

Correcting the Imbalances in US Economic Growth¹

William R. Cline

Center for Global Development and
Institute for International Economics

March, 2003

Introduction

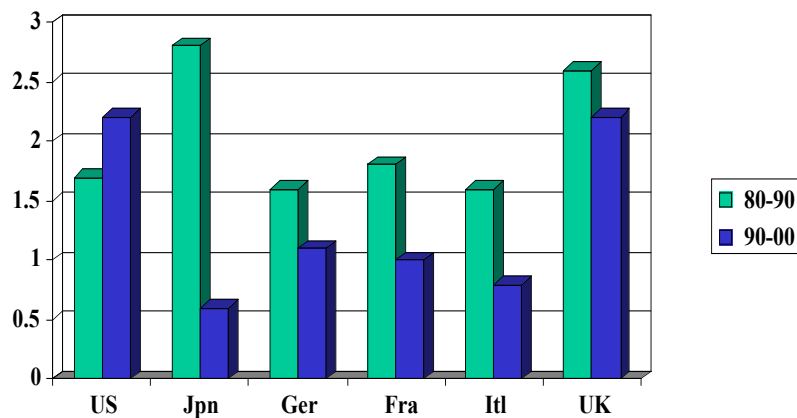
The US economy has long and appropriately been regarded as a powerhouse, an impressive machine for creating jobs, the locomotive pulling along the rest of the world economy. Although the economy is now in the stage of recovery from a mild recession, and despite the current Iraq-related uncertainties, the perception of a fundamentally strong US economy remains valid. However, a number of important imbalances have accompanied robust growth. Some of these are a matter of social choice and do not necessarily threaten continued growth per se. Others are more integral to growth itself, and constitute potential fissures in the foundation that had better be repaired sooner rather than later if the growth machine is to continue working. I would like to focus on four imbalances and consider how they might be corrected: the imbalances in external accounts; in household saving and fiscal accounts; in the financial asset market; and in the distribution of wages. There are other challenges and imbalances in the American economy that will also have to be addressed sooner or later – particularly the future social security burden with an aging population, the conflict between ideals and market processes in the way we organize health care, and the conflict between private and social values in environmental issues, especially those involving international cooperation.

¹ Public lecture presented at Swarthmore College, Swarthmore Pennsylvania, March 3, 2003.

The powerhouse economy

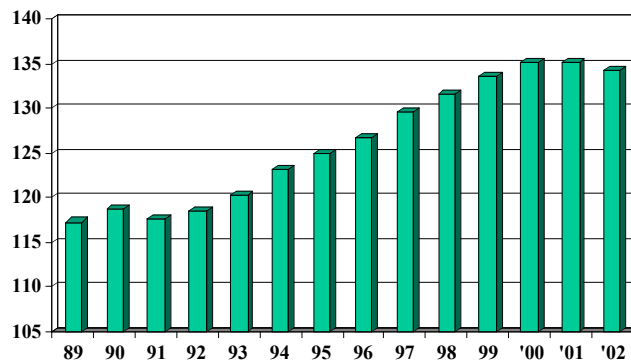
Before turning to what needs to be corrected in the US economy, let me begin by reviewing its impressive accomplishments. As figure 1 shows, output per available worker in the labor force grew at 1.7 percent annually in the 1980s and 2.2 percent in the 1990s, whereas in Europe (except for the UK) there was a decline from 1.5 percent to 1 percent, and in Japan there was a collapse after the bubble economy from 2.8 percent growth in output per worker in the labor force to only 0.6 percent. There was a sharp acceleration in US productivity growth beginning in 1995, as output growth per worker employed rose from 1.4 percent annually in 1973-95 to 3.1 percent in 1995-2000. Much of the improvement in the 1990s can be explained by the success in overcoming the stagflation shocks of the 1970s and early 1980s, when oil shocks in particular prompted both recession and inflation. Prudent fiscal policy in the mid-1990s also helped reduce interest rates and spur investment. Perhaps even more importantly, there was one of those historical waves of innovation that Schumpeter emphasized as the source of dynamic growth, even if one believes that the advent of the internet and microcomputers was not on the same scale as the past waves of technological breakthroughs such as the coming of the railroads.

Figure 1: Output Growth per Worker (%)



The rapid growth of the US economy in the late 1990s was a rising tide that lifted most, if not all, boats. As shown in figure 2, the number of jobs in the US economy expanded by 15 million from 1993 to 2000, although with the recession of 2001 some 2 million of those have been lost again. An important source of dynamic US job growth has been a relatively mobile and unrestricted labor market. In contrast, rigidities such as high severance pay and high employer contributions for social taxes have meant much slower job growth in Europe (despite some recent reforms in such countries as the Netherlands).

