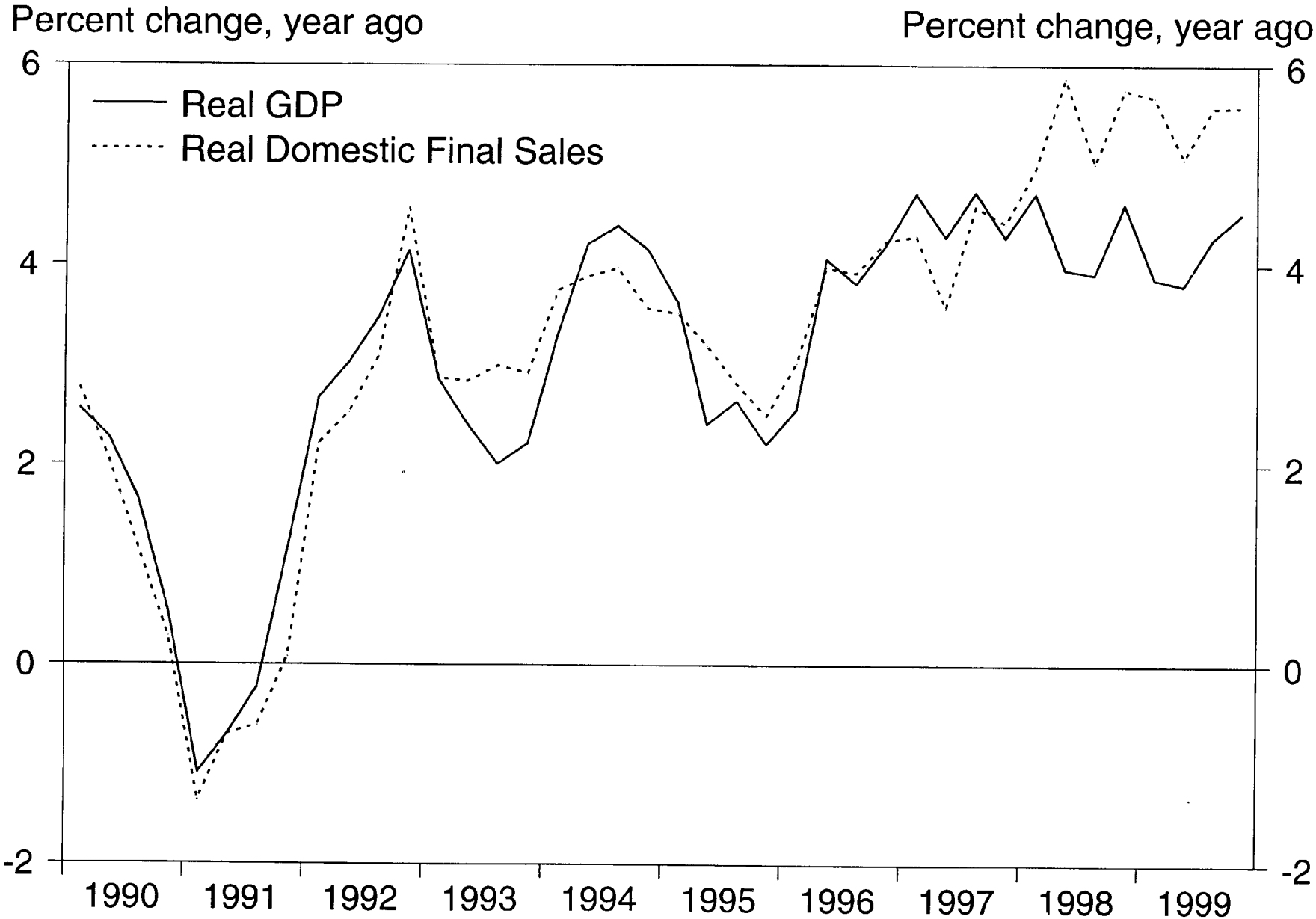
Chart V: The Private Sector Deficit Is at a Record



Source: Department of Commerce.

