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2 MR. GRISWOLD: Thank you very much, Vice Chairman  
3 Papadimitriou and Chairman Weidenbaum and members of the  
4 Commission. I'm delighted to be able to speak to you today.

5 Well, I'm going to build on the foundation very  
6 ably laid by John and Jenny and go right to some empirical data  
7 that I think the Commission would find useful.

8 The variables in the trade deficit equation are not  
9 things like industrial competitiveness or foreign trade barriers  
10 but how much a nation saves and invests. If the rate of savings  
11 rises or investment falls, as it usually does during a recession,  
12 the trade deficit will shrink. Conversely, if savings fall or  
13 investment rises, as it typically does during an expansion, the  
14 trade deficit will grow.

15 For this reason, trade deficits tend to be pro-  
16 cyclical, rising and falling along with the general health of the  
17 U.S. economy. Simply put, the U.S. trade deficit is not the cause  
18 of bad things in our economy; it's the result of basically good  
19 things.

20 The fundamental reason why the U.S. trade deficit  
21 has grown so rapidly in the 1990's has been a dramatic increase in  
22 domestic investment. Since 1992, annual real private investment

1 in plant and equipment in the United States has risen 81 percent,  
2 from \$558 billion to an annual pace of slightly more than \$1  
3 trillion so far in 1999. We're undergoing an investment boom  
4 basically in this decade. Real price adjusted investment in  
5 computers and peripheral equipment during that same period has  
6 increased more than tenfold.

7 As evidence, consider the relationship between  
8 America's economic performance and the trade deficit since 1973.

9 I included in my testimony a figure outlining the trade deficit  
10 along with periods of recession, and you notice that the trade  
11 deficit tends to peak in an upward direction towards the surplus  
12 right in the middle of recession and tends to bottom out in the  
13 direction of a deficit in the middle of expansions.

14 Looking in closer detail, a survey of the U.S.  
15 economy since 1973, when the era of floating exchange rates and  
16 free capital flows began, only confirms that rising trade deficits  
17 generally accompany periods of rising investment and expansion for  
18 the U.S. economy.

19 During the years of rising deficits -- and, by the  
20 way, in the last 26 years, 15 of those years, the trade deficit  
21 has grown as a percentage of the U.S. economy; in 11, it has  
22 shrunk. I'm talking about the current account deficit. I'm using

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1 the same technique of basically interchangeably talking about the  
2 current account and the trade deficit.

3           During years of rising deficits, the growth of real  
4 gross domestic product has averaged 3.2 percent a year. During  
5 years when the trade deficit has been shrinking, GDP growth has  
6 averaged 2.3 percent. In other words, our economy grows about 40  
7 percent faster during years in which we have a rising trade  
8 deficit relative to GDP.

9           On the issue of jobs, during years of, quote,  
10 "worsening trade deficits," the unemployment rate tends to fall  
11 four-tenths of a percent age point on average. During years when  
12 we have shrinking deficits or, quote, "improving deficits," the  
13 unemployment rate tends to grow 0.4 percent percentage points a  
14 year.

15           In the politically sensitive sector of  
16 manufacturing, which I know some of you are interested in, the  
17 trade deficit again proves to be a companion of better times.  
18 During years of rising deficits, manufacturing output grew an  
19 average of 4.5 percent. During years when we had shrinking trade  
20 deficits, it grew an average of 1.4 percent. So, in other words,  
21 manufacturing output grows more than three times faster during  
22 years when we have rising trade deficits.

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1           As to manufacturing jobs, those years in which the  
2 trade deficit grew saw factory employment increase by an average  
3 of 13,100 workers per year. In years in which we had a shrinking  
4 trade deficit, manufacturing employment, on average, fell by  
5 116,700 workers.

6           In the area of motor vehicles, it's much the same.  
7       During years of rising trade deficits, domestic output grew by  
8 8.6 percent, and employment grew by 21,900. During years of  
9 shrinking deficits, automobile parts and body manufacturing  
10 actually fell by 3.4 percent, and the jobs fell by 25,000.

11           Americans on the margin of poverty also appear to  
12 fair somewhat better when the trade deficit expands. In years  
13 when the deficit grew, on average, the poverty rate shrank by 0.1  
14 percentage points. In years in which the trade deficit  
15 "improved," quote, unquote, the poverty rate, on average,  
16 increased by 0.3 percentage points. And the number of people  
17 living in poverty grew almost by a million in each year when the  
18 trade deficit shrank, and it was up only 81,000 in years when it  
19 expanded.

20           The only major economic indicator I looked at that  
21 was out of sync was the stock market. For reasons that I'm not  
22 entirely sure of, but I have some ideas, the stock market -- the

1 New York Stock Exchange Composite Index -- rose 8.7 percent during  
2 years of rising deficits and rose 12.3 percent during years of  
3 shrinking deficits, and I would say it appears to me that Wall  
4 Street should be more concerned than labor unions about rising  
5 trade deficits.

6 Well, let me conclude. Of course none of this  
7 evidence argues that the trade deficit is the cause of economic  
8 blessings; that's not why we're here today. What it does indicate  
9 is that rising trade deficits are often caused by the same  
10 underlying factor, namely rising domestic investment, that drives  
11 a number of other economic indicators -- employment, production,  
12 poverty rates -- in a positive direction.

13 Without a trade deficit, Americans could not import  
14 the capital we need to finance a rising level of investment in  
15 plant and new equipment, including the latest computer technology.

16 The same appreciating dollar that expands a trade deficit helps  
17 keep a lid on inflation, while lower import prices raise the real  
18 wages of the vast majority of working Americans.

19 When the underlying causes of the trade deficit are  
20 understood, it should become clear that the biggest threat to our  
21 economy is not the trade deficit but what politicians might do in  
22 the name of shrinking that deficit.

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1 Thank you very much.

2 VICE CHAIRMAN PAPADIMITRIOU: Thank you very much,  
3 Mr. Griswold.

4 The last panelist is Professor Robert Blecker from  
5 American University and a visiting Fellow at EPI, Economic Policy  
6 Institute.