Figure 2: US Employment (million)



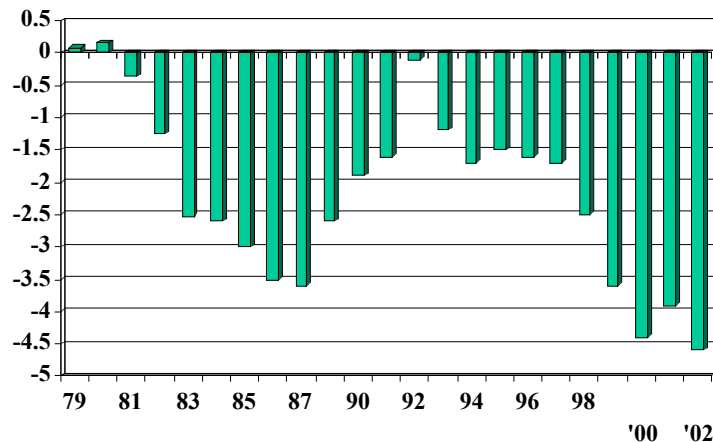
In short, the American economy deserves credit for impressive performance that has been linked to an open-market framework as well as improved macro policies. However, it must also be recognized that part of the spectacular performance in the late 1990s was also related to an unsustainable boom, particularly in capital investment, that in turn was related to what turned out to be a stock market bubble.

The external imbalance

Having recognized impressive strengths in the US economy, let us turn to the imbalances that will need to be corrected. Consider first the external imbalance. In the 1980s an excess of domestic demand over supply, spurred in part by the Reagan tax cuts,

led to an overvalued dollar and an excess of imports of goods and services over exports amounting to about 3-1/2 percent of GDP by 1987. That was a severe imbalance that was recognized at the time, and there was a concerted G-7 effort in the 1985 “Plaza Accord” to bring down the value of the dollar and help make US exports competitive again.

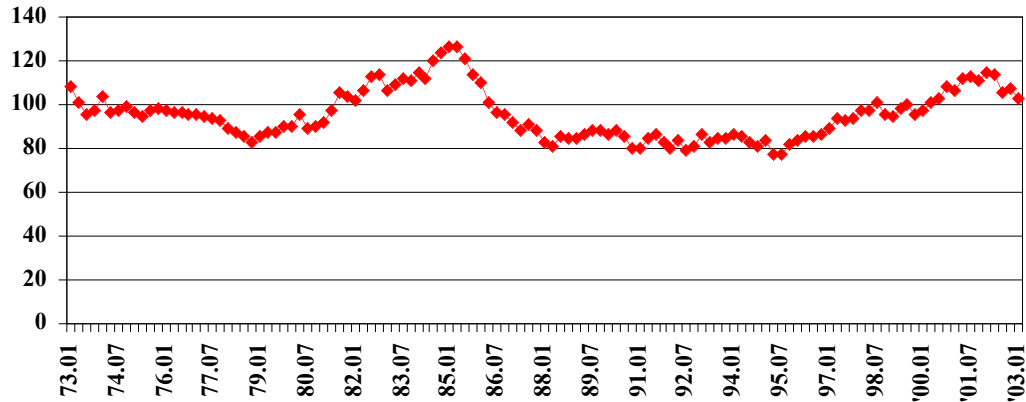
Figure 3: US Current Account as % GDP



As figure 3 shows, by the early 1990s the United States had successfully reduced its external “current account” deficit”. However, by the late 1990s the deficit came back with a vengeance. Last year it reached about 5 percent of GDP, even higher than in the late 1980s. Slow growth in Europe and Japan has contributed to the deficit, by reducing the demand for US exports. A strong dollar once again after 1995 has also driven the rising trade deficit. As shown in figure 4, according to the Federal Reserve the real value of the dollar against other major currencies touched bottom in April 1995. From then until February 2002, it rose 50 percent. That has the same effect on trade as placing a 50 percent tax on exports and giving a 33 percent subsidy to imports, so it is not hard to understand why the US trade deficit has been rising. The strong dollar in turn reflected a massive inflow of capital from around the world to participate in the US stock market and the high-tech boom in the late 1990s. If capital is flowing into the country, there is pressure for a current account deficit, because the two have to cancel each other out in the

external accounts (if the government is not building up foreign reserves, which the United States does not do).

