America in the Global Economy: Rebalancing and Innovating

World View Partners' Program for Polk and Rutherford County Schools

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Professor Peter Brews, Kenan-Flagler Business School, the University of North Carolina at Chapel Hill

Why Rebalancing and Innovating?

America is out of balance, this will be remedied one way or the other...

While rebalancing is accomplished, America must innovate to resume economic growth and retain its primary position in the global economy

America in the Global Economy: Rebalancing

The US is in worst shape socially and economically it has been in for generations:

• 25 years living beyond means have finally caught up

• Economically, out of balance both publically and privately

• Politically divided and facing legislative gridlock, little convergence at center

• Some core industries in deep trouble (banking, automobiles, construction, retail) while important support industries face serious funding issues (healthcare, education, military…)

Not really credit crisis but over-consumption/living beyond means crisis: credit symptom, not cause

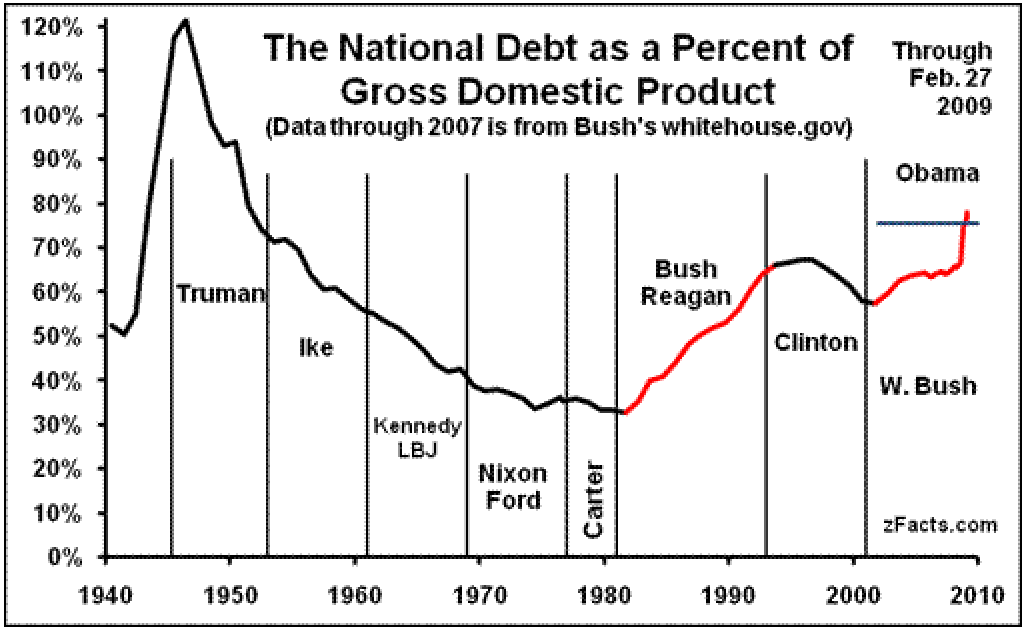
Two propositions:

- Americans could cut consumption by 20% and probably wouldn't notice: 20% smaller houses, 20% smaller cars; 20% less food; 20% less clothing etc.

- In face of global imbalances and global competition/scramble for resources, 2006/7 American consumption levels unsustainable

