

U.S. Trade Deficit Review Commission

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**Macroeconomic Consequences and Implications of the
U.S. Trade and Current Account Deficits**

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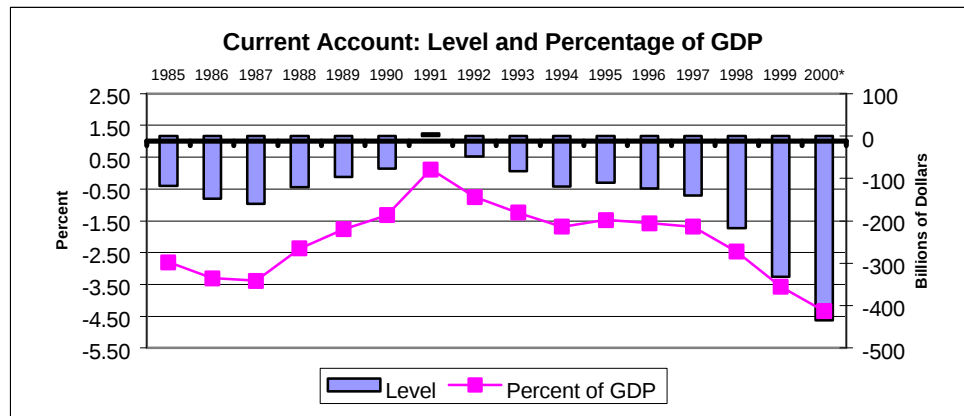
Report on a Project “The Consequences of the U.S. Trade and Current Account Deficits,”
performed for the U.S. Trade Deficit Review Commission, Washington, D.C., May-October 2000
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Macroeconomic Consequences and Implications of the U.S. Trade and Current Account Deficits Allen Sinai*

Introduction and Summary

U.S. trade and current account deficits are at record highs, in uncharted territory, and show no signs of abating soon (Chart 1). At near \$450 billion and 4.3% of GDP, the current account deficit dwarfs anything ever seen in U.S. history.

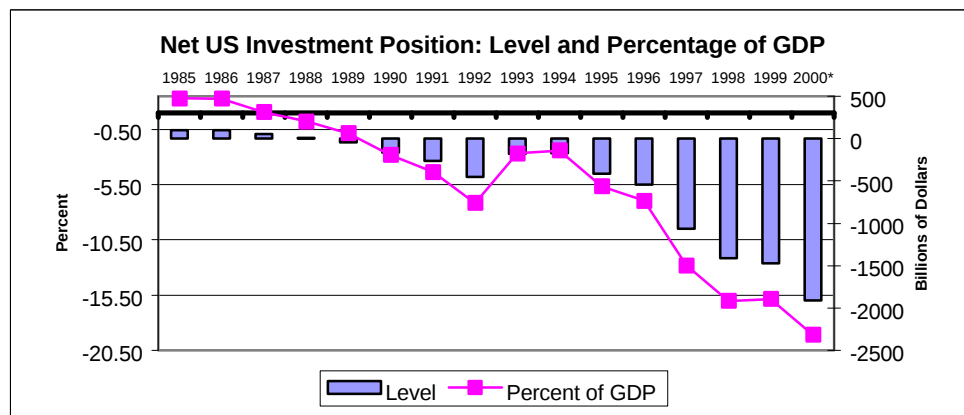
Chart 1
U.S. Current Account: 1985 to 2000
(Bils. of \$'s.; Pct. of GDP)



Indeed, for virtually all the past decade, during the longest and strongest business expansion ever and at a time when U.S. competitiveness and certain categories of exports have led the world, the trade and current account deficits have been high and rising, subtracting from an impressive path of strong economic growth, declining unemployment, and much stronger-than-expected profits.

Rest-of-the-world investments in the U.S., direct and indirect, financial and real, short- and long-term, have been correspondingly strong, also at record levels, seemingly impervious to the risks posed by high and rising trade and current account deficits and U.S. borrowing abroad to finance them. Expected returns on investments in the soaring U.S. economy undoubtedly have justified the risks in the eyes of investors.

Chart 2
Net U.S. Investment Position: 1985 to 2000
(Bils. of \$'s.; Pct. of GDP)



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The principal risk from the record-high current account deficit is with the U.S. dollar, which many would argue should be sharply lower in order to correct the imbalances reflected by the current account deficit.¹

These imbalances include quite high consumption relative to income; a record-low personal savings rate; a huge boom in capital spending and investments in new enterprises and companies involved in the New Technology; an inordinate amount of funding and bubble-like rush into these areas; almost insatiable demands for imports, both by consumers and businesses, to support business activity and consumption; a superstrong dollar that has made imports very cheap; tight labor markets with shortages across-the-country; and considerable large bilateral trade imbalances globally, particularly with Japan and China, but also Canada and Germany. By region, the largest deficits are with Asia and Europe.

Why have the trade and current account deficits been so high? What risks do they pose to the economy, and why? Are the deficits sustainable, and for how long? What might be the macroeconomic consequences of policies designed principally to minimize the current account imbalances? Are there policies to be designed that can solve the deficit problem? What is the risk of a “Hard-Landing” for the U.S. dollar and the economy as a consequence of these outsized and unprecedented deficits?

This report offers some perspectives, analytical discussion, and quantitative model-based assessments of these questions, employing the general macroeconomic quantitative framework for the U.S. economy and financial system embodied in The Sinai-Boston Quarterly Econometric Model of the United States.² Answers to a series of questions asked of the Model by the U.S. Trade Deficit Review Commission are provided.

In brief:

– *Why have the trade and current account deficits been so high?*

The U.S. trade and current account deficits have been high and rising principally from an unprecedented long business expansion, and lately, a Boom in the economy. Since March 1991, the U.S. economy has risen 3.7% per annum, with growth accelerating particularly in the period from 1995 to 2000, at 4.3% a year.

The Boom was fed principally by consumption and business capital spending, the latter especially in Information Processing and Related Equipment and Software (essentially IT), categories of spending that have high import goods content. Import growth has been extremely strong as a consequence, rising 10.6% a year from early 1991 to mid-2000 and 11.2% per annum since early 1995. Export growth has been more irregular, with ups-and-downs depending on ebbs-and-flows in economic activity abroad, up 7.2% a year between 1995 and mid-2000.

Exports weakened considerably during the Asian Crisis (1997-98) and made the U.S. trade and current account deficits worse. At the same time, collapsing Asian currencies and falling commodities prices made imports to the U.S. from Asia very cheap. Attempts to keep costs down in order to maximize shareholder value also have led to increased demand for imports, with the technology of purchasing, transportation, and distribution allowing increased purchases from abroad. In other business cycle upturns, strong growth in federal government outlays was a major source of expansion, where less import goods content exists.

The high current account deficit probably also is so because of mismeasurement on the counting of imports from countries such as Canada and Mexico, the U.S.’s first and second largest sources of imports, but whose exports, to a great extent, are produced by U.S.-based companies. Those exports show up as U.S. imports and worsen the trade and current account deficits. If there were

¹ See Maurice Obstfeld and Kenneth Rogoff, “Perspectives on OECD Economic Integration: Implications for US Current Account Adjustment,” paper presented at the Federal Reserve Bank of Kansas City Conference, *Global Economic Integration: Opportunities and Challenges*, Jackson, Wyoming, August 25, 2000.

² A brief description of the Sinai-Boston Model can be found in Appendix A. Articles describing some content and earlier versions of the model can be found in Allen Sinai, “Financial and Real Business Cycles,” *Eastern Economic Journal*, Vol. 18, No. 1, Winter 1992, pp. 1-51; Otto Eckstein and Allen Sinai, “The Mechanisms of the Business Cycle in the Postwar Era,” in *The American Business Cycle: Continuity and Change*, ed., R.J. Gordon, National Bureau of Economic Research, Studies in Business Cycles, Vol. 25, Chicago: University of Chicago Press, 1986, pp. 39-120; Otto Eckstein, *The DRI Model of the U.S. Economy*, New York: McGraw-Hill, 1983, chs. 1,4.

some way to obtain data on exports to the U.S. from American corporations (counted as U.S. imports), or their affiliates, the current account deficit, absolutely, and as a proportion of GDP, would show up lower.

Unfair trade practices by U.S. trading partners may account for some of the trade and current account deficits, but cannot be the source of very much of them.

– *What risks do the deficits pose to the economy?*

High and rising current account deficits pose considerable risks to the U.S. economy, because they reflect numerous imbalances, or excesses, that ultimately have to be rebalanced, either through market forces, or otherwise, but also because the deficits themselves, the associated debt, and debt service generate claims against profits and cash flows that must sometime be repaid, or refinanced. To finance the deficits, high expected returns on lending to, and investments in, the United States must be maintained, at some point possibly requiring interest rates so high that they would be punitive to economic activity, or necessitate policies to support the currency that might not be sustainable.

So long as the deficits can be financed from outside the U.S., either through direct or indirect investments, or both, and there are adequate flows-of-funds from the lending and investments of other countries into the U.S., there need be no problem. But, no one can be sure what levels of asset and debt holdings will cause satiation for lenders and investors and whether the investors—individuals, financial institutions, corporations and government—might, for a variety of reasons, withdraw funds and move them elsewhere. In such a situation, the dollar very likely would decline, perhaps sharply, contributing to substantially higher inflation, lower expected real returns after adjustments for exchange rates, rises of interest rates, reductions in the availability of credit and financing, a slowdown in economic activity, and perhaps even a recession.

The positives of the high current account deficits should not be overlooked, however.

They reflect spending in excess of funds available from the U.S. private and public sectors, which, if productive in nature, can enhance the potential and actual growth rates of the economy beyond what might otherwise occur. Indeed, should the uses of funds from abroad significantly enhance productivity and increase potential output, the borrowing that occurs may pay for itself in terms of returns on investments in new business and financial markets, not just for foreign investors, but also domestic investors, and, in addition, create permanently greater numbers of jobs and a higher standard-of-living.

Much of the U.S. experience in the 1990s involved using the capital flows from the financing of the current account for productive purposes, part of a huge capital-spending boom, particularly technology spending, that has helped move U.S. labor productivity and potential output growth significantly higher.

The experience of the 1990s stands in stark contrast to virtually every other post-World War II business cycle upturn, where much of the upward thrust in the economy came from nonproductive spending by the government and by consumers.

– *Are the current account deficits sustainable and, if so, for how long?*

High and rising current account deficits often last long beyond expectations, mysteriously sustainable. Such is the case for the U.S. current account deficits.

The current account deficits alone, since they are the result, or consequence, of other fundamental factors affecting the economy, do not, in and of themselves, necessarily suggest trouble in the economy or in financial markets.

In many cases, the investment opportunities that lead to more aggregate spending than national saving, hence heavy borrowing from abroad, are part of a strongly-performing economy where foreign investors have strong incentives to lend and invest. As long as such a situation persists—strong growth that is well-based, sound monetary and fiscal policies, inflation that is well-controlled, good growth in profits, few imbalances or excesses and stable politics—current account deficits and the financing of them can be sustained. Even when some difficulties arise, there may not be any significant and obvious negative reactions in financial markets, or elsewhere, for quite some time. And, often the currency of a country continues to rise even with rising current account

deficits because the source of them attracts capital and demands for the currency through capital inflows outstripping the supply of the currency necessary to pay for the current account deficit.

In the long-run, however, outsized current account deficits, a negative net investment position, cumulated debt and rising debt service, and the imbalances that create them are not sustainable, *eventually* having to be associated with market forces, domestic policies, or behavior in the economies of other countries that move the deficits in the direction of balance. The equilibrating forces include exchange rates, particularly if they are flexible, interest rates, price inflation, financial flows, profits, the stock market, employment and economic activity, in general. A rebalancing of imbalances has not been the case for the U.S. in recent years, with the current account deficits irregularly, but steadily, rising.

In other situations, macroeconomic policies that restrict economic activity can take down current account deficits by reducing import growth. Restrictive fiscal and monetary policies, in particular, tend to take down current account deficits through reductions in private sector domestic spending and the direct and indirect effects on imports. Most generally, macroeconomic policies have not been designed for the primary purpose of reducing current account deficits. The current account has been a consequence, or secondary result, of macroeconomic policies designed for other purposes.

Microeconomic policies to reduce trade and current account deficits involve those that promote competitiveness, higher productivity and potential growth, helping to more efficiently produce faster, to sell more exports for given rates of economic activity outside the United States, and to capture market share in the global economy.

Bilateral trade imbalances often have been dealt with directly through trade policies, particularly those that set quotas, trade barriers, tariffs, or other such actions.

Unfair trade practices of U.S. trading partners and high bilateral trade deficits with certain countries, such as China and Japan, do not appear to have been the major source of the high and rising current account deficits in recent years. Primarily, it has simply been the increasingly boomy U.S. economy and all that the boom has meant for imports, along with anemic economic growth in the Eurozone, in Japan, and, for a time, reduced exports because of the collapse in the Asian economies over 1997-98. Cheap foreign imports, because of the strong dollar and falling commodities prices are another reason.

It is the imbalances that have given rise to the large and rising U.S. current account deficits and debt service burdens that go with them that have to be corrected, or rebalanced; if so, the current account deficit would decline and essentially take care of itself, leaving only that which is structural.

In the absence of any such rebalancing, the current account deficit leaves the U.S. economy in a vulnerable position vis-à-vis the foreign lenders and investors who have provided so many funds.

Should investment or lending opportunities elsewhere prove more attractive than in the U.S., proxied for by increased economic growth elsewhere, low inflation, and perhaps rising stock markets, or trouble, economic or political, occurring in the U.S., funds would leave and be reallocated, causing instability and declines in the U.S. dollar, setting off chain reactions that could exacerbate, or perhaps cause, a downward spiral in U.S. economic growth and perhaps a recession.

– *What would be the consequences of macroeconomic policies designed principally to minimize the current account deficits?*

Policies to minimize or reduce the current account deficit can be of three kinds—macro-, micro-, or through trade legislation—in order to impact exports and/or imports, either bilateral, or generally.

Macroeconomic policies include monetary policy, changes in short-term interest rates by the Federal Reserve or altering the amount of reserves in the banking system and announcing a target for the federal funds rate, and fiscal policies, which include changing federal tax and/or government expenditures in order to accomplish some policy objective.

Microeconomic policies to affect trade might include measures to increase the efficiency and effectiveness of labor so as to raise productivity and potential growth, to help make U.S. exports more competitive, e.g., cheaper, or to provide incentives for companies to export more.

Other measures could perhaps gain an edge in competition, fair or unfair, such as tariffs, quotas, cost-cutting, reducing prices through subsidies, or eliminating barriers to trade that may have been preexisting. Such actions fall in the realm of trade policy, politics, and relations between countries, and may have other repercussions through the reactions of U.S. trading partners.

In retrospective simulations with the Sinai-Boston Model, performed over the historical period 1991 to 1999, macroeconomic stabilization policies were applied to keep the current account deficit down, holding current account deficits as a percent of GDP near that at the beginning of the period, then observing what would have happened to economic and financial performance as a result. Since actual history records what did happen given actual monetary and fiscal policy, the new track of the model on certain performance measures against the Historical Baseline track provide estimates for the effects of the policies on the economy, various categories of aggregate demand, inflation, profits and wages, employment, income, interest rates, exchange rates, the stock market, trade, and the current account. Such an exercise is called a “counterfactual” simulation.

In the retrospective simulations, the U.S. Trade Deficit Review Commission asked the following questions—

- what would have been the effects on U.S. economic performance and financial markets if monetary policy had been used in the beginning of the 1990s and throughout the subsequent expansion to hold the current account deficit at about the proportion of GDP that prevailed in early 1991? Simply put, could monetary policy have been used to keep the current account deficits low and unthreatening?
- suppose fiscal policy had been used to maintain the current account deficit at its 1991 proportion of GDP—what tax and spending programs could have been used to hold the current account to the targeted level? How would the U.S. economy have performed—on growth, employment, incomes, profits and productivity—and the financial markets—interest rates, stock prices, and the dollar?
- would targeting exchange rates have been able to keep the current account deficit, relative to GDP, at its 1991 level? Could exchange rate policies have been used instead of macroeconomic policies to keep current account deficits down, and what would have been the consequences?

The model simulations show that macroeconomic policies with major goals the elimination or reduction of current account deficits would have had to restrain the U.S. economy considerably, indeed unacceptably so, in order to minimize the current account deficits and to keep them at the same percent of GDP as in 1991.

Tables A-1 to A-3 and the Charts A.1 to A.3 in Appendix A provide the results for each question, as simulated by the Sinai-Boston Model. The Charts that go with each Table depict the salient characteristics of each exercise. The comparisons are the path or track of the variables indicated versus a stochastic version of the actual history, with changes relative to the Baseline as a consequence of the policy changes indicated. Appendix D briefly describes how the simulations were done, labeled as D.1, D.2, D.3, in the order of the questions as simulated. Appendix E contains a brief discussion of The Sinai-Boston Model of the U.S. Economy, with a Table Summary.

Other model simulations examined various issues relating to the current account deficits and their consequences in scenarios for the future, particularly the possibility of a Hard-Landing for the economy, dollar, or both interactively. The time span covered was 2000-to-2004. The Baseline five-year forecast for 2000-2004 is indicated in Appendix B, Table B.1. Chart B-2.1 provides a pictorial depiction of the Baseline Scenario. Tables B.2, B.3, B.4 and its variants, along with the corresponding Charts B-2.1, B-3.1, B-4.1, are provided as a summary depiction of the results. Appendix D.4, D.5, D.6.A, D.6.B, and D.6.C briefly describe how the Model simulations for these future scenarios were simulated.

Questions asked of the future included:

- the effects of a tighter Fed policy on the economy, investment, production and productivity, the trade and current account deficits in response to rising risks of inflation. This is a realistic scenario and actually represents what the Federal Reserve has done over the past year-and-a-half to prevent an acceleration of inflation. Missing from this simulation, however, was the latest upward wrench in crude oil and energy costs, which would have been another complicating factor.

- a relaxed fiscal policy as a consequence of the budget surplus that has emerged. How would easier fiscal policy affect the trade and current account deficits? Basically, this simulation reflects an abandoning in the Washington political process of the fiscal restraint followed during the 1990s. This, too, is a realistic possibility, already occurring in the last two fiscal years as control of the budget has been lost to some extent.
- effects on the U.S. economy and other performance parameters from a world growth pickup relative to the U.S. and the movement of loans and investments away from the U.S. into other regions and countries as a response, a possible setting for a Hard-Landing of the dollar, economy, or both.

Three variants for this question were examined—(1) a global economic growth and interest rate pickup, particularly in the Eurozone, U.K., Japan, Asia ex-Japan, but not in Canada or Latin America where economies move similarly to the U.S.; (2) higher worldwide inflation along with the global growth pickup, and, as a consequence, a significant tightening of monetary policy by the Federal Reserve, with movements of lenders' and investors' funds out of the United States; also (3) a real "Hard-Landing" where investors flee the stock market and the U.S. dollar, the dollar falls considerably and the Fed tightens to protect the dollar and to hold down inflation.

The Prospective simulations generally showed that a Hard-Landing for the dollar is difficult to obtain, although a considerably worse economic performance than the Baseline track.

The simulation result showed the cyclical nature of the economy in the various exercises, ranging from Boom to a Hard-Landing with the early Boom and too high inflation, then tighter monetary policy. The current account deficit worsened at first, as had been expected, then improved, but relative to the Baseline did not end up any lower as a percent of GDP.

Thus, this first exercise, perhaps on track with the current prospect for the U.S. economy, indicated that a Hard-Landing, or good-sized "growth recession" would not bring the dollar crashing down and an interactive downward spiral for the economy into a Recession. The tightening of monetary policy by the Federal Reserve and higher federal funds rate level compared to the Baseline played a significant role in preventing any big decline in the dollar, suggesting that tighter monetary policy in response to a Boom could cushion any Hard-Landing for the dollar that might come because of a cyclical downturn in U.S. economic growth. In the horizon of the simulation, the current account deficit and elasticities of trade, exports and imports, simply were not large enough in the time span allowed for any significant change in the current account from the Baseline. Even if the simulation were run over a longer time span, it is doubtful that much of a permanent improvement in the current account deficit could be achieved, probably cycles in the current account just as the economy cycled in the forecast horizon of the Boom—Hard-Landing Scenario (Table 4.1).

Similarly, the other Prospective simulations could not bring the dollar crashing down nor a severe Hard-Landing for the U.S. economy.

Relaxed fiscal discipline in Washington, where taxes are cut and spending increased, raised interest rates and worsened the current account deficit quite significantly as a percent of GDP.

Conversely, tax increases and lower government spending should reduce the current account deficit as a proportion of GDP. This would occur from lower exports and a weaker dollar that would make imports more costly and U.S. exports cheaper. Nevertheless, the retrospective simulation that used fiscal policy restraint to take down the current account deficit showed much less power in doing so than the restrictive monetary policy, thus suggesting that a tremendous amount of fiscal restraint would be necessary to take down the current account deficit from current levels, probably with such harsh results on the economy so as to make such a policy completely unacceptable.

The last set of Prospective simulations were designed to assess various degrees of Hard-Landing effects on the U.S. economy, dollar, and current account deficit.

Should world economic growth outside the U.S. pick up and investors find attractive alternatives to the U.S., a weaker dollar, more inflation as a response, Fed tightening, and an even weaker U.S. economy could be expected. The decline in the dollar and weaker U.S. economy should improve the current account deficit.

In what is depicted as Variants (1)-(3) in Tables B.4 to B.6, Chart B-4.1, various degrees of a "Hard-Landing" were simulated.

In the first Variant, global growth and interest rates rise in major competitive U.S. trading partners, the Eurozone, U.K., Japan, and Asia ex-Japan. The Canadian and Latin American economies were not assumed to improve relative to the United States.

In the more severe Variants (2) and (3), the economy grew significantly less than in the Baseline but with inflation higher, and much higher short- and long-term interest rates from tighter Fed policy to counter high inflation. Flows-of-funds moved out of the United States and lending was reduced as a response, with the stock market moving into a Bear Configuration.

In one Variant, Variant (3), the dollar falls almost 20% below the Baseline in two years before beginning to rise again.

Nevertheless, the current account as a percent of GDP remained high except in the most extreme situation of the near 20% decline in the dollar.

After lags of about two years, through much reduced imports and somewhat higher exports, along with a significant reduction in the level of GDP, the ratio of the current account to GDP moved up to about -1% by 2004. The “Hard-Landing” of the dollar helped the current account head more positive, but only because of the sharp rises of interest rates and poor performing stock market and their negative effects on GDP.

Cause-and-effect is one question with regard to the current account and the dollar. The current account deficit, in-and-of-itself, does not seem to be a “cause” of big movements in the dollar. Other underlying factors that affect the current account deficit proved more telling in dollar movements. A big decline in the dollar, however, does appear to be an ingredient and help in narrowing the current account deficit. But, the current account deficit itself did not appear to be the motivating factor for any significant dollar declines.

A proxy for the use of trade policies to reduce the trade and current account deficits was examined by increasing exports of the U.S. to the rest-of-the-world and holding the current U.S. labor supply and capacity constant. The increase in exports initially lowered the trade and current account deficits and could have come from any of many sources, including specific trade policies to accomplish such a result, from an autonomous increase in export demands by other countries, or from new products, e.g., New Technology that suddenly was demanded elsewhere.

Exports were increased in the Model as a proxy for the removal of unfair trade practices, an autonomous increase in export demands by other countries, perhaps as other economies rise relative to the U.S., or from new products such as the New Technology heavily demanded by the rest-of-the-world. The magnitude was a cumulative \$300 billion increase in exports over the forecast horizon 2000 to 2004. Unfortunately, the results reflect only an autonomous increase in exports without identifying, or specifying, the exact source.

Whether the elimination of unfair trade practices might cause this kind of increase in exports cannot be known—the Model simulation does not identify the source of the increased exports.

What the results of the Higher Exports with Fixed Labor Supply and Capacity show (Appendix Table C.1 and Chart C-1.1) is a “permanently” increased level of exports relative to the Baseline and also a “permanently” reduced current account deficit.

The five-year forecast horizon may not have been long enough to allow for adjustments, in the U.S. and worldwide, to take exports back to the Baseline levels.³

³ Another Retrospective simulation was run to see whether a longer period simulation would produce a return to Baseline levels for the current account deficit. Over the ten-year span of the simulation, exports did *not* return to original levels nor did the current account deficit. Apparently, an autonomous increase in exports, from whatever the source, leaves a permanently higher level of exports and permanently lower current account deficit than would otherwise be the case.

Although running contrary to general equilibrium, perfectly competitive microeconomic theories of trade, it must be remembered that in the real world trade is not perfect, adjustments are not quick, and dynamic disequilibria do exist. The empirical results demonstrated by the Model are quite interesting, given the realistic depiction of history.

Even if the economy had allowed for endogenous responses of other country economies in the future, those economies would have gained in growth, in turn buying more exports from the United States, in turn actually resulting in a smaller current account deficit than actually was simulated.

Finally, in the last Prospective simulation, the current account deficit was arbitrarily raised to 10 per cent of GDP to see if the dollar could crash. The sources of the higher current account deficit were increased consumption and increased business equipment spending, including Information Processing and Related Equipment, and Software, essentially IT.

The worsening of the current account deficit, coming from these sources, took down the dollar by some six percentage points from the Baseline, but did not crash the dollar in any kind of a freefall.

The lesson here is that the sources of the current account deficit matter for how much impact might occur on the dollar—in this case a stronger domestic economy, hence higher inflation, hence higher interest rates, with the latter helping to maintain the dollar. The higher current account deficit was negative for the dollar. Quantitatively, those factors that were dollar-supportive appeared sufficient enough to prevent the higher current account deficit, a record-high, from causing a Hard-Landing.

- *What is the risk of a “Hard-Landing” for the U.S. dollar and the economy as a consequence of the high and rising trade and current account deficits?*

The empirical results using The Sinai-Boston Quarterly Econometric Model of the U.S. Economy suggest that the risk of a “Hard-Landing” for the U.S. dollar is fairly small as a consequence of high and rising trade and current account deficits. Other factors than the current account deficit need to be present for the dollar to suffer significant declines. Even then, it appears that extreme situations of policy restraint, an economy collapse for some other reasons, or huge fleeing of funds from the U.S., along with the existence of other negative fundamentals, would be necessary for such a Hard-Landing to result.

Modest declines in the dollar under a number of scenarios, all involving weaker economic activity, and, at some point, interest rates cycling lower from where they had been, seem to be important ingredients.

The current account deficit itself cannot drive the dollar way down; it takes other negative co-factors at the same time such as high and/or rising current account deficits to have a hugely negative impact on the dollar. Funds fleeing from the U.S. also means higher interest rates which, in turn, are dollar supportive.

Concluding Perspectives

The messages of the high U.S. current account deficits from the questions asked of The Sinai-Boston Model by the U.S. Deficit Trade Commission are that macroeconomic stabilization policies, monetary and fiscal, to keep the current account deficit at low levels would bring unacceptably harsh performance results. Macroeconomic policies are better directed at stabilizing short-run movements in the business cycle and fiscal policy and for increasing the long-run potential supply of the economy than aiming to hold down current account deficits.

In history, had macroeconomic policies been used to target the current account, terribly harsh results would have occurred in the economy and some financial markets, e.g., the stock market. The restraint necessary to hold down the current account deficit relative to GDP would have been too great to be tolerated.

Of the macroeconomic policies used, restrictive fiscal policy was less punitive to the economy than restrictive monetary policy. The reason is that tighter monetary policy has a wider range of effects compared to fiscal policy, which impacts narrowly.

Lowering the dollar, through jawboning, devaluation or depreciation somehow, or any other policies that bring the dollar down, had the least negative impacts on U.S. economic and financial market performance. The declines in the dollar need not be significantly inflationary, depending on the state of the economy and other sources of inflation.

Looking at the future, realistic scenarios seem to suggest that the high current account deficit represents a point of fragility in the U.S. economy, allowing and aiding a decline in the dollar should the economy turn weak. That decline in the dollar would contribute to inflation and tighter money by the Federal Reserve than otherwise would be the case.

In none of the future scenarios did the current account deficit show much improvement, remaining chronically high, adding to the weakness in the economy, but not propelling the economy into a Hard-Landing situation. The current account deficit look structural and difficult to reduce beyond a certain level.

The one exception was when the scenario included much worse performance in stocks and bonds as investors and lenders fled the United States (Table B.6; Chart B.4.1). Then, through the channels by which these variables affect the real economy, much worse results occurred in economic activity, hence lower import growth, and then, with a further two-year lag, an improvement in the current account deficit to 1% of GDP.

The answer to the question as to whether the high current account deficit is a source of a potential freefall in the dollar and Hard-Landing in the U.S. economy seems to be answered in the negative by the Sinai-Boston Model simulations, as created in the simulation scenarios.

Such a result suggests that the high current account deficits currently in-place can be sustained longer than most might think, without doing immense damage to the U.S. economy and its financial markets.

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The Taylor Rule—Description and Explanation

In any simulation of the economy, the behavior of the Federal Reserve in setting the federal funds rate plays an important role.

The Federal Reserve may use its discretion in setting its key policy rate or it may follow a pre-set rule. One such rule for setting the federal funds rate is the "Taylor Rule," described by Professor John Taylor in 1993. The federal funds rate is determined by a rate of inflation that the Federal Reserve is willing to accept, recent inflation behavior, the deviation of the inflation rate from its target and the deviation of GDP from its trend. The deviations are weighted with the coefficients summing to one. Taylor's example put equal weight (0.5) on each deviation. Taylor used the change in the GDP deflator over four quarters as the measure of inflation.

Taylor showed that such a rule described well the Federal Reserve behavior in 1988-92.

The approach used for the fiscal simulations in this study was for the Federal Reserve to follow a Taylor Rule, rather than to set monetary policy at its discretion. The advantage in this choice is that the Federal Reserve's behavior is determined by the simulation (endogenous) and not from assumptions (on nonborrowed reserves) coming from outside the model.

Taylor, John B., "Discretion Versus Policy Rules in Practice," Carnegie-Rochester Conference Series on Public Policy 39, (1993); pp. 195-214.

The exact formula for the Taylor Rule may be found in the Taylor article cited in the References.

APPENDIX TABLE OF CONTENTS

Appendix A Retrospective (Historical) Simulations, 1991-99

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Appendix D

The Mechanics of the Simulations

Appendix E

The Sinai-Boston Quarterly Macroeconometric Model of the U.S. Economy
Model Summary
The Taylor Rule

Appendix A—Results from Retrospective Simulations

Table A.1

Historical vs. Sim Tight Money—the Federal Reserve Tightens Monetary Policy to Narrow the Current Account Deficit

Chart A-1.1

The Federal Reserve Tightens Monetary Policy to Narrow the Current Account Deficit

Table A.2

Macroeconomic Effects of a Restrictive Fiscal Policy to Restrain Current Account Deficit

Chart A-2.1

**Federal Government Spending Cuts and Tax Increases Reduce the Current Account Deficit.
The Federal Reserve Follows a Taylor Rule, Setting the Federal Funds Rate by Targeting Inflation and Economic Growth**

Table A.3

Macroeconomic Effects of Exchange Rate Policy to Restrain Current Account Deficit

Chart A-3.1

Dollar Exchange Rates are Higher in Order to Narrow the Current Account Deficit

The results in each Table set are in three sections—1) the Model inputs, exogenous policy or other exogenous variables that are changed from the Baseline to depict the “what-if” scenario and the “add” factors to behavior equations to represent the scenario or provide technical adjustments to the equations; 2) comparisons of major variables that depict the performance of the economy, trade, current account, inflation, productivity, interest rates, the dollar, the stock market, and others, level and percent change from Baseline; 3) comparisons of growth rates.