INSERT 6

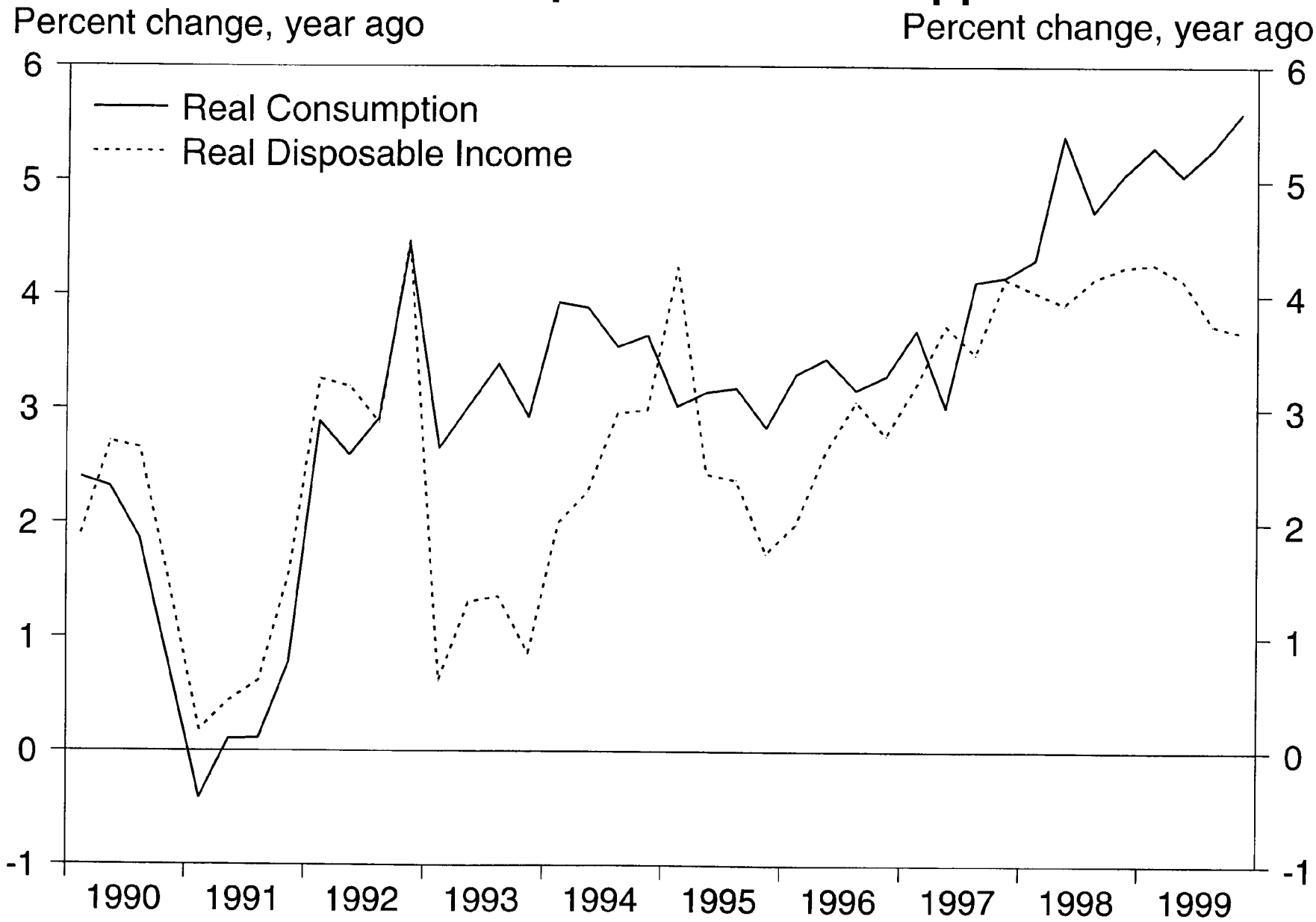
Chart VI: Domestic Final Demand Has Accelerated



Source: Department of Commerce.