Figure 4: Real Exchange Rate of the Dollar



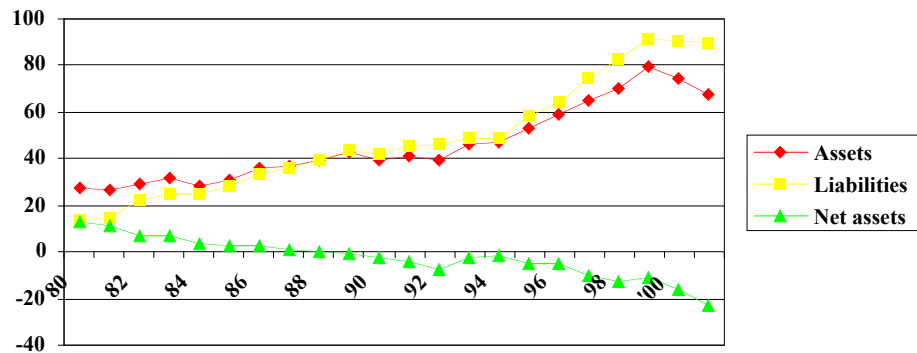
Perennial trade deficits have turned the United States from the world's biggest creditor nation into the world's biggest debtor nation (figure 5). In 1980 the United States had net external assets equal to 13 percent of GDP. We shifted into a net liability balance in 1989. By now our net liabilities amount to about 25 percent of GDP, or about \$2.5 trillion. We have large assets abroad, including direct investment, but foreign holdings of US assets are even larger by this amount. At present, our net liabilities of \$2.5 trillion mean that on average every man, woman, and child owes \$10,000 to foreigners. Moreover, the downswing of 38 percent of GDP over the last two decades suggests that if this trend continues, by 2020 US net foreign liabilities could be close to two-thirds of GDP. If that happened, it is not inconceivable that the United States could encounter a foreign debt crisis before it experiences a social security crisis.

It is often argued that the foreign deficit is not a problem because we are using the foreign resources for investment in capital goods for the future. That argument is no longer valid, because the high US investment rate has collapsed. It is more relevant to focus on the still low US savings rate, as discussed below.

History suggests that it is imprudent for nations to become large external debtors, especially if their exports are modest relative to their GDP. Argentina's collapse last year

is the most recent and most painful reminder. The United States is obviously in a far different position. Nevertheless, there are limits to how much capital the rest of the world will be willing to lend to us year after year into the indefinite future. A reasonable goal would therefore be at least to arrest the trend toward ever-larger net foreign liabilities, if not reverse it. If we sought to freeze net liabilities at 25 percent of GDP, then if nominal GDP growth is say 5 percent, we would need to limit the current account deficit to one-fourth of this or 1.25 percent of GDP – about \$125 billion instead of the \$500 billion current account deficit we presently have. The dollar has fallen some since its peak – by about 12 percent. But it will have to fall considerably farther if the current account deficit is to be narrowed back to levels more consistent with avoiding a continuous escalation in America’s net foreign liabilities.

Figure 5: US Foreign Assets and Liabilities, as % GDP



The saving and fiscal imbalances

To a considerable extent the dollar is just the proximate symptom of more fundamental causes driving the external deficit, even though it is the operational price mechanism that curbs exports and boosts imports. The underlying imbalance is between how much the United States produces and uses as a nation. This in turn depends on how much consumers save and how large the government’s deficit is, as well as on how aggressively US firms are investing in new capital.

In the 1980s, the widening US external deficit was a classic case of “twin deficits”: an external deficit reflected a rising fiscal deficit. The fiscal deficit in turn had

been spurred by the Reagan tax cuts premised on the “Laffer curve” and Supply Side Economics. In the 1990s, in contrast, it was the private sector that began using far more resources than it produced, whereas the government accounts moved into balance and even surplus.

Box 1: National Accounting and the External Deficit

$$Y = C + I + G + X - M \text{ \{demand\}}$$

$$Y = C + S + T \text{ \{supply, = factor payments\}}$$

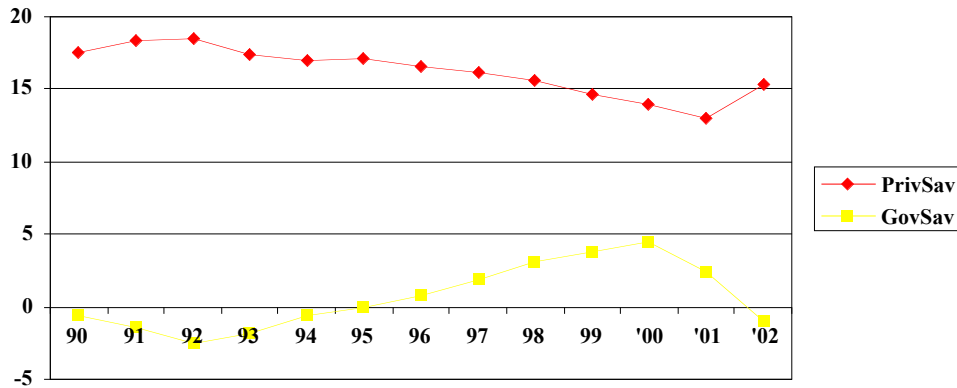
$$M-X = [I-S] + [G-T]$$

So: external deficit = excess of private investment over private saving, plus the fiscal deficit.