The same is the case for the Table sets in Appendices B, C.

Table A-1
Macroeconomic Effects of a Restrictive Monetary Policy to Restrain Current Account Deficit*

		1991	1992	1993	1994	1995	1996	1997	1998	1999	Average Per Yr.
Current Account Balance, Ex- Gulf War Transfers (Bils. \$'s)											
	Historical	-38.2	-51.6	-85.3	-121.7	-113.6	-129.3	-165.9	-220.5	-338.9	-140.5
	Sim. - Tight Money	-38.2	-41.6	-40.8	-41.7	-53.4	-63.6	-63.8	-68.5	-71.0	-53.6
	(Diff. in Level)	-0.0	10.0	44.5	80.0	60.2	65.6	102.1	151.9	267.8	86.9
Current Account as % of GDP											
	Historical	-0.5	-0.8	-1.3	-1.7	-1.5	-1.6	-2.0	-2.5	-3.6	-1.7
	Sim. - Tight Money	-0.5	-0.6	-0.6	-0.6	-0.8	-0.9	-0.9	-0.9	-0.9	-0.8
	Difference	-0.0	0.2	0.6	1.1	0.7	0.7	1.1	1.6	2.7	1.0
Monetary Inputs											
Nonborrowed	Historical	42.7	50.0	57.2	59.8	57.4	52.8	46.9	45.1	42.6	50.5
Reserves	Sim. - Tight Money	41.6	46.3	40.2	39.4	38.9	27.8	17.9	8.1	4.6	29.4
	Difference	-0.0	-3.8	-17.0	-20.4	-18.5	-25.0	-29.0	-37.0	-38.0	-21.0
	% Difference	-2.6	-7.5	-29.7	-34.1	-32.2	-47.3	-61.8	-82.0	-89.1	-42.9
Federal	Historical	292.7	315.2	352.8	387.5	410.1	422.4	448.2	480.0	529.5	404.3
Reserve	Sim. - Tight Money	269.1	283.7	317.5	348.7	369.1	337.9	358.6	384.0	482.5	350.1
Credit	Difference	-0.0	-31.5	-35.3	-38.8	-41.0	-84.5	-89.6	-96.0	-47.0	-51.5
	% Difference	-8.1	-10.0	-10.0	-10.0	-10.0	-20.0	-20.0	-20.0	-8.9	-13.0
Add Factors											
Other Checkable Deposits											
	History	-24.2	-26.9	2.7	21.2	11.6	-20.8	-11.9	-8.7	-7.6	-7.2
	Sim.-Tight Money	-24.2	-26.9	2.7	21.2	11.6	0.0	0.0	29.5	250.8	29.4
	Difference	-0.0	0.0	0.0	0.0	0.0	20.8	11.9	38.2	258.4	36.6
Household Equity Assets											
	History	140.4	16.8	10.2	-99.3	49.6	18.5	127.3	101.2	406.8	85.7
	Sim.-Tight Money	140.4	16.8	10.2	-99.3	49.6	18.5	127.3	101.2	641.0	111.7
	Difference	-0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	234.2	26.0
Household Money Funds											
	History	-6.7	0.6	13.2	13.2	22.6	15.6	22.4	33.9	30.2	16.1
	Sim.-Tight Money	-6.7	0.6	13.2	13.2	11.3	7.8	11.2	16.9	15.1	9.2
	Difference	-0.0	0.0	0.0	0.0	-11.3	-7.8	-11.2	-16.9	-15.1	-6.9
Household Money											
	History	-53.8	-68.1	-96.3	-117.1	-136.1	-182.8	-212.3	-244.1	-290.8	-155.7
	Sim.-Tight Money	-53.8	-68.1	-96.3	-117.1	-136.1	-91.4	-106.1	-122.0	-145.4	-104.0
	Difference	-0.0	0.0	0.0	0.0	0.0	91.4	106.1	122.0	145.4	51.7

* Macroeconomic model simulation with the Sinai-Boston Quarterly Macroeconometric Model of the U.S. Economy. Simulation starting April 1, 1991.

		1991	1992	1993	1994	1995	1996	1997	1998	1999	Average Per Yr.
Imports, Computers											
	History	-0.6	0.8	-0.9	0.5	-1.3	-4.2	-1.2	-2.8	-24.9	-3.8
	Sim.-Tight Money	-0.6	0.8	-0.9	0.5	-3.3	-9.2	-10.2	-18.4	-78.1	-13.3
	Difference	-0.0	0.0	0.0	0.0	-2.0	-5.0	-9.0	-15.6	-53.2	-9.4
S&P 500 Stock Price											
	History	-7.7	-22.2	-12.2	-8.0	10.4	-12.3	15.2	-31.4	-22.7	-10.1
	Sim.-Tight Money	-7.7	-22.2	-12.2	-8.0	10.4	-12.3	15.2	-31.4	7.2	-6.8
	Difference	-0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	29.9	3.3
Imports, Services											
	History	0.8	0.4	-0.2	-0.4	1.8	-0.2	0.8	-6.2	-2.5	-0.6
	Sim.-Tight Money	0.8	0.4	-0.2	-0.4	1.8	-1.2	0.2	-7.1	-3.4	-1.0
	Difference	-0.0	0.0	0.0	0.0	0.0	-1.0	-0.6	-0.9	-0.9	-0.4
Nonfinan. Corp. Foreign Loans											
	History	-13.8	-1.9	-6.7	-3.6	-4.3	-3.3	-0.9	-5.8	-11.6	-5.8
	Sim.-Tight Money	-13.8	-1.9	-6.7	-3.6	-4.3	-3.3	-0.9	-5.8	3.4	-4.1
	Difference	-0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	15.0	1.7
Nonfinan. Corp. Money											
	History	-2.0	-11.1	-14.1	-14.6	-13.5	-13.6	-22.7	-18.7	-12.3	-13.6
	Sim.-Tight Money	-2.0	-11.1	-14.1	-14.6	0.0	0.0	0.0	16.7	48.3	2.6
	Difference	-0.0	0.0	0.0	0.0	13.5	13.6	22.7	35.3	60.6	16.2
Nonfinan. Corp. Mortgages											
	History	-6.6	-10.6	-7.4	-0.9	4.4	7.0	4.2	16.0	32.0	4.2
	Sim.-Tight Money	-6.6	-10.6	-7.4	-0.9	4.4	22.0	39.2	51.0	67.0	17.6
	Difference	-0.0	0.0	0.0	0.0	0.0	15.0	35.0	35.0	35.0	13.3
Nonfinan. Corp. Security RPs											
	History	-2.2	-2.5	-5.1	-5.5	-5.6	-6.4	-6.8	-8.2	-8.5	-5.6
	Sim.-Tight Money	-2.2	-2.5	-0.1	-0.5	1.4	0.0	0.0	15.0	15.0	2.9
	Difference	-0.0	0.0	5.0	5.0	7.0	6.4	6.8	23.2	23.5	8.5
Manufacturing Employment											
	History	-0.076	-0.290	-0.358	-0.347	-0.122	-0.272	-0.225	-0.053	-0.612	-0.262
	Sim.-Tight Money	-0.076	-0.290	-0.358	-0.347	-0.122	-0.272	-0.225	-0.053	-0.364	-0.234
	Difference	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.248	0.028
Average Hourly Earnings, Manufacturing											
	History	-0.022	0.005	0.029	0.008	0.005	0.008	-0.016	-0.062	0.013	-0.004
	Sim.-Tight Money	-0.022	0.005	0.029	0.008	0.005	0.008	-0.016	-0.063	0.011	-0.004
	Difference	0.000	0.000	0.000	0.000	0.000	0.000	0.000	-0.001	-0.002	-0.000
Compensation, Manufacturing											
	History	0.002	0.002	0.003	0.001	-0.002	-0.006	0.002	0.004	0.002	0.001
	Sim.-Tight Money	0.002	0.002	0.003	0.001	-0.002	-0.006	0.002	0.003	0.001	0.001
	Difference	0.000	0.000	0.000	0.000	0.000	0.000	0.000	-0.001	-0.001	-0.000

Table A-1
Macroeconomic Effects of a Restrictive Monetary Policy to Restrain Current Account Deficit*

	1991	1992	1993	1994	1995	1996	1997	1998	1999	Average Per Yr.
Real GDP - Level (Bils. '96 \$'s)										
Historical	6676.9	6882.3	7068.8	7361.8	7567.0	7848.9	8200.5	8572.9	8946.7	7680.6
Sim. - Tight Money	6661.2	6827.7	6837.4	6951.7	7066.3	7255.3	7485.1	7618.2	7707.4	7156.7
(Diff. in Level)	-15.7	-54.5	-231.4	-410.1	-500.7	-593.6	-715.3	-954.6	-1239.2	-523.9
(Pct. Diff. in Level)	-0.2	-0.8	-3.3	-5.6	-6.6	-7.6	-8.7	-11.1	-13.9	-6.4
Real GDP-Growth (Pctg. Pts.), Historical	-0.5	3.1	2.7	4.1	2.8	3.7	4.5	4.5	4.4	3.3
Real GDP-Growth (Pctg. Pts.), Sim. - Tight Money	-0.7	2.5	0.1	1.7	1.6	2.7	3.2	1.8	1.2	1.6
Difference	-0.2	-0.6	-2.6	-2.5	-1.1	-1.1	-1.3	-2.8	-3.2	-1.7
Consumption (Bils. '96 \$'s)										
Historical	4466.6	4596.0	4754.2	4940.2	5095.2	5267.5	5461.0	5748.1	6076.8	5156.2
Sim. - Tight Money	4455.3	4562.8	4614.0	4746.4	4901.4	5029.7	5166.1	5329.2	5532.9	4926.4
(Diff. in Level)	-11.3	-33.3	-140.2	-193.8	-193.8	-237.8	-294.9	-418.9	-543.9	-229.8
(Pct. Diff. in Level)	-0.3	-0.7	-2.9	-3.9	-3.8	-4.5	-5.4	-7.3	-9.0	-4.2
Business Capital Spending, Total (Bils. '96 \$'s)										
Historical	610.1	630.6	683.5	744.8	818.1	900.9	998.2	1126.3	1219.8	859.2
Sim. - Tight Money	608.6	616.9	631.7	602.5	620.4	693.8	750.6	802.4	768.8	677.3
(Diff. in Level)	-1.5	-13.7	-51.8	-142.3	-197.7	-207.1	-247.6	-324.0	-451.0	-181.9
(Pct. Diff. in Level)	-0.3	-2.2	-7.6	-19.1	-24.2	-23.0	-24.8	-28.8	-37.0	-18.5
Plant, Historical	210.1	197.3	198.9	200.6	210.1	225.1	244.2	254.3	247.5	220.9
Plant, Sim. - Tight Money	209.7	193.5	185.6	170.4	177.8	189.2	194.4	193.7	156.8	185.7
(Diff. in Level)	-0.3	-3.8	-13.3	-30.2	-32.3	-35.8	-49.8	-60.6	-90.7	-35.2
(Pct. Diff. in Level)	-0.2	-1.9	-6.7	-15.0	-15.4	-15.9	-20.4	-23.8	-36.7	-15.1
Equipment, Historical	407.1	437.3	486.6	543.9	606.2	672.7	749.7	867.7	971.2	638.1
Equipment, Sim. - Tight Money	406.0	428.4	451.2	439.7	451.7	512.6	562.9	614.2	612.4	497.7
(Diff. in Level)	-1.1	-8.9	-35.4	-104.2	-154.5	-160.2	-186.8	-253.5	-358.8	-140.4
(Pct. Diff. in Level)	-0.3	-2.0	-7.3	-19.2	-25.5	-23.8	-24.9	-29.2	-36.9	-18.8
Net Exports (Bils. '96 \$'s)										
Historical	-15.7	-19.7	-59.0	-86.2	-77.7	-88.1	-111.7	-217.3	-323.8	-111.0
Sim. - Tight Money	-13.9	-12.0	-34.2	-62.6	-100.8	-140.7	-169.5	-267.7	-353.0	-128.3
(Diff. in Level)	1.8	7.7	24.8	23.8	-22.6	-52.0	-57.5	-49.2	-25.8	-16.6
Real Exports										
Historical	613.3	651.0	672.7	732.9	808.4	874.5	983.2	1004.6	1040.7	820.2
Sim. - Tight Money	612.8	649.0	662.6	702.3	757.2	808.2	897.0	897.9	895.8	764.8
(Diff. in Level)	-0.5	-2.1	-10.1	-30.6	-51.2	-66.3	-86.2	-106.7	-144.9	-55.4
(Pct. Diff. in Level)	-0.1	-0.3	-1.5	-4.2	-6.3	-7.6	-8.8	-10.6	-13.9	-5.9

* Macroeconomic model simulation with the Sinai-Boston Quarterly Macroeconometric Model of the U.S. Economy. Simulation starting April 1, 1991.

	1991	1992	1993	1994	1995	1996	1997	1998	1999	Average Per Yr.
Real Imports										
Historical	629.0	670.7	731.7	819.0	886.2	962.7	1094.9	1221.9	1364.5	931.2
Sim. - Tight Money	626.7	660.9	696.8	764.9	858.0	949.0	1066.5	1165.6	1248.8	893.0
(Diff. in Level)	-2.3	-9.8	-34.9	-54.2	-28.2	-13.7	-28.4	-56.2	-115.7	-38.1
(Pct. Diff. in Level)	-0.4	-1.5	-4.8	-6.6	-3.2	-1.4	-2.6	-4.6	-8.5	-3.7
Nominal Net Exports (Bils. \$'s)										
Historical	-20.8	-27.8	-60.6	-87.4	-84.5	-88.3	-87.2	-148.3	-252.3	-95.2
Sim. - Tight Money	-19.4	-20.6	-28.4	-30.1	-42.8	-44.9	-18.4	-43.1	-62.1	-34.4
(Diff. in Level)	1.4	7.2	32.2	57.4	41.7	43.5	68.8	105.1	190.2	60.8
(Pct. Diff. in Level)	0.2	1.1	4.3	6.3	3.5	3.2	5.1	6.7	9.9	4.5
Nominal Exports										
Historical	601.7	637.0	658.4	725.2	818.7	874.7	968.9	967.7	999.0	805.7
Sim. - Tight Money	601.1	633.4	641.4	671.7	720.7	744.8	800.7	766.0	737.0	701.9
(Diff. in Level)	-0.6	-3.6	-17.0	-53.5	-98.0	-129.9	-168.3	-201.7	-262.0	-103.8
(Pct. Diff. in Level)	-0.1	-0.6	-2.6	-7.4	-12.0	-14.9	-17.4	-20.8	-26.2	-11.3
Nominal Imports										
Historical	622.5	664.9	719.0	812.7	903.2	963.0	1056.1	1116.0	1251.3	901.0
Sim. - Tight Money	620.5	654.0	669.8	701.7	763.4	789.6	819.0	809.1	799.1	736.3
(Diff. in Level)	-2.0	-10.9	-49.2	-110.9	-139.7	-173.4	-237.1	-306.8	-452.2	-164.7
(Pct. Diff. in Level)	-0.3	-1.6	-6.8	-13.6	-15.5	-18.0	-22.4	-27.5	-36.1	-15.8
Current Account Balance (Bils. \$'s)										
Historical	4.3	-50.6	-85.3	-121.7	-113.6	-129.3	-165.9	-220.5	-338.9	-135.7
Sim. - Tight Money	6.3	-40.6	-40.8	-41.7	-53.4	-63.6	-63.8	-68.5	-71.0	-48.6
(Diff. in Level)	2.0	10.0	44.5	80.0	60.2	65.6	102.1	151.9	267.8	87.1
Current Account as % of GDP										
Historical (%)	0.1	-0.8	-1.3	-1.7	-1.5	-1.6	-2.0	-2.5	-3.6	-1.7
Sim. - Tight Money	0.1	-0.6	-0.6	-0.6	-0.8	-0.9	-0.9	-0.9	-0.9	-0.7
Difference	0.0	0.2	0.6	1.1	0.7	0.7	1.1	1.6	2.7	1.0
Budget Deficit (NIPA)										
(Bils. \$S)										
Historical	-215.3	-297.5	-274.1	-212.4	-192.0	-136.8	-48.8	46.9	115.4	-135.0
Sim. - Ex Rate Policy	-220.2	-318.1	-359.2	-379.4	-393.3	-389.2	-397.2	-455.6	-568.6	-386.8
(Diff. in Level)	-4.9	-20.6	-85.1	-167.1	-201.3	-252.3	-348.4	-502.5	-684.0	-251.8
(Pct. Diff. in Level)	2.3	6.9	31.0	78.7	104.8	184.4	713.6	-1070.9	-592.6	-60.2
Potential Output (Bils. 1992 \$'s)										
Historical	6183.7	6474.4	6529.9	6665.9	6761.2	7013.5	7223.0	7452.9	7773.5	6897.6
Sim. - Tight Money	6179.6	6456.1	6459.0	6516.5	6582.6	6786.7	6949.8	7112.6	7218.5	6695.7
(Diff. in Level)	-4.1	-18.3	-71.0	-149.4	-178.6	-226.9	-273.2	-340.3	-555.0	-201.9

	1991	1992	1993	1994	1995	1996	1997	1998	1999	Per Yr.
Potential Output Growth	1.1	4.7	0.9	2.1	1.4	3.7	3.0	3.2	4.3	2.7
Historical	1.0	4.5	0.0	0.9	1.0	3.1	2.4	2.3	1.5	1.9
Sim. - Tight Money (Diff. in Level)	-0.1	-0.2	-0.8	-1.2	-0.4	-0.6	-0.6	-0.8	-2.8	-0.8
Employment, Compensation, and Unemployment Rate										
Employment (Mils. Pers.)										
Total Payrolls, Historical	108.255	108.591	110.693	114.138	117.191	119.595	122.675	125.805	128.612	117.284
Total Payrolls, Sim. - Tight Money	108.109	108.075	108.498	110.090	112.002	113.587	115.616	116.550	117.883	112.268
(Diff. in Level)	-0.145	-0.516	-2.195	-4.047	-5.189	-6.009	-7.059	-9.255	-10.729	-5.016
Manufacturing, Historical	18.405	18.106	18.076	18.324	18.525	18.495	18.676	18.773	18.433	18.424
Manufacturing, Sim. - Tight Money	18.396	18.074	17.945	18.095	18.278	18.334	18.551	18.649	18.320	18.293
(Diff. in Level)	-0.009	-0.032	-0.131	-0.229	-0.248	-0.161	-0.125	-0.124	-0.113	-0.130
Ex-Manufacturing, Historical	89.850	90.485	92.617	95.814	98.666	101.101	103.999	107.032	110.179	98.860
Ex-Manufacturing, Sim. - Tight Money	89.713	90.001	90.553	91.995	93.724	95.253	97.065	97.901	99.563	93.974
(Diff. in Level)	-0.136	-0.484	-2.064	-3.819	-4.942	-5.848	-6.934	-9.131	-10.616	-4.886
Unemployment Rate (Percent)										
Historical	6.9	7.5	6.9	6.1	5.6	5.4	4.9	4.5	4.2	5.8
Sim. - Tight Money	6.9	7.6	7.5	7.4	7.3	7.2	7.0	7.0	6.9	7.2
Difference	0.0	0.1	0.6	1.3	1.7	1.8	2.1	2.6	2.6	1.4
Compensation (Annual Pct. Chg)										
Nonfarm Business, Historical	4.9	5.3	2.2	2.1	2.1	3.1	3.6	5.2	4.8	3.7
Nonfarm Business, Sim. - Tight Money	4.9	5.3	2.0	1.3	0.9	1.7	2.1	3.6	2.6	2.7
Difference	0.0	-0.0	-0.1	-0.8	-1.2	-1.4	-1.5	-1.6	-2.1	-1.0
Manufacturing, Historical	5.3	4.6	2.8	2.8	2.1	1.3	3.7	5.3	5.0	3.7
Manufacturing, Sim. - Tight Money	5.2	4.4	2.0	1.1	-0.1	-1.4	0.6	1.9	0.8	1.6
Difference	-0.0	-0.2	-0.7	-1.7	-2.2	-2.8	-3.1	-3.4	-4.2	-2.0
Avg Hourly Earnings, Non Mftg., Historical	3.1	2.5	2.5	2.5	2.9	3.4	4.0	4.5	3.8	3.3
Avg Hourly Earnings, Non Mftg., Sim. - Tight Money	3.1	2.3	1.5	1.0	1.4	1.5	1.8	1.9	0.8	1.7
Difference	-0.1	-0.2	-1.0	-1.5	-1.5	-1.8	-2.2	-2.7	-3.0	-1.6
Productivity (Annual Pct. Chg)										
Nonfarm Business, Historical	1.6	4.0	0.1	1.3	1.0	2.7	2.0	2.8	2.9	2.0
Nonfarm Business, Sim. - Tight Money	1.5	3.8	-0.9	-0.1	0.6	1.9	1.2	1.7	-0.8	1.0
Difference	-0.1	-0.3	-1.0	-1.4	-0.4	-0.8	-0.8	-1.1	-3.7	-1.1

Average

Inflation (Annual Pct. Chg)	1991	1992	1993	1994	1995	1996	1997	1998	1999	Per Yr.
GDP Chain Price Index, Historical	3.2	1.4	1.4	1.0	1.4	1.3	1.4	1.1	0.9	1.5
GDP Chain Price Index, Sim. - Tight Money	3.2	1.4	1.5	1.0	0.9	0.9	0.8	0.2	0.3	1.1
Difference	-0.0	-0.0	0.0	0.0	-0.5	-0.4	-0.6	-0.9	-0.6	-0.3
Consumer Price Index (All Urban), Historical	4.2	3.0	3.0	2.6	2.8	2.9	2.3	1.6	2.2	2.7
Consumer Price Index (All Urban), Sim. - Tight Money	4.2	3.0	2.6	1.5	1.2	1.0	0.2	-0.6	-0.3	1.4
Difference	-0.0	-0.1	-0.4	-1.1	-1.7	-2.0	-2.1	-2.2	-2.4	-1.3
After-tax Profits (Bils. \$'s)										
After-tax Profits, Historical	244.5	265.1	290.2	342.1	419.1	459.8	510.0	492.7	568.1	399.1
After-tax Profits, Sim. - Tight Money	242.9	252.8	243.7	221.4	260.5	289.9	280.8	206.0	168.2	240.7
(Diff. in Level)	-1.6	-12.3	-46.5	-120.7	-158.6	-169.9	-229.2	-286.7	-399.9	-158.4
(Pct. Diff. in Level)	-0.7	-4.7	-16.0	-35.3	-37.8	-36.9	-44.9	-58.2	-70.4	-33.9
After-tax Profits/GDP (Percent of GDP)										
After-tax Profits/GDP, Historical	4.1	4.2	4.3	4.8	5.6	5.8	6.1	5.6	6.0	5.2
After-tax Profits/GDP, Sim. - Tight Money	4.0	4.0	3.8	3.3	3.8	4.1	3.8	2.7	2.2	3.5
(Diff. in Level)	-0.0	-0.2	-0.6	-1.5	-1.8	-1.8	-2.3	-2.8	-3.9	-1.6
Wages/GDP (Percent of GDP)										
After-tax Wages/GDP, Historical	47.0	46.6	46.0	45.6	46.0	45.9	46.3	47.2	47.6	46.5
After-tax Wages/GDP, Sim. - Tight Money	47.0	46.7	46.6	46.6	47.1	47.1	47.7	49.1	50.2	47.6
(Diff. in Level)	0.0	0.2	0.5	0.9	1.0	1.2	1.4	1.8	2.6	1.1
Interest Rates (Percent)										
Federal Funds Rate, Historical	5.72	3.57	3.02	4.20	5.84	5.33	5.48	5.37	4.98	4.84
Federal Funds Rate, Sim. Tight Money	6.38	5.06	8.78	9.92	10.13	12.91	15.30	20.36	23.76	12.51
(Diff. in Level)	0.66	1.49	5.75	5.72	4.30	7.58	9.82	14.99	18.78	7.68
90-day Treas. Bill, Historical	5.37	3.43	3.00	4.25	5.49	5.00	5.06	4.78	4.64	4.56
90-day Treas. Bill, Sim. - Tight Money	5.98	4.71	7.69	8.93	9.03	11.29	13.23	17.26	20.10	10.91
(Diff. in Level)	0.60	1.28	4.70	4.68	3.53	6.29	8.17	12.48	15.46	6.36
US 10-Year Note, Historical	7.85	7.00	5.86	7.07	6.57	6.41	6.33	5.24	5.61	6.44
US 10-Year Note. Sim. - Tight Money	8.01	7.41	7.59	8.55	8.09	9.17	9.78	11.07	13.23	9.21
(Diff. in Level)	0.16	0.41	1.73	1.49	1.52	2.76	3.45	5.83	7.62	2.77
30-year Treas, Historical	8.13	7.66	6.60	7.37	6.88	6.70	6.59	5.57	5.86	6.82
30-year Treas., Sim. - Tight Money	8.12	7.60	7.15	7.47	7.39	8.10	8.30	8.87	10.58	8.17
(Diff. in Level)	-0.01	-0.07	0.55	0.11	0.51	1.40	1.71	3.30	4.72	1.36

	1991	1992	1993	1994	1995	1996	1997	1998	1999	Average Per Yr.
AAA-Equiv. Corp. New Issue, Historical	8.74	8.19	6.96	7.88	7.55	7.38	7.11	6.34	6.86	7.45
AAA-Equiv. Corp. New Issue , Sim. Tight Money	8.80	8.39	8.00	8.48	8.47	9.22	9.27	10.55	12.47	9.29
(Diff. in Level)	0.06	0.19	1.03	0.59	0.91	1.84	2.16	4.21	5.60	1.84

Exchange Rates

Morgan Trade-Weighted Index, Historical	0.984	0.970	1.001	0.985	0.930	0.975	1.052	1.105	1.080	1.009
Morgan Trade-Weighted Index, Sim. - Tight Money	0.981	0.963	1.023	1.077	1.097	1.245	1.438	1.650	1.856	1.259
(Diff. in Level)	-0.003	-0.006	0.022	0.091	0.168	0.271	0.386	0.545	0.776	0.250
(Pct. Diff. in Level)	-0.3	-0.6	2.2	9.3	18.0	27.8	36.7	49.3	71.9	23.790
Federal Reserve Dollar Index, Historical	0.732	0.760	0.829	0.905	0.925	0.974	1.044	1.165	1.169	0.945
Federal Reserve Dollar Index, Sim. - Tight Money	0.730	0.757	0.842	0.964	1.040	1.166	1.323	1.566	1.758	1.127
(Diff. in Level)	-0.002	-0.004	0.013	0.058	0.116	0.192	0.279	0.401	0.589	0.183
(Pct. Diff. in Level)	-0.2	-0.5	1.6	6.5	12.5	19.8	26.7	34.5	50.4	16.794
Yen/\$, Historical	134.4	126.7	111.2	102.1	94.0	108.9	121.0	130.8	113.7	115.9
Yen/\$, Sim. - Tight Money	135.9	131.3	127.2	131.7	131.5	169.0	221.6	288.1	312.2	183.2
(Diff. in Level)	1.5	4.6	16.1	29.5	37.5	60.1	100.7	157.3	198.5	67.3
(Pct. Diff. in Level)	1.1	3.6	14.5	28.9	39.9	55.2	83.2	120.3	174.5	57.9
\$/Euro, Historical	1.313	1.365	1.201	1.206	1.316	1.290	1.134	1.115	1.068	1.223
\$/Euro, Sim. - Tight Money	1.297	1.312	1.043	0.981	1.053	0.952	0.751	0.631	0.496	0.946
(Diff. in Level)	-0.016	-0.053	-0.158	-0.225	-0.263	-0.338	-0.383	-0.484	-0.572	-0.277
(Pct. Diff. in Level)	-1.2	-3.9	-13.2	-18.6	-20.0	-26.2	-33.8	-43.4	-53.6	-23.766
\$/Pound, Historical	1.767	1.765	1.502	1.533	1.576	1.563	1.639	1.657	1.619	1.624
\$/Pound, Sim. - Tight Money	1.741	1.681	1.278	1.160	1.132	1.019	0.942	0.764	0.589	1.145
(Diff. in Level)	-0.026	-0.084	-0.224	-0.372	-0.444	-0.544	-0.697	-0.893	-1.030	-0.479
(Pct. Diff. in Level)	-1.5	-4.7	-14.9	-24.3	-28.2	-34.8	-42.5	-53.9	-63.6	-29.830

S&P 500 Operating Earnings per Share

Historical	19.53	23.90	27.36	32.19	38.30	40.39	45.07	44.34	50.83	35.77
Sim. - Tight Money	19.31	22.85	23.25	23.31	27.23	28.68	29.81	25.96	24.34	24.97
Difference	-0.22	-1.05	-4.11	-8.88	-11.07	-11.71	-15.25	-18.38	-26.50	-10.80
(Pct. Diff. in Level)	-1.11	-4.40	-15.01	-27.59	-28.91	-28.99	-33.85	-41.45	-52.13	-25.94

S&P 500 Price Index

Historical	376.2	415.8	451.5	460.4	541.7	670.9	872.9	1085.0	1327.0	689.0
Sim. - Tight Money	354.9	347.5	242.0	208.9	269.9	215.0	245.2	154.9	90.0	236.5
Difference	-21.3	-68.3	-209.5	-251.5	-271.8	-455.9	-627.7	-930.2	-1237.0	-452.6
	-5.7	-16.4	-46.4	-54.6	-50.2	-68.0	-71.9	-85.7	-93.2	-54.7

* Macroeconomic model simulation with the Sinai-Boston Quarterly Macroeconometric Model of the U.S. Economy. Simulation starting April 1, 1991.