INSERT 7

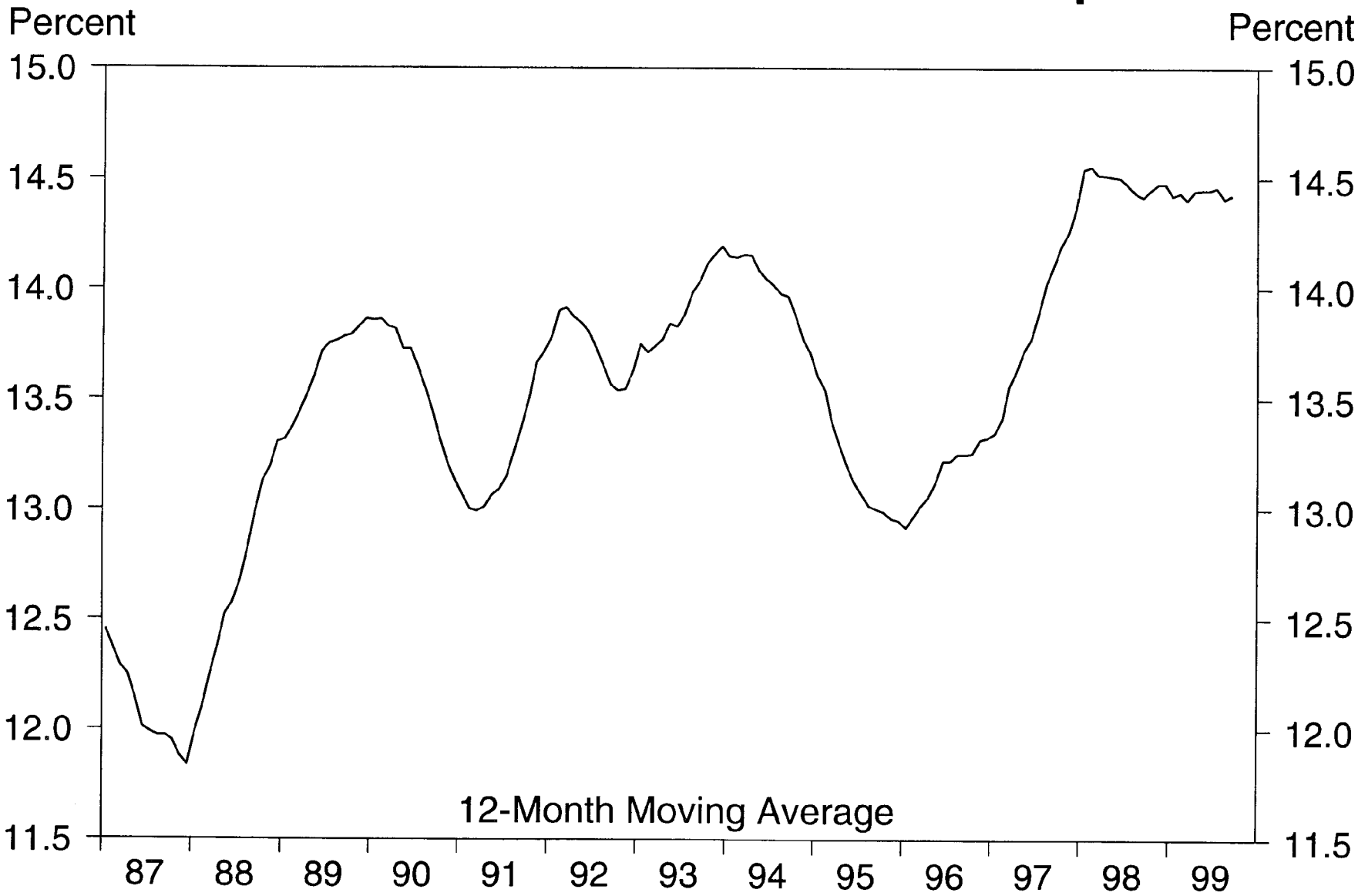
Chart VII: Consumption Has Outstripped Income



Source: Department of Commerce.