There is an accounting identity that links the external deficit to domestic saving, investment, and the budget deficit (Box 1). Because supply equals demand, we can look at GDP on both sides and they have to equal. The demand for GDP is composed of consumption, investment, government spending, and exports minus what is provided by imports (the first equation). The supply of GDP can be identified by what is paid to the households and firms that produce it. These factor payments in turn are also used for consumption, saving (by both households and firms), and taxes. We can subtract this second equation from the first one, and that leaves us with an identity that says the trade deficit, or the excess of imports over exports, is a resource gap that is equivalent to the excess of investment (a resource use) over net saving (a resource supply), with saving including private (both household and by firms) and government (the budget surplus). In the 1980s, the external deficit on the left-hand side was driven by the second bracket on the right-hand side – a rising government deficit. In the 1990s, it has been driven instead by the first bracket on the right-hand side: a boom in investment simultaneous with a decline in saving as American consumers briskly boosted their consumption.

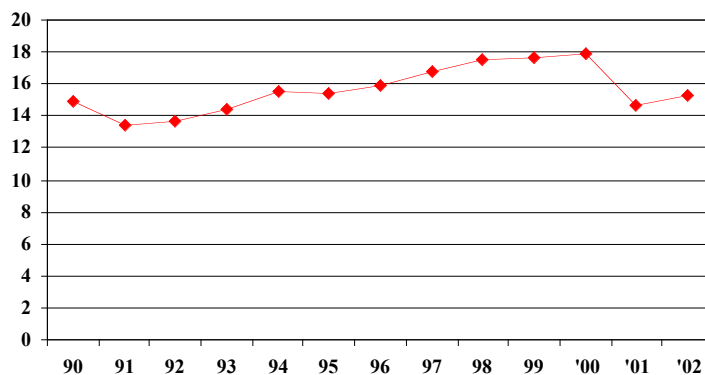
As shown in figure 6, in the 1990s private saving consistently fell, from about 18 percent of GDP to about 13 percent. The fiscal balance (federal and state) rose into surplus, rising by almost enough to offset the decline in private saving.

Figure 6: Private and Government Savings, as % GDP



At the same time, however, as shown in figure 7, private investment rose from about 13 percent of GDP to about 18 percent. With the change in private and government saving about a wash, and with a 5 percent of GDP boost in investment, the resources had to be brought in from abroad, so the external accounts went from near-balance to a deficit of about 5 percent of GDP.

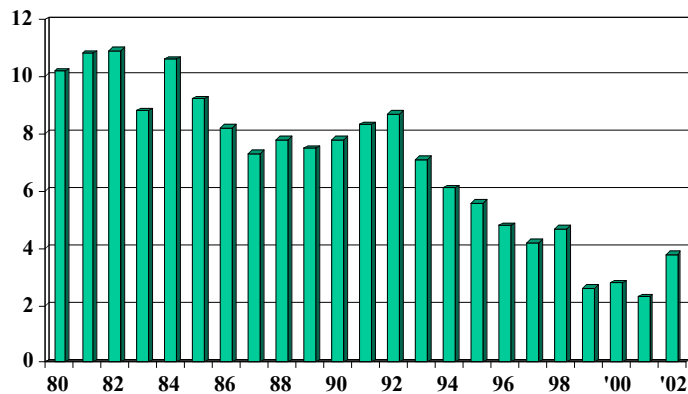
Figure 7: Private Investment, % GDP



With the 2001 recession, these trends changed. Private investment fell to about 15 percent of GDP; private saving rose modestly while the government surplus swung into deficit. As recovery persists, it is unlikely that investment will return to its pre-recession high at the peak of the high-tech boom. More sustainable levels of investment will help curb the need for foreign resources and hence the external deficit. As for saving, it has a long way to go to get back to historical norms; and as for the government accounts, there is an increasing risk that chronic government deficits will return.

As shown in figure 8, households used to save about 10 percent of disposable income. However, during the 1990s this savings rate fell to as low as about 2 percent, before edging back to about 4 percent last year. It is highly likely that rising stock market values and valuations on their homes made American households comfortable with saving less out of their current income. However, the stock bubble has now been pierced, and it is unlikely that home values will continue to escalate at recent rates, so it will be important that households rebuild their savings rates to more sustainable levels. If they do, that would contribute toward narrowing the resource gap and the external deficit.

Figure 8: Personal Savings Rate (%)



For its part, the fiscal balance is one of the most flamboyant actors in our nation's drama. Only two years ago we were told there was a mountain of fiscal surpluses that could safely be used for all sorts of good purposes. After the tax reductions adopted in 2001, and in the face of the recession and now with a potentially costly war in Iraq, no

one is talking anymore about surpluses, or even about a lock-box for the social security accounts. Instead, the real question is whether the fiscal deficit will be \$300 billion or more (3 percent of GDP), and whether it will vanish with more complete economic recovery or persist over time.