Table A-1 Macroeconomic Effects of a Restrictive Monetary Policy to Restrain Current Account Deficit*
Growth Rates of Major Variables that Describe the Economy -- Percent Unless Noted Otherwise

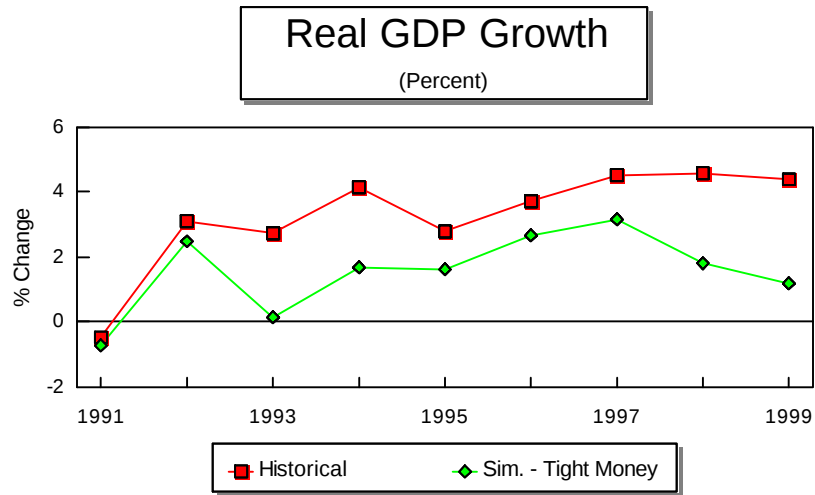
	1991	1992	1993	1994	1995	1996	1997	1998	1999	Average Per Yr.
GDP Growth										
Historical	-0.5	3.1	2.7	4.1	2.8	3.7	4.5	4.5	4.4	3.3
Sim. - Tight Money	-0.7	2.5	0.1	1.7	1.6	2.7	3.2	1.8	1.2	1.6
Difference	-0.2	-0.6	-2.6	-2.5	-1.1	-1.1	-1.3	-2.8	-3.2	-1.7
Inflation										
GDP Price Index										
Historical	3.2	1.4	1.4	1.0	1.4	1.3	1.4	1.1	0.9	1.5
Sim. Tight Money	3.2	1.4	1.5	1.0	0.9	0.9	0.8	0.2	0.3	1.1
Difference	-0.0	-0.0	0.0	0.0	-0.5	-0.4	-0.6	-0.9	-0.6	-0.3
CPI-U										
Historical	4.2	3.0	3.0	2.6	2.8	2.9	2.3	1.6	2.2	2.7
Sim. Tight Money	4.2	3.0	2.6	1.5	1.2	1.0	0.2	-0.6	-0.3	1.4
Difference	-0.0	-0.1	-0.4	-1.1	-1.7	-2.0	-2.1	-2.2	-2.4	-1.3
Unemployment Rate										
Historical	6.9	7.5	6.9	6.1	5.6	5.4	4.9	4.5	4.2	5.8
Sim. Tight Money	6.9	7.6	7.5	7.4	7.3	7.2	7.0	7.0	6.9	7.2
Difference	0.0	0.1	0.6	1.3	1.7	1.8	2.1	2.6	2.6	1.4
Federal Funds										
Historical	5.72	3.57	3.02	4.20	5.84	5.33	5.48	5.37	4.98	4.84
Sim. - Tight Money	6.38	5.06	8.78	9.92	10.13	12.91	15.30	20.36	23.76	12.51
Difference	0.66	1.49	5.75	5.72	4.30	7.58	9.82	14.99	18.78	7.68
90 Day Treasury Bill										
Historical	5.37	3.43	3.00	4.25	5.49	5.00	5.06	4.78	4.64	4.56
Sim. - Tight Money	5.98	4.71	7.69	8.93	9.03	11.29	13.23	17.26	20.10	10.91
Difference	0.60	1.28	4.70	4.68	3.53	6.29	8.17	12.48	15.46	6.36
10 Year Treasury Note										
Historical	7.85	7.00	5.86	7.07	6.57	6.41	6.33	5.24	5.61	6.44
Sim. - Tight Money	8.01	7.41	7.59	8.55	8.09	9.17	9.78	11.07	13.23	9.21
Difference	0.16	0.41	1.73	1.49	1.52	2.76	3.45	5.83	7.62	2.77
S&P 500 Operating Earnings per Share										
Historical	-17.9	22.4	14.4	17.7	19.0	5.5	11.6	-1.6	14.6	9.5
Sim. - Tight Money	-18.9	18.3	1.7	0.2	16.8	5.3	4.0	-12.9	-6.3	0.9
Difference	-0.9	-4.1	-12.7	-17.4	-2.2	-0.1	-7.6	-11.3	-20.9	-8.6

										Average
S&P 500 Price Index										Per Yr.
Historical	1991	1992	1993	1994	1995	1996	1997	1998	1999	16.9
	12.4	10.5	8.6	2.0	17.7	23.8	30.1	24.3	22.3	
Sim. - Tight Money	6.1	-2.1	-30.4	-13.7	29.2	-20.3	14.0	-36.8	-41.9	-10.7
Difference	-6.4	-12.6	-39.0	-15.7	11.6	-44.2	-16.1	-61.1	-64.2	-27.5
Yen/\$										
Historical	-7.2	-5.7	-12.3	-8.1	-8.0	15.8	11.1	8.1	-13.0	-2.1
Sim. - Tight Money	-6.2	-3.4	-3.1	3.5	-0.1	28.5	31.2	30.0	8.4	9.9
Difference	1.0	2.3	9.2	11.6	7.8	12.7	20.1	21.9	21.4	12.0
\$/Euro										
Historical	-2.7	4.0	-12.0	0.3	9.2	-2.0	-12.1	-1.7	-4.2	-2.4
Sim. - Tight Money	-3.9	1.2	-20.5	-6.0	7.4	-9.6	-21.1	-16.0	-21.4	-10.0
Difference	-1.2	-2.8	-8.5	-6.3	-1.8	-7.6	-9.0	-14.3	-17.2	-7.6
Morgan Trade-Weighted Index										
Historical	-1.6	-1.5	3.2	-1.5	-5.7	4.8	8.0	5.0	-2.3	0.9
Sim. - Tight Money	-1.9	-1.8	6.1	5.3	1.9	13.5	15.5	14.7	12.5	7.3
Difference	-0.3	-0.3	2.9	6.8	7.6	8.7	7.5	9.7	14.8	6.4

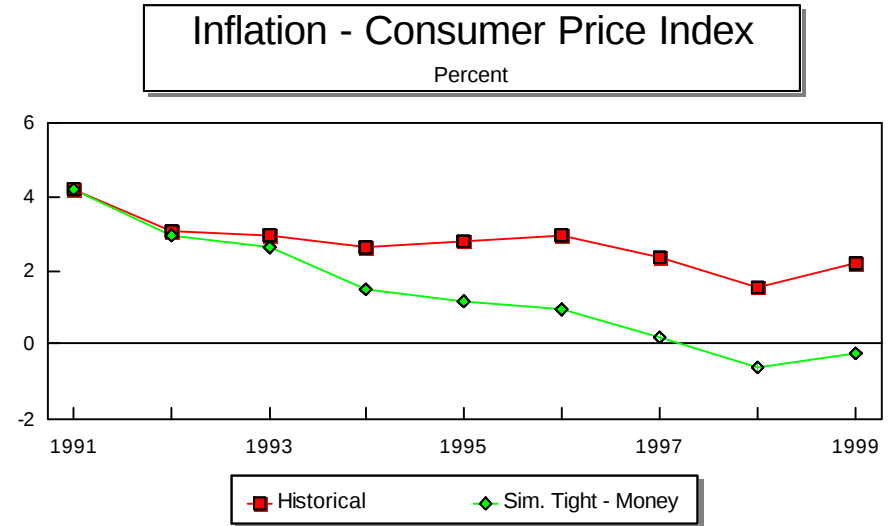
* Macroeconomic model simulation with the Sinai-Boston Quarterly Macroeconometric Model of the U.S. Economy. Simulation starting April 1, 1991.

Chart A-1.1
The Federal Reserve Tightens Monetary Policy to Narrow the Current Account Deficit

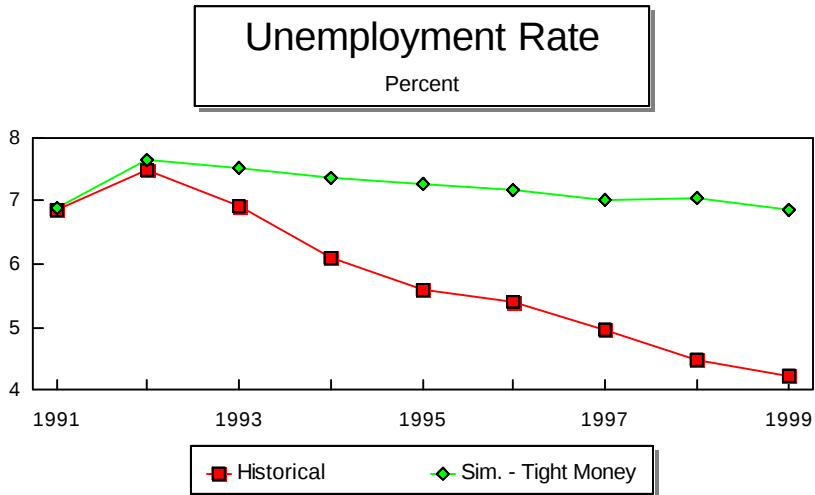
Restrictive Monetary Policy Slows Growth...



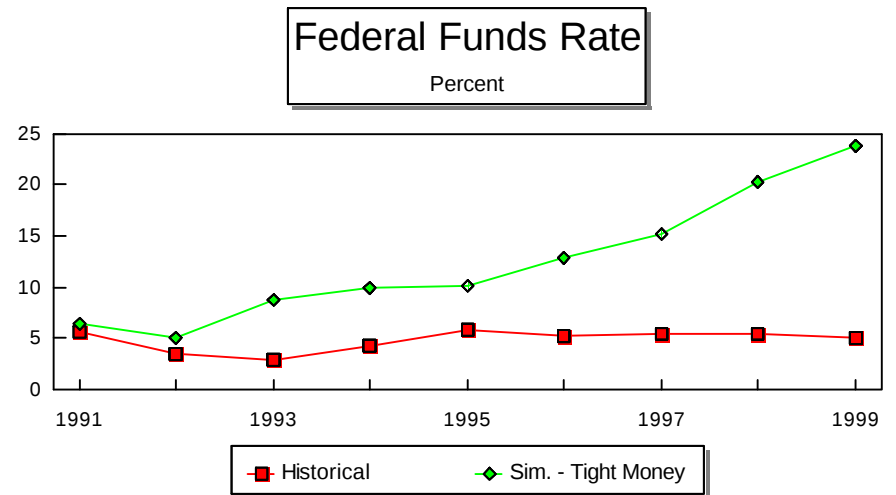
and Lowers Inflation



Raises the Unemployment Rate



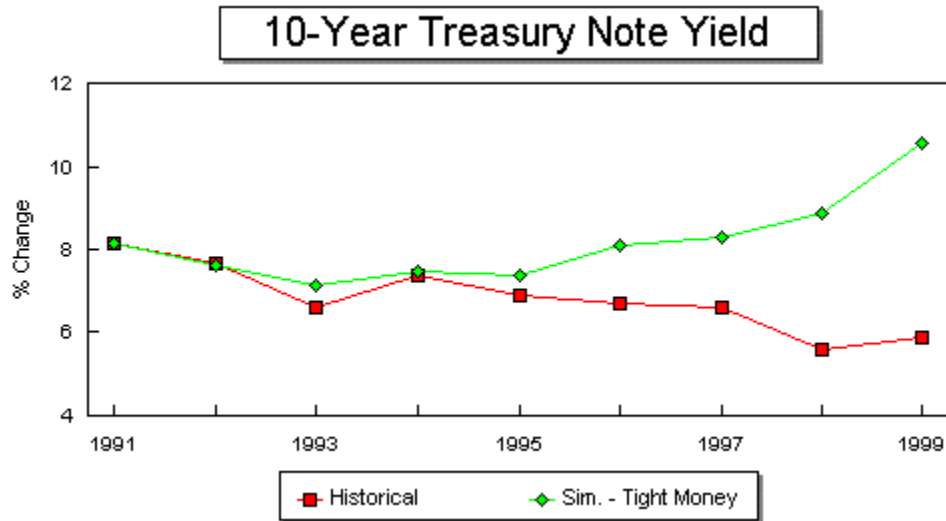
A Higher Federal Funds Rate by the Fed



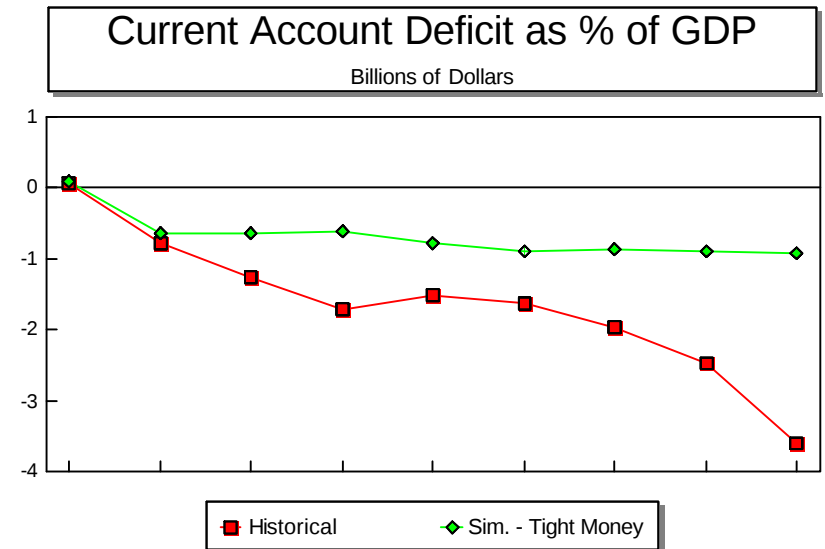
Simulation with the Sinai-Boston Quarterly Macroeconometric Model of the U.S. Economy.

Chart A-1.1 (cont.)

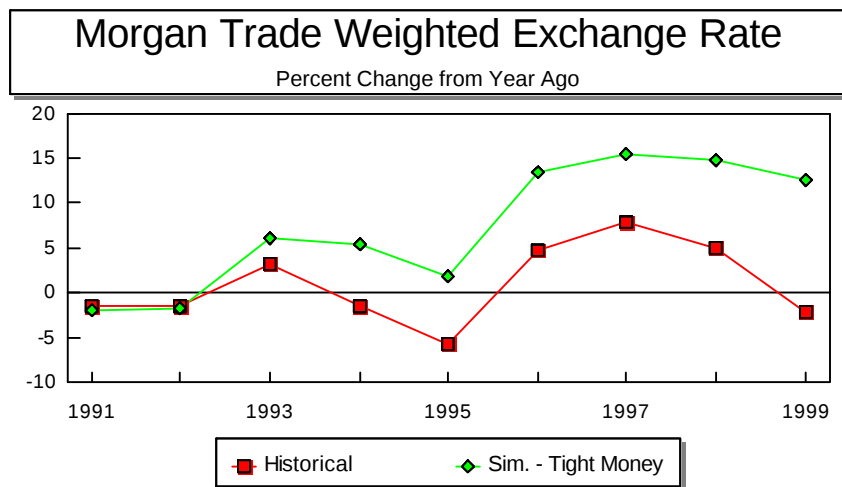
Raises Long-Term Interest Rates



**The Weaker Economy
Improves the Current Account Deficit**



and Strengthens the Dollar



**But the Weaker Economy and Lower Profits
Depress the Stock Market**

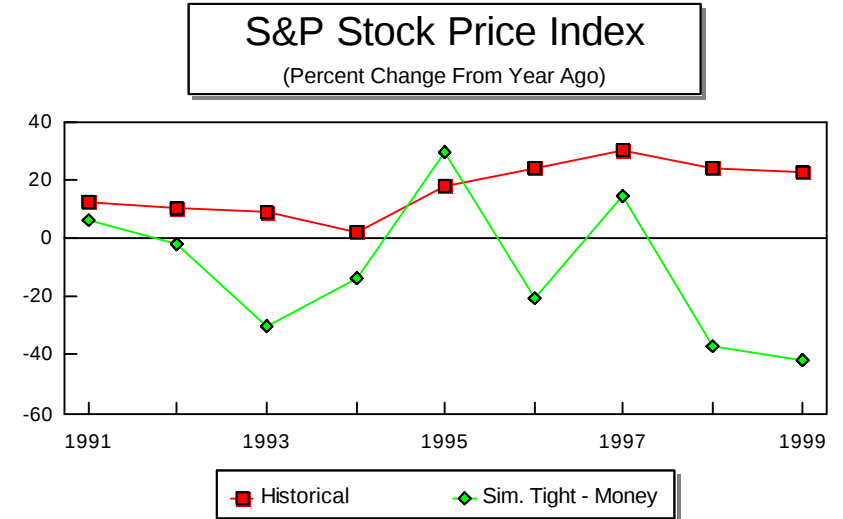


Table A-2
Macroeconomic Effects of a Restrictive Fiscal Policy to Restrain Current Account Deficit*

		1991	1992	1993	1994	1995	1996	1997	1998	1999	Average Per Yr.
Current Account Balance, Ex- Gulf War Transfers (Bils. \$'s)											
	Historical	-38.2	-51.6	-85.3	-121.6	-113.5	-129.3	-165.9	-220.6	-339.0	-140.6
	Sim. - Tight Fiscal	-38.2	-41.7	-40.8	-42.7	-54.1	-62.6	-62.7	-68.2	-69.5	-53.4
	(Diff. in Level)	-0.0	9.9	44.4	78.9	59.4	66.6	103.2	152.4	269.5	87.2
Current Account as % of GDP											
	Historical	-0.5	-0.8	-1.3	-1.7	-1.5	-1.6	-2.0	-2.5	-3.6	-1.7
	Sim. - Tight Fiscal	-0.5	-0.6	-0.6	-0.6	-0.7	-0.8	-0.8	-0.8	-0.8	-0.7
	Difference	-0.0	0.2	0.6	1.1	0.8	0.8	1.2	1.7	2.8	1.0
Fiscal Inputs											
Federal Defense Spending	Historical	438.4	417.1	394.8	375.9	361.9	357.0	348.3	341.7	347.8	375.9
	Sim. - Tight Fiscal	438.4	416.1	314.9	267.6	334.4	353.9	303.4	257.6	130.4	313.0
	Difference	-0.0	-1.0	-79.8	-108.3	-27.5	-3.1	-44.9	-84.1	-217.4	-62.9
	% Difference	0.0	-0.2	-20.2	-28.8	-7.6	-0.9	-12.9	-24.6	-62.5	-17.5
Federal Non Defense Spending	Historical	166.0	177.9	177.3	175.5	174.6	174.6	182.5	184.2	192.9	178.4
	Sim. - Tight Fiscal	165.0	176.5	137.2	104.6	168.3	174.7	162.6	91.2	27.5	134.2
	Difference	-0.0	-1.3	-40.1	-70.8	-6.3	0.1	-19.9	-93.0	-165.3	-44.1
	% Difference	-0.6	-0.8	-22.6	-40.4	-3.6	0.0	-10.9	-50.5	-85.7	-23.9
Federal Personal Tax Rate	Historical	0.09	0.09	0.09	0.10	0.10	0.10	0.11	0.11	0.12	0.10
	Sim. - Tight Fiscal	0.10	0.10	0.10	0.11	0.11	0.12	0.13	0.14	0.15	0.12
	Difference	0.00	0.00	0.01	0.02	0.02	0.02	0.02	0.03	0.04	0.02
Federal Personal Tax Rate, Ordinary Income	Historical	0.09	0.09	0.09	0.09	0.09	0.10	0.10	0.11	0.11	0.10
	Sim. - Tight Fiscal	0.09	0.09	0.10	0.11	0.11	0.12	0.13	0.13	0.15	0.11
	Difference	0.00	0.00	0.01	0.02	0.02	0.02	0.02	0.03	0.04	0.02
Add Factors											
Exports, Services											
	History	4.335	-0.371	1.729	2.228	4.586	4.367	5.408	4.928	5.150	3.596
	Sim.-Tight Fiscal	4.279	-0.598	1.030	0.472	1.542	-0.068	-0.229	-2.041	-3.576	0.090
	Difference	-0.056	-0.227	-0.699	-1.756	-3.044	-4.435	-5.637	-6.969	-8.726	-3.505
Imports, Computers											
	History	-0.586	0.727	-1.024	0.070	-2.174	-5.874	-4.173	-7.902	-34.447	-6.154
	Sim.-Tight Fiscal	-0.574	0.759	-0.859	0.454	-1.262	-4.173	-1.247	-2.818	-24.918	-3.849
	Difference	0.012	0.032	0.165	0.384	0.912	1.701	2.926	5.084	9.529	2.305
Imports, Business Goods Ex-Computers											
	History	0.902	1.688	2.682	7.074	9.707	0.639	3.152	-2.316	-0.769	2.529
	Sim.-Tight Fiscal	2.333	3.361	4.630	9.338	12.260	4.600	8.419	3.512	5.244	5.966
	Difference	1.431	1.673	1.948	2.264	2.553	3.961	5.267	5.828	6.013	3.438

* Macroeconomic model simulation with the Sinai-Boston Quarterly Macroeconometric Model of the U.S. Economy. Simulation starting April 1, 1991.

Table A-2
Macroeconomic Effects of a Restrictive Fiscal Policy to Restrain Current Account Deficit*

	1991	1992	1993	1994	1995	1996	1997	1998	1999	Average Per Yr.
Real GDP - Level (Bils. '96 \$'s)										
Historical	6676.9	6882.2	7068.7	7361.6	7566.8	7848.7	8200.3	8572.7	8946.5	7680.5
Sim. - Tight Fiscal	6675.9	6877.2	6894.7	7088.0	7485.4	7788.7	8062.1	8314.7	8394.0	7509.0
(Diff. in Level)	-1.0	-5.0	-174.0	-273.7	-81.5	-60.0	-138.2	-258.0	-552.5	-171.5
(Pct. Diff. in Level)	-0.0	-0.1	-2.5	-3.7	-1.1	-0.8	-1.7	-3.0	-6.2	-2.1
Real GDP-Growth (Pctg. Pts.), Historical	-0.5	3.1	2.7	4.1	2.8	3.7	4.5	4.5	4.4	3.3
Real GDP-Growth (Pctg. Pts.), Sim. - Tight Fiscal	-0.5	3.0	0.3	2.8	5.6	4.1	3.5	3.1	1.0	2.5
Difference	-0.0	-0.1	-2.5	-1.3	2.8	0.3	-1.0	-1.4	-3.4	-0.7
Consumption (Bils. '96 \$'s)										
Historical	4466.6	4596.0	4754.2	4940.2	5095.2	5267.5	5461.0	5748.1	6076.8	5156.2
Sim. - Tight Fiscal	4463.9	4583.4	4687.4	4837.2	5036.1	5184.5	5338.2	5585.4	5799.7	5057.3
(Diff. in Level)	-2.7	-12.6	-66.8	-103.0	-59.1	-83.0	-122.8	-162.6	-277.1	-98.9
(Pct. Diff. in Level)	-0.1	-0.3	-1.4	-2.1	-1.2	-1.6	-2.2	-2.8	-4.6	-1.8
Business Capital Spending, Total (Bils. '96 \$'s)										
Historical	610.1	630.5	683.4	744.6	818.0	900.7	998.1	1126.2	1219.7	859.0
Sim. - Tight Fiscal	610.1	630.0	671.7	718.8	803.8	910.6	1003.8	1112.8	1169.0	847.9
(Diff. in Level)	-0.0	-0.5	-11.7	-25.8	-14.2	9.9	5.7	-13.4	-50.6	-11.2
(Pct. Diff. in Level)	-0.0	-0.1	-1.7	-3.5	-1.7	1.1	0.6	-1.2	-4.1	-1.2
Plant, Historical	210.1	197.3	198.9	200.6	210.1	225.0	244.2	254.3	247.5	220.9
Plant, Sim. - Tight Fiscal	210.1	197.2	195.5	196.2	209.6	224.4	244.6	256.3	243.7	219.7
(Diff. in Level)	0.0	-0.1	-3.4	-4.4	-0.5	-0.6	0.4	2.0	-3.7	-1.1
(Pct. Diff. in Level)	0.0	-0.1	-1.7	-2.2	-0.3	-0.3	0.2	0.8	-1.5	-0.6
Equipment, Historical	407.1	437.2	486.5	543.8	606.1	672.6	749.6	867.6	971.0	637.9
Equipment, Sim. - Tight Fiscal	407.1	436.9	478.8	523.9	593.6	683.2	755.2	852.7	923.1	628.3
(Diff. in Level)	-0.0	-0.3	-7.7	-19.9	-12.5	10.6	5.6	-14.9	-47.9	-9.7
(Pct. Diff. in Level)	-0.0	-0.1	-1.6	-3.7	-2.1	1.6	0.7	-1.7	-4.9	-1.3
Net Exports (Bils. '96 \$'s)										
Historical	-15.7	-19.7	-59.0	-86.2	-77.7	-88.1	-111.7	-217.3	-323.8	-111.0
Sim. - Tight Fiscal	-13.0	-9.0	-23.7	-34.6	-52.4	-74.1	-67.5	-116.3	-129.1	-57.8
(Diff. in Level)	2.7	10.7	35.3	51.5	25.3	14.0	44.2	101.0	194.7	53.3
Real Exports										
Historical	613.3	651.0	672.7	732.9	808.4	874.5	983.2	1004.6	1040.8	820.2
Sim. - Tight Fiscal	613.5	652.9	678.2	740.2	815.0	884.0	1003.5	1046.9	1107.0	837.9
(Diff. in Level)	0.2	1.9	5.5	7.3	6.5	9.5	20.3	42.3	66.2	17.8
(Pct. Diff. in Level)	0.0	0.3	0.8	1.0	0.8	1.1	2.1	4.2	6.4	1.9

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	1991	1992	1993	1994	1995	1996	1997	1998	1999	Average Per Yr.
Potential Output (Bils. 1992 \$'s)										
Historical	6183.7	6474.4	6529.8	6665.8	6761.1	7013.5	7222.9	7452.8	7773.5	6897.5
Sim. - Tight Fiscal	6182.9	6470.8	6441.6	6508.9	6671.4	6961.8	7126.1	7273.8	7418.8	6784.0
(Diff. in Level)	-0.8	-3.6	-88.2	-156.9	-89.7	-51.7	-96.9	-179.0	-354.6	-113.5
Potential Output Growth	1.1	4.7	0.9	2.1	1.4	3.7	3.0	3.2	4.3	2.7
Historical	1.0	4.7	-0.5	1.0	2.5	4.4	2.4	2.1	2.0	2.2
Sim. - Tight Fiscal	-0.0	-0.0	-1.3	-1.0	1.1	0.6	-0.6	-1.1	-2.3	-0.5
(Diff. in Level)										
Employment, Compensation, and Unemployment Rate										
Employment (Mils. Pers.)										
Total Payrolls, Historical	108.254	108.590	110.692	114.136	117.190	119.594	122.673	125.803	128.609	117.282
Total Payrolls, Sim. - Tight Fiscal	108.259	108.581	109.559	112.250	116.393	118.922	121.590	124.254	125.448	116.140
(Diff. in Level)	0.004	-0.009	-1.132	-1.885	-0.797	-0.671	-1.083	-1.549	-3.162	-1.143
 Manufacturing, Historical	18.405	18.106	18.076	18.324	18.525	18.495	18.676	18.773	18.433	18.424
Manufacturing, Sim. - Tight Fiscal	18.404	18.102	17.870	18.030	18.485	18.500	18.586	18.586	18.030	18.288
(Diff. in Level)	-0.001	-0.004	-0.206	-0.293	-0.040	0.006	-0.090	-0.187	-0.403	-0.135
 Ex-Manufacturing, Historical	89.849	90.484	92.615	95.812	98.664	101.099	103.997	107.030	110.176	98.858
Ex-Manufacturing, Sim. - Tight Fiscal	89.854	90.479	91.689	94.220	97.908	100.422	103.004	105.668	107.417	97.851
(Diff. in Level)	0.005	-0.005	-0.926	-1.592	-0.756	-0.677	-0.993	-1.362	-2.759	-1.007
Unemployment Rate (Percent)										
Historical	6.9	7.5	6.9	6.1	5.6	5.4	4.9	4.5	4.2	5.8
Sim. - Tight Fiscal	6.8	7.5	7.4	6.9	5.8	5.5	5.2	4.9	5.2	6.1
Difference	-0.0	-0.0	0.5	0.8	0.2	0.1	0.3	0.4	1.0	0.4
Compensation (Annual Pct. Chg)										
Nonfarm Business, Historical	4.9	5.3	2.2	2.1	2.1	3.1	3.6	5.2	4.8	3.7
Nonfarm Business, Sim. - Tight Fiscal	4.9	5.3	2.2	1.7	1.5	3.2	3.6	4.9	4.5	3.5
Difference	-0.0	-0.0	0.0	-0.4	-0.6	0.1	0.0	-0.2	-0.3	-0.2
 Manufacturing, Historical	5.3	4.6	2.7	2.8	2.1	1.3	3.7	5.3	5.0	3.7
Manufacturing, Sim. - Tight Fiscal	5.3	4.6	2.4	2.1	1.5	1.1	3.4	4.7	3.8	3.2
Difference	-0.0	-0.0	-0.3	-0.8	-0.7	-0.2	-0.3	-0.6	-1.2	-0.5
 Avg Hourly Earnings, Non Mftg., Historical	3.1	2.5	2.5	2.5	2.9	3.4	4.0	4.5	3.8	3.3
Avg Hourly Earnings, Non Mftg., Sim. - Tight Fiscal	3.1	2.5	2.0	1.9	2.9	3.1	3.7	4.2	2.9	2.9
Difference	-0.0	-0.0	-0.5	-0.6	-0.0	-0.2	-0.3	-0.4	-1.0	-0.3
Productivity (Annual Pct. Chg)										
Nonfarm Business, Historical	1.6	4.0	0.1	1.3	1.0	2.7	2.0	2.8	2.9	2.0
Nonfarm Business, Sim. - Tight Fiscal	1.5	4.0	-1.5	0.1	2.6	3.6	1.3	1.5	0.2	1.5
Difference	-0.0	-0.0	-1.7	-1.2	1.6	0.8	-0.7	-1.2	-2.7	-0.6