INSERT 8

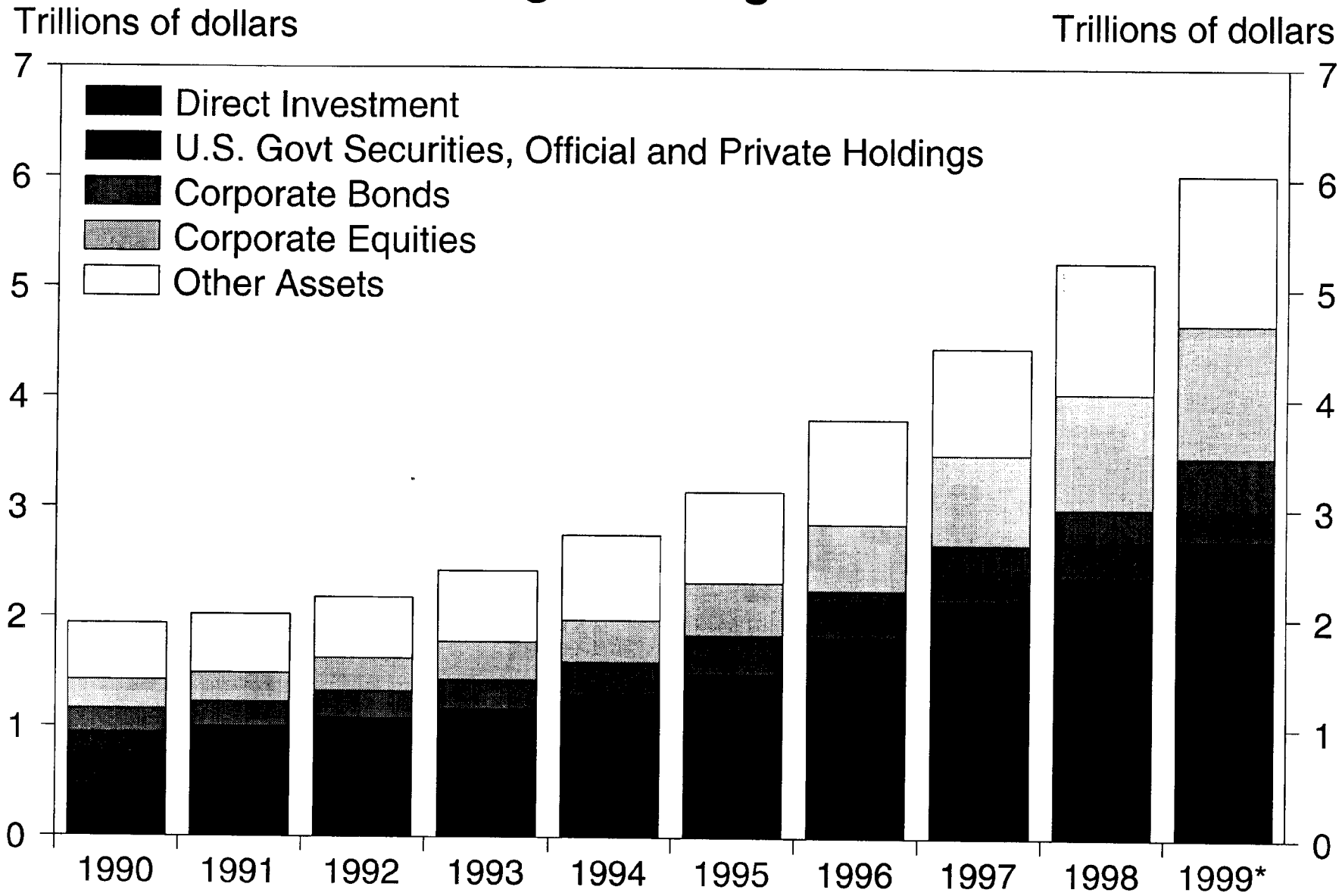
Chart VIII: U.S. Merchandise Exports as Percent of Non-US Merchandise Exports



Source: Department of Commerce. Goldman Sachs.