There is of course a good Keynesian reason to live with a fiscal deficit while the nation's resources are still not fully employed, because under these circumstances increased demand creates its own supply. Over the longer term, however, fiscal balance will be important to maintain. I am in the school that believes the correction of the fiscal deficit in the 1990s contributed to US growth by allowing the capital markets to reduce the interest rate, which boosted investment. I am also of the school that believes avoiding an escalation of public debt relative to GDP is important. That concern seems to be back on the agenda, in contrast to the never quite believable outlook that government debt would be wiped off the slate by chronic surpluses.

There is a fundamental equation of fiscal sustainability that I think is worth knowing. Expressed in real (after-inflation) terms, it says that in order to keep the public debt to GDP ratio constant, the "primary" government surplus – which is the surplus omitting interest payments – must equal the debt to GDP ratio multiplied by the real interest rate minus the real growth rate (Box 2). This equation stems from the fact that there is an "inherited" deficit equal to the interest on existing debt, but there is an offset attributable to growth in the GDP base. Under normal conditions the real interest rate on 10-year government bonds is about 4.5 percent. Real growth of 2.5 percent can be counted on, but not a lot more than that. The debt to GDP ratio is about 40 percent. So the primary surplus should be $0.4 \times (4.5 - 2.5) = 0.8$ percent of GDP to keep the debt/GDP ratio from escalating. If inflation is 3 percent, the interest rate is 7.5 percent, so interest payments amount to 3 percent of GDP, making the fiscal deficit including interest 2.2 percent of GDP. That is smaller than the present fiscal deficit outlook. If we are too aggressive in further tax cuts, we will not be achieving the fiscal sustainability condition. Moreover, if the proposed tax cuts mainly save taxes for upper income groups several years from now, they are hard to justify on grounds of boosting consumption in 2003 to ensure the economy recovers. In short, even though we seemed to eliminate the fiscal imbalance in the late 1990s, we have to be on guard about slipping back into this

imbalance now and in the future. To do so would not only raise questions of fiscal sustainability, but also aggravate the external deficit further by allowing the economy to slip back into the twin-deficits mode of the 1980s.

Box 2: Public Debt Sustainability

Primary Surplus (% Y) \geq [Debt/GDP] [i^*-g]

$sp \geq d [i^*-g]$

e.g. 0.8% = 0.4 [4.5% - 2.5%]

The asset market imbalance

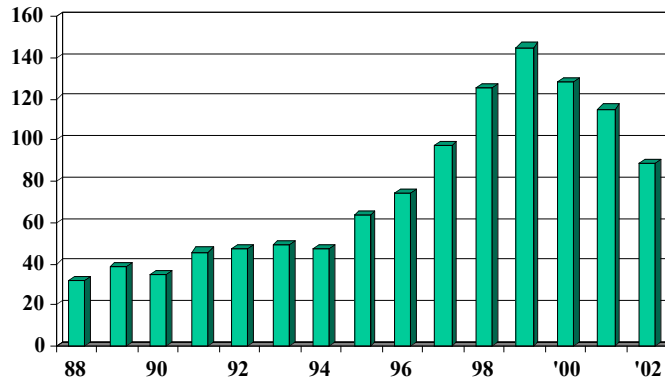
Suppose as a nation we can begin to correct the savings, fiscal, and external imbalances. There is another important financial imbalance the economy has been struggling with: that in financial assets. The economy is in the hangover stage after the piercing of a stock market bubble. It is by no means clear how far along we are in the correction. One can only hope that this aftermath proves far less severe and prolonged than that in Japan after its stock market bubble burst in 1990.

Other things being equal, one would expect that total valuation of the stock market to more or less keep pace with GDP. Instead, from the early 1990s to its peak in early 2000, the US stock market's capitalization rose from about 50 percent of GDP to almost 150 percent (figure 9). This was comparable to the rise in the 1920s before the crash in 1929. In late 1996, when this ratio was still only 75 percent, Alan Greenspan mused how difficult it was to tell whether the market was being driven by "irrational expectations". Yale Professor Robert Schiller was one of the few to analyze that the market was indeed embarked on a bubble fed by irrational expectations. Greenspan, in contrast, spent the next four years suggesting that the technological change in the "new economy" might justify the ever higher valuations.

George Soros has correctly reminded us, however, that market valuations are inherently unstable and subject to wide swings. The reason is that they are today's price of a future stream of earnings. Small changes in expectations about future earnings, and

small changes at the discount rates applied to them, can cause large changes in stock prices.

Figure 9: Stock Market Capitalization Relative to GDP, percent



Box 3 presents an equation for asset price evaluation, and the corresponding “price-earnings” ratio. Economic theory says that the price of a financial asset should be the “present value” of its future stream of earnings. The present value is obtained by applying a “discount rate” – for example, if the discount rate is 10 percent, then a dollar delivered one year from now is worth only 91 cents today. It turns out that an infinite stream of payments of a given amount yearly has a discounted present value equal to one year’s payment divided by the discount rate. So if the discount rate is 10 percent and the asset pays \$1 yearly forever, the asset is worth \$1 divided by 0.1, or \$10.