	1991	1992	1993	1994	1995	1996	1997	1998	1999	Average Per Yr.
Inflation (Annual Pct. Chg)										
GDP Chain Price Index, Historical	3.2	1.4	1.4	1.0	1.4	1.3	1.4	1.1	0.9	1.5
GDP Chain Price Index, Sim. - Tight Fiscal	3.2	1.4	1.5	1.0	1.2	1.3	1.2	0.8	0.8	1.4
Difference	-0.0	-0.0	0.1	0.0	-0.2	-0.0	-0.1	-0.2	-0.1	-0.1
Consumer Price Index (All Urban), Historical	4.2	3.0	3.0	2.6	2.8	2.9	2.3	1.6	2.2	2.7
Consumer Price Index (All Urban), Sim. - Tight Fiscal	4.2	3.0	2.9	2.3	2.2	2.4	2.1	1.5	2.0	2.5
Difference	0.0	0.0	-0.1	-0.3	-0.6	-0.6	-0.2	-0.0	-0.2	-0.2
After-tax Profits (Bils. \$'s)										
After-tax Profits, Historical	244.5	265.1	290.2	342.0	419.0	459.7	509.8	492.5	567.9	399.0
After-tax Profits, Sim. - Tight Fiscal	244.2	263.7	276.9	323.5	422.1	470.4	501.2	466.3	519.6	387.5
(Diff. in Level)	-0.3	-1.4	-13.2	-18.5	3.1	10.7	-8.7	-26.2	-48.3	-11.4
(Pct. Diff. in Level)	-0.1	-0.5	-4.6	-5.4	0.7	2.3	-1.7	-5.3	-8.5	-2.6
After-tax Profits/GDP (Percent of GDP)										
After-tax Profits/GDP, Historical	4.1	4.2	4.3	4.8	5.6	5.8	6.1	5.6	6.0	5.2
After-tax Profits/GDP, Sim. - Tight Fiscal	4.1	4.1	4.2	4.7	5.7	6.0	6.1	5.5	6.0	5.2
(Diff. in Level)	-0.0	-0.0	-0.1	-0.1	0.1	0.2	0.1	-0.1	-0.1	0.0
Wages/GDP (Percent of GDP)										
After-tax Wages/GDP, Historical	47.0	46.6	46.0	45.6	46.0	45.9	46.3	47.2	47.6	46.5
After-tax Wages/GDP, Sim. - Tight Fiscal	47.0	46.6	46.5	46.3	46.2	46.0	46.7	48.0	49.1	46.9
(Diff. in Level)	0.0	0.0	0.5	0.7	0.2	0.1	0.4	0.8	1.5	0.5
Interest Rates (Percent)										
Federal Funds Rate, Historical	5.72	3.57	3.02	4.20	5.84	5.33	5.48	5.37	4.98	4.84
Federal Funds Rate, Sim. Tight Fiscal	5.72	3.56	2.70	3.50	5.33	5.20	5.18	4.87	4.12	4.47
(Diff. in Level)	-0.00	-0.01	-0.32	-0.70	-0.51	-0.13	-0.30	-0.50	-0.86	-0.37
90-day Treas. Bill, Historical	5.37	3.43	3.00	4.25	5.49	5.00	5.06	4.78	4.63	4.56
90-day Treas. Bill, Sim. - Tight Fiscal	5.37	3.41	2.62	3.49	5.01	4.81	4.64	3.99	3.17	4.06
(Diff. in Level)	-0.01	-0.02	-0.38	-0.75	-0.48	-0.20	-0.43	-0.79	-1.47	-0.50
US 10-Year Note, Historical	7.85	7.00	5.86	7.06	6.57	6.42	6.33	5.24	5.61	6.44
US 10-Year Note. Sim. - Tight Fiscal	7.84	6.92	5.55	6.45	6.13	6.17	5.91	4.50	4.26	5.97
(Diff. in Level)	-0.01	-0.08	-0.32	-0.61	-0.44	-0.25	-0.41	-0.74	-1.35	-0.47
30-year Treas, Historical	8.13	7.66	6.60	7.37	6.88	6.70	6.59	5.57	5.86	6.82
30-year Treas., Sim. - Tight Fiscal	8.12	7.49	6.08	6.73	6.75	6.83	6.48	4.93	4.91	6.48
(Diff. in Level)	-0.01	-0.18	-0.52	-0.64	-0.13	0.14	-0.12	-0.64	-0.94	-0.34

	1991	1992	1993	1994	1995	1996	1997	1998	1999	Average Per Yr.
AAA-Equiv. Corp. New Issue, Historical	8.74	8.19	6.96	7.88	7.55	7.38	7.11	6.34	6.86	7.45
AAA-Equiv. Corp. New Issue , Sim. Tight Fiscal	8.72	8.10	6.72	7.43	7.30	7.30	6.92	6.01	6.36	7.21
(Diff. in Level)	-0.02	-0.09	-0.25	-0.45	-0.25	-0.07	-0.19	-0.33	-0.50	-0.24

Exchange Rates

Morgan Trade-Weighted Index, Historical	0.984	0.970	1.001	0.985	0.930	0.975	1.052	1.105	1.080	1.009
Morgan Trade-Weighted Index, Sim. - Tight Fiscal	0.979	0.953	0.979	0.979	0.956	1.038	1.097	1.102	1.044	1.014
(Diff. in Level)	-0.005	-0.016	-0.022	-0.006	0.026	0.063	0.045	-0.003	-0.036	0.005
(Pct. Diff. in Level)	-0.6	-1.7	-2.2	-0.6	2.8	6.5	4.3	-0.2	-3.3	0.555

Federal Reserve Dollar Index**, Historical	0.732	0.760	0.829	0.905	0.925	0.974	1.044	1.165	1.169	0.945
Federal Reserve Dollar Index**, Sim. - Tight Fiscal	0.729	0.751	0.816	0.902	0.945	1.021	1.080	1.166	1.143	0.950
(Diff. in Level)	-0.003	-0.009	-0.013	-0.004	0.020	0.047	0.036	0.002	-0.025	0.006
(Pct. Diff. in Level)	-0.4	-1.2	-1.6	-0.4	2.1	4.9	3.4	0.1	-2.2	0.533

Yen/\$, Historical	134.4	126.8	111.2	102.1	94.0	108.9	121.0	130.8	113.7	115.9
Yen/\$, Sim. - Tight Fiscal	134.6	127.4	109.5	98.8	96.3	119.9	132.4	135.0	112.1	118.4
(Diff. in Level)	0.2	0.6	-1.7	-3.4	2.3	11.0	11.4	4.3	-1.6	2.6
(Pct. Diff. in Level)	0.1	0.5	-1.5	-3.3	2.5	10.1	9.4	3.3	-1.4	2.2

\$/Euro, Historical	1.313	1.365	1.201	1.206	1.316	1.290	1.134	1.115	1.068	1.223
\$/Euro, Sim. - Tight Fiscal	1.313	1.366	1.244	1.252	1.288	1.237	1.135	1.165	1.186	1.243
(Diff. in Level)	0.000	0.001	0.042	0.047	-0.029	-0.053	0.002	0.050	0.118	0.020
(Pct. Diff. in Level)	0.0	0.1	3.5	3.9	-2.2	-4.1	0.2	4.5	11.0	1.874

\$/Pound, Historical	1.767	1.764	1.502	1.532	1.576	1.562	1.639	1.657	1.619	1.624
\$/Pound, Sim. - Tight Fiscal	1.766	1.755	1.514	1.514	1.450	1.381	1.454	1.468	1.424	1.525
(Diff. in Level)	-0.001	-0.009	0.012	-0.018	-0.126	-0.181	-0.185	-0.189	-0.196	-0.099
(Pct. Diff. in Level)	-0.1	-0.5	0.8	-1.2	-8.0	-11.6	-11.3	-11.4	-12.1	-6.151

S&P 500 Operating Earnings per Share

Historical	19.53	23.90	27.35	32.18	38.29	40.38	45.06	44.33	50.82	35.76
Sim. - Tight Fiscal	19.52	23.79	26.36	30.75	38.48	40.85	44.36	43.18	48.37	35.07
Difference	-0.01	-0.11	-0.99	-1.43	0.19	0.47	-0.70	-1.16	-2.45	-0.69
(Pct. Diff. in Level)	-0.07	-0.44	-3.63	-4.44	0.48	1.17	-1.55	-2.61	-4.82	-1.77

S&P 500 Price Index

Historical	376.2	415.8	451.4	460.4	541.7	670.8	872.8	1085.0	1326.9	689.0
Sim. - Tight Fiscal	375.5	411.0	439.6	457.3	542.4	641.2	823.8	1019.3	1234.7	660.6
Difference	-0.7	-4.7	-11.8	-3.1	0.8	-29.6	-49.0	-65.6	-92.2	-28.4
	-0.2	-1.1	-2.6	-0.7	0.1	-4.4	-5.6	-6.0	-6.9	-3.1

Table A-2 Macroeconomic Effects of a Restrictive Fiscal Policy to Restrain Current Account Deficit*
Growth Rates of Major Variables that Describe the Economy -- Percent Unless Noted Otherwise

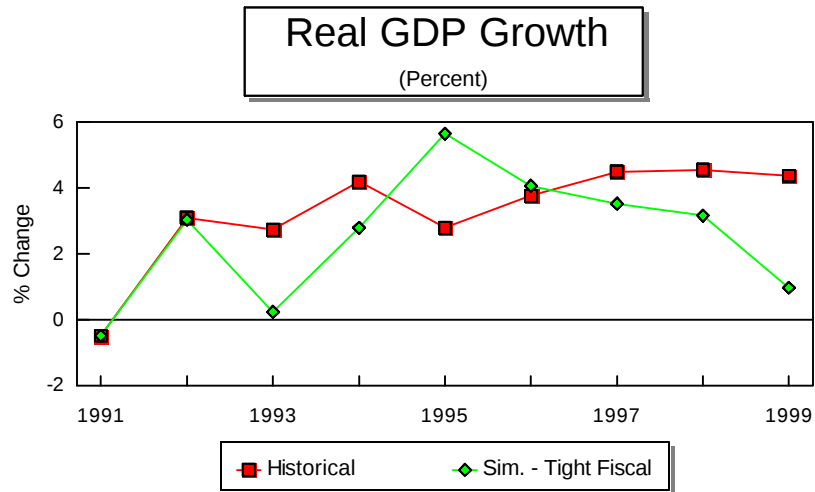
		1991	1992	1993	1994	1995	1996	1997	1998	1999	Average Per Yr.
GDP Growth											
	Historical	-0.5	3.1	2.7	4.1	2.8	3.7	4.5	4.5	4.4	3.3
	Sim. - Tight Fiscal	-0.5	3.0	0.3	2.8	5.6	4.1	3.5	3.1	1.0	2.5
	Difference	-0.0	-0.1	-2.5	-1.3	2.8	0.3	-1.0	-1.4	-3.4	-0.7
Inflation											
	GDP Price Index										
	Historical	3.2	1.4	1.4	1.0	1.4	1.3	1.4	1.1	0.9	1.5
	Sim. Tight Fiscal	3.2	1.4	1.5	1.0	1.2	1.3	1.2	0.8	0.8	1.4
	Difference	-0.0	-0.0	0.1	0.0	-0.2	-0.0	-0.1	-0.2	-0.1	-0.1
	CPI-U										
		4.2	3.0	3.0	2.6	2.8	2.9	2.3	1.6	2.2	2.7
		4.2	3.0	2.9	2.3	2.2	2.4	2.1	1.5	2.0	2.5
		0.0	0.0	-0.1	-0.3	-0.6	-0.6	-0.2	-0.0	-0.2	-0.2
Unemployment Rate											
	Historical	6.9	7.5	6.9	6.1	5.6	5.4	4.9	4.5	4.2	5.8
	Sim. Tight Fiscal	6.8	7.5	7.4	6.9	5.8	5.5	5.2	4.9	5.2	6.1
	Difference	-0.0	-0.0	0.5	0.8	0.2	0.1	0.3	0.4	1.0	0.4
Federal Funds											
	Historical	5.72	3.57	3.02	4.20	5.84	5.33	5.48	5.37	4.98	4.84
	Sim. - Tight Fiscal	5.72	3.56	2.70	3.50	5.33	5.20	5.18	4.87	4.12	4.47
	Difference	-0.00	-0.01	-0.32	-0.70	-0.51	-0.13	-0.30	-0.50	-0.86	-0.37
90 Day Treasury Bill											
	Historical	5.37	3.43	3.00	4.25	5.49	5.00	5.06	4.78	4.63	4.56
	Sim. - Tight Fiscal	5.37	3.41	2.62	3.49	5.01	4.81	4.64	3.99	3.17	4.06
	Difference	-0.01	-0.02	-0.38	-0.75	-0.48	-0.20	-0.43	-0.79	-1.47	-0.50
10 Year Treasury Note											
	Historical	7.85	7.00	5.86	7.06	6.57	6.42	6.33	5.24	5.61	6.44
	Sim. - Tight Fiscal	7.84	6.92	5.55	6.45	6.13	6.17	5.91	4.50	4.26	5.97
	Difference	-0.01	-0.08	-0.32	-0.61	-0.44	-0.25	-0.41	-0.74	-1.35	-0.47
S&P 500 Operating Earnings per Share											
	Historical	-18.0	22.4	14.4	17.7	19.0	5.4	11.6	-1.6	14.6	9.5
	Sim. - Tight Fiscal	-18.0	21.9	10.8	16.7	25.1	6.2	8.6	-2.7	12.0	9.0
	Difference	-0.1	-0.5	-3.7	-1.0	6.1	0.7	-3.0	-1.1	-2.6	-0.6

										Average	
S&P 500 Price Index		1991	1992	1993	1994	1995	1996	1997	1998	1999	Per Yr.
	Historical	12.4	10.5	8.6	2.0	17.7	23.8	30.1	24.3	22.3	16.9
	Sim. - Tight Fiscal	12.2	9.5	7.0	4.0	18.6	18.2	28.5	23.7	21.1	15.9
	Difference	-0.2	-1.1	-1.6	2.0	1.0	-5.6	-1.6	-0.6	-1.2	-1.0
Yen/\$											
	Historical	-7.2	-5.7	-12.3	-8.1	-8.0	15.8	11.1	8.1	-13.0	-2.1
	Sim. - Tight Fiscal	-7.1	-5.4	-14.0	-9.8	-2.5	24.4	10.4	2.0	-17.0	-2.1
	Difference	0.1	0.3	-1.8	-1.6	5.5	8.6	-0.6	-6.1	-4.0	0.0
\$ /Euro											
	Historical	-2.7	4.0	-12.0	0.3	9.2	-2.0	-12.1	-1.7	-4.2	-2.4
	Sim. - Tight Fiscal	-2.7	4.0	-9.0	0.7	2.8	-4.0	-8.2	2.6	1.8	-1.3
	Difference	0.0	0.0	3.0	0.3	-6.4	-1.9	3.9	4.3	6.0	1.0
Morgan Trade-Weighted Index											
	Historical	-1.6	-1.5	3.2	-1.5	-5.7	4.8	8.0	5.0	-2.3	0.9
	Sim. - Tight Fiscal	-2.1	-2.6	2.7	0.0	-2.4	8.6	5.7	0.5	-5.3	0.6
	Difference	-0.5	-1.1	-0.5	1.5	3.3	3.7	-2.3	-4.5	-3.0	-0.4

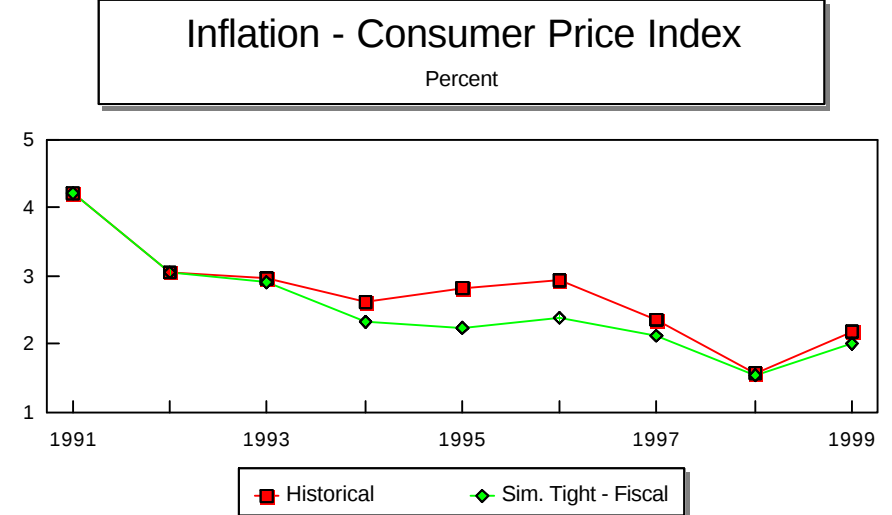
Chart A-2.1

Federal Government Spending Cuts and Tax Increases Reduce the Current Account Deficit. The Federal Reserve Follows a Taylor Rule, Setting the Federal Funds Rate by Targeting Inflation and Economic Growth.

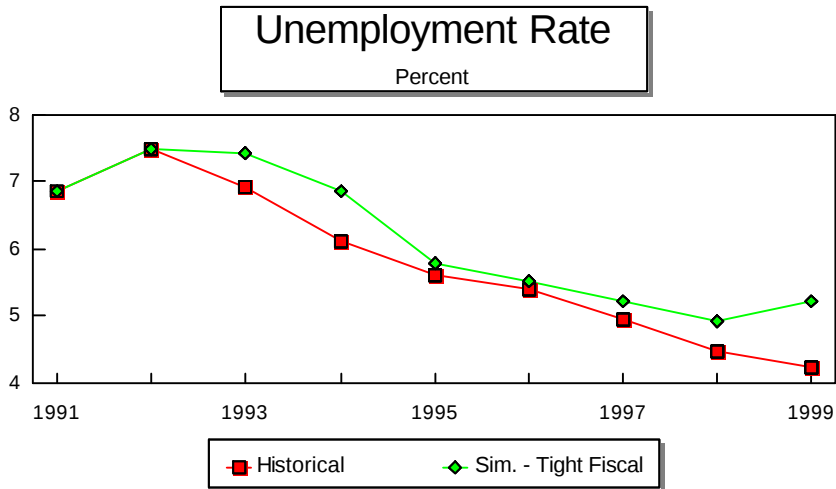
Restrictive Fiscal Policy Mostly Reduces Growth...



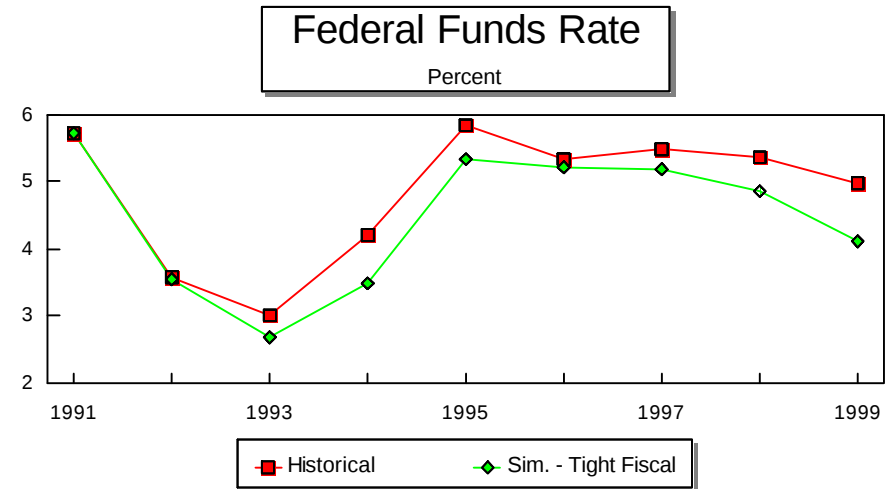
and Lowers Inflation Somewhat



At the Cost of Higher Employment



Some Fed Easing and the Federal Funds Rate Declines



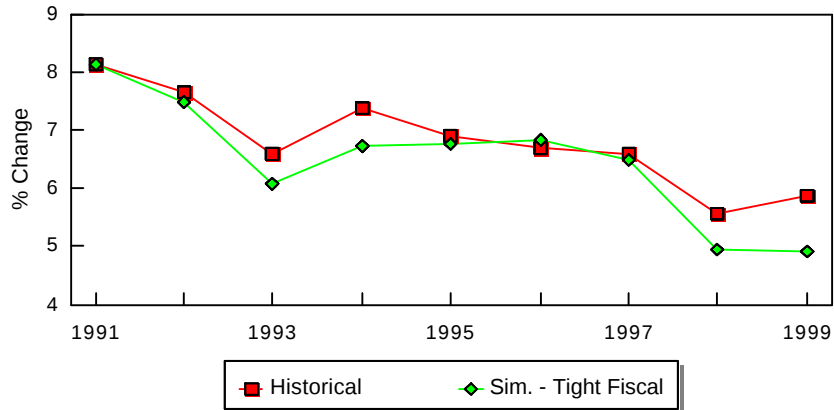
Simulation with the Sinai-Boston Quarterly Macroeconometric Model of the U.S. Economy.

Chart A-2.1 (Cont.)

Long-Term Interest Rates are Lower

10-Year Treasury Note Yield

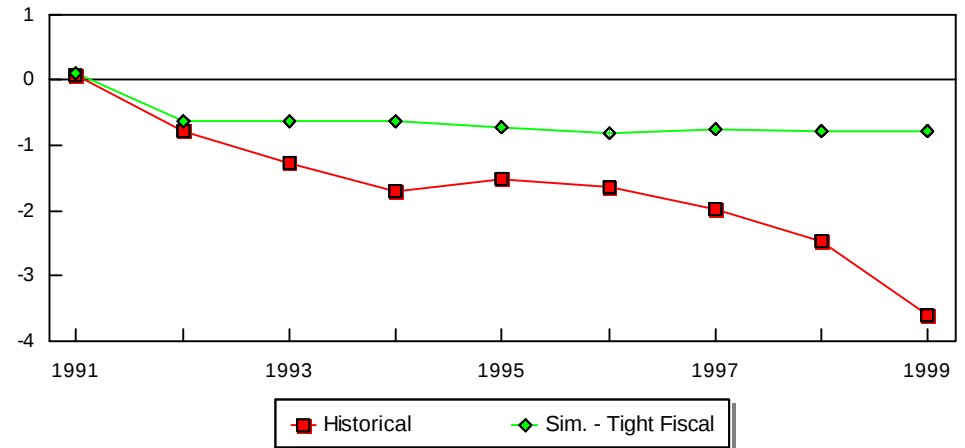
Percent



Current Account Deficit Narrows...and

Current Account Deficit as % of GDP

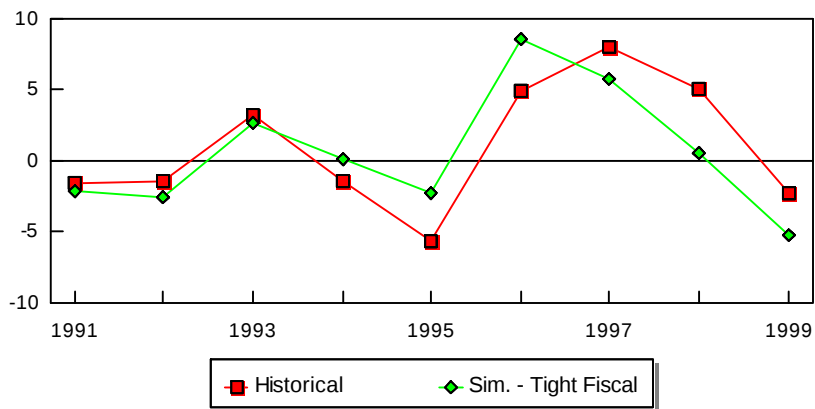
Billions of Dollars



The Exchange Rate Fluctuates Around the Historical Baseline,
With No Clear Tendency

Morgan Trade Weighted Exchange Rate

Percent Change from Year Ago



Slower Economic Growth Reduces Stock Prices Somewhat.

S&P Stock Price Index

(Percent Change From Year Ago)

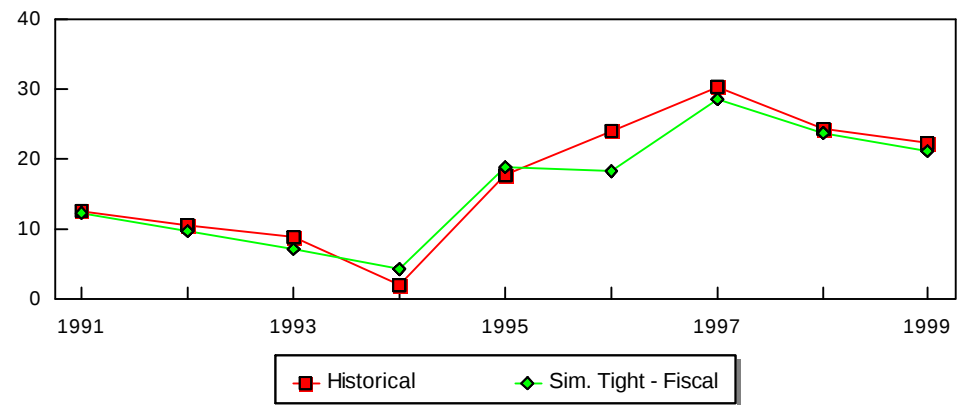


Table A-3
Macroeconomic Effects of Exchange Rate Policy to Restrain Current Account Deficit*

		1991	1992	1993	1994	1995	1996	1997	1998	1999	Average Per Yr.
Current Account Balance, Ex- Gulf War Transfers (Bils. \$'s)											
	Historical	-38.2	-51.2	-85.3	-121.7	-113.6	-129.3	-165.9	-220.5	-338.9	-140.5
	Sim. - Ex Rate Policy	-38.2	-38.8	-44.1	-35.2	-53.9	-64.4	-65.3	-112.4	-219.9	-74.7
	(Diff. in Level)	-0.0	12.4	41.2	86.4	59.7	64.8	100.5	108.1	118.9	65.8
Current Account as % of GDP											
	Historical	-0.5	-0.8	-1.3	-1.7	-1.5	-1.6	-2.0	-2.5	-3.6	-1.7
	Sim. - Ex Rate Policy	-0.5	-0.6	-0.6	-0.5	-0.7	-0.8	-0.8	-1.2	-2.2	-0.9
	Difference	-0.0	0.2	0.6	1.2	0.8	0.8	1.2	1.3	1.4	0.8
Add Factors											
Morgan Trade-Weighted Index	Historical	0.020	0.017	0.018	0.001	-0.010	-0.003	-0.009	-0.022	-0.015	-0.000
	Sim. - Ex Rate Policy	0.013	-0.016	-0.024	-0.005	-0.057	-0.057	-0.036	-0.030	0.016	-0.022
	Difference	-0.007	-0.033	-0.042	-0.006	-0.047	-0.054	-0.027	-0.008	0.031	-0.021
Yen / \$											
	History	-0.7	-0.2	0.6	-0.5	-2.5	1.9	-1.6	0.6	1.4	-0.1
	Sim.-Ex Rate Policy	-3.9	-3.9	-2.7	-3.7	-5.7	-2.1	-5.1	-2.4	-1.3	-3.4
	Difference	-3.2	-3.7	-3.3	-3.1	-3.2	-4.0	-3.5	-3.0	-2.7	-3.3
Euro / \$											
	Historical	-0.005	-0.006	-0.017	-0.002	0.040	0.023	-0.019	0.000	-0.046	-0.004
	Sim. - Ex Rate Policy	0.026	0.022	0.044	0.043	0.092	0.076	0.038	0.045	-0.001	0.043
	Difference	0.031	0.028	0.061	0.045	0.052	0.053	0.057	0.045	0.045	0.046
Canadian \$/ \$											
	History	-0.006	0.006	0.000	0.002	0.006	-0.014	-0.003	0.021	-0.007	0.001
	Sim.-Ex Rate Policy	-0.022	0.000	-0.006	-0.004	0.000	-0.020	-0.009	0.015	-0.130	-0.020
	Difference	-0.016	-0.006	-0.006	-0.006	-0.006	-0.006	-0.006	-0.006	-0.123	-0.020
Dollar / £											
	History	0.010	0.008	-0.005	0.003	-0.003	0.022	0.013	-0.014	0.010	0.005
	Sim.-Ex Rate Policy	0.028	0.015	0.023	0.017	0.042	0.033	0.006	0.030	1.584	0.198
	Difference	0.018	0.007	0.028	0.014	0.045	0.011	-0.007	0.044	1.574	0.193
Average Hourly Earnings Manufacturing											
	History	0.022	0.005	0.029	0.008	0.005	0.008	-0.016	0.063	0.011	0.015
	Sim.-Ex Rate Policy	0.022	0.005	0.029	0.008	0.005	0.008	-0.029	-0.074	-0.009	-0.004
	Difference	0.000	0.000	0.000	0.000	0.000	0.000	-0.013	-0.137	-0.020	-0.019

*Macroeconomic model simulation with the Sinai-Boston Quarterly Macroeconometric Model of the U.S. Economy. Simulation starting April 1, 1991.