INSERT 9

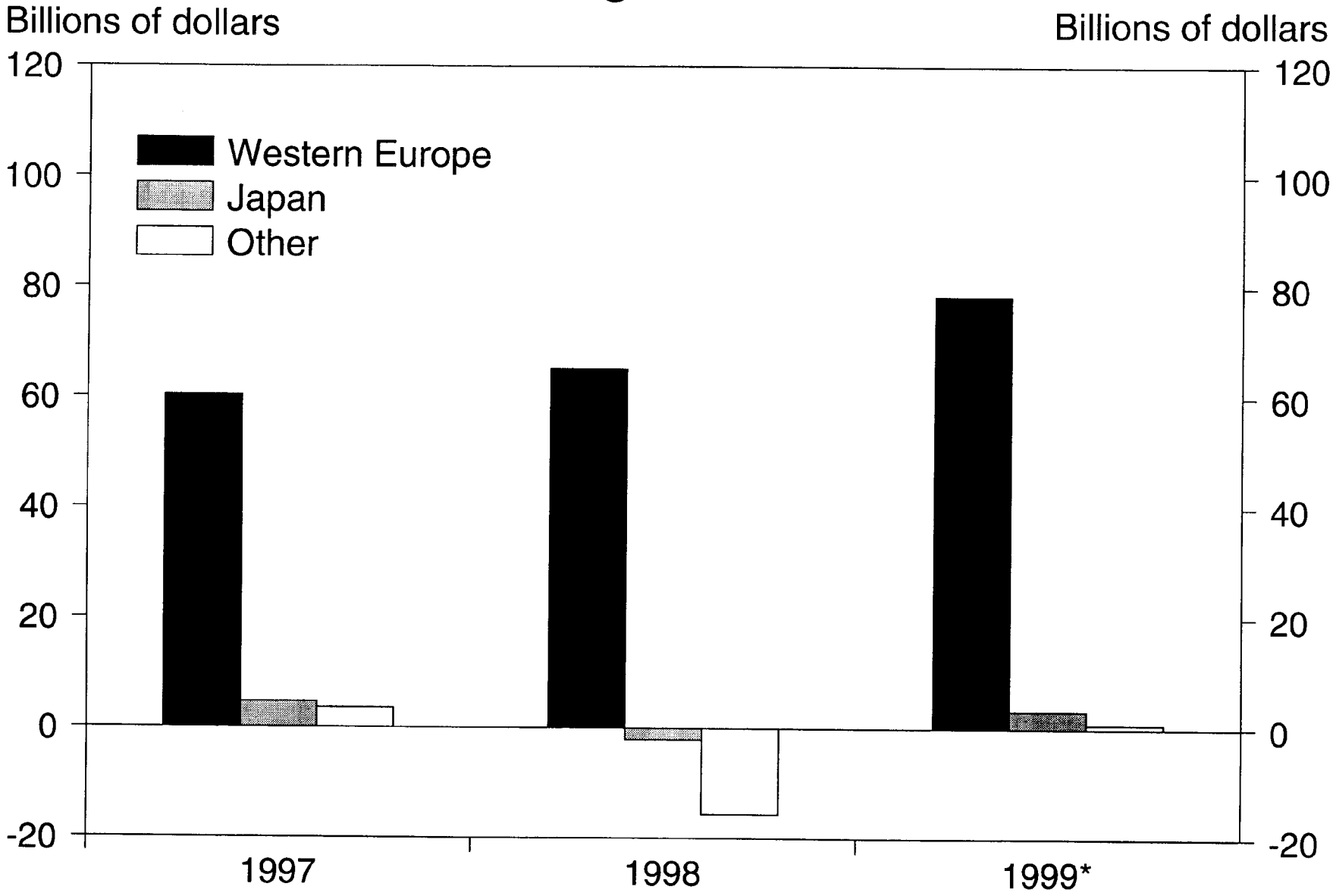
Chart IX: Foreign Holdings of Assets in U.S.



* 1999 values are for Q1 to Q3, annualized.
Source: Federal Reserve Board.