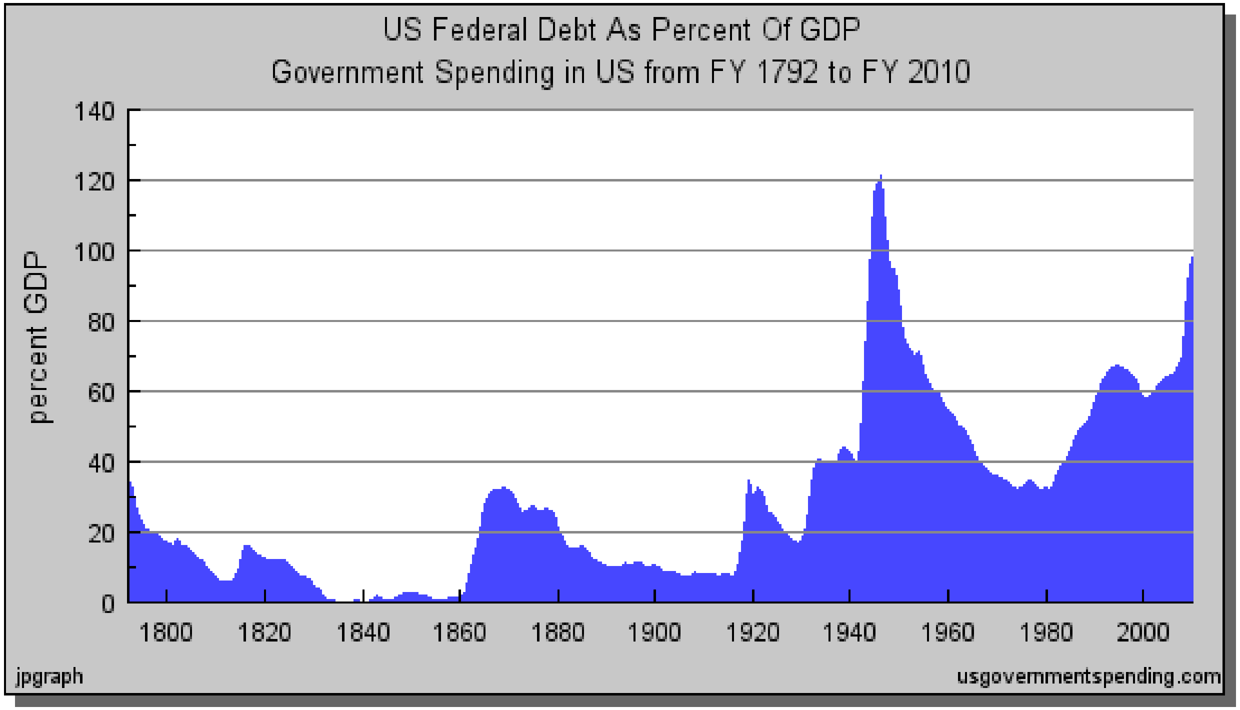
US Political Economy/Public Sector Imbalances

US Federal Gross Debt as % of GDP: 1940-2009



Source: zFacts.com

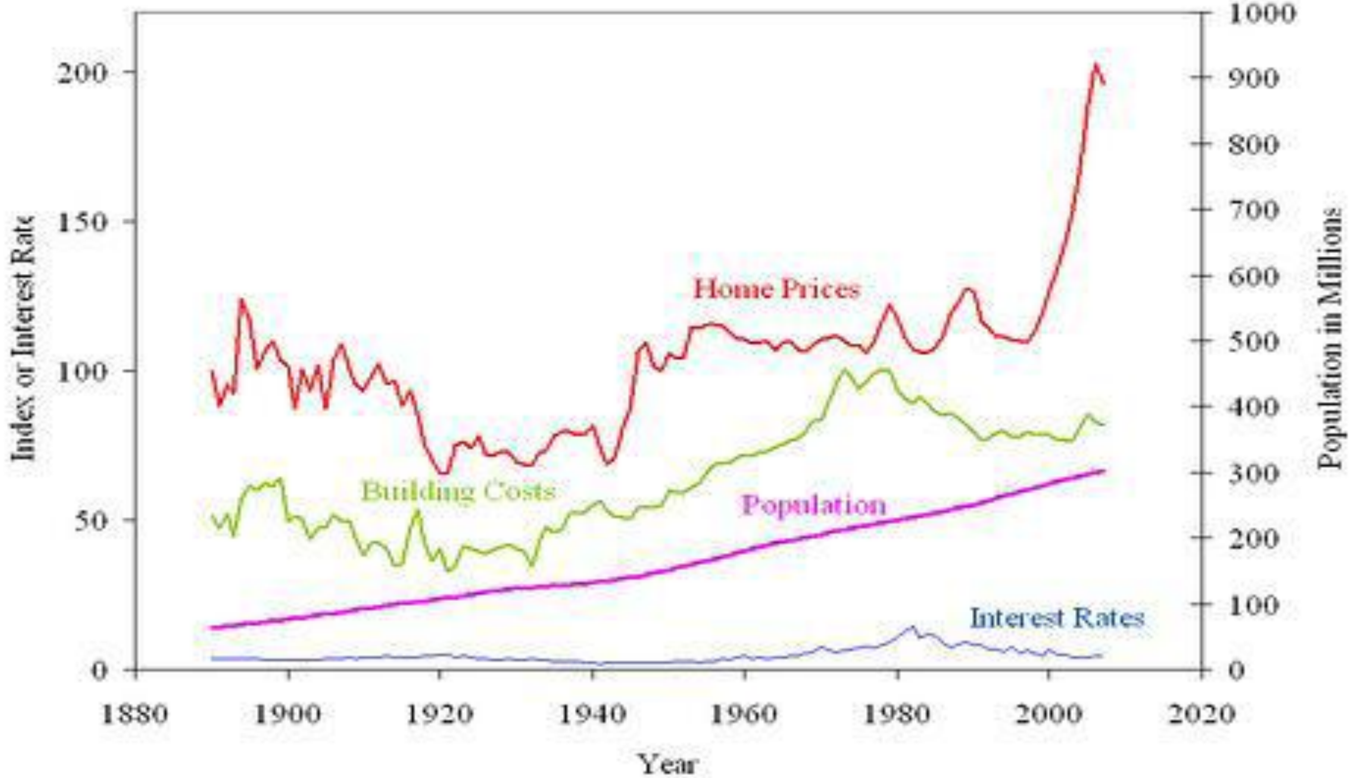
US Gross Federal Debt is now around 100% of US GDP