		1991	1992	1993	1994	1995	1996	1997	1998	1999	Average Per Yr.
Employment, Manufacturing	History	-0.076	-0.290	-0.358	-0.347	-0.122	-0.272	-0.225	-0.053	-0.364	-0.234
	Sim.-Ex Rate Policy	-0.076	-0.290	-0.358	-0.347	-0.122	-0.272	-0.225	-0.013	-0.284	-0.221
	Difference	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.040	0.080	0.013
Imports, Computers	History	0.574	0.759	-0.859	0.454	-1.262	-4.174	-1.248	-2.819	-24.919	-3.722
	Sim.-Ex Rate Policy	0.574	0.759	-0.859	0.454	-1.262	-4.174	-1.248	-2.819	-24.919	-3.722
	Difference	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Compensation, Manufacturing	History	0.002	0.002	0.003	0.001	-0.002	-0.006	0.002	0.003	0.001	0.001
	Sim.-Ex Rate Policy	0.956	0.002	0.003	0.001	-0.002	-0.006	-0.001	0.002	-0.002	0.106
	Difference	0.954	0.000	0.000	0.000	0.000	0.000	-0.003	-0.001	-0.003	0.105
Imports, Business	History	2.333	3.362	4.631	9.339	12.260	4.599	8.418	3.511	5.240	5.966
	Sim.-Ex Rate Policy	2.333	1.900	1.720	7.307	12.260	4.599	8.418	3.511	5.240	5.254
	Difference	0.000	-1.462	-2.911	-2.032	0.000	0.000	0.000	0.000	0.000	-0.712
Price, Business Imports	History	0.015	0.006	0.014	0.003	-0.008	-0.003	0.010	0.015	0.010	0.007
	Sim.-Ex Rate Policy	0.015	0.001	0.005	0.003	-0.008	-0.007	0.007	0.007	-0.004	0.002
	Difference	0.000	-0.005	-0.009	0.000	0.000	-0.004	-0.003	-0.008	-0.014	-0.005
Price, Consumer Imports	History	0.009	-0.010	-0.009	-0.013	-0.006	-0.002	0.009	-0.007	0.002	-0.003
	Sim.-Ex Rate Policy	0.009	-0.001	0.007	-0.004	-0.004	0.007	0.009	-0.004	-0.003	0.002
	Difference	0.000	0.009	0.016	0.009	0.002	0.009	0.000	0.003	-0.005	0.005

Table A-3
Macroeconomic Effects of Exchange Rate Policy to Restrain Current Account Deficit*

	1991	1992	1993	1994	1995	1996	1997	1998	1999	Average Per Yr.
Real GDP - Level (Bils. '96 \$'s)										
Historical	6676.9	6882.3	7068.8	7361.8	7567.0	7848.9	8200.5	8572.9	8946.7	7680.6
Sim. - Ex Rate Policy	6681.6	6916.3	7148.1	7416.8	7626.7	7960.6	8329.6	8712.8	9000.0	7754.7
(Diff. in Level)	4.7	34.1	79.3	55.0	59.7	111.8	129.1	139.9	53.4	74.1
(Pct. Diff. in Level)	0.1	0.5	1.1	0.7	0.8	1.4	1.6	1.6	0.6	0.9
Real GDP-Growth (Pctg. Pts.), Historical	-0.5	3.1	2.7	4.1	2.8	3.7	4.5	4.5	4.4	3.3
Real GDP-Growth (Pctg. Pts.), Sim. - Ex Rate Policy	-0.4	3.5	3.4	3.8	2.8	4.4	4.6	4.6	3.3	3.3
Difference	0.1	0.4	0.6	-0.4	0.0	0.7	0.2	0.1	-1.1	0.1
Consumption (Bils. '96 \$'s)										
Historical	4466.6	4596.0	4754.2	4940.2	5095.2	5267.5	5461.0	5748.1	6076.8	5156.2
Sim. - Ex Rate Policy	4468.8	4604.7	4780.7	4951.9	5112.5	5295.3	5487.9	5780.9	6087.8	5174.5
(Diff. in Level)	2.1	8.7	26.5	11.7	17.3	27.8	26.9	32.8	11.0	18.3
(Pct. Diff. in Level)	0.0	0.2	0.6	0.2	0.3	0.5	0.5	0.6	0.2	0.3
Business Capital Spending, Total (Bils. '96 \$'s)										
Historical	610.1	630.6	683.5	744.8	818.1	900.9	998.2	1126.3	1219.8	859.2
Sim. - Ex Rate Policy	610.7	632.4	690.0	748.3	816.8	901.0	1001.0	1125.5	1207.5	859.2
(Diff. in Level)	0.5	1.8	6.4	3.5	-1.3	0.1	2.7	-0.8	-12.4	0.1
(Pct. Diff. in Level)	0.1	0.3	0.9	0.5	-0.2	0.0	0.3	-0.1	-1.0	0.1
Plant, Historical	210.1	197.3	198.9	200.6	210.1	225.1	244.2	254.3	247.5	220.9
Plant, Sim. - Ex Rate Policy	210.4	198.2	200.6	199.7	208.9	226.0	243.7	253.4	243.3	220.5
(Diff. in Level)	0.3	0.9	1.7	-0.9	-1.2	0.9	-0.5	-0.9	-4.1	-0.4
(Pct. Diff. in Level)	0.1	0.5	0.9	-0.4	-0.6	0.4	-0.2	-0.3	-1.7	-0.2
Equipment, Historical	407.1	437.3	486.6	543.9	606.2	672.7	749.7	867.7	971.2	638.1
Equipment, Sim. - Ex Rate Policy	407.3	438.1	490.9	548.0	606.1	671.7	752.2	867.1	962.6	638.2
(Diff. in Level)	0.2	0.8	4.4	4.1	-0.2	-1.0	2.5	-0.6	-8.6	0.2
(Pct. Diff. in Level)	0.0	0.2	0.9	0.8	-0.0	-0.2	0.3	-0.1	-0.9	0.1
Net Exports (Bils. '96 \$'s)										
Historical	-15.7	-19.7	-59.0	-86.2	-77.7	-88.1	-111.7	-217.3	-323.8	-111.0
Sim. - Ex Rate Policy	-13.6	1.5	-17.8	-35.9	-33.7	-9.2	-17.4	-118.1	-261.9	-56.2
(Diff. in Level)	2.1	21.2	41.2	50.3	44.0	78.9	94.3	99.2	61.9	54.8
Real Exports										
Historical	613.3	651.0	672.7	732.9	808.4	874.5	983.2	1004.6	1040.7	820.2
Sim. - Ex Rate Policy	615.3	663.4	704.1	774.3	846.1	933.1	1059.0	1084.5	1103.9	864.9
(Diff. in Level)	2.0	12.4	31.4	41.5	37.7	58.6	75.8	79.9	63.2	44.7
(Pct. Diff. in Level)	0.3	1.9	4.7	5.7	4.7	6.7	7.7	7.9	6.1	5.1

	1991	1992	1993	1994	1995	1996	1997	1998	1999	Average Per Yr.
Real Imports										
Historical	629.0	670.7	731.7	819.0	886.2	962.7	1094.9	1221.9	1364.5	931.2
Sim. - Ex Rate Policy	628.9	661.9	721.9	810.2	879.8	942.4	1076.4	1202.6	1365.8	921.1
(Diff. in Level)	-0.1	-8.8	-9.8	-8.8	-6.4	-20.3	-18.5	-19.3	1.3	-10.1
(Pct. Diff. in Level)	-0.0	-1.3	-1.3	-1.1	-0.7	-2.1	-1.7	-1.6	0.1	-1.1
Nominal Net Exports (Bils. \$'s)										
Historical	-20.8	-27.8	-60.6	-87.4	-84.5	-88.3	-87.2	-148.3	-252.3	-95.2
Sim. - Ex Rate Policy	-19.8	-19.1	-30.8	-24.4	-40.6	-39.4	-11.1	-67.7	-163.4	-46.3
(Diff. in Level)	1.0	8.7	29.8	63.0	43.9	48.9	76.1	80.6	89.0	49.0
(Pct. Diff. in Level)	0.2	1.4	4.7	8.6	5.5	6.0	8.2	8.9	9.1	5.8
Nominal Exports										
Historical	601.7	637.0	658.4	725.2	818.7	874.7	968.9	967.7	999.0	805.7
Sim. - Ex Rate Policy	604.2	653.6	701.2	784.3	875.3	963.9	1086.4	1088.8	1098.3	872.9
(Diff. in Level)	2.5	16.6	42.9	59.0	56.6	89.3	117.5	121.1	99.3	67.2
(Pct. Diff. in Level)	0.4	2.6	6.5	8.1	6.9	10.2	12.1	12.5	9.9	7.7
Nominal Imports										
Historical	622.5	664.9	719.0	812.7	903.2	963.0	1056.1	1116.0	1251.3	901.0
Sim. - Ex Rate Policy	624.1	672.8	732.0	808.7	915.9	1003.3	1097.6	1156.5	1261.7	919.2
(Diff. in Level)	1.5	7.9	13.0	-3.9	12.8	40.3	41.5	40.5	10.4	18.2
(Pct. Diff. in Level)	0.2	1.2	1.8	-0.5	1.4	4.2	3.9	3.6	0.8	1.9
Budget Deficit (NIPA)										
(Bils. \$'S)										
Historical	-215.3	-297.5	-274.1	-212.4	-192.0	-136.8	-48.8	46.9	115.4	-135.0
Sim. - Ex Rate Policy	-214.7	-293.1	-256.7	-195.5	-178.4	-117.6	-19.2	93.0	153.8	-114.3
(Diff. in Level)	0.7	4.4	17.4	16.8	13.6	19.2	29.6	46.1	38.4	20.7
(Pct. Diff. in Level)	-0.3	-1.5	-6.4	-7.9	-7.1	-14.0	-60.7	98.3	33.3	3.7
Current Account Balance (Bils. \$'s)										
Historical	4.3	-50.6	-85.3	-121.7	-113.6	-129.3	-165.9	-220.5	-338.9	-135.7
Sim. - Ex Rate Policy	5.9	-38.3	-44.1	-35.2	-53.9	-64.4	-65.3	-112.4	-219.9	-69.8
(Diff. in Level)	1.6	12.3	41.2	86.4	59.7	64.8	100.5	108.1	118.9	66.0
Current Account as % of GDP										
Historical (%)	0.1	-0.8	-1.3	-1.7	-1.5	-1.6	-2.0	-2.5	-3.6	-1.7
Sim. - Ex Rate Policy	0.1	-0.6	-0.6	-0.5	-0.7	-0.8	-0.8	-1.2	-2.2	-0.8
Difference	0.0	0.2	0.6	1.2	0.8	0.8	1.2	1.3	1.4	0.8

	1991	1992	1993	1994	1995	1996	1997	1998	1999	Average Per Yr.
Potential Output (Bils. 1992 \$'s)										
Historical	6183.7	6474.4	6529.9	6665.9	6761.2	7013.5	7223.0	7452.9	7773.5	6897.6
Sim. - Ex Rate Policy	6183.4	6475.1	6542.3	6683.2	6769.9	7028.1	7257.7	7491.7	7808.7	6915.6
(Diff. in Level)	-0.3	0.7	12.4	17.3	8.7	14.5	34.6	38.8	35.2	18.0
Potential Output Growth	1.1	4.7	0.9	2.1	1.4	3.7	3.0	3.2	4.3	2.7
Historical	1.1	4.7	1.0	2.2	1.3	3.8	3.3	3.2	4.2	2.8
Sim. - Ex Rate Policy	-0.0	0.0	0.2	0.1	-0.1	0.1	0.3	0.0	-0.1	0.1
(Diff. in Level)										
Employment, Compensation, and Unemployment Rate										
Employment (Mils. Pers.)										
Total Payrolls, Historical	108.255	108.591	110.693	114.138	117.191	119.595	122.675	125.805	128.612	117.284
Total Payrolls, Sim. - Ex Rate Policy	108.318	109.044	111.760	115.005	118.097	121.156	124.482	127.739	129.531	118.348
(Diff. in Level)	0.064	0.453	1.066	0.867	0.906	1.560	1.807	1.933	0.919	1.064
 Manufacturing, Historical	18.405	18.106	18.076	18.324	18.525	18.495	18.676	18.773	18.433	18.424
Manufacturing, Sim. - Ex Rate Policy	18.413	18.152	18.189	18.394	18.569	18.576	18.749	18.869	18.461	18.486
(Diff. in Level)	0.008	0.046	0.113	0.070	0.044	0.081	0.073	0.096	0.028	0.062
 Ex-Manufacturing, Historical	89.850	90.485	92.617	95.814	98.666	101.101	103.999	107.032	110.179	98.860
Ex-Manufacturing, Sim. - Ex Rate Policy	89.905	90.892	93.571	96.611	99.528	102.580	105.733	108.870	111.070	99.862
(Diff. in Level)	0.055	0.407	0.953	0.796	0.862	1.479	1.735	1.837	0.891	1.002
Unemployment Rate (Percent)										
Historical	6.9	7.5	6.9	6.1	5.6	5.4	4.9	4.5	4.2	5.8
Sim. - Ex Rate Policy	6.8	7.3	6.4	5.7	5.3	4.8	4.2	3.7	3.8	5.3
Difference	-0.0	-0.2	-0.5	-0.4	-0.3	-0.6	-0.7	-0.8	-0.4	-0.4
Compensation (Annual Pct. Chg)										
Nonfarm Business, Historical	4.9	5.3	2.2	2.1	2.1	3.1	3.6	5.2	4.8	3.7
Nonfarm Business, Sim. - Ex Rate Policy	4.9	5.3	2.4	2.6	2.5	3.3	4.3	5.8	5.5	4.1
Difference	-0.0	-0.0	0.2	0.6	0.3	0.2	0.7	0.6	0.7	0.4
 Manufacturing, Historical	5.3	4.6	2.8	2.8	2.1	1.3	3.7	5.3	5.0	3.7
Manufacturing, Sim. - Ex Rate Policy	5.3	4.7	3.2	3.6	2.8	2.1	4.4	5.7	5.2	4.1
Difference	0.0	0.1	0.5	0.7	0.7	0.8	0.7	0.4	0.2	0.5
 Avg Hourly Earnings, Non Mftg., Historical	3.1	2.5	2.5	2.5	2.9	3.4	4.0	4.5	3.8	3.3
Avg Hourly Earnings, Non Mftg., Sim. - Ex Rate Policy	3.2	2.7	2.9	2.9	3.4	4.0	4.7	5.2	4.1	3.7
Difference	0.0	0.2	0.4	0.3	0.5	0.6	0.7	0.6	0.2	0.4
Productivity (Annual Pct. Chg)										
Nonfarm Business, Historical	1.6	4.0	0.1	1.3	1.0	2.7	2.0	2.8	2.9	2.0
Nonfarm Business, Sim. - Ex Rate Policy	1.5	4.0	0.3	1.4	0.9	2.8	2.3	2.9	2.9	2.1
Difference	-0.0	-0.0	0.2	0.1	-0.1	0.1	0.4	0.1	0.0	0.1

	1991	1992	1993	1994	1995	1996	1997	1998	1999	Average Per Yr.
Inflation (Annual Pct. Chg)										
GDP Chain Price Index, Historical	3.2	1.4	1.4	1.0	1.4	1.3	1.4	1.1	0.9	1.5
GDP Chain Price Index, Sim. - Ex Rate Policy	3.2	1.4	2.1	1.8	1.7	1.4	2.1	1.3	1.7	1.8
Difference	-0.0	-0.0	0.7	0.8	0.3	0.1	0.7	0.2	0.7	0.4
Consumer Price Index (All Urban), Historical	4.2	3.0	3.0	2.6	2.8	2.9	2.3	1.6	2.2	2.7
Consumer Price Index (All Urban), Sim. - Ex Rate Policy	4.2	3.2	3.5	3.2	3.3	3.7	3.1	2.2	2.6	3.2
Difference	0.0	0.2	0.5	0.6	0.5	0.7	0.7	0.6	0.4	0.5
After-tax Profits (Bils. \$'s)										
After-tax Profits, Historical	244.5	265.1	290.2	342.1	419.1	459.8	510.0	492.7	568.1	399.1
After-tax Profits, Sim. - Ex Rate Policy	244.9	267.8	306.2	372.6	446.3	488.3	553.5	540.2	636.9	428.5
(Diff. in Level)	0.4	2.7	15.9	30.5	27.3	28.5	43.5	47.5	68.9	29.5
(Pct. Diff. in Level)	0.2	1.0	5.5	8.9	6.5	6.2	8.5	9.6	12.1	6.5
After-tax Profits/GDP (Percent of GDP)										
After-tax Profits/GDP, Historical	4.1	4.2	4.3	4.8	5.6	5.8	6.1	5.6	6.0	5.2
After-tax Profits/GDP, Sim. - Ex Rate Policy	4.1	4.2	4.5	5.1	5.8	6.0	6.4	5.8	6.5	5.4
(Diff. in Level)	0.0	0.0	0.2	0.3	0.2	0.2	0.3	0.3	0.5	0.2
Wages/GDP (Percent of GDP)										
After-tax Wages/GDP, Historical	47.0	46.6	46.0	45.6	46.0	45.9	46.3	47.2	47.6	46.5
After-tax Wages/GDP, Sim. - Ex Rate Policy	46.9	46.5	45.8	45.3	45.8	45.7	45.9	46.8	47.2	46.2
(Diff. in Level)	-0.0	-0.0	-0.2	-0.3	-0.2	-0.2	-0.4	-0.4	-0.4	-0.2
Interest Rates (Percent)										
Federal Funds Rate, Historical	5.72	3.57	3.02	4.20	5.84	5.33	5.48	5.37	4.98	4.84
Federal Funds Rate, Sim. Ex Rate Policy	5.80	3.85	3.78	5.00	6.59	6.50	6.99	7.13	6.91	5.84
(Diff. in Level)	0.08	0.27	0.76	0.81	0.75	1.16	1.51	1.76	1.93	1.00
90-day Treas. Bill, Historical	5.37	3.43	3.00	4.25	5.49	5.00	5.06	4.78	4.64	4.56
90-day Treas. Bill, Sim. - Ex Rate Policy	5.44	3.66	3.62	4.89	6.11	5.96	6.28	6.19	6.15	5.37
(Diff. in Level)	0.06	0.23	0.62	0.64	0.62	0.95	1.22	1.41	1.52	0.81
US 10-Year Note, Historical	7.85	7.00	5.86	7.07	6.57	6.41	6.33	5.24	5.61	6.44
US 10-Year Note. Sim. - Ex Rate Policy	8.04	6.94	6.42	7.51	6.83	6.66	6.32	5.08	5.47	6.58
(Diff. in Level)	0.19	-0.05	0.56	0.44	0.26	0.24	-0.01	-0.16	-0.15	0.15
30-year Treas, Historical	8.13	7.66	6.60	7.37	6.88	6.70	6.59	5.57	5.86	6.82
30-year Treas., Sim. - Ex Rate Policy	8.38	7.56	7.35	7.88	7.12	6.96	6.55	5.09	5.48	6.93
(Diff. in Level)	0.25	-0.10	0.75	0.52	0.24	0.26	-0.05	-0.48	-0.37	0.11

	1991	1992	1993	1994	1995	1996	1997	1998	1999	Average Per Yr.
AAA-Equiv. Corp. New Issue, Historical	8.74	8.19	6.96	7.88	7.55	7.38	7.11	6.34	6.86	7.45
AAA-Equiv. Corp. New Issue , Sim. Ex Rate Policy	9.00	8.03	7.62	8.30	7.73	7.45	6.75	5.78	6.33	7.44
(Diff. in Level)	0.26	-0.17	0.65	0.42	0.17	0.07	-0.36	-0.56	-0.54	-0.01

Exchange Rates

Morgan Trade-Weighted Index, Historical	0.984	0.970	1.001	0.985	0.930	0.975	1.052	1.105	1.080	1.009
Morgan Trade-Weighted Index, Sim. - Ex Rate Policy	0.976	0.873	0.827	0.859	0.753	0.704	0.790	0.832	0.924	0.838
(Diff. in Level)	-0.009	-0.096	-0.173	-0.126	-0.177	-0.271	-0.262	-0.273	-0.156	-0.171
(Pct. Diff. in Level)	-0.9	-9.9	-17.3	-12.8	-19.0	-27.8	-24.9	-24.7	-14.5	-16.866
Federal Reserve Dollar Index**, Historical	0.732	0.760	0.829	0.905	0.925	0.974	1.044	1.165	1.169	0.945
Federal Reserve Dollar Index**, Sim. - Ex Rate Policy	0.727	0.704	0.723	0.827	0.801	0.770	0.841	0.947	1.035	0.820
(Diff. in Level)	-0.005	-0.056	-0.106	-0.078	-0.124	-0.204	-0.203	-0.217	-0.133	-0.125
(Pct. Diff. in Level)	-0.7	-7.4	-12.8	-8.6	-13.4	-20.9	-19.4	-18.7	-11.4	-12.584
Yen/\$, Historical	134.4	126.7	111.2	102.1	94.0	108.9	121.0	130.8	113.7	115.872
Yen/\$, Sim. - Ex Rate Policy	130.4	115.3	99.2	91.5	80.5	89.9	102.8	114.6	103.2	103.064
(Diff. in Level)	-4.0	-11.4	-12.0	-10.6	-13.6	-18.9	-18.2	-16.1	-10.5	-12.808
(Pct. Diff. in Level)	-3.0	-9.0	-10.8	-10.4	-14.4	-17.4	-15.0	-12.3	-9.3	-11.281
\$/Euro, Historical	1.313	1.365	1.201	1.206	1.316	1.290	1.134	1.115	1.068	1.223
\$/Euro, Sim. - Ex Rate Policy	1.355	1.456	1.329	1.324	1.466	1.435	1.281	1.256	1.212	1.346
(Diff. in Level)	0.042	0.090	0.127	0.118	0.150	0.145	0.147	0.141	0.144	0.123
(Pct. Diff. in Level)	3.2	6.6	10.6	9.8	11.4	11.3	13.0	12.7	13.5	10.218
\$/Pound, Historical	1.767	1.765	1.502	1.533	1.576	1.563	1.639	1.657	1.619	1.624
\$/Pound, Sim. - Ex Rate Policy	1.852	1.904	1.625	1.599	1.641	1.624	1.669	1.640	1.584	1.682
(Diff. in Level)	0.085	0.139	0.123	0.066	0.065	0.061	0.031	-0.016	-0.035	0.057
(Pct. Diff. in Level)	4.8	7.9	8.2	4.3	4.1	3.9	1.9	-1.0	-2.2	3.539

S&P 500 Operating Earnings Per Share

Historical	19.53	23.90	27.36	32.19	38.30	40.39	45.07	44.34	50.83	35.77
Sim. - Ex Rate Policy	19.68	24.63	29.64	35.38	41.10	43.84	49.58	48.52	55.11	38.61
Difference	0.15	0.73	2.28	3.19	2.80	3.46	4.51	4.18	4.28	2.84
(Pct. Diff. in Level)	0.76	3.05	8.34	9.92	7.31	8.56	10.01	9.44	8.41	7.31

S&P 500 Price Index

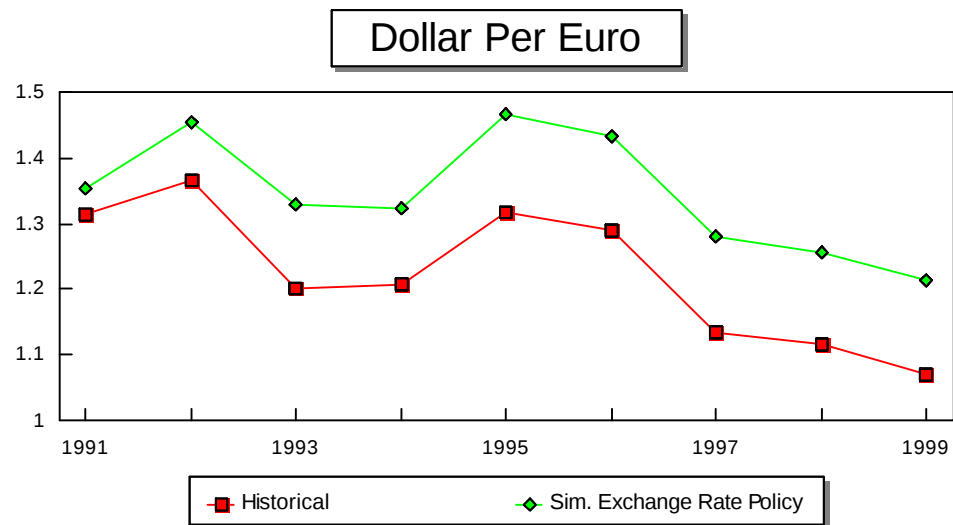
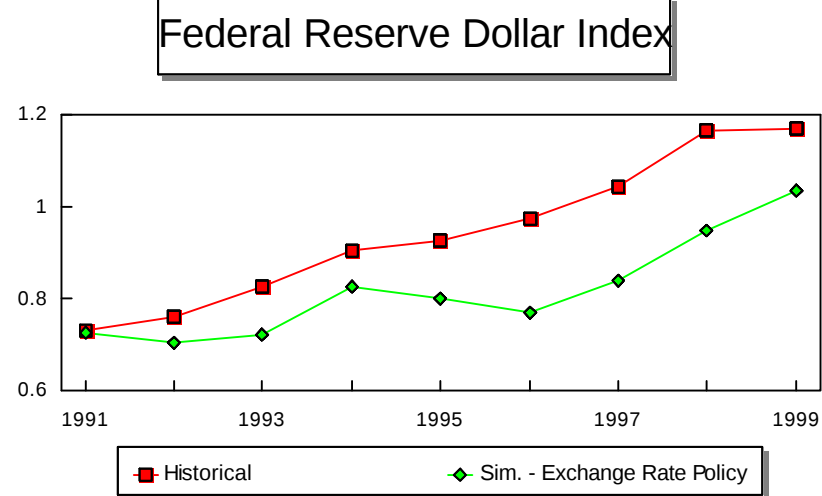
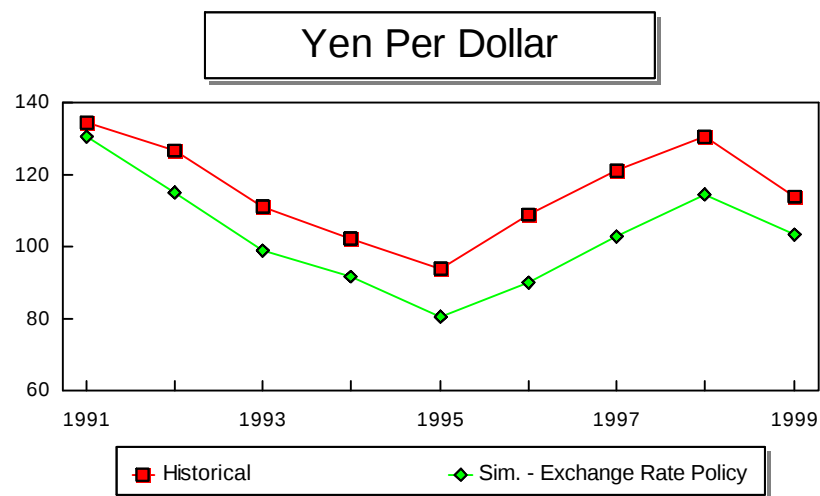
Historical	376.2	415.8	451.5	460.4	541.7	670.9	872.9	1085.0	1327.0	689.0
Sim. - Ex Rate Policy	376.7	422.4	462.9	482.4	582.4	736.9	973.1	1250.7	1596.8	764.9
Difference	0.5	6.6	11.5	22.1	40.6	66.0	100.2	165.6	269.8	75.9
	0.1	1.6	2.5	4.8	7.5	9.8	11.5	15.3	20.3	8.2

Table A-3 Macroeconomic Effects of Exchange Rate Policy to Restrain Current Account Deficit*
Growth Rates of Major Variables that Describe the Economy -- Percent Unless Noted Otherwise

	1991	1992	1993	1994	1995	1996	1997	1998	1999	Average Per Yr.
GDP Growth										
Historical	-0.5	3.1	2.7	4.1	2.8	3.7	4.5	4.5	4.4	3.3
Sim. - Ex Rate Policy	-0.4	3.5	3.4	3.8	2.8	4.4	4.6	4.6	3.3	3.3
Difference	0.1	0.4	0.6	-0.4	0.0	0.7	0.2	0.1	-1.1	0.1
Inflation										
GDP Price Index										
Historical	3.2	1.4	1.4	1.0	1.4	1.3	1.4	1.1	0.9	1.5
Sim. Ex Rate Policy	3.2	1.4	2.1	1.8	1.7	1.4	2.1	1.3	1.7	1.8
Difference	-0.0	-0.0	0.7	0.8	0.3	0.1	0.7	0.2	0.7	0.4
CPI-U										
Historical	4.2	3.0	3.0	2.6	2.8	2.9	2.3	1.6	2.2	2.7
Sim. Ex Rate Policy	4.2	3.2	3.5	3.2	3.3	3.7	3.1	2.2	2.6	3.2
Difference	0.0	0.2	0.5	0.6	0.5	0.7	0.7	0.6	0.4	0.5
Unemployment Rate										
Historical	6.9	7.5	6.9	6.1	5.6	5.4	4.9	4.5	4.2	5.8
Sim. Ex Rate Policy	6.8	7.3	6.4	5.7	5.3	4.8	4.2	3.7	3.8	5.3
Difference	-0.0	-0.2	-0.5	-0.4	-0.3	-0.6	-0.7	-0.8	-0.4	-0.4
Federal Funds										
Historical	5.72	3.57	3.02	4.20	5.84	5.33	5.48	5.37	4.98	4.84
Sim. - Ex Rate Policy	5.80	3.85	3.78	5.00	6.59	6.50	6.99	7.13	6.91	5.84
Difference	0.08	0.27	0.76	0.81	0.75	1.16	1.51	1.76	1.93	1.00
90 Day Treasury Bill										
Historical	5.37	3.43	3.00	4.25	5.49	5.00	5.06	4.78	4.64	4.56
Sim. - Ex Rate Policy	5.44	3.66	3.62	4.89	6.11	5.96	6.28	6.19	6.15	5.37
Difference	0.06	0.23	0.62	0.64	0.62	0.95	1.22	1.41	1.52	0.81
10 Year Treasury Note										
Historical	5.72	3.57	3.02	4.20	5.84	5.33	5.48	5.37	4.98	4.84
Sim. - Ex Rate Policy	5.80	3.85	3.78	5.00	6.59	6.50	6.99	7.13	6.91	5.84
Difference	0.08	0.27	0.76	0.81	0.75	1.16	1.51	1.76	1.93	1.00
S&P 500 Operating Earnings per Share										
Historical	-71.8	89.6	57.8	70.7	75.9	21.8	46.4	-6.5	58.6	38.0
Sim. - Ex Rate Policy	-69.3	100.7	81.2	77.5	64.7	26.7	52.3	-8.5	54.3	42.2
Difference	2.5	11.1	23.5	6.8	-11.3	4.9	6.0	-2.1	-4.3	4.1

		1991	1992	1993	1994	1995	1996	1997	1998	1999	Average Per Yr.
S&P 500 Price Index											
	Historical	12.4	10.5	8.6	2.0	17.7	23.8	30.1	24.3	22.3	16.9
	Sim. - Ex Rate Policy	12.6	12.1	9.6	4.2	20.7	26.5	32.0	28.5	27.7	19.3
	Difference	0.2	1.6	1.0	2.2	3.0	2.7	1.9	4.2	5.4	2.5
Yen/\$											
	Historical	-7.2	-5.7	-12.3	-8.1	-8.0	15.8	11.1	8.1	-13.0	-2.1
	Sim. - Ex Rate Policy	-10.0	-11.6	-14.0	-7.7	-12.1	11.8	14.3	11.5	-10.0	-3.1
	Difference	-2.7	-5.9	-1.7	0.4	-4.2	-4.0	3.2	3.4	3.0	-0.9
\$/Euro											
	Historical	-2.7	4.0	-12.0	0.3	9.2	-2.0	-12.1	-1.7	-4.2	-2.4
	Sim. - Ex Rate Policy	0.4	7.4	-8.7	-0.4	10.8	-2.2	-10.7	-2.0	-3.5	-1.0
	Difference	3.1	3.4	3.3	-0.7	1.6	-0.1	1.4	-0.3	0.7	1.4
Morgan Trade-Weighted Index											
	Historical	-1.6	-1.5	3.2	-1.5	-5.7	4.8	8.0	5.0	-2.3	0.9
	Sim. - Ex Rate Policy	-2.4	-10.5	-5.3	3.8	-12.4	-6.5	12.2	5.3	11.0	-0.5
	Difference	-0.9	-9.0	-8.5	5.4	-6.7	-11.3	4.3	0.2	13.3	-1.5

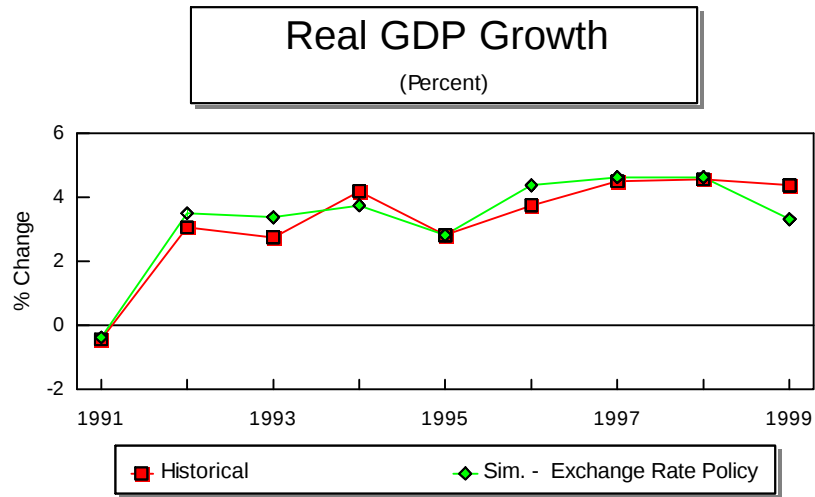
Chart A-3.1
Dollar Exchange Rates are Moved Lower (Devaluation) to Narrow the Current Account Deficit



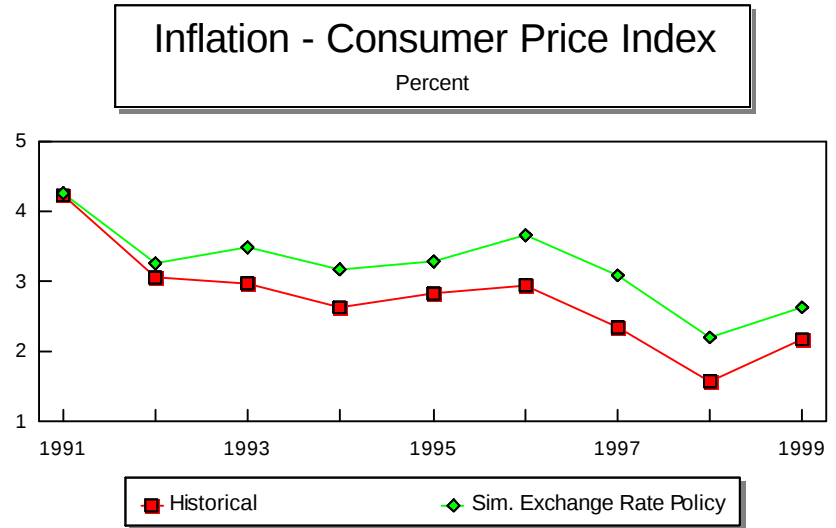
Exchange Rates are Lowered (Devalued) to Move the Current Account Deficit Closer to Balance
Simulation with the Sinai-Boston Quarterly Econometric Model of the U.S. Economy

Chart A-3.1 (Cont.)

