

MR. MUSSA: Thank you, Mr. Chairman.

You have my written statement. A number of specific questions were asked for us to respond to, and I have responded to them in my written statement. To keep the initial intervention brief, let me just comment on two general points to start off. And I think this is consistent with what Ambassador Fisher was saying earlier.

First, it is essential to recognize that in most important respects, the rise of the U.S. current account deficit in recent years reflects the remarkable success of the U.S. economy. High rates of investment, substantial gains in productivity, and strong employment growth have sustained a record long economic expansion in the United States during a decade when growth has been disappointing in most other industrial countries and when many emerging market countries have experienced periods of severe economic and financial difficulties.

Rising real incomes in the United States, boosted by the booming U.S. equity markets, and strong demands for domestic investment have propelled U.S. demand for goods and services upward even more rapidly than domestic output.

This rapid growth of domestic demand, fortunately, has not resulted either in a rise of inflationary pressures or sharp increases in domestic interest rates that might have choked off the U.S. expansion. Rather, with demand growth relatively subdued in much of the rest of the world, the strong growth of U.S. domestic demand relative to U.S. output has been absorbed by increases in U.S. imports that have outstripped increases in U.S. exports.

The rising U.S. current account deficit reflected in this development has been financed by prodigious capital inflows from abroad, motivated mainly by the desires of foreign owners of capital to take advantage of the attractive returns on investments located in the United States.

These desired flows of private capital to the United States have contributed to the strengthening of the U.S. dollar. And this strengthening has helped to keep U.S. inflation down and has benefited American consumers and businesses that purchase imported products, including material inputs and capital equipment.

The strengthening of the U.S. dollar has, thus, been a key mechanism through which some of the

very rapid growth of domestic demand in the United States has been deflected from generating overheating pressures at home into supporting growth elsewhere in the world economy where demand has generally been somewhat deficient. In the circumstances of recent years, this has been beneficial both for the United States and for the rest of the world economy.

Second, it is essential to recognize that the present large current account deficit cannot plausibly keep on rising. Indeed, some significant reduction in this deficit from the neighborhood now of about four percent of U.S. gross domestic product will probably be needed in coming years.

How the needed adjustment from a rising to a declining U.S. current account deficit is achieved and at what speed will determine whether this reversal process is generally beneficial, benign, or economically damaging.

To achieve the best possible outcome from both the U.S. and a global economic perspective, it is clear that two things must happen simultaneously at the global macroeconomic level. The growth of domestic demand in the United States must slow somewhat less than the growth of potential output in the United

States, a point which I think Chairman Greenspan has emphasized recently, and simultaneously growth of demand elsewhere in the world economy must speed up to somewhat above potential output growth elsewhere.

Fortunately, recent economic developments and policy adjustments in many countries do suggest that events are now moving in the direction of this desirable adjustment process.

In addition to the necessary rebalancing of rates of demand growth in different regions of the world economy, adjustments of exchange rates will likely be needed as part of the process for correcting unsustainable current account imbalances in the United States and elsewhere. In particular, it seems likely that the U.S. dollar will need to adjust downward on a real multilateral effective basis.

Let me stop there, Mr. Chairman. And if you have any specific questions on the other questions that were distributed and covered in my statement, I would be happy to answer.

VICE CHAIRMAN PAPADIMITRIOU: Thank you very much.

Mr. Price?