Box 3: Asset Pricing and the Stock Market Bubble

Price = discounted present value of earnings

$$P = E/(i + r - g)$$

i = discount rate; r = risk premium

g = earnings growth rate;

If real rates are: $i = 4.5\%$, $g = 3\%$, and $r = 5\%$,
then $P/E = 15.3$ (historical avg = 14).

Extra productivity growth might boost g to 4%, bringing
 P/E to 18 – but not 30-40.

As the price-earnings equation shows, there are two elements to the discount rate for the stock. First, there is the risk-free opportunity cost. Once again the treasury bond is the best measure of this. So again, something like a 4.5 percent real rate might be appropriate for the discount rate “*i*” in the equation. Second, there is discounting for risk. Stock markets fluctuate and have more inherent risk than the treasury bond. This is the component “*r*” in the equation. On the other hand, the earnings of the stock should grow over time. If they grow along with the economy, that would be say 3 percent growth in real terms, for term “*g*”. The price of the stock then equals today’s earnings (*E*) divided by the “net” discount rate, which is the gross discount rate for opportunity cost (*i*) plus risk (*r*) net of the offsetting factor of underlying growth in the payments stream (*g*).

As suggested in figure 9, the hype about the new economy seems to have boosted stock prices more than is justifiable by the asset price equation. With the real discount rate “*i*” at 4.5 percent, the risk discount factor at 5 percent, and real earnings growth of 3 percent, a price-earnings ratio of 15 is warranted. If increased technical change boosted real GDP growth and real earnings growth to 4 percent, the price-earnings ratio could rise to 18-20. But instead, in the bubble the S&P 500 price-earnings ratio got up to 30 or 40. The only way to reach such levels is to have a major reduction in the risk discount factor – and some were arguing that the more stable economy warranted lower risk discounting; or in the government bond rate – again there was some plausibility of lower rates after the Clinton fiscal adjustment; or faster earnings growth – but it was dangerous to project the rapid earnings growth of the late 1990s into the indefinite future; otherwise earnings would eventually exceed all of GDP.

We now know that the optimistic price-earnings ratios were not justified, and that the market was in a bubble. What is unclear is whether there is even more downward adjustment in store. Again, the historical relationship of market capitalization to GDP would tend to suggest there is room for further downward correction, since this ratio is now about 90 percent rather than the 50 percent average of the mid-1990s. Similarly, the S&P500 price-earnings ratio is still about 28 and the Dow Jones Industrials about 20, not the historical 14. These considerations, in short, suggest that there are underlying rather than strictly temporary reasons to be cautious about likely future market valuations, and

that the market's present troubles are not solely or even primarily attributable to the Enron shock or the Iraq shock.

Yet the bursting of the stock bubble has already exerted contractionary pressure on the US economy. It is one of the reasons investment has fallen from 18 percent of GDP to 15 percent. So far rising housing valuations seem to have limited the adverse "wealth effect" of the market collapse on consumer spending, but it seems likely that the market's adjustment will act as a damper on growth in consumer demand, especially as the housing market cools off.

The bright side of this picture is that the bubble was pierced before it got a lot bigger. Sooner or later, and especially by the time the baby boom generation started cashing in its 401K holdings of stock, there was bound to be a correction. The damage could have been much greater if the bubble had continued to inflate for several more years.

Wage inequality

The final imbalance I would like to consider is the widening inequality in the distribution of wages in the US economy. Inequality has always been the Achilles' heel of the dynamic US economy. The same market mechanisms that generate impressive gains on average can result in "winner takes all" gains for some and meager results for others. Americans have long ago decided that they prefer to have their own chance at the brass ring rather than adopt a system that sets tight limits on how well those at the top can do. Even so, for a viable economy over the longer term it will be critical that at least the absolute levels, if not the relative levels of earnings of those at the bottom continue to show progress. In much of the past two decades, unfortunately, there has been a widening of the gap between the top and the bottom that has been associated with an absolute decline for those at the bottom. One could focus on total income, or total wealth (which is even more unequally distributed), but a focus on wages provides perhaps the most operational way to examine how the US economy is distributing the benefits of growth, and the most relevant for most households since wages are the vast bulk of total household income.

As shown in figure 10, from 1974 to 1993 the ratio of skilled to unskilled wages, defined as those with 13 years of education (skilled) and 12 years or less (unskilled), rose

by 18 percent. Moreover, this process was associated more with a drop in real wages at the bottom end of the spectrum than with a rise in wages at the top, as shown in figure 11. Although there was some improvement later in the 1990s, this basic pattern still remains valid.