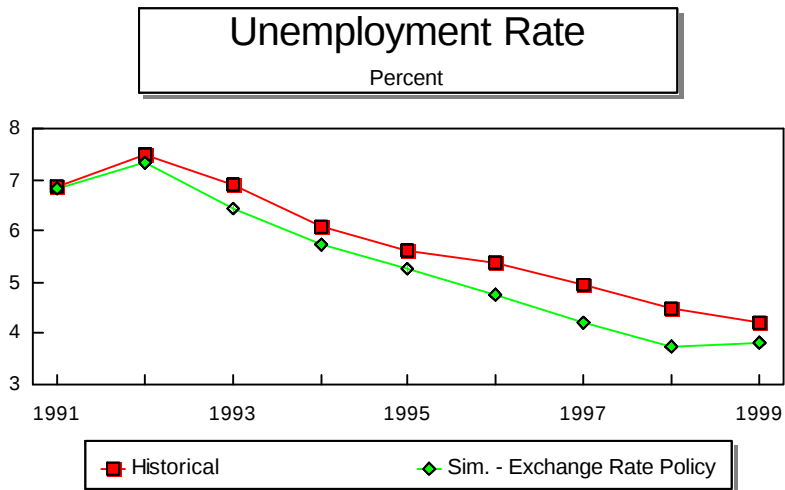
**A Weaker Dollar Boosts Exports, Cuts Imports,
Raises GDP ...**



Inflation Moves Higher



and Lowers the Unemployment Rate



**Higher Inflation and Higher Economic Growth Lead
to a Higher Federal Funds Rate**

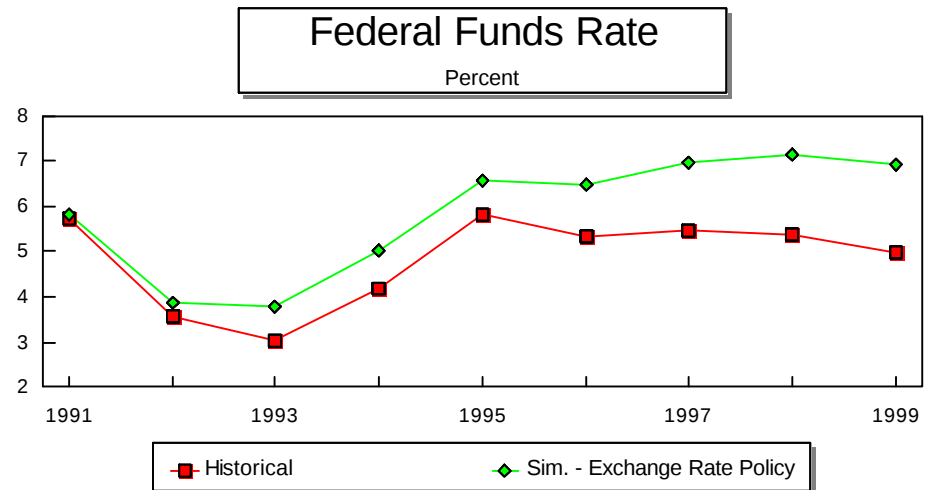
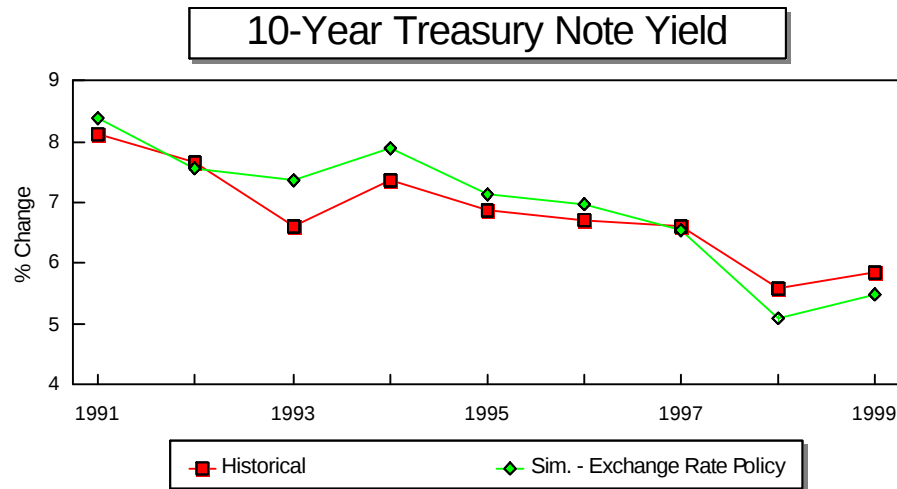
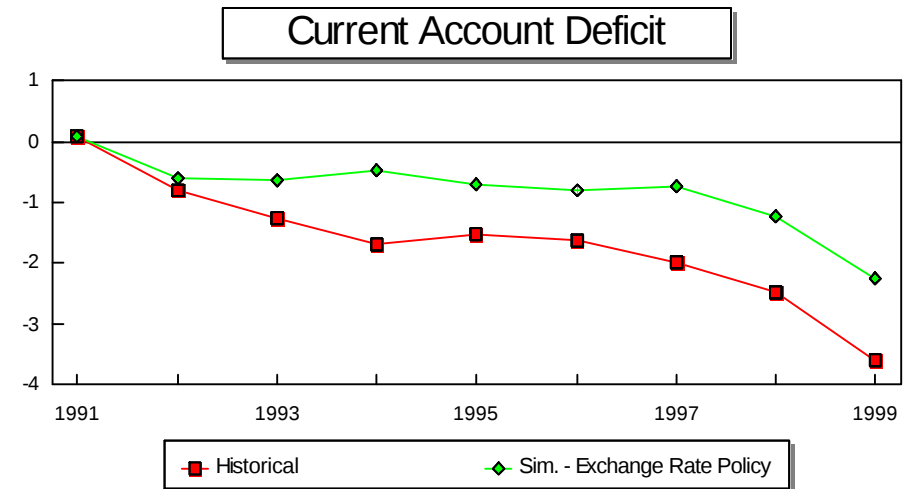


Chart A-3.1 (Cont.)

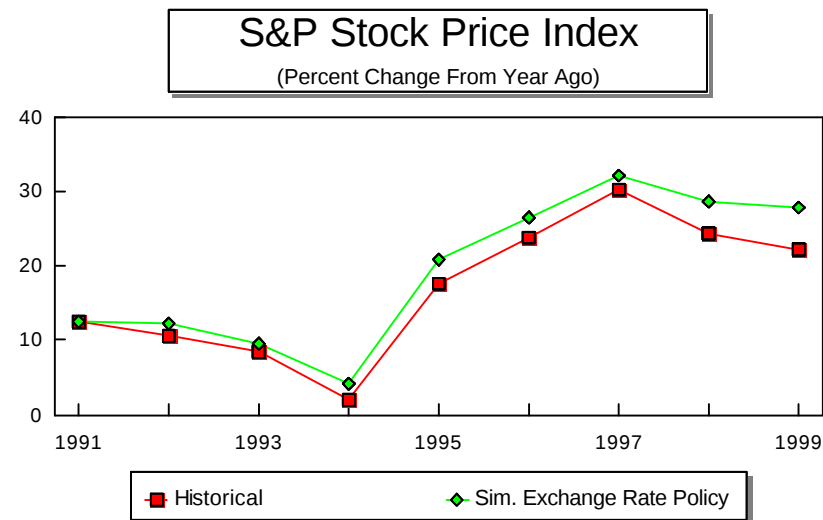
Long-Term Interest Rates Rise



But the Currency Devaluation Narrows the Current Account Deficit



Higher Growth and Increased Profits Help Stock Prices



Appendix B—Results from Prospective Simulations, 2000-2004

Table B.1

The Baseline Forecast—2000-2004, July 17, 2000

Chart B-1.1

The Baseline—2000-2004

Table B.2

Macroeconomic Effects of a Restrictive Monetary Policy

Chart B-2.1

Boom at Start, Tighter Monetary Policy is Used to Restrain Boom, Take Down too High Inflation, and to Reduce Trade and Current Account Deficits

Table B.3

Macroeconomic Effects of an Easier Fiscal Policy

Chart B-3.1

Relaxed Fiscal Discipline Under a Budget Surplus Scenario

Table B.4

Macroeconomic Effects of Increased Growth Outside the United States—Variant 1

Table B.5

Macroeconomic Effects of Increased Growth Outside the United States—Variant 2

Table B.6

Macroeconomic Effects Increased Growth Outside the United States—Variant 3

Chart B-4.1

Hard Landing Variants (World Growth Pick Up, Weaker Dollar, More Inflation, Fed Tightening, Shift in Investment and Lending Away from the U.S.)

Table B-1



Information for Decisions

Decision Economics

New York • London • Boston • Tokyo

U. S. Economic Forecast

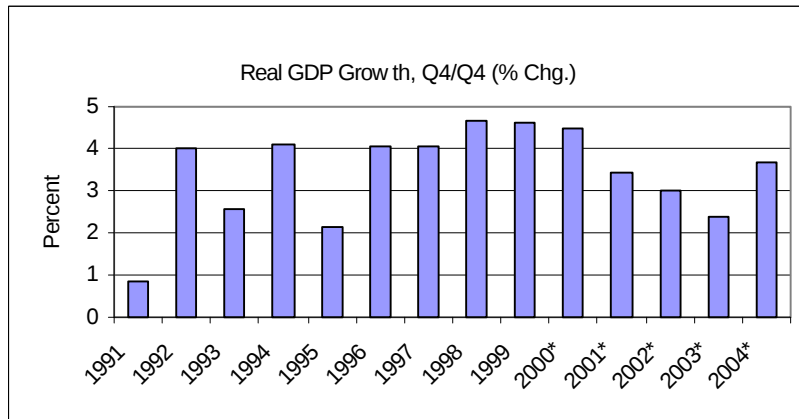
July 17, 2000

(Baseline, Most Likely)

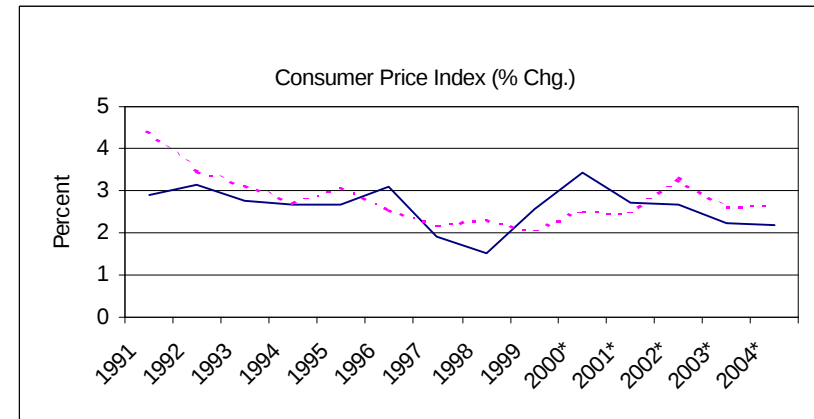
	1998	1999	2000	2001	2002	2003	2004
Economy							
Gross Dom. Prod. (GDP)							
Bils. Chain 96 \$'s	8495.7	8848.2	9297.3	9648.0	9931.9	10194.8	10551.3
Ann. % Chg.	4.3	4.2	5.1	3.8	2.9	2.6	3.5
% Chg. Yr.-over-Yr.	4.7	4.6	4.5	3.4	3.0	2.4	3.5
Consump.	5681.9	5983.6	6291.5	6489.1	6667.4	6830.1	7077.6
Ann. % Chg.	4.9	5.3	5.1	3.1	2.7	2.4	3.6
Bus. Fixed Invest.	1122.5	1215.8	1361.0	1469.8	1554.8	1627.4	1714.4
Ann. % Chg.	12.7	8.3	11.9	8.0	5.8	4.7	5.3
Res. Const.	350.2	376.1	379.2	360.3	354.1	352.4	358.3
Inven. Invest.	74.3	42.2	25.5	20.6	27.0	38.6	40.2
Net Exports	-217.6	-323.1	-370.9	-349.8	-366.9	-390.8	-416.6
Fed. Govt.	525.9	540.8	547.2	563.9	576.3	595.3	611.6
Ann. % Chg.	-0.9	2.8	1.2	3.1	2.2	3.3	2.7
State and Local Govt.	952.7	993.1	1043.9	1078.3	1107.5	1133.6	1161.8
Ann. % Chg.	3.2	4.2	5.1	3.3	2.7	2.4	2.5
Fed. Budgt. Surp.-NIPA, FY	32.6	102.3	186.3	216.6	229.7	237.3	258.1
Pub. Held Debt, Ex-Federal Reserve	3368.8	3246.7	3092.9	2792.4	2500.7	2191.4	1868.2
Current Acct. (Bils. \$'s)	-217.1	-331.5	-400.4	-392.6	-440.7	-508.7	-532.6
Vehicles, Housing, Production							
Vehicle Sales (Mils. Units)	15.5	16.8	17.2	16.8	16.8	16.3	16.7
Autos - Total (Mils. Units)	8.1	8.7	8.8	8.6	8.2	7.7	7.9
Light Trucks (Mils. Units)	7.3	8.1	8.4	8.2	8.5	8.6	8.8
Hous. Starts (Mils. Units)	1.621	1.676	1.626	1.490	1.506	1.497	1.520
Indus. Prod. (1992=1.000)	1.324	1.372	1.446	1.495	1.547	1.603	1.660
Ann. % Chg.	4.3	3.6	5.4	3.4	3.4	3.6	3.6
Inflation and Wages							
GDP Price Defl. (% Chg.)	1.2	1.4	2.5	2.5	2.2	1.8	1.8
PCE Price Defl. (% Chg.)	0.9	1.6	2.7	2.6	2.6	2.1	1.9
CPI- All Urban (% Chg.)	1.6	2.2	3.3	2.9	2.7	2.3	2.2
PPI-Fin. Goods (% Chg.)	-0.9	1.8	3.8	3.0	2.7	2.6	2.3
Hrly. Comp. (% Chg.)	5.2	4.8	4.5	5.1	5.2	5.1	5.0
Productivity (Ann. % Chg.)	2.8	3.0	3.4	2.6	3.1	2.8	2.6
Unit Labor Costs (Ann., % Chg.)	2.3	1.7	1.1	2.5	2.0	2.3	2.3
Unemploy. Rate (%)	4.5	4.2	4.0	4.2	4.7	5.2	5.2
Profits, Income, Saving							
Corp. Profs. Aftertax - Bils. \$'s	541.6	589.1	655.2	704.3	758.8	798.2	856.9
% Chg. Yr.-over-Yr.	-2.9	8.8	11.2	7.5	7.7	5.2	7.4
Real Disp. Inc. - Bils. 96 \$'s	6107.1	6349.4	6560.0	6788.4	6995.5	7205.8	7429.2
Ann. % Chg.	4.1	4.0	3.3	3.5	3.1	3.0	3.1
Pers. Saving Rate (%)	3.7	2.4	0.8	1.1	1.4	1.7	1.0
Interest Rates (%)							
Fed. Funds	5.37	4.99	6.38	7.01	6.43	5.62	5.37
3-Mos. Treas.	4.78	4.64	5.92	6.64	5.88	5.17	4.91
Prime	8.35	7.99	9.36	10.00	9.24	8.35	8.10
10-Yr. Treas.	5.25	5.62	6.39	6.25	5.95	5.70	5.48
30-Yr. Treas.	5.57	5.86	6.17	5.91	5.80	5.63	5.49
New AAA-Equiv. Corp.	6.34	6.86	7.93	7.93	7.66	7.25	7.09
Bond Buyer	5.09	5.43	6.08	5.85	5.63	5.46	5.30
Stock Market							
S&P 500	1084.7	1326.5	1454.1	1557.3	1706.0	1825.9	2037.4
Ann. % Chg.	24.3	22.3	9.6	7.1	9.5	7.0	11.6
Div. Yld. - S&P 500 (%)	1.5	1.3	1.2	1.3	1.4	1.5	1.5
S&P 500 EPS (\$'s, Rep.)	37.71	48.17	55.58	59.87	64.80	67.67	73.75
% Chg. Yr.-over-Yr.	-5.1	27.7	15.4	7.7	8.2	4.4	9.0
S&P 500 EPS (\$'s, Oper.)	44.33	51.02	57.74	63.27	68.04	70.91	75.95
% Chg. Yr.-over-Yr.	-1.6	15.1	13.2	9.6	7.5	4.2	7.1
P-E Ratio - S&P 500 (Reported)	28.8	27.5	26.2	26.0	26.3	27.0	27.6
P-E Ratio - S&P 500 (Operating)	24.5	26.0	25.2	24.6	25.1	25.8	26.8
Dollar							
Trade-Wtd. Exch. Rate (Index)	1.105	1.080	1.098	1.075	1.063	1.018	0.999
Ann. % Chg.	5.0	-2.3	1.7	-2.1	-1.1	-4.2	-1.9
Yen/\$	130.8	113.8	105.4	98.6	100.2	97.2	91.4
DM/\$	1.76	1.83	2.02	1.89	1.72	1.63	1.62
\$/Euro	1.114	1.068	0.969	1.035	1.135	1.197	1.228
C\$/	1.48	1.48	1.47	1.43	1.42	1.38	1.35
\$/Stg.	1.66	1.62	1.54	1.56	1.71	1.76	1.77

Chart B-1.1
The Baseline—2000-2004*

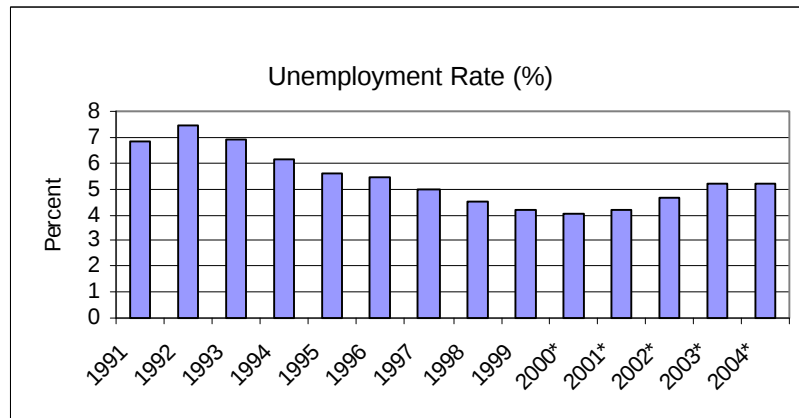
Growth Down Cycle ...



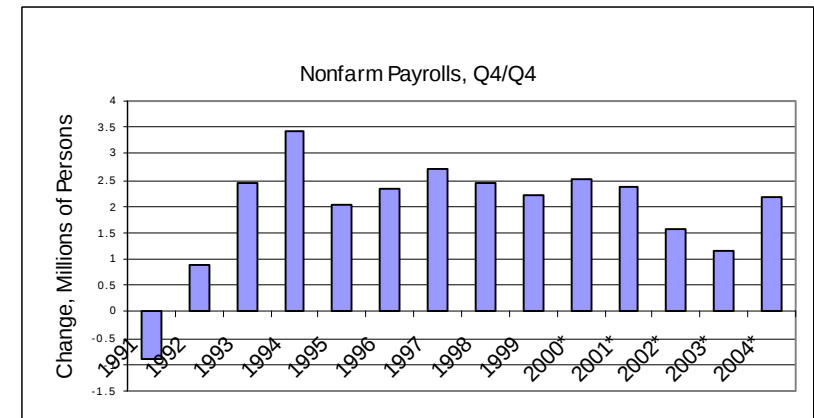
Holds Down an Acceleration of Inflation ...



At the Cost of a higher Unemployment Rate



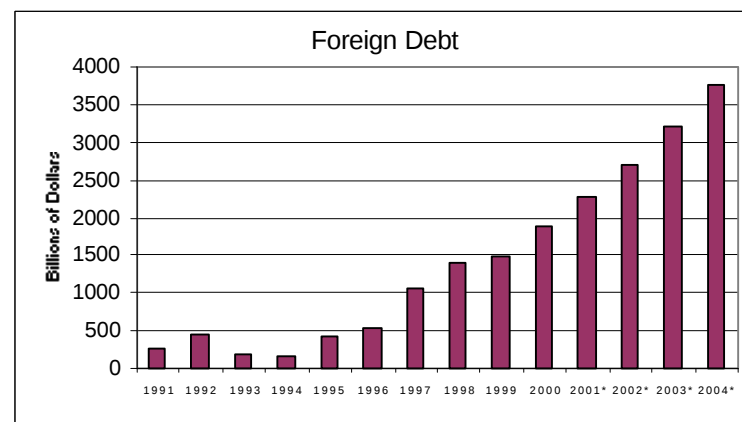
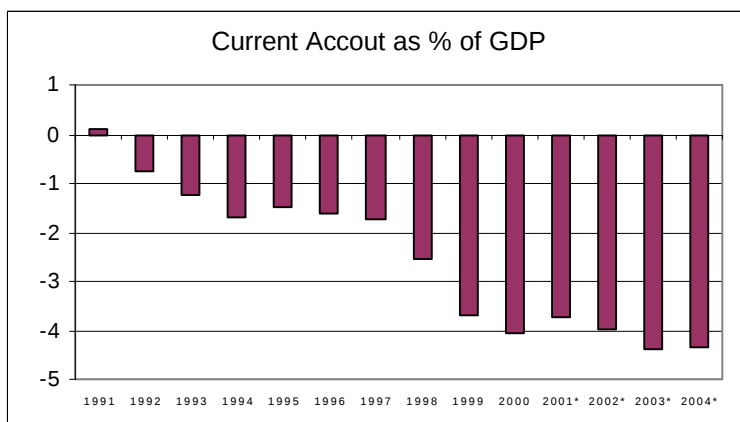
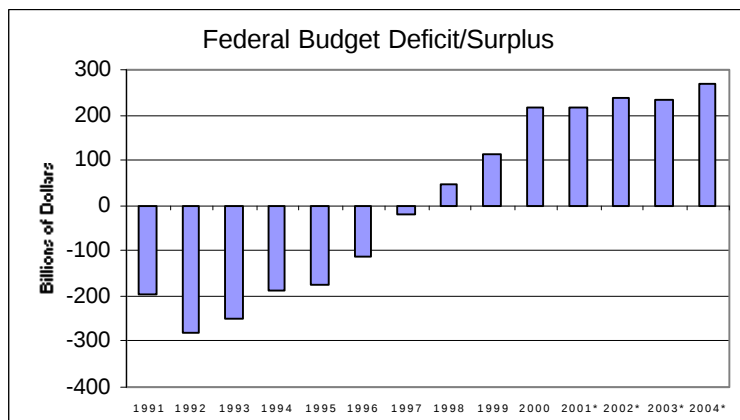
... and Less Jobs Growth.



***Decision Economics, Inc. Forecasts as of July 17, 2000**

Chart B-1.1 (Cont.)

Budget Surplus is Real, Gets Larger, But the Trade Deficit Worsens Mainly on Continuing Strong Imports. The Current Account Deteriorates More and U.S. Indebtedness on International Account Keeps Reaching Record Highs



***Decision Economics, Inc. Forecasts as of July 17, 2000**

Table B-2
Macroeconomic Effects of a Restrictive Monetary Policy

		2000	2001	2002	2003	2004
Current Account Balance						
(Bils. \$'s)	Baseline	-400.4	-392.6	-440.7	-508.7	-532.6
	Sim. - Tight Money	-409.7	-421.8	-430.0	-509.7	-529.0
	(Diff. in Level)	-9.3	-29.2	10.8	-1.0	3.5
Current Account as % of GDP						
	Baseline	-4.1	-3.7	-4.0	-4.4	-4.3
	Sim. - Tight Money	-4.2	-3.9	-3.9	-4.4	-4.3
	Difference	-0.1	-0.2	0.1	-0.0	0.0
Monetary Inputs						
Nonborrowed	Baseline	42.8	44.0	47.1	51.2	53.6
Reserves	Sim. - Tight Money	42.6	40.3	43.4	47.5	49.9
	Difference	-0.2	-3.7	-3.7	-3.7	-3.7
	% Difference	-0.5	-8.4	-7.9	-7.2	-6.9
Nominal Non-defense	Baseline	201.3	218.5	228.1	245.9	261.6
Federal Spending	Sim. - Tight Money	203.8	228.5	238.1	255.9	271.6
	Difference	2.5	10.0	10.0	10.0	10.0
	% Difference	1.2	4.6	4.4	4.1	3.8

Scenario: Strong consumption and investment boosts the economy and prompts Fed tightening.

Add Factors

Consumption and Investment in Billions of 96 \$'s Of:

Motor Vehicles	Baseline	34.3	18.9	12.5	0.5	-4.8
	Sim. - Tight Money	37.6	30.9	24.5	12.5	7.2
	Difference	3.3	12.0	12.0	12.0	12.0
Durables ex-Vehicles, Furniture	Baseline	4.6	2.4	-0.1	-1.9	-2.8
	Sim. - Tight Money	5.9	7.4	4.9	3.1	2.2
	Difference	1.3	5.0	5.0	5.0	5.0
Nondur ex Clothing, Food, Fuel, Gas	Baseline	9.6	14.1	8.7	3.8	0.8
	Sim. - Tight Money	10.9	19.1	13.7	8.8	5.8
	Difference	1.3	5.0	5.0	5.0	5.0
Services ex-housing, Medical, Transport	Baseline	28.7	6.2	4.0	1.7	1.4
	Sim. - Tight Money	32.7	19.2	17.0	14.7	14.4
	Difference	4.0	13.0	13.0	13.0	13.0

Transportation	Baseline	-6.4	-1.5	-5.7	-3.9	-2.4
	Sim. - Tight Money	-2.4	10.5	6.3	8.1	9.6
	Difference	4.0	12.0	12.0	12.0	12.0
Equipment ex-Info Processing	Baseline	7.2	9.7	11.6	9.7	6.9
	Sim. - Tight Money	9.1	13.0	13.4	11.5	8.7
	Difference	1.9	3.3	1.8	1.8	1.8
Info Processing Equip. ex-Computers	Baseline	-0.1	1.2	2.6	-0.9	-1.0
	Sim. - Tight Money	3.3	4.6	3.1	-0.4	-0.5
	Difference	3.4	3.4	0.5	0.5	0.5
State & Local Gov. Spending	Baseline	14.3	16.7	20.2	18.7	17.4
	Sim. - Tight Money	17.6	26.7	30.2	28.7	27.4
	Difference	3.3	10.0	10.0	10.0	10.0

* Macroeconomic model simulation with the Sinai-Boston Quarterly Macroeconometric Model of the U.S. Economy. Simulation starting July, 2000.

Table B-2
Macroeconomic Effects of a Restrictive Monetary Policy*

	2000	2001	2002	2003	2004
Real GDP - Level (Bils. '96 \$'s)					
Baseline	9297.3	9648.0	9931.9	10194.8	10551.3
Sim. - Tight Money	9335.3	9774.1	9944.9	10145.2	10487.2
(Diff. in Level)	38.0	126.1	13.0	-49.6	-64.1
(Pct. Diff. in Level)	0.4	1.3	0.1	-0.5	-0.6
Real GDP-Growth (Pctg. Pts.), Baseline	5.1	3.8	2.9	2.6	3.5
Real GDP-Growth (Pctg. Pts.), Sim. - Tight Money	5.5	4.7	1.7	2.0	3.4
Difference	0.4	0.9	-1.2	-0.6	-0.1
Consumption (Bils. '96 \$'s)					
Baseline	6291.5	6489.1	6667.4	6830.1	7077.6
Sim. - Tight Money	6312.9	6548.2	6676.6	6825.0	7062.4
(Diff. in Level)	21.3	59.1	9.2	-5.1	-15.2
(Pct. Diff. in Level)	0.3	0.9	0.1	-0.1	-0.2
Business Capital Spending, Total (Bils. '96 \$'s)					
Baseline	1361.0	1469.8	1554.8	1627.4	1714.4
Sim. - Tight Money	1375.7	1537.3	1571.7	1602.1	1685.6
(Diff. in Level)	14.7	67.5	16.9	-25.3	-28.8
(Pct. Diff. in Level)	1.1	4.6	1.1	-1.6	-1.7
Plant, Baseline	265.9	286.7	300.3	316.1	327.9
Plant, Sim. - Tight Money	267.5	289.0	292.3	309.1	318.6
(Diff. in Level)	1.5	2.3	-8.0	-7.0	-9.3
(Pct. Diff. in Level)	0.6	0.8	-2.7	-2.2	-2.8
Equipment, Baseline	1109.8	1210.1	1293.6	1363.0	1456.5
Equipment, Sim. - Tight Money	1124.4	1282.5	1319.2	1338.0	1429.8
(Diff. in Level)	14.6	72.4	25.6	-25.1	-26.7
(Pct. Diff. in Level)	1.3	6.0	2.0	-1.8	-1.8
Net Exports (Bils. '96 \$'s)					
Baseline	-370.9	-349.8	-366.9	-390.8	-416.6
Sim. - Tight Money	-377.5	-369.2	-379.0	-413.6	-444.8
(Diff. in Level)	0.0	0.0	0.0	0.0	0.0
Real Exports					
Baseline	1137.4	1251.8	1337.2	1421.9	1532.5
Sim. - Tight Money	1137.3	1249.2	1322.9	1396.0	1504.8
(Diff. in Level)	-0.1	-2.6	-14.3	-25.9	-27.7
(Pct. Diff. in Level)	-0.0	-0.2	-1.1	-1.8	-1.8

Real Imports	2000	2001	2002	2003	2004
Baseline	1508.3	1601.5	1704.1	1812.7	1949.0
Sim. - Tight Money	1514.8	1618.4	1701.9	1809.5	1949.6
(Diff. in Level)	6.4	16.8	-2.2	-3.2	0.6
(Pct. Diff. in Level)	0.4	1.1	-0.1	-0.2	0.0
Nominal Net Exports (Bils. \$'s)					
Baseline	-328.8	-323.5	-373.9	-433.6	-461.3
Sim. - Tight Money	-335.3	-343.4	-364.9	-432.4	-455.7
(Diff. in Level)	-6.5	-19.9	9.0	1.2	5.6
(Pct. Diff. in Level)	-0.4	-1.3	0.3	-0.5	-0.4
Nominal Exports					
Baseline	1100.7	1217.0	1298.3	1383.8	1497.0
Sim. - Tight Money	1100.9	1218.3	1286.0	1348.5	1455.4
(Diff. in Level)	0.2	1.3	-12.4	-35.3	-41.7
(Pct. Diff. in Level)	0.0	0.1	-1.0	-2.6	-2.8
Nominal Imports					
Baseline	1429.5	1540.5	1672.3	1817.4	1958.3
Sim. - Tight Money	1436.2	1561.7	1650.9	1780.9	1911.0
(Diff. in Level)	6.6	21.3	-21.4	-36.5	-47.3
(Pct. Diff. in Level)	0.5	1.4	-1.3	-2.0	-2.4
Current Account Balance (Bils. \$'s)					
Baseline	-400.4	-392.6	-440.7	-508.7	-532.6
Sim. - Tight Money	-409.7	-421.8	-430.0	-509.7	-529.0
(Diff. in Level)	-9.3	-29.2	10.8	-1.0	3.5
Current Account as % of GDP					
Baseline (%)	-4.1	-3.7	-4.0	-4.4	-4.3
Sim. - Tight Money	-4.2	-3.9	-3.9	-4.4	-4.3
Difference	-0.1	-0.2	0.1	-0.0	0.0
Budget Deficit (NIPA)					
(Bils. \$'S)					
Baseline	218.0	215.2	238.0	234.4	270.9
Sim. - Tight Money	222.2	225.2	208.5	183.9	217.4
(Diff. in Level)	4.3	9.9	-29.5	-50.6	-53.5
(Pct. Diff. in Level)	2.0	4.6	-12.4	-21.6	-19.8
Potential Output (Bils. 1992 \$'s)					
Baseline	7880.8	8164.4	8453.0	8734.2	9018.7
Sim. - Tight Money	7884.6	8196.2	8477.4	8721.3	8989.9
(Diff. in Level)	3.8	31.7	24.4	-12.9	-28.8

	2000	2001	2002	2003	2004
Potential Output Growth	4.0	3.6	3.5	3.3	3.3
Baseline	4.1	4.0	3.4	2.9	3.1
Sim. - Tight Money (Diff. in Level)	0.1	0.4	-0.1	-0.4	-0.2

Employment, Compensation, and Unemployment Rate

Employment (Mils. Pers.)