INSERT 10 (1 of 3)

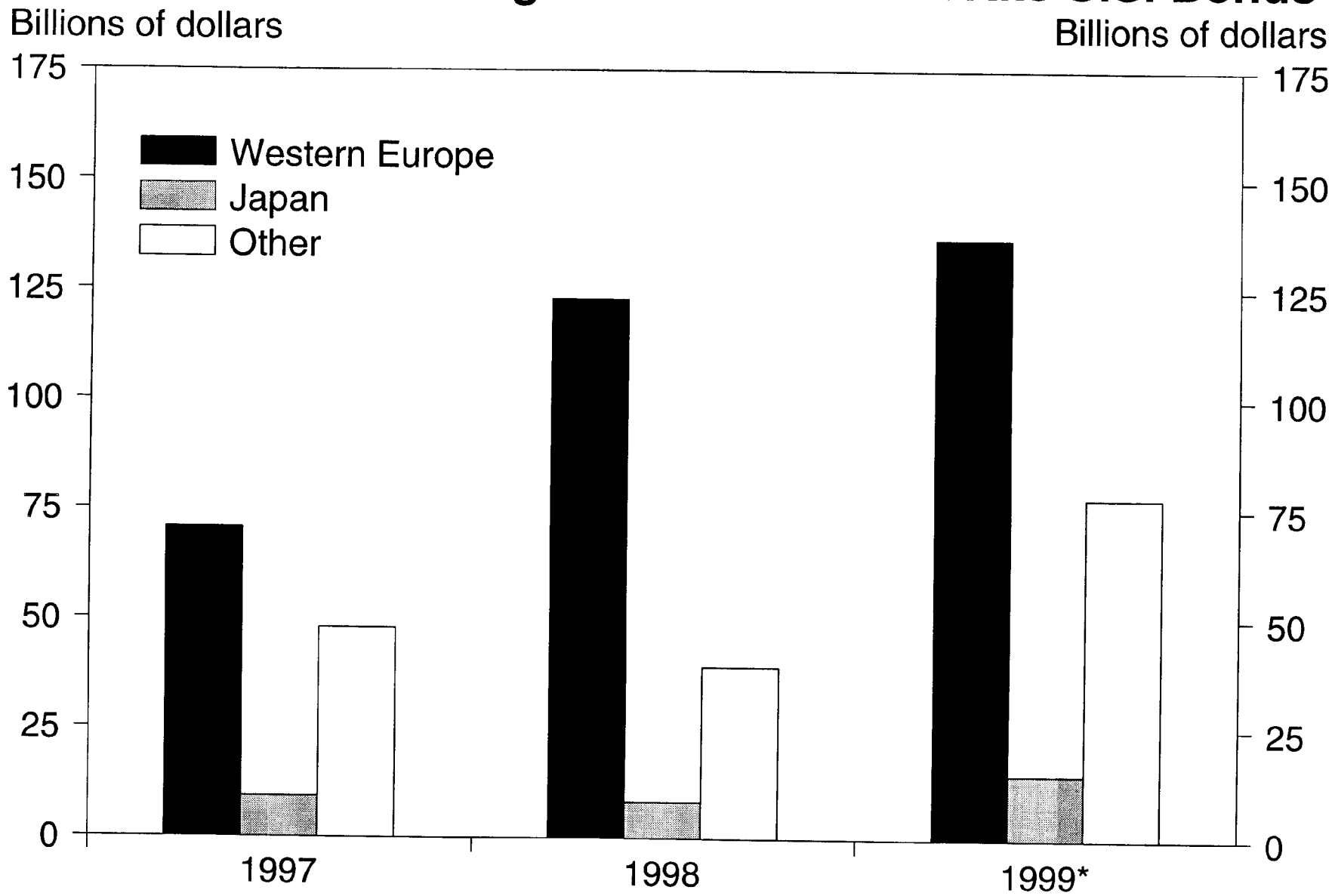
Chart X-A: Net Foreign Purchase of U.S. Stocks



* 1999 values are for Q1 to Q3, annualized.
Source: Department of Commerce.