Source: http://www.usgovernmentspending.com/downchart_gs.php?year=1792_2010&view=1&expand=

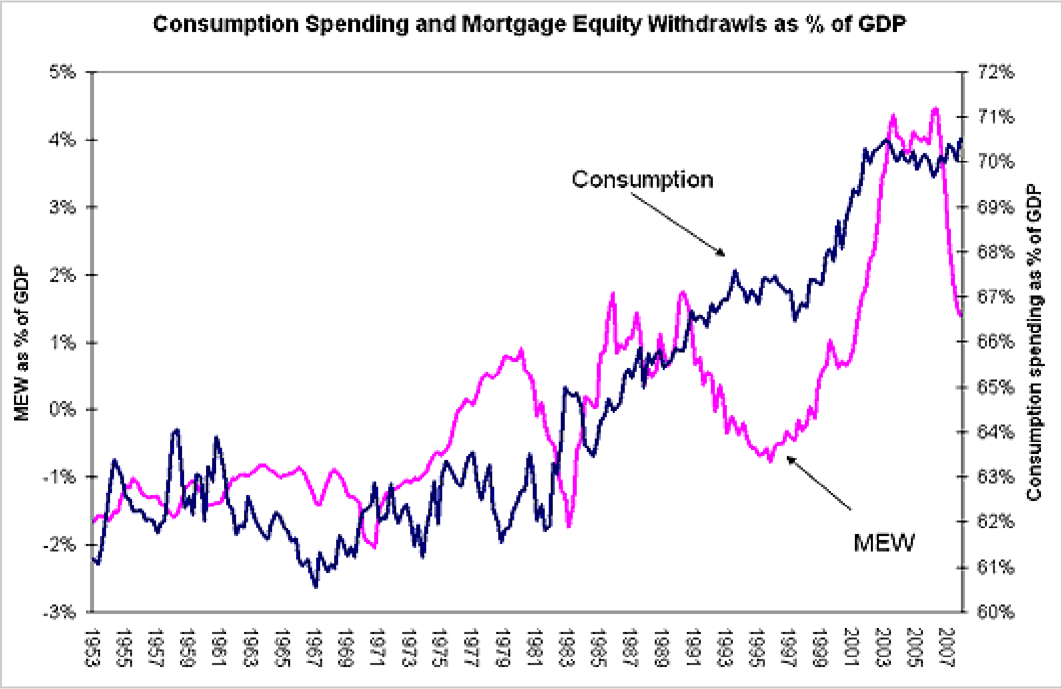
US Political Economy/Private Sector Imbalances

US Macroeconomic data: Home prices, building costs, interest rates, population



[Source: http://www.econ.yale.edu/~shiller](http://www.econ.yale.edu/~shiller)

US Macroeconomic data: Consumption and Mortgage Equity Withdrawals



Graph constructed by Professor Christian Lundblad, Kenan-Flagler Business School, University of North Carolina at Chapel Hill.

Consumption and GDP data from the Bureau of Economic Analysis (BEA). Mortgage equity withdrawals are measured as the year-over-year change in mortgage debt (from the Federal Reserve Flow of Funds) minus 70 percent of residential investment spending (from the BEA). (Source: L. Josh Bivens, Economic Policy Institute)

Private sector imbalances:

• Private consumption expenditure sustained by freely available low cost capital, tax cuts, real estate asset bubble/boom, credit card debt

• World's largest ponzi scheme ever operating between US consumers and PRC

• US private savings rate also very low/even negative over past decade

Adjustments needed:

- < 5% in US Consumption as % of GDP
- > in US Savings to 5% of GDP
- > in US taxes 3 – 5% of GDP
- < 20% in average US body weight

i.e. all must save more, consume less, adjust consumption expectations, de-lever

Note: Personal Consumption Expenditure remained over 70% of GDP in QI 2011