Total Payrolls, Baseline	131.958	135.112	137.285	139.226	142.140
Total Payrolls, Sim. - Tight Money (Diff. in Level)	132.296	136.246	137.321	138.626	141.429
	0.338	1.134	0.036	-0.600	-0.711

	2000	2001	2002	2003	2004
Manufacturing, Baseline	18.537	18.448	18.236	18.011	17.884
Manufacturing, Sim. - Tight Money (Diff. in Level)	18.560	18.554	18.239	17.956	17.834
	0.023	0.106	0.003	-0.055	-0.050

Ex-Manufacturing, Baseline	113.421	116.664	119.049	121.215	124.256
Ex-Manufacturing, Sim. - Tight Money (Diff. in Level)	113.736	117.692	119.082	120.670	123.595
	0.315	1.028	0.033	-0.545	-0.661

Unemployment Rate (Percent)

Baseline	4.0	4.2	4.7	5.2	5.2
Sim. - Tight Money	3.9	3.8	4.7	5.4	5.4
Difference	-0.1	-0.4	-0.0	0.2	0.1

Compensation (Annual Pct. Chg)

Nonfarm Business, Baseline	4.5	5.1	5.2	5.1	5.0
Nonfarm Business, Sim. - Tight Money	4.5	5.2	5.5	4.9	4.7
Difference	-0.0	0.2	0.3	-0.2	-0.2

Manufacturing, Baseline	5.1	6.2	6.1	5.5	5.2
Manufacturing, Sim. - Tight Money	5.2	6.7	6.5	5.3	4.8
Difference	0.0	0.5	0.4	-0.2	-0.4

Avg Hourly Earnings, Non Mftg., Baseline	4.3	5.3	5.0	5.0	4.9
Avg Hourly Earnings, Non Mftg., Sim. - Ti	4.4	5.6	4.9	4.8	4.7
Difference	0.1	0.3	-0.1	-0.1	-0.2

Productivity (Annual Pct. Chg)

Nonfarm Business, Baseline	3.4	2.6	3.1	2.8	2.6
Nonfarm Business, Sim. - Tight Money	3.5	3.0	3.0	2.3	2.4
Difference	0.1	0.4	-0.1	-0.5	-0.2

Inflation (Annual Pct. Chg)	2000	2001	2002	2003	2004
GDP Chain Price Index, Baseline	2.5	2.5	2.2	1.8	1.8
GDP Chain Price Index, Sim. - Tight Money	2.5	2.7	2.6	1.8	1.7
Difference	0.0	0.2	0.4	-0.0	-0.2
Consumer Price Index (All Urban), Baseline	3.3	2.9	2.7	2.3	2.2
Consumer Price Index (All Urban), Sim. - Tig	3.3	3.1	2.9	2.2	2.0
Difference	0.0	0.2	0.1	-0.1	-0.2
After-tax Profits (Bils. \$'s)					
After-tax Profits, Baseline	655.2	704.3	758.8	798.2	856.9
After-tax Profits, Sim. - Tight Money	659.9	722.9	745.4	770.6	839.6
(Diff. in Level)	4.7	18.6	-13.5	-27.6	-17.4
(Pct. Diff. in Level)	0.7	2.6	-1.8	-3.5	-2.0
After-tax Profits/GDP (Percent of GDP)					
After-tax Profits/GDP, Baseline	6.7	6.7	6.8	6.9	7.0
After-tax Profits/GDP, Sim. - Tight Money	6.7	6.7	6.7	6.6	6.9
(Diff. in Level)	0.0	0.1	-0.2	-0.2	-0.1
Wages/GDP (Percent of GDP)					
After-tax Wages/GDP, Baseline	48.4	47.6	47.8	48.1	48.3
After-tax Wages/GDP, Sim. - Tight Money	48.3	47.3	47.6	48.1	48.2
(Diff. in Level)	-0.1	-0.2	-0.1	-0.0	-0.0
Interest Rates (Percent)					
Federal Funds Rate, Baseline	6.38	7.01	6.43	5.62	5.37
Federal Funds Rate, Sim. Tight Money	6.56	8.70	7.71	6.51	6.07
(Diff. in Level)	0.18	1.69	1.29	0.89	0.70
90-day Treas. Bill, Baseline	5.92	6.64	5.88	5.17	4.91
90-day Treas. Bill, Sim. - Tight Money	6.07	8.02	6.95	5.92	5.53
(Diff. in Level)	0.15	1.38	1.06	0.76	0.62
US 10-Year Note, Baseline	6.39	6.25	5.95	5.70	5.48
US 10-Year Note. Sim. - Tight Money	6.44	6.89	6.56	6.14	5.95
(Diff. in Level)	0.05	0.63	0.60	0.45	0.48
30-year Treas, Baseline	6.17	5.91	5.80	5.63	5.49
30-year Treas., Sim. - Tight Money	6.18	6.29	6.16	5.83	5.80
(Diff. in Level)	0.01	0.39	0.36	0.20	0.30

	2000	2001	2002	2003	2004
AAA-Equiv. Corp. New Issue, Baseline	7.93	7.93	7.66	7.25	7.09
AAA-Equiv. Corp. New Issue , Sim. Tight Money	7.96	8.45	8.19	7.57	7.46
(Diff. in Level)	0.03	0.52	0.52	0.32	0.37

Exchange Rates

Morgan Trade-Weighted Index, Baseline	1.098	1.075	1.063	1.018	0.999
Morgan Trade-Weighted Index, Sim. - Tight Money	1.098	1.078	1.098	1.047	1.031
(Diff. in Level)	-0.000	0.002	0.035	0.029	0.032
(Pct. Diff. in Level)	-0.0	0.2	3.3	2.8	3.2

Federal Reserve Dollar Index**, Baseline	1.146	1.188	1.240	1.266	1.315
Federal Reserve Dollar Index**, Sim. - Tight Money	1.145	1.190	1.270	1.292	1.346
(Diff. in Level)	-0.001	0.002	0.030	0.026	0.031
(Pct. Diff. in Level)	-0.1	0.2	2.4	2.1	2.4

Yen/\$, Baseline	105.4	98.6	100.2	97.2	91.4
Yen/\$, Sim. - Tight Money	105.7	101.6	105.9	100.8	95.8
(Diff. in Level)	0.2	3.0	5.7	3.6	4.4
(Pct. Diff. in Level)	0.2	3.0	5.7	3.7	4.8

\$/Euro, Baseline	0.969	1.035	1.135	1.197	1.228
\$/Euro, Sim. - Tight Money	0.964	0.977	1.063	1.139	1.162
(Diff. in Level)	-0.005	-0.058	-0.073	-0.058	-0.066
(Pct. Diff. in Level)	-0.5	-5.6	-6.4	-4.8	-5.3

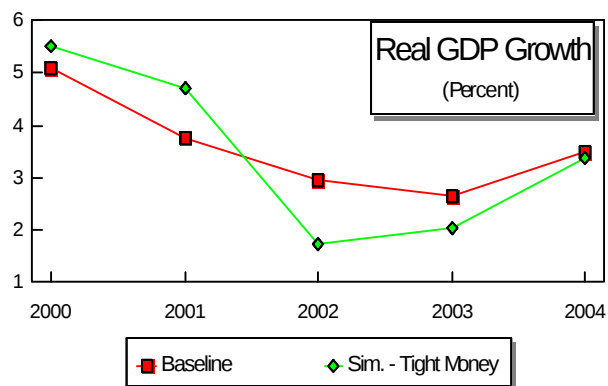
\$/Pound, Baseline	1.544	1.563	1.706	1.759	1.771
\$/Pound, Sim. - Tight Money	1.541	1.513	1.626	1.688	1.690
(Diff. in Level)	-0.003	-0.050	-0.079	-0.071	-0.082
(Pct. Diff. in Level)	-0.2	-3.2	-4.7	-4.0	-4.6

S&P 500 Operating Earnings per Share					
Baseline	57.74	62.23	67.00	69.87	75.95
Sim. - Tight Money	58.61	65.06	65.85	67.14	73.83
Difference	0.87	2.83	-1.16	-2.73	-2.11
(Pct. Diff. in Level)	1.51	4.55	-1.72	-3.91	-2.78

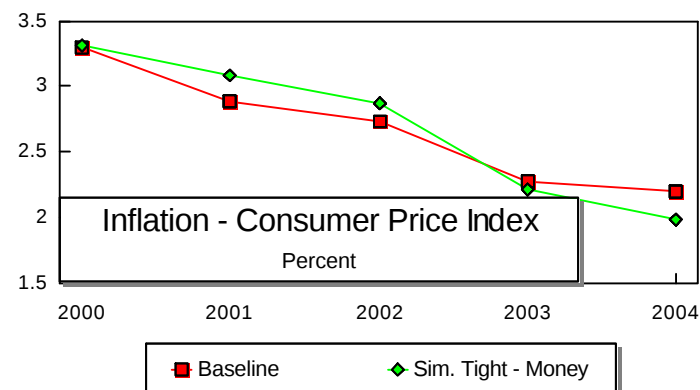
S&P 500 Price Index					
Baseline	1454.1	1557.3	1706.0	1825.9	2037.4
Sim. - Tight Money	1442.1	1385.2	1474.3	1502.3	1576.2
Difference	-12.0	-172.1	-231.7	-323.6	-461.2
(Pct. Diff. in Level)	-0.8	-11.1	-13.6	-17.7	-22.6

Chart B-2.1
Boom at Start, Tighter Monetary Policy is Used to Restrain Boom—Take Down Too High Inflation,
and to Reduce Trade and Current Account Deficits
(Baseline vs. Tight Money)*

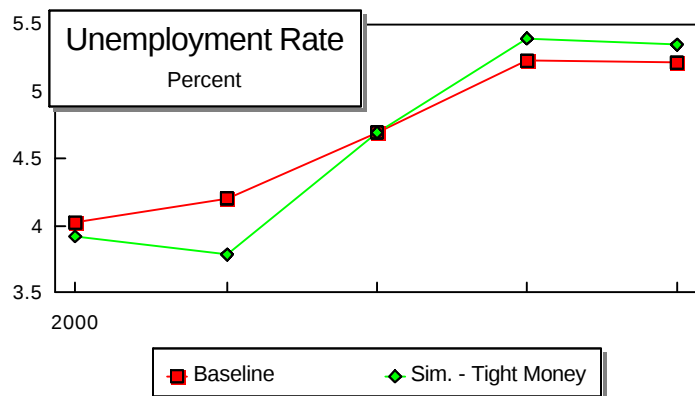
**Produces More Cyclical Economy and Big
Slowdown with Lags . . .**



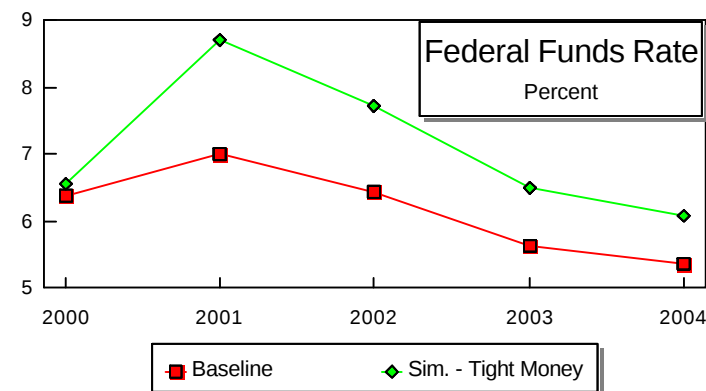
Stubborn Inflation . . .



And Lots of Lost Jobs



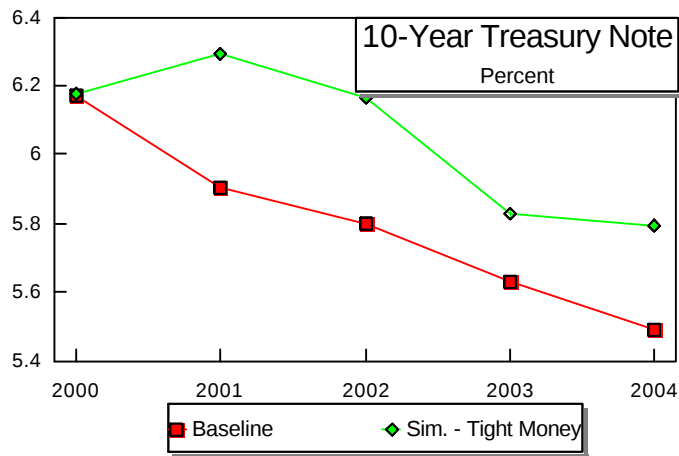
On Much Tighter Monetary Policy



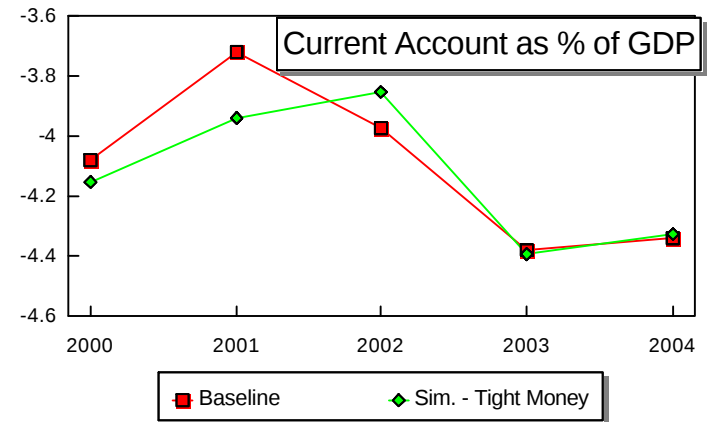
***Autonomous Increases of Consumption, Capital Spending, State and Local Government Outlays Feed Boom; Simulation with the Sinai-Boston Quarterly Econometric Model of the U.S..**

**Chart B-2.1 (cont.)
Tighter Monetary Policy to Restrain Boom, Take Down Too High Inflation,
and to Reduce Trade and Current Account Deficits
(Baseline vs. Tight Money)***

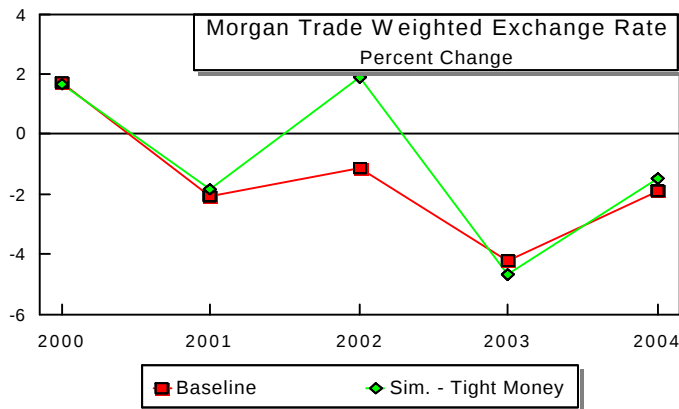
Higher Long-Term Interest Rates Result



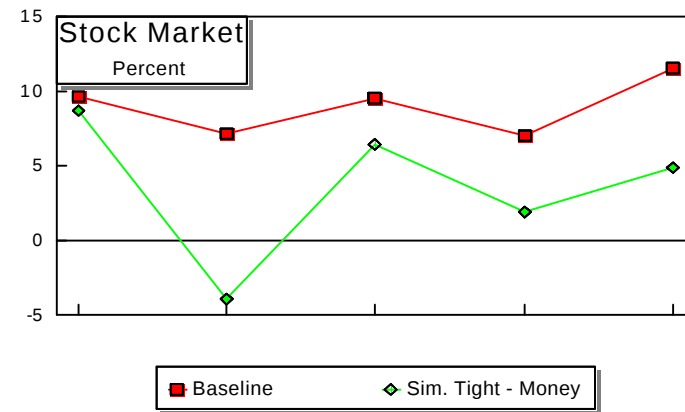
**Improved, But Still High, Current Account Deficits
as a Chronic Problem**



Help the Dollar, But There is . . .



A “Deep Correction” and Stagnant Equity Market



*Autonomous Increases of Consumption, Capital Spending, State and Local Government Outlays Feed Boom; Simulations with the Sinai-Boston Quarterly Econometric Model of the U.S..

Table B-3
Macroeconomic Effects of an Easier Fiscal Policy

		2000	2001	2002	2003	2004
Current Account Balance						
(Bils. \$'s)	Baseline	-400.4	-392.6	-440.7	-508.7	-532.6
	Sim. - Easier Fiscal	-403.0	-422.1	-477.0	-553.7	-581.8
	(Diff. in Level)	-2.6	-29.5	-36.2	-45.0	-49.2
Current Account as % of GDP						
	Baseline	-4.1	-3.7	-4.0	-4.4	-4.3
	Sim. - Easier Fiscal	-4.1	-4.0	-4.3	-4.7	-4.7
	Difference	-0.0	-0.3	-0.3	-0.4	-0.4
Fiscal Inputs						
Effective Federal Personal	Baseline	0.11	0.11	0.11	0.11	0.11
Tax Rate - Ordinary Income	Sim. - Easier Fiscal	0.11	0.10	0.10	0.10	0.10
	(Diff. in Level)	-0.00	-0.01	-0.01	-0.01	-0.00
	(Pct. Diff. in Level)	-1.37	-5.32	-5.03	-4.77	-4.51
Effective Federal Personal	Baseline	0.12	0.12	0.12	0.12	0.12
Tax Rate - All Income	Sim. - Easier Fiscal	0.11	0.11	0.11	0.11	0.11
	(Diff. in Level)	-0.00	-0.01	-0.01	-0.01	-0.00
	(Pct. Diff. in Level)	-1.25	-4.83	-4.56	-4.31	-4.07
Federal Defense Spending	Baseline	379.8	393.1	411.9	426.5	443.6
Nominal	Sim. - Easier Fiscal	382.0	403.8	428.9	445.1	463.6
	(Diff. in Level)	2.2	10.7	17.0	18.6	20.0
	(Pct. Diff. in Level)	0.6	2.7	4.1	4.4	4.5
Federal Non-defense	Baseline	201.3	218.5	228.1	245.9	261.6
Spending, Nominal	Sim. - Easier Fiscal	204.5	231.6	243.2	266.4	282.5
	(Diff. in Level)	3.3	13.1	15.1	20.5	20.9
	(Pct. Diff. in Level)	1.6	6.0	6.6	8.3	8.0

* Macroeconomic model simulation with the Sinai-Boston Quarterly Macroeconometric Model of the U.S. Economy. Simulation starting July, 2000. The Federal Reserve follows a Taylor Rule in setting the federal funds rate.

Table B-3
Macroeconomic Effects of an Easier Fiscal Policy

	2000	2001	2002	2003	2004
Real GDP - Level (Bils. '96 \$'s)					
Baseline	9297.3	9648.0	9931.9	10194.8	10551.3
Sim. - Easier Fiscal	9306.7	9695.3	9989.7	10250.2	10598.8
(Diff. in Level)	9.4	47.2	57.9	55.4	47.5
(Pct. Diff. in Level)	0.1	0.5	0.6	0.5	0.5
Real GDP-Growth (Pctg. Pts.), Baseline	5.1	3.8	2.9	2.6	3.5
Real GDP-Growth (Pctg. Pts.), Sim. - Easier Fisc	5.2	4.2	3.0	2.6	3.4
Difference	0.1	0.4	0.1	-0.0	-0.1
Consumption (Bils. '96 \$'s)					
Baseline	6291.5	6489.1	6667.4	6830.1	7077.6
Sim. - Easier Fiscal	6296.4	6519.8	6704.0	6867.2	7113.5
(Diff. in Level)	4.9	30.7	36.6	37.1	36.0
(Pct. Diff. in Level)	0.1	0.5	0.5	0.5	0.5
Business Capital Spending, Total (Bils. '96 \$'s)					
Baseline	1361.0	1469.8	1554.8	1627.4	1714.4
Sim. - Easier Fiscal	1361.4	1476.3	1565.0	1634.1	1714.3
(Diff. in Level)	0.5	6.5	10.1	6.7	-0.0
(Pct. Diff. in Level)	0.0	0.4	0.7	0.4	-0.0
Plant, Baseline	265.9	286.7	300.3	316.1	327.9
Plant, Sim. - Easier Fiscal	266.1	288.1	301.6	316.7	327.8
(Diff. in Level)	0.2	1.4	1.3	0.7	-0.0
(Pct. Diff. in Level)	0.1	0.5	0.4	0.2	-0.0
Equipment, Baseline	1109.8	1210.1	1293.6	1363.0	1456.5
Equipment, Sim. - Easier Fiscal	1110.1	1215.9	1303.6	1369.6	1455.6
(Diff. in Level)	0.3	5.7	10.0	6.5	-0.8
(Pct. Diff. in Level)	0.0	0.5	0.8	0.5	-0.1
Net Exports (Bils. '96 \$'s)					
Baseline	-370.9	-349.8	-366.9	-390.8	-416.6
Sim. - Easier Fiscal	-373.0	-369.7	-392.7	-421.0	-446.4
(Diff. in Level)	-2.1	-19.9	-25.8	-30.1	-29.8
Real Exports					
Baseline	1137.4	1251.8	1337.2	1421.9	1532.5
Sim. - Easier Fiscal	1137.4	1251.3	1334.3	1414.6	1521.6
(Diff. in Level)	-0.0	-0.4	-2.8	-7.3	-10.9
(Pct. Diff. in Level)	-0.0	-0.0	-0.2	-0.5	-0.7
Real Imports					
Baseline	1508.3	1601.5	1704.1	1812.7	1949.0
Sim. - Easier Fiscal	1510.4	1621.0	1727.0	1835.6	1968.0
(Diff. in Level)	2.1	19.4	22.9	22.9	18.9
(Pct. Diff. in Level)	0.1	1.2	1.3	1.3	1.0

Nominal Net Exports (Bils. \$'s)

Baseline	-328.8	-323.5	-373.9	-433.6	-461.3
Sim. - Easier Fiscal	-330.7	-344.4	-399.6	-465.6	-496.4
(Diff. in Level)	-1.9	-20.9	-25.7	-32.0	-35.1
(Pct. Diff. in Level)	-0.1	-1.3	-1.5	-1.8	-1.9

Nominal Exports

Baseline	1100.7	1217.0	1298.3	1383.8	1497.0
Sim. - Easier Fiscal	1100.7	1217.7	1298.7	1379.7	1488.9
(Diff. in Level)	0.0	0.7	0.4	-4.1	-8.1
(Pct. Diff. in Level)	0.0	0.1	0.0	-0.3	-0.5

Nominal Imports

Baseline	1429.5	1540.5	1672.3	1817.4	1958.3
Sim. - Easier Fiscal	1431.4	1562.1	1698.4	1845.3	1985.3
(Diff. in Level)	1.9	21.7	26.1	27.9	27.0
(Pct. Diff. in Level)	0.1	1.4	1.6	1.5	1.4

Budget Deficit (NIPA)

(Bils. \$'S)

Baseline	218.0	215.2	238.0	234.4	270.9
Sim. - Easier Fiscal	203.1	155.9	171.1	155.4	182.6
(Diff. in Level)	-14.9	-59.4	-66.9	-79.1	-88.3
(Pct. Diff. in Level)	-6.8	-27.6	-28.1	-33.7	-32.6

2000	2001	2002	2003	2004
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Current Account Balance (Bils. \$'s)

Baseline	-400.4	-392.6	-440.7	-508.7	-532.6
Sim. - Easier Fiscal	-403.0	-422.1	-477.0	-553.7	-581.8
(Diff. in Level)	-2.6	-29.5	-36.2	-45.0	-49.2

Current Account as % of GDP

Baseline(%)	-4.1	-3.7	-4.0	-4.4	-4.3
Sim. - Easier Fiscal	-4.1	-4.0	-4.3	-4.7	-4.7
Difference	-0.0	-0.3	-0.3	-0.4	-0.4

Potential Output (Bils. 1992 \$'s)

Baseline	7880.8	8164.4	8453.0	8734.2	9018.7
Sim. - Easier Fiscal	7882.0	8185.3	8489.3	8777.7	9064.3
(Diff. in Level)	1.2	20.9	36.3	43.5	45.6

Potential Output Growth

Baseline	4.0	3.6	3.5	3.3	3.3
Sim. - Easier Fiscal	4.0	3.8	3.7	3.4	3.3
(Diff. in Level)	0.0	0.3	0.2	0.1	0.0

Employment, Compensation, and Unemployment Rate**Employment (Mils. Pers.)**

Total Payrolls, Baseline	131.958	135.112	137.285	139.226	142.140
Total Payrolls, Sim. - Easier Fiscal	132.021	135.435	137.686	139.563	142.409
(Diff. in Level)	0.063	0.323	0.401	0.337	0.269
Manufacturing, Baseline	18.536	18.448	18.225	17.961	17.814
Manufacturing, Sim. - Easier Fiscal	18.543	18.486	18.265	17.989	17.830
(Diff. in Level)	0.007	0.038	0.040	0.028	0.016
Ex-Manufacturing, Baseline	113.422	116.664	119.061	121.265	124.326
Ex-Manufacturing, Sim. - Easier Fiscal	113.478	116.949	119.421	121.575	124.579
(Diff. in Level)	0.056	0.285	0.360	0.309	0.253

Unemployment Rate (Percent)

Baseline	4.0	4.2	4.7	5.2	5.2
Sim. - Easier Fiscal	4.0	4.1	4.6	5.1	5.2
Difference	-0.0	-0.1	-0.1	-0.1	-0.0

Compensation (Annual Pct. Chg)

	2000	2001	2002	2003	2004
Nonfarm Business, Baseline	4.5	5.1	5.2	5.1	5.0
Nonfarm Business, Sim. - Easier Fiscal	4.5	5.1	5.3	5.2	5.0
Difference	-0.0	0.0	0.1	0.1	0.0
Manufacturing, Baseline	5.1	6.2	6.1	5.5	5.2
Manufacturing, Sim. - Easier Fiscal	5.1	6.3	6.3	5.7	5.3
Difference	0.0	0.1	0.2	0.2	0.1
Avg Hourly Earnings, Non Mftg., Baseline	4.3	5.3	5.0	5.0	4.9
Avg Hourly Earnings, Non Mftg., Sim. - Easier	4.3	5.4	5.2	5.0	5.0
Difference	0.0	0.1	0.1	0.1	0.0

Productivity (Annual Pct. Chg)

Nonfarm Business, Baseline	3.4	2.6	3.1	2.8	2.6
Nonfarm Business, Sim. - Easier Fiscal	3.4	2.9	3.3	2.8	2.5
Difference	0.0	0.3	0.2	0.0	-0.0

Inflation (Annual Pct. Chg)

GDP Chain Price Index, Baseline	2.5	2.5	2.2	1.8	1.8
GDP Chain Price Index, Sim. - Easier Fiscal	2.5	2.6	2.4	1.8	1.9
Difference	0.0	0.1	0.2	0.0	0.1
Consumer Price Index (All Urban), Baseline	3.3	2.9	2.7	2.3	2.2
Consumer Price Index (All Urban), Sim. - Easier F	3.3	2.9	2.8	2.4	2.2
Difference	0.0	0.0	0.1	0.1	0.1

After-tax Profits (Bils. \$'s)

After-tax Profits, Baseline	655.2	704.3	758.8	798.2	856.9
After-tax Profits, Sim. - Easier Fiscal	656.2	709.7	766.1	801.8	856.1
(Diff. in Level)	0.9	5.4	7.3	3.6	-0.8
(Pct. Diff. in Level)	0.1	0.8	1.0	0.4	-0.1

After-tax Profits/GDP (Percent of GDP)

	2000	2001	2002	2003	2004
After-tax Profits/GDP, Baseline	6.7	6.7	6.8	6.9	7.0
After-tax Profits/GDP, Sim. - Easier Fiscal	6.7	6.7	6.9	6.9	6.9
(Diff. in Level)	0.0	0.0	0.0	-0.0	-0.1

Wages/GDP (Percent of GDP)

After-tax Wages/GDP, Baseline	48.4	47.6	47.8	48.1	48.3
After-tax Wages/GDP, Sim. - Easier Fiscal	48.3	47.5	47.6	48.0	48.1
(Diff. in Level)	-0.0	-0.1	-0.1	-0.1	-0.1

Interest Rates (Percent)