Figure 10: US wage ratio: 13+ years /12- years education (%)

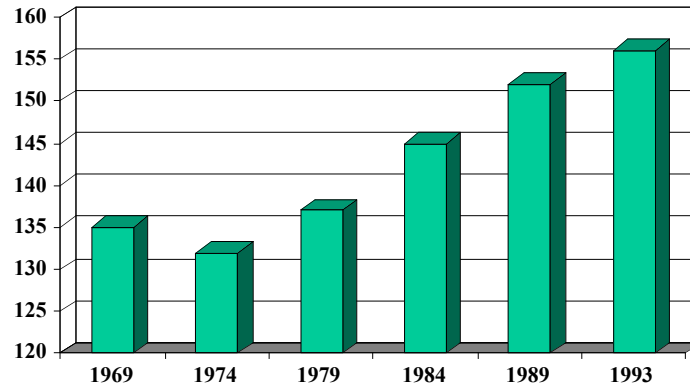
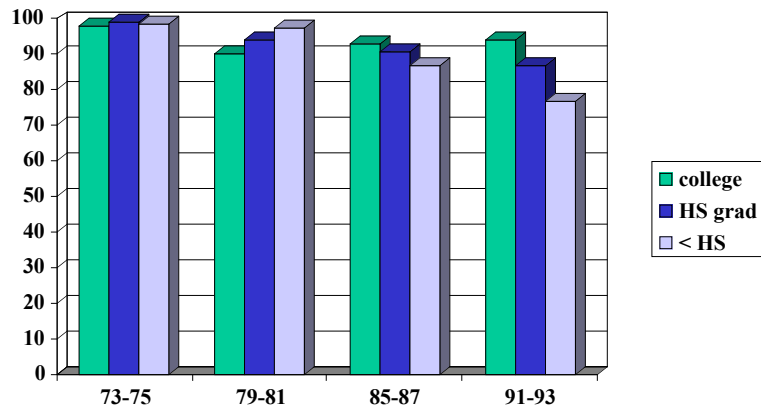


Figure 11: Real hourly wage (1973 = 100)

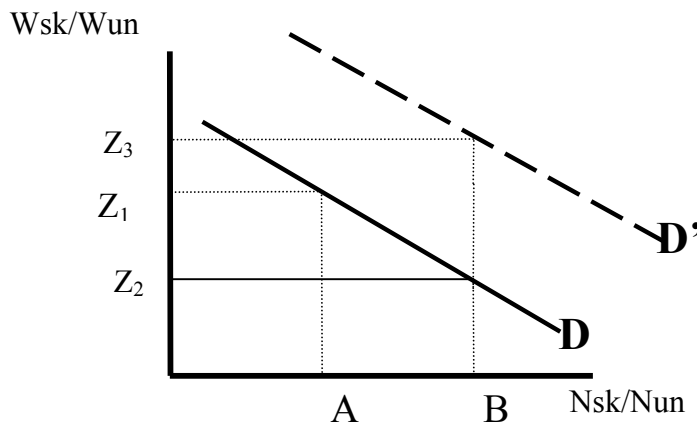


The decline of unskilled wages relative to skilled wages was surprising, because the total supply of skilled and unskilled workers went very much in the other direction: the US economy was churning out more and more college graduates, and a smaller

portion of the labor force had a high-school degree or less. Normally the law of supply and demand would have boosted unskilled wages relative to skilled, rather than reducing them.

Figure 12 is a supply-demand diagram that shows what appears to have happened. The horizontal axis shows the ratio of skilled to unskilled workers in the stock of labor. The vertical axis shows the ratio of the skilled wage to the unskilled wage. Over the past two decades the relative supply of skilled labor has moved outward to the right, from a vertical line at point A to a vertical line at point B. During this period the ratio of the number of workers with at least some college to the number of workers with highschool or less education rose from 60 percent to 120 percent. If the demand for skilled relative to unskilled labor had remained unchanged, along demand curve D, the result would have been to reduce the equilibrium wage ratio from Z_1 to Z_2 on the vertical axis. But instead we observed a rise in the ratio of skilled wages to unskilled wages, to Z_3 . That means that the relative demand curve for skilled versus unskilled workers must have shifted outward, to D' .

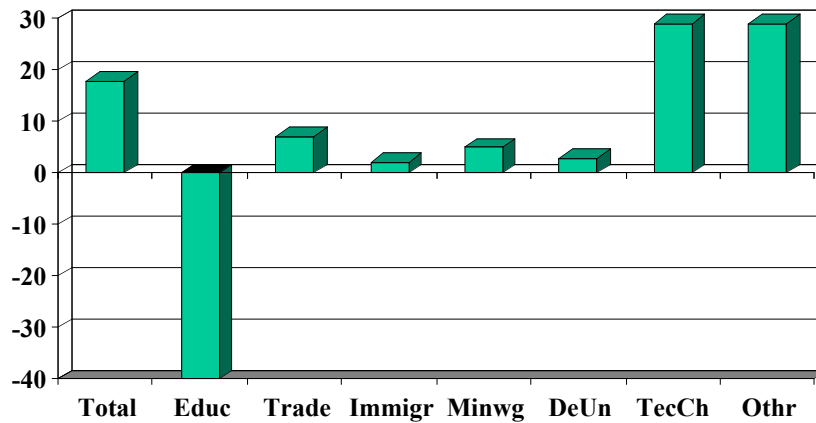
Figure 12:



Somehow, then, various forces in the economy seem to have disproportionately boosted the demand for skilled workers, leaving the unskilled workers behind even though there are relatively fewer of them today given the massive boost in education. In

1997 I published a book that attempted to parse out the role of international trade and migration in this process. Using a “general equilibrium” model, I came up with the estimates shown in figure 13. I estimated that the decomposition of the 18 percent rise in the skilled/ unskilled wage ratio went as follows.

