

1
2 MR. ROGSTAD: Thank you, Mr. Chairman. I
3 appreciate the opportunity to be here with you and the Commission.

4 As is always the case when you are on a panel with good
5 professional colleagues, there's very little to say on a core
6 subject when you get to the last position. But let me try to make
7 some points for emphasis and hopefully avoid redundancy here.

8 CHAIRMAN WEIDENBAUM: That's known as the clean-up
9 hitter.

10 MR. ROGSTAD: A clean-up hitter, all right. Let me
11 try and just comment on the words: the meaning of what a trade
12 deficit is, and how we use the word in our vernacular, and where
13 it may or may not get us off the track as we have these
14 discussions.

15 I tend to view the trade deficit, as do others, as
16 an aggregate statistic. Nobody owns it, as Herb Stein has said.

17 It's a snapshot that captures the net results of all trade flows
18 across the market dynamics of our country and our trading
19 partners.

20 Viewed as an aggregate statistic, it tends to mask
21 the really interesting sets of economic forces and complex
22 relationships that determine the underlying mix, level and

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1 direction of trade and investment flows.

2 Now let me just say a couple of things about that
3 trade deficit itself. Dr. Shultze got into this a little bit. I
4 think that when we are talking about it, we should avoid making
5 normative statements about the trade balance, whatever it may be.

6 Trade deficits, as my colleagues have pointed out, are not bad.
7 Trade surpluses are not good. When we find ourselves making
8 statements about the trade deficit as being too high, we ought to
9 use a little more diligence, and be a little bit more precise
10 about what it is we are trying to say.

11 Countries achieve solid economic performance when
12 they have significant periods of trade surpluses and trade
13 deficits. Indeed, that has been true of the history of the United
14 States. Using Dr. Schultze's chart, when you look at a trade
15 deficit and define it in terms of a nation consuming and investing
16 more than it produces, which is the situation that exists under a
17 trade deficit, you really want to ask yourself what's wrong with
18 that.

19 Similarly, if you define a trade deficit as being
20 the fact that a nation produces more than it consumes and invests
21 domestically, you would probably ask the question, well is that a
22 circumstance that you would want to sustain over a long period of

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1 time as a nation. The point is, the trade deficit is. It's
2 neither good nor bad.

3 I would simply say in terms of causes of the trade
4 deficit, I would emphasize cyclical over structural issues. The
5 expanding trade deficit, in the last few years it has particularly
6 exacerbated because of cyclical phenomena. But the fact that we
7 have sustained a trade deficit over the last 23 years, reflects
8 the basic fact, the United States has its act together. We have
9 it together in an absolute sense, and indeed relative to our
10 trading partners in the rest of the world.

11 The question then arises as to how we can sustain
12 this trade deficit. That brings us to the other side of the
13 equation that we've been talking about in the balance of payments.

14 That's the capital in-flows that are required to pay for those
15 net imports.

16 I would just add one point to the statements that
17 have been made about the importance of those capital in-flows.
18 That is, that the U.S. has really been able to run a continuous
19 trade deficit for the last 23 years because foreigners have been
20 willing, and I want to emphasize willing, to place their saving in
21 this country. They recognize it has been and continues to be a
22 very attractive market for investment. Again, this is very

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1 reflective I believe, of the relative economic strength of the
2 U.S. vis a vis the rest of the world.

3 It has been suggested that this does not
4 necessarily have to be of concern. Indeed, that perhaps capital
5 flows are the driving force that causes our trade deficit today,
6 and the trade flows themselves are the accommodating factor is a
7 point worthy of further discussion.

8 Observers often express concern that the U.S. is
9 becoming dependent on foreign savings and is that a concern. I
10 think this does get at a structural question that's been raised
11 here. We know the U.S. is historically and at the current time a
12 low saving nation. Our tax laws, in particular, encourage
13 consumption over the saving uses of income. So I think it is a
14 very real issue as to whether in fact there is a structural
15 question here because of our saving, our low saving behavior, as
16 it causes the trade deficit to be higher in a structural sense
17 than it would be otherwise.

18 I would argue I don't know the answer to that
19 question, but every time somebody talks to me about how we ought
20 to do something about the trade deficit, my instincts go to say to
21 that person maybe you ought to look at the causes of low saving in
22 the United States.

1 I would finally note that unfair trade practices,
2 are frequently cited as being a cause of the trade deficit. I
3 think that's misplaced. If you look at the dynamics and the
4 complexity of our trade economy and the rest of the world's
5 trading patterns, if those unfair trade practices were removed, we
6 would certainly get increased efficiencies in the marketplace, but
7 I don't think that the net effect on the trade balance of a
8 country the size of the U.S. would be measurable.

9 I also find it fascinating that when we tie unfair
10 trade practices to the level of the trade deficit, there's an
11 implication there that the importance of dealing with those
12 practices and other violations in trade laws is less important if
13 we have a trade surplus as opposed to a trade deficit. That's
14 patently foolish. It is important that we deal with unfair trade
15 practices under any circumstances. Thank you.

16 CHAIRMAN WEIDENBAUM: Thank you, Dr. Rogstad.