INSERT 10 (2 of 3)

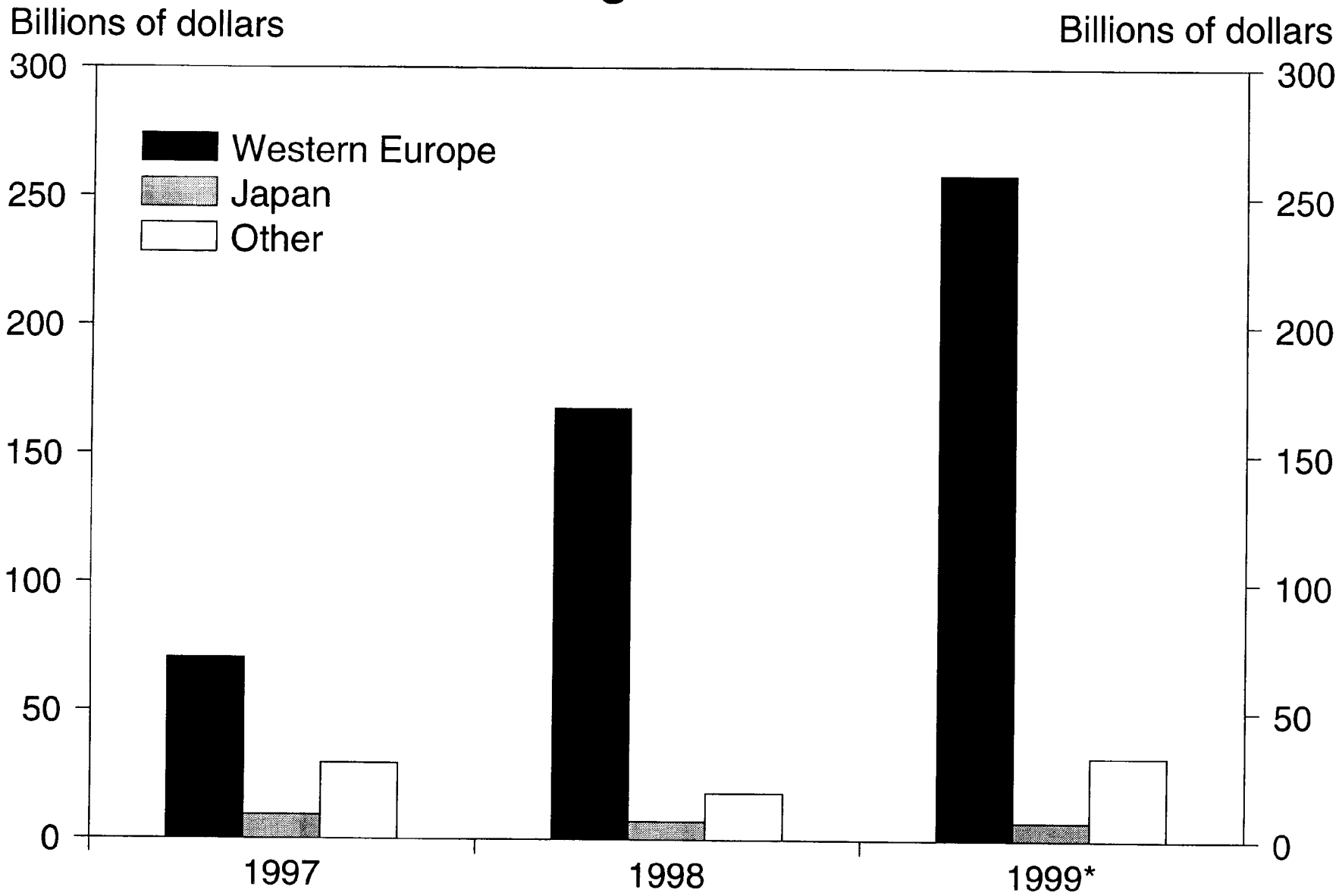
Chart X-B: Net Foreign Purchases of Private U.S. Bonds



* 1999 values are for Q1 to Q3, annualized.
Source: Department of Commerce.