Figure 13: Impacts on skilled/unskilled wage ratio (%)



First, there was a *negative* 40 percent change in this ratio that should have occurred as a result of the doubling in the relative supply of skilled workers (along the lines in the supply-demand diagram walking down an unchanged demand curve). So there had to be a powerful combination of several other unequalizing factors that more than offset this equalizing force of much more widespread college education.

In my calculations, I estimated that increased international trade probably boosted the skilled/ unskilled wage ratio by about 7 percent, from what is called the “Heckscher-Ohlin” effect, namely the United States’ abundant factor is skilled labor (compared to other countries), so it is skilled labor that benefits the most from more open trade. I also calculated that because immigration has been concentrated in unskilled labor, which acts like shifting the skilled/ unskilled labor supply curve in the diagram backwards to the left, immigration probably boosted the skilled-unskilled wage ratio by about 2 percent. Based on other studies, I estimated that the erosion in the real value of the minimum wage

probably raised the skilled/ unskilled wage ratio by about 5 percent, and the long process of deunionization probably increased it by about 3 percent. That still leaves an extremely large unexplained unequalizing force. The usual explanation for this “unexplained residual” is technological change. If just half of this unknown unequalizing force is attributed to skill-biased technical change, that amounts to a boost in the skilled/ unskilled wage ratio by almost 30 percent; and the other, comparable part of the residual might reasonably be attributed to other unknown forces besides skill-biased technical change. Because the overall unequalizing force was so large – about a doubling of the skilled/ unskilled wage ratio – it turns out that trade and immigration only accounted for about one-tenth of the overall unequalizing forces, a far lesser role than skill-biased technical change.

Policy implications

Let me turn, finally, to the policy implications of these thoughts about the imbalances in the American growth machine. It seems to me they run along the following lines.

- It should be a policy objective to limit the further deterioration in the nation’s net international asset position. In turn, this means cutting back the external current account deficit from its present level of about 5 percent of GDP to a level of only about 1-1/2 percent of GDP.
- For this purpose, the dollar will have to continue its recent path of correction. The dollar has now dropped some 10-15 percent from its peak in early 2002, but it has only made about half or less of the total correction that will be necessary.
- The persistent decline in the personal savings rate should be reversed. Some reversal is likely to occur naturally as households adjust to the reality that their stock portfolios are not worth as much as they previously thought. But over time we should give consideration to policies, especially in the composition of taxes, that help build incentives to save. This could include a greater role for consumption taxes such as the Value Added Tax, on the one hand, and by changes to ensure that the real value of savings is not eroded by taxes on the inflation component of asset earnings, for example.
- Our fiscal policies should be designed to ensure that under realistic assumptions, the ratio of public debt to GDP does not begin to spiral upwards. In

practice this means ensuring that nominal deficits not exceed about 2 percent of GDP, especially once the economy has convincingly recovered from the 2001 recession.

- The policy implications of the stock market bubble are less direct. However, they probably include being very cautious about turning over the nation's social security pensions to Wall Street for investment in the stock market. They also may include having the Federal Reserve pay more attention to the risks of a financial asset market bubble in the future, although it could be years before anything like the late 1990s reoccurs.

- To address the wage distribution imbalance, ample access to training and education is important. We may also need to reconsider our immigration policy to ensure that it does not add a disproportionate number of unskilled workers from abroad to the domestic supply. We should not address the problem by erecting trade barriers, because these boost consumer prices in a way that hurts the poor the most. Instead, we should be certain that the further moves toward open trade are accompanied by measures that help ensure that the benefits are fairly distributed, such as the expanded Trade Adjustment Assistance under the 2002 Trade Promotion Authority act. Similarly, further changes in the income tax structure that reduce the tax burden at the low end of the salary scale would help ensure that the growth benefits of the American economy do not leave behind those in the lower part of the distribution.

The US economy has indeed been a star performer. But we should not forget that it was only a dozen years ago that the world considered the Japanese economy to be the juggernaut, the model for all to emulate. Prudence suggests that ongoing attention be paid to any imbalances in the US economy that could sooner or later begin to unravel its impressive performance. I have tried to address some of the more important of these, but as I suggested at the outset, there are others that will also require attention.