

1
2 MS. MANN: Thank you very much. I very much
3 appreciate the opportunity to be here today to brief the
4 Commission members. I look forward to attending the other
5 sessions where other questions that are included in your mandate
6 are addressed. I have addressed them in my book, and I'm sure
7 that you will each get signed copies as soon as it's published.

8 I think what we have heard today in terms of the
9 first two presentations is two different approaches of
10 understanding the dynamics of U.S. external balance. I would like
11 you to turn to the figures at the back of your prepared material.

12 The first one shows you several different components of U.S.
13 external balance. What it shows is that there are two features of
14 the external balance that we need to address when investigating
15 the causes. One is a cyclical factor, which you can see as the
16 economy grows in an expansion phase, as it did in the 1980s and
17 most recently.

18 COMMISSIONER RUMSFELD: Would you give us a page
19 number or a figure number?

20 MS. MANN: It's figure one.

21 COMMISSIONER RUMSFELD: Figure one?

22 MS. MANN: Figure one. That as the U.S. economy

1 grows in its expansion phases, as you can see in the 1980s and the
2 1990s, the external deficit grows. But there is also a structural
3 or a trend deterioration that is observable as well.

4 So if we want to understand the causes of the
5 deficit, we need to understand both the cyclical factors, as well
6 as the structural factors.

7 Looking forward, we need to recognize that as the
8 structural deterioration or the structural deficit increases the
9 size of the external debt, what is the outcome from so much
10 borrowing from abroad? As those little dotted bars on the top
11 become net payments to the rest of the world, they augment the
12 current account deficit. You can see that last bar has the little
13 dots down at the bottom, meaning that the trade deficit is only
14 one component of the current account deficit, but increasingly
15 over time, the net payments on our outstanding obligations to the
16 rest of the world will augment the trade component of the deficit.

17 So we need to think about that as well.

18 There are two different frameworks for analyzing
19 the causes of the current account deficit. They both have been
20 displayed today. One has to do with understanding the two
21 components of the trade imbalance, that's exports and imports,
22 which Jan Kregel did a very good job of explaining. The other one

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1 is a second framework has to do with understanding the balance as
2 it relates to U.S. internal balance between savings and investment
3 or production and consumption. Charles Schultze was very good at
4 explaining that one.

5 What I would like to do is bring the two of them
6 together and show how they are related. I do this in my longer
7 prepared material. If you look at the next page, figure two,
8 there are three charts there. What we are going to explain here
9 is how exports and imports, and thus, the trade deficit are
10 related to foreign growth and U.S. growth on the one hand, and
11 also the exchange value of the dollar.

12 The first and the second panels show you the
13 relationship between growth rates: U.S. income growth, that is
14 U.S. GDP growth, and the growth of imports (in the upper panel),
15 showing that they are quite related. The middle panel shows you
16 the relationship between world growth and U.S. export growth.
17 Again, showing very tight relationships between growth rates in
18 income and growth rates in our trade. Then the last panel shows
19 you that the exchange value of the dollar, it shows the movement
20 in the exchange value of the dollar. There's a relationship
21 between the growth rates of imports and exports and their
22 underpinnings of income growth, GDP growth.

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1 But if you look at just the last period of time,
2 the last year or so, what we can observe there is that the income
3 differentials, the fact that the U.S. economy has been growing so
4 quickly, whereas the rest of the world has been stagnant or in
5 recession, is the dominant factor for the trade deficit right now.

6 But there have been previous times, in the 1980s, for example,
7 when the income differentials have been relatively less important
8 and the exchange value of the dollar was more important. So there
9 are times when one factor out-weighs the other factor.

10 But right now, in keeping with Dr. Kregel's
11 example, it is the United States growing so fast, whereas the rest
12 of the world growing slowly that is the most important cause of
13 the trade deficit.

14 The second feature though, if we want to look at,
15 is to consider the trend movement, the trend widening of the trade
16 deficit, which is related to a puzzle: U.S. consumers and
17 investors tend to have a greater appetite for foreign goods than
18 foreigners have an appetite for US exports. So over time, a
19 question that we might want to consider is, if the rest of the
20 world grows, matures, and starts to buy U.S. exports particularly
21 of services (in which we sell more abroad than we buy), a closure
22 of the trade deficit might occur on account of that structural

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1 change in spending habits abroad to make them more similar to the
2 spending habits in the United States. My book goes through an
3 empirical analysis of this possibility.

4 The second framework for analyzing the deficit is
5 that of internal imbalances between savings and investment in the
6 United States. Now we are all familiar with this relationship,
7 that the U.S. tends to save relatively less than other countries,
8 and as a consequence, needs to borrow or chooses to borrow, or
9 foreigners choose to invest in our factories and enterprises in
10 order to get the financial returns that they can get in the United
11 States.

12 Some people ask the question of why the fiscal
13 budget deficit closed, but the trade deficit continued to widen.
14 To understand that, I would like you to consider figure five, that
15 as the fiscal budget deficit closed, private savings, which is the
16 white area, tended to deteriorate. That's partly due to the
17 wealth effect, the value of the stock market being so high. But
18 it's also a trend deterioration in private savings, household
19 savings in particular.

20 Households tend to spend more on imports as
21 compared to the Federal Government. So an equal savings and dis-
22 savings by Federal versus households will have a disproportionate

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1 effect on imports. I will leave it at that.

2 CHAIRMAN WEIDENBAUM: Thank you, Dr. Mann.

3 Our fourth presenter this morning is Dr. Barry
4 Rogstad of the American Business Conference, and former chief
5 economist at Coopers and Lybrand. Dr. Rogstad?