INSERT 10 (3 of 3)

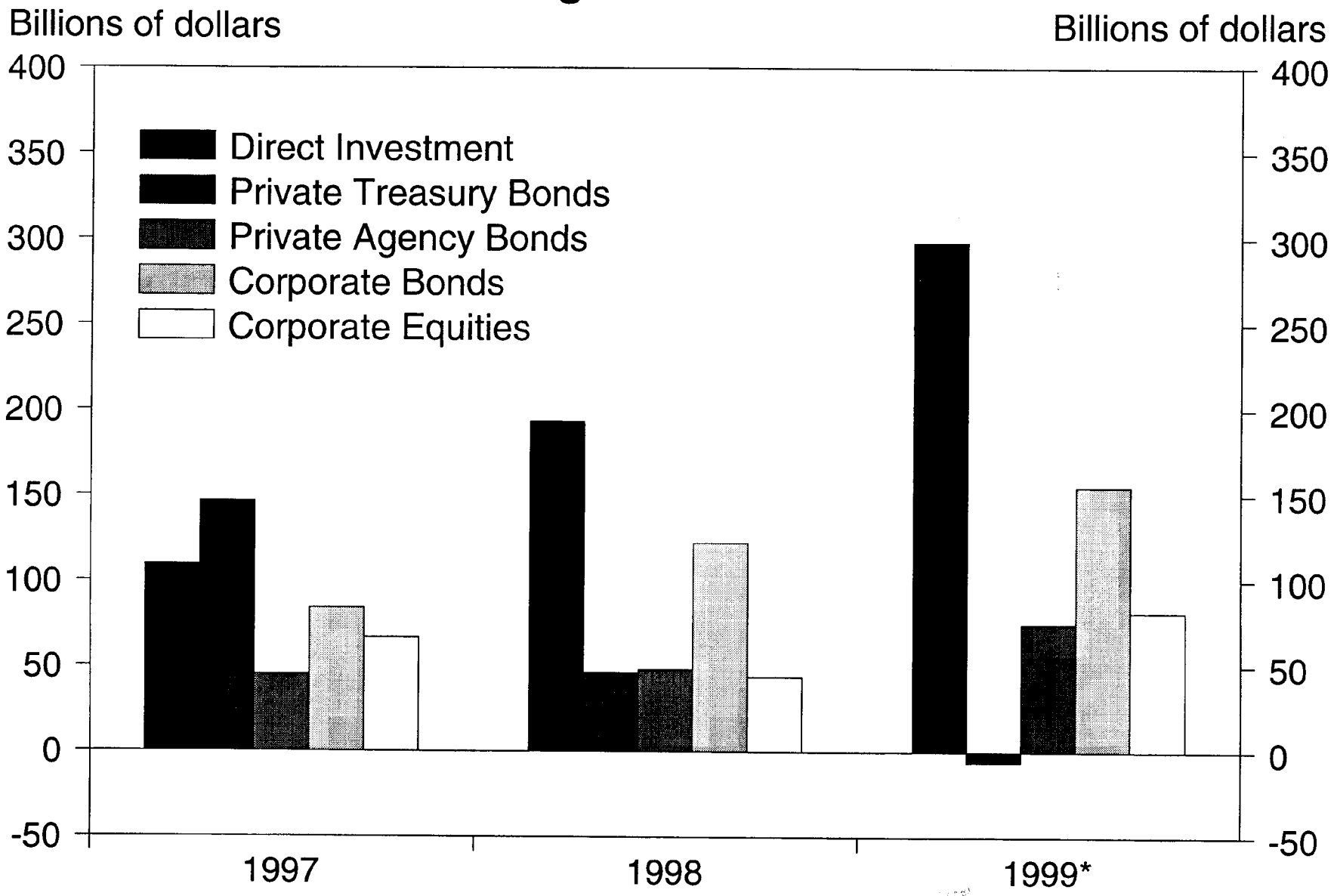
Chart X-C: Net Foreign Direct Investment in U.S.



* 1999 values are for Q1 to Q3, annualized.
Source: Department of Commerce.

INSERT 11

Chart XI: Net Foreign Purchase of Assets in U.S.



* 1999 values are for Q1 to Q3, annualized.
Source: Federal Reserve Board.