Federal Funds Rate, Baseline	6.38	7.01	6.43	5.62	5.37
Federal Funds Rate, Sim. Easier Fiscal	6.38	7.10	6.58	5.75	5.43
(Diff. in Level)	0.00	0.09	0.16	0.13	0.06

90-day Treas. Bill, Baseline	5.92	6.64	5.88	5.17	4.91
90-day Treas. Bill, Sim. - Easier Fiscal	5.93	6.76	6.07	5.35	5.08
(Diff. in Level)	0.01	0.12	0.19	0.19	0.17

US 10-Year Note, Baseline	6.39	6.25	5.95	5.70	5.48
US 10-Year Note. Sim. - Easier Fiscal	6.40	6.36	6.17	5.94	5.75
(Diff. in Level)	0.01	0.11	0.22	0.25	0.27

30-year Treas, Baseline	6.17	5.91	5.80	5.63	5.49
30-year Treas., Sim. - Easier Fiscal	6.19	6.05	6.09	5.89	5.74
(Diff. in Level)	0.02	0.15	0.29	0.26	0.25

AAA-Equiv. Corp. New Issue, Baseline	7.93	7.93	7.66	7.25	7.09
AAA-Equiv. Corp. New Issue , Sim. Easier Fiscal	7.94	7.99	7.83	7.40	7.22
(Diff. in Level)	0.01	0.07	0.16	0.15	0.13

Exchange Rates

Morgan Trade-Weighted Index, Baseline	1.098	1.075	1.063	1.018	0.999
Morgan Trade-Weighted Index, Sim. - Easier Fisc	1.099	1.074	1.069	1.024	1.003
(Diff. in Level)	0.000	-0.001	0.005	0.006	0.004
(Pct. Diff. in Level)	0.0	-0.1	0.5	0.6	0.4

Federal Reserve Dollar Index, Baseline	1.146	1.188	1.240	1.266	1.315
Federal Reserve Dollar Index, Sim. - Easier Fiscal	1.146	1.187	1.245	1.272	1.319
(Diff. in Level)	0.000	-0.001	0.005	0.006	0.004
(Pct. Diff. in Level)	0.0	-0.1	0.4	0.5	0.3

Yen/\$, Baseline	105.4	98.6	100.2	97.2	91.4
Yen/\$, Sim. - Easier Fiscal	105.5	98.0	100.0	96.8	91.0
(Diff. in Level)	0.0	-0.5	-0.2	-0.4	-0.4
(Pct. Diff. in Level)	0.0	-0.5	-0.2	-0.4	-0.4

\$/Euro, Baseline	0.969	1.035	1.135	1.197	1.228
\$/Euro, Sim. - Easier Fiscal	0.968	1.025	1.114	1.175	1.209
(Diff. in Level)	-0.001	-0.010	-0.021	-0.022	-0.019
(Pct. Diff. in Level)	-0.1	-0.9	-1.9	-1.9	-1.5

\$/Pound, Baseline	1.544	1.563	1.706	1.759	1.771
\$/Pound, Sim. - Easier Fiscal	1.544	1.572	1.732	1.816	1.862
(Diff. in Level)	-0.000	0.009	0.026	0.057	0.090
(Pct. Diff. in Level)	-0.0	0.6	1.5	3.3	5.1

S&P 500 Operating Earnings per Share

Baseline	57.74	62.23	67.00	69.87	75.95
Sim. - Easier Fiscal	57.87	62.89	67.77	70.07	75.67
Difference	0.13	0.67	0.76	0.20	-0.28
(Pct. Diff. in Level)	0.23	1.07	1.14	0.29	-0.37

S&P 500 Price Index

Baseline	1454.1	1557.3	1706.0	1825.9	2037.4
Sim. - Easier Fiscal	1455.5	1555.1	1715.7	1844.2	2063.4
Difference	1.4	-2.2	9.7	18.3	26.0
(Pct. Diff. in Level)	0.1	-0.1	0.6	1.0	1.3

Table B-3 Macroeconomic Effects of an Easier Fiscal Policy
Growth Rates of Major Variables that Describe the Economy -- Percent Unless Noted Otherwise

GDP Growth		2000	2001	2002	2003	2004
	Baseline	5.1	3.8	2.9	2.6	3.5
	Sim. - Easier Fiscal	5.2	4.2	3.0	2.6	3.4
	Difference	0.1	0.4	0.1	-0.0	-0.1
Inflation						
	GDP Price Index					
	Baseline	2.5	2.5	2.2	1.8	1.8
	Sim. Easier Fiscal	2.5	2.6	2.4	1.8	1.9
	Difference	0.0	0.1	0.2	0.0	0.1
	CPI-U					
	Baseline	3.3	2.9	2.7	2.3	2.2
	Sim. Easier Fiscal	3.3	2.9	2.8	2.4	2.2
	Difference	0.0	0.0	0.1	0.1	0.1
Unemployment Rate						
	Baseline	4.0	4.2	4.7	5.2	5.2
	Sim. Easier Fiscal	4.0	4.1	4.6	5.1	5.2
	Difference	-0.0	-0.1	-0.1	-0.1	-0.0
Federal Funds						
	Baseline	6.38	7.01	6.43	5.62	5.37
	Sim. - Easier Fiscal	6.38	7.10	6.58	5.75	5.43
	Difference	0.00	0.09	0.16	0.13	0.06
90 Day Treasury Bill						
	Baseline	5.92	6.64	5.88	5.17	4.91
	Sim. - Easier Fiscal	5.93	6.76	6.07	5.35	5.08
	Difference	0.01	0.12	0.19	0.19	0.17
10 Year Treasury Note						
	Baseline	6.39	6.25	5.95	5.70	5.48
	Sim. - Easier Fiscal	6.40	6.36	6.17	5.94	5.75
	Difference	0.01	0.11	0.22	0.25	0.27
S&P 500 Operating Earnings per Share		2000	2001	2002	2003	2004
	Baseline	13.2	7.8	7.7	4.3	8.7
	Sim. - Easier Fiscal	13.4	8.7	7.8	3.4	8.0
	Difference	0.3	0.9	0.1	-0.9	-0.7
S&P 500 Price Index						
	Baseline	9.6	7.1	9.5	7.0	11.6
	Sim. - Easier Fiscal	9.7	6.8	10.3	7.5	11.9
	Difference	0.1	-0.3	0.8	0.5	0.3

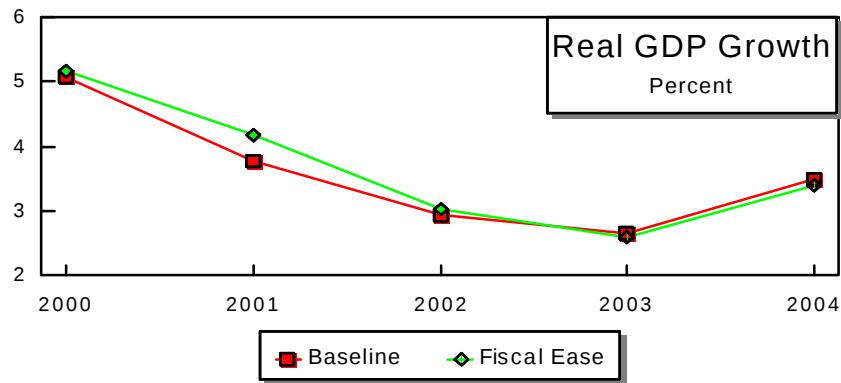
Yen/\$						
	Baseline	-7.3	-6.5	1.6	-3.0	-6.0
	Sim. - Easier Fiscal	-7.3	-7.1	2.0	-3.1	-6.1
	Difference	0.0	-0.5	0.3	-0.2	-0.1

\$/Euro						
	Baseline	-9.3	6.8	9.7	5.4	2.5
	Sim. - Easier Fiscal	-9.3	5.9	8.7	5.4	2.9
	Difference	-0.1	-0.9	-1.0	0.0	0.4

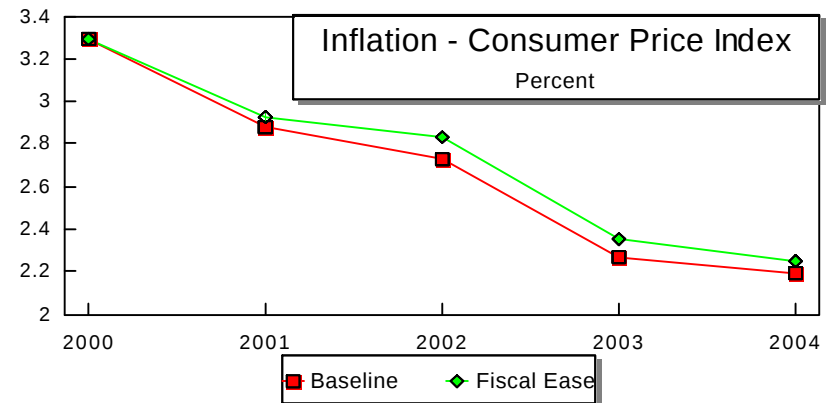
Morgan						
Trade-Weighted Index						
	Baseline	1.7	-2.1	-1.1	-4.2	-1.9
	Sim. - Easier Fiscal	1.8	-2.2	-0.5	-4.2	-2.0
	Difference	0.0	-0.2	0.6	0.1	-0.2

Chart B-3.1
Relaxed Fiscal Discipline Under a Budget Surplus Scenario*
(Baseline vs. Fiscal Ease)

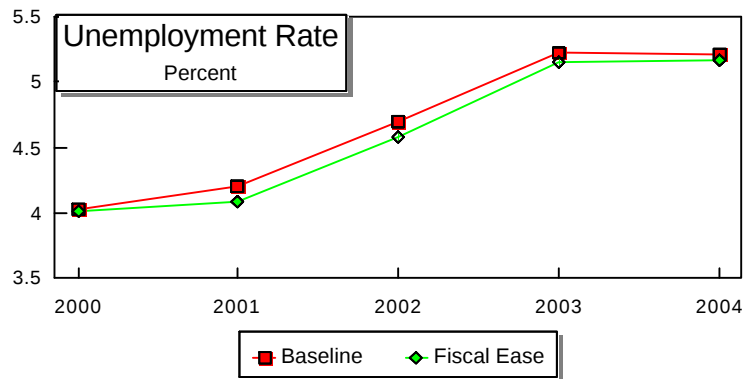
Somewhat Stronger, Then Somewhat Weaker Economy



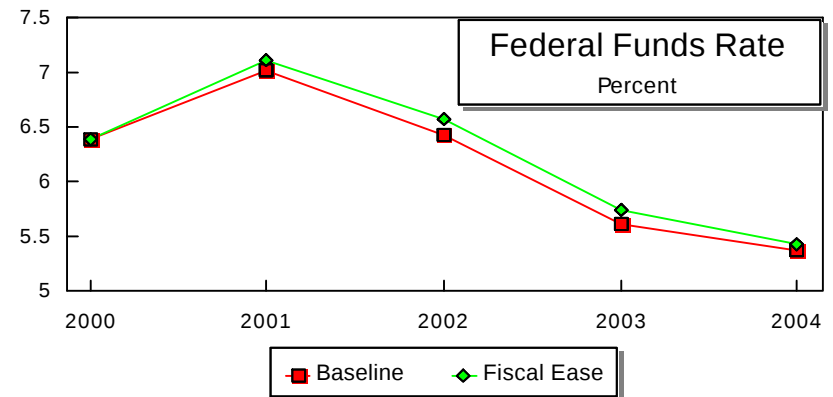
Higher Inflation . . . and



Lower Unemployment



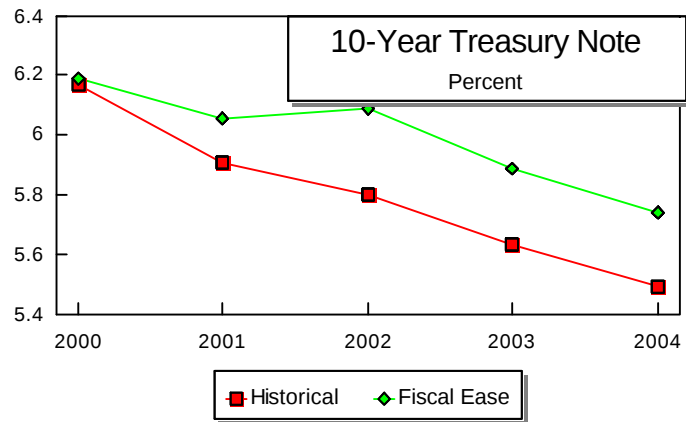
Some Fed Tightening in Response . . . and



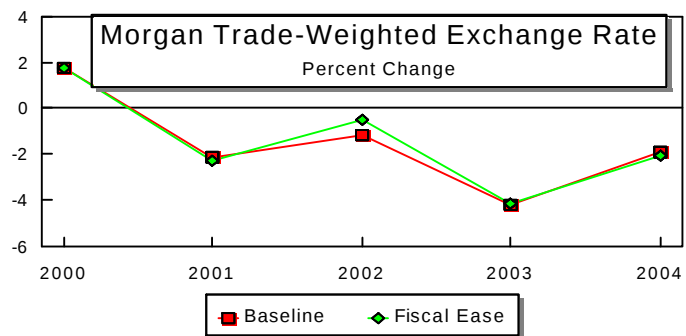
*Personal Income Tax Cuts, 5% on All Tax Rates; Federal Spending Increases, Defense and Nondefense; Taylor Rule Fed Tightening—Simulation with the Sinai-Boston Quarterly Macroeconometric Model of the U.S. Economy

**Chart B-3.1 (Cont.)
Relaxed Fiscal Discipline Under a Budget Surplus Scenario*
(Baseline vs. Fiscal Ease)**

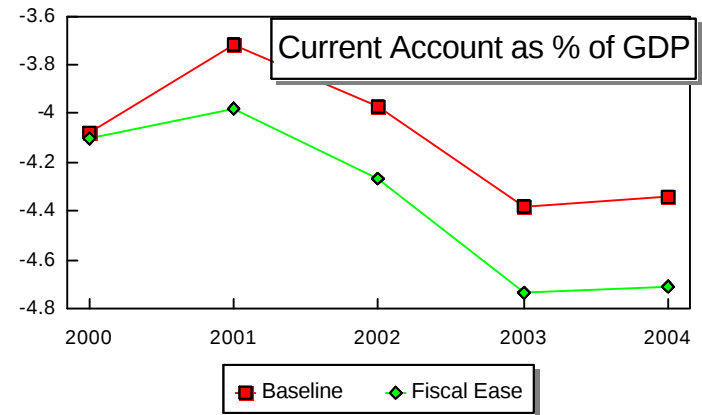
Significantly Higher Long-Term Rates . . .



**Despite the Current Account, There is
Little Change in the Dollar . . .**



The Current Account Worsens



**But A Somewhat Weaker Stock Market
(S&P500)**



***Personal Income Tax Cuts, 5% on All Tax Rates; Federal Spending Increases, Defense and Nondefense; Taylor Rule Fed Tightening—
Simulation with the Sinai-Boston Quarterly Macroeconometric Model of the U.S. Economy.**

Table B-4
Macroeconomic Effects of Increased Growth Outside the United States-Variant 1*

		2000	2001	2002	2003	2004
Current Account Balance						
(Bils. \$'s)						
	Baseline	-400.4	-392.6	-440.7	-508.7	-532.6
	Sim. - Easier Fiscal	-402.5	-381.0	-396.8	-426.8	-405.7
	(Diff. in Level)	-2.1	11.5	43.9	82.0	126.9
Current Account as % of GDP						
	Baseline	-4.1	-3.7	-4.0	-4.4	-4.3
	Sim. - Easier Fiscal	-4.1	-3.6	-3.6	-3.6	-3.3
	Difference	-0.0	0.1	0.4	0.7	1.1
Rest-of-World Inputs						
GDP Growth						
Major Industrial Trading Partners**						
	Baseline	2.8	2.7	2.6	2.8	3.0
	Sim. - Increased Growth	3.0	3.7	3.7	3.8	4.0
	Difference	0.2	1.0	1.0	1.0	1.0
Eurozone						
	Baseline	3.2	3.3	2.2	2.5	2.5
	Sim. - Increased Growth	3.3	3.8	3.2	3.5	3.5
	Difference	0.1	0.6	1.0	1.0	1.0
Japan						
	Baseline	1.9	2.1	2.3	2.7	3.1
	Sim. - Increased Growth	2.0	2.7	3.3	3.7	4.1
	Difference	0.1	0.6	1.0	1.0	1.0
U.K.						
	Baseline	2.9	2.8	2.4	2.4	2.4
	Sim. - Increased Growth	3.0	3.4	3.4	3.4	3.4
	Difference	0.1	0.6	1.0	1.0	1.0
Mexico						
	Baseline	2.3	3.0	3.0	3.0	3.0
	Sim. - Increased Growth	2.3	3.0	3.0	3.0	3.0
	Difference	-0.0	-0.0	-0.0	0.0	-0.0
Brazil						
	Baseline	3.8	5.4	5.3	5.3	5.3
	Sim. - Increased Growth	3.8	5.4	5.3	5.3	5.3
	Difference	0.0	0.0	0.0	0.0	0.0

Newly Industrializing						
Countries, ex-Singapore	Baseline	8.6	7.3	7.4	7.4	7.4
	Sim. - Increased Growth	8.9	9.2	10.5	10.6	10.6
	Difference	0.3	1.8	3.1	3.2	3.2
China						
	Baseline	7.3	7.6	7.6	7.6	7.6
	Sim. - Increased Growth	7.6	9.4	10.7	10.8	10.8
	Difference	0.3	1.8	3.1	3.2	3.2
Japan, Industrial Production						
	Baseline	6.5	6.5	6.5	5.8	5.8
	Sim. - Increased Growth	6.6	7.1	7.5	6.8	6.8
	Difference	0.1	0.6	1.0	1.0	1.0
Interest Rates						
Japan						
2-Month Gensaki Rate						
	Baseline	0.4	1.2	1.3	1.5	1.5
	Sim. - Increased Growth	0.9	2.2	2.3	2.5	2.5
	Difference	0.5	1.0	1.0	1.0	1.0
10-Year Gov. Bond						
	Baseline	1.8	2.4	3.2	3.3	4.0
	Sim. - Increased Growth	2.0	2.8	3.6	3.6	4.4
	Difference	0.2	0.4	0.4	0.4	0.4
Germany						
3-Month Deposit Rate						
	Baseline	4.2	4.8	5.0	5.0	5.0
	Sim. - Increased Growth	4.9	6.3	6.5	6.5	6.5
	Difference	0.7	1.5	1.5	1.5	1.5
10-Year Gov. Bond						
	Baseline	6.2	6.7	6.6	6.7	6.7
	Sim. - Increased Growth	6.5	7.5	7.3	7.4	7.4
	Difference	0.4	0.8	0.8	0.8	0.8

Eurozone						
ECB Refinance Rate	Baseline	4.1	4.5	4.8	4.8	4.8
	Sim. - Increased Growth	4.8	6.0	6.3	6.3	6.3
	Difference	0.8	1.5	1.5	1.5	1.5
Industrial Countries						
Government Bond Rate	Baseline	4.4	4.8	5.0	5.3	5.3
	Sim. - Increased Growth	4.7	5.4	5.6	5.9	5.9
	Difference	0.3	0.6	0.6	0.6	0.6
Add Factors						
Telecom. Exports	Baseline	-12.836	-19.154	-22.55	-28.554	-34.609
	Sim. - Increased Growth	-13.151	-20.854	-26.342	-33.706	-43.057
	Difference	-0.315	-1.7	-3.792	-5.152	-8.448
Service Exports	Baseline	-14.644	-17.087	-23.608	-24.103	-25.388
	Sim. - Increased Growth	-15.082	-19.307	-28.082	-32.020	-36.453
	Difference	-0.438	-2.22	-4.474	-7.917	-11.065

* Macroeconomic model simulation with the Sinai-Boston Quarterly Macroeconometric Model of the U.S. Economy. Simulation starting July, 2000.
Variant 1-Higher growth and interest rates in the Eurozone, U.K. Japan and Asia.

Table B-4
Macroeconomic Effects of Increased Growth Outside the United States-Variant 1*

	2000	2001	2002	2003	2004
Real GDP - Level (Bils. '96 \$'s)					
Baseline	9297.3	9648.0	9931.9	10194.8	10551.3
Sim. - Increased Growth	9297.4	9667.0	9980.2	10263.7	10634.3
(Diff. in Level)	0.0	19.0	48.4	68.9	83.0
(Pct. Diff. in Level)	0.0	0.2	0.5	0.7	0.8
 Real GDP-Growth (Pctg. Pts.), Baseline	5.1	3.8	2.9	2.6	3.5
Real GDP-Growth (Pctg. Pts.), Sim. - Increased Gro	5.1	4.0	3.2	2.8	3.6
Difference	0.0	0.2	0.3	0.2	0.1
 Consumption (Bils. '96 \$'s)					
Baseline	6291.5	6489.1	6667.4	6830.1	7077.6
Sim. - Increased Growth	6290.0	6484.8	6660.5	6814.6	7049.6
(Diff. in Level)	-1.6	-4.3	-6.9	-15.5	-28.0
(Pct. Diff. in Level)	-0.0	-0.1	-0.1	-0.2	-0.4
 Business Capital Spending, Total (Bils. '96 \$'s)					
Baseline	1361.0	1469.8	1554.8	1627.4	1714.4
Sim. - Increased Growth	1361.2	1471.6	1556.1	1625.2	1704.4
(Diff. in Level)	0.3	1.8	1.3	-2.2	-10.0
(Pct. Diff. in Level)	0.0	0.1	0.1	-0.1	-0.6
 Plant, Baseline	265.9	286.7	300.3	316.1	327.9
Plant, Sim. - Increased Growth	266.0	288.2	302.2	318.1	330.0
(Diff. in Level)	0.1	1.5	1.9	2.1	2.1
(Pct. Diff. in Level)	0.0	0.5	0.6	0.7	0.6
 Equipment, Baseline	1109.8	1210.1	1293.6	1363.0	1456.5
Equipment, Sim. - Increased Growth	1110.1	1210.5	1292.9	1357.8	1441.8
(Diff. in Level)	0.2	0.4	-0.7	-5.2	-14.7
(Pct. Diff. in Level)	0.0	0.0	-0.1	-0.4	-1.0
 Net Exports (Bils. '96 \$'s)					
Baseline	-370.9	-349.8	-366.9	-390.8	-416.6
Sim. - Increased Growth	-368.1	-318.8	-298.2	-281.1	-262.2
(Diff. in Level)	2.8	31.0	68.7	109.7	154.3
 Real Exports					
Baseline	1137.4	1251.8	1337.2	1421.9	1532.5
Sim. - Increased Growth	1138.1	1266.8	1378.9	1493.2	1634.4
(Diff. in Level)	0.6	15.0	41.7	71.4	101.9
(Pct. Diff. in Level)	0.1	1.2	3.1	5.0	6.7

Real Imports

Baseline	1508.3	1601.5	1704.1	1812.7	1949.0
Sim. - Increased Growth	1506.2	1585.5	1677.1	1774.4	1896.6
(Diff. in Level)	-2.2	-16.0	-26.9	-38.3	-52.4
(Pct. Diff. in Level)	-0.1	-1.0	-1.6	-2.1	-2.7

Nominal Net Exports (Bils. \$'s)

Baseline	-328.8	-323.5	-373.9	-433.6	-461.3
Sim. - Increased Growth	-330.3	-315.3	-342.2	-374.2	-369.7
(Diff. in Level)	-1.5	8.1	31.7	59.3	91.5
(Pct. Diff. in Level)	-0.1	0.9	2.8	4.8	6.6

Nominal Exports

Baseline	1100.7	1217.0	1298.3	1383.8	1497.0
Sim. - Increased Growth	1101.6	1235.7	1350.0	1471.7	1621.8
(Diff. in Level)	1.0	18.7	51.7	87.9	124.7
(Pct. Diff. in Level)	0.1	1.5	4.0	6.4	8.3

Nominal Imports

Baseline	1429.5	1540.5	1672.3	1817.4	1958.3
Sim. - Increased Growth	1432.0	1551.1	1692.2	1845.9	1991.5
(Diff. in Level)	2.4	10.6	20.0	28.6	33.2
(Pct. Diff. in Level)	0.2	0.7	1.2	1.6	1.7

Budget Deficit (NIPA)

(Bils. \$'S)

Baseline	218.0	215.2	238.0	234.4	270.9
Sim. - Increased Growth	217.2	212.3	237.9	234.4	268.5
(Diff. in Level)	-0.8	-2.9	-0.1	-0.1	-2.4
(Pct. Diff. in Level)	-0.3	-1.4	-0.1	-0.0	-0.9

Current Account Balance (Bils. \$'s)

Baseline	-400.4	-392.6	-440.7	-508.7	-532.6
Sim. - Increased Growth	-402.5	-381.0	-396.8	-426.8	-405.7
(Diff. in Level)	-2.1	11.5	43.9	82.0	126.9

Current Account as % of GDP

Baseline	-4.1	-3.7	-4.0	-4.4	-4.3
Sim. - Increased Growth	-4.1	-3.6	-3.6	-3.6	-3.3
(Diff. in Level)	-0.0	0.1	0.4	0.7	1.1

Potential Output (Bils. 1992 \$'s)

Baseline	7880.8	8164.4	8453.0	8734.2	9018.7
Sim. - Increased Growth	7880.3	8162.4	8458.5	8747.0	9038.4
(Diff. in Level)	-0.5	-2.0	5.5	12.8	19.7

Potential Output Growth

Baseline	4.0	3.6	3.5	3.3	3.3
Sim. - Increased Growth	4.0	3.6	3.6	3.4	3.3
(Diff. in Level)	-0.0	-0.0	0.1	0.1	0.1

Employment, Compensation, and Unemployment Rate**Employment (Mils. Pers.)**

Total Payrolls, Baseline	131.958	135.112	137.285	139.226	142.140
Total Payrolls, Sim. - Increased Growth	131.967	135.379	137.938	140.175	143.309
(Diff. in Level)	0.009	0.267	0.652	0.949	1.169
Manufacturing, Baseline	18.536	18.448	18.225	17.961	17.814
Manufacturing, Sim. - Increased Growth	18.537	18.468	18.271	18.016	17.863
(Diff. in Level)	0.001	0.020	0.047	0.055	0.049
Ex-Manufacturing, Baseline	113.422	116.664	119.061	121.265	124.326
Ex-Manufacturing, Sim. - Increased Growth	113.430	116.911	119.666	122.159	125.446
(Diff. in Level)	0.008	0.247	0.606	0.894	1.120

Unemployment Rate (Percent)

Baseline	4.0	4.2	4.7	5.2	5.2
Sim. - Increased Growth	4.0	4.1	4.5	4.9	4.8
Difference	-0.0	-0.1	-0.2	-0.3	-0.4

Compensation (Annual Pct. Chg)

Nonfarm Business, Baseline	4.5	5.1	5.2	5.1	5.0
Nonfarm Business, Sim. - Increased Growth	4.5	5.1	5.2	5.3	5.2
Difference	-0.0	-0.0	0.0	0.2	0.2
Manufacturing, Baseline	5.1	6.2	6.1	5.5	5.2
Manufacturing, Sim. - Increased Growth	5.1	6.3	6.3	6.0	5.7
Difference	0.0	0.1	0.2	0.4	0.5
Avg Hourly Earnings, Non Mftg., Baseline	4.3	5.3	5.0	5.0	4.9
Avg Hourly Earnings, Non Mftg., Sim. - Increased	4.3	5.4	5.2	5.2	5.3
Difference	0.0	0.1	0.2	0.3	0.3

Productivity (Annual Pct. Chg)

Nonfarm Business, Baseline	3.4	2.6	3.1	2.8	2.6
Nonfarm Business, Sim. - Increased Growth	3.4	2.5	3.2	2.9	2.7
Difference	-0.0	-0.0	0.1	0.1	0.1

Inflation (Annual Pct. Chg)

GDP Chain Price Index, Baseline	2.5	2.5	2.2	1.8	1.8
GDP Chain Price Index, Sim. - Increased Growth	2.4	2.5	2.4	2.1	2.1
Difference	-0.0	0.0	0.2	0.3	0.3
Consumer Price Index (All Urban), Baseline	3.3	2.9	2.7	2.3	2.2
Consumer Price Index (All Urban), Sim. - Increased (	3.3	3.0	3.0	2.6	2.5
Difference	0.0	0.2	0.2	0.3	0.4

After-tax Profits (Bils. \$'s)	2000	2001	2002	2003	2004
After-tax Profits, Baseline	655.2	704.3	758.8	798.2	856.9
After-tax Profits, Sim. - Increased Growth	654.1	699.4	752.4	786.1	835.9
(Diff. in Level)	-1.2	-5.0	-6.5	-12.1	-21.0
(Pct. Diff. in Level)	-0.2	-0.7	-0.9	-1.5	-2.5
After-tax Profits/GDP (Percent of GDP)					
After-tax Profits/GDP, Baseline	6.7	6.7	6.8	6.9	7.0
After-tax Profits/GDP, Sim. - Increased Growth	6.7	6.6	6.7	6.7	6.7
(Diff. in Level)	-0.0	-0.1	-0.1	-0.2	-0.2
Wages/GDP (Percent of GDP)					
After-tax Wages/GDP, Baseline	48.4	47.6	47.8	48.1	48.3
After-tax Wages/GDP, Sim. - Increased Growth	48.4	47.6	47.8	48.1	48.2
(Diff. in Level)	0.0	0.0	-0.0	-0.0	-0.0
Interest Rates (Percent)					
Federal Funds Rate, Baseline	6.38	7.01	6.43	5.62	5.37
Federal Funds Rate, Sim. - Increased Growth	6.41	7.10	6.64	6.01	5.96
(Diff. in Level)	0.02	0.09	0.22	0.38	0.60
90-day Treas. Bill, Baseline	5.92	6.64	5.88	5.17	4.91
90-day Treas. Bill, Sim. - Increased Growth	5.95	6.75	6.09	5.52	5.43
(Diff. in Level)	0.03	0.11	0.21	0.35	0.53
US 10-Year Note, Baseline	6.39	6.26	5.97	5.73	5.57
US 10-Year Note. Sim. - Increased Growth	6.53	6.59	6.37	6.16	6.02
(Diff. in Level)	0.14	0.33	0.40	0.43	0.45
30-year Treas, Baseline	6.17	5.91	5.80	5.63	5.49
30-year Treas., Sim. - Increased Growth	6.31	6.12	6.07	5.88	5.80
(Diff. in Level)	0.14	0.21	0.27	0.26	0.31
AAA-Equiv. Corp. New Issue, Baseline	7.93	7.93	7.66	7.25	7.09
AAA-Equiv. Corp. New Issue , Sim. - Increased Grov	8.13	8.37	8.17	7.78	7.67
(Diff. in Level)	0.20	0.44	0.50	0.53	0.58

Exchange Rates	2000	2001	2002	2003	2004
Morgan Trade-Weighted Index, Baseline	1.098	1.075	1.063	1.018	0.999
Morgan Trade-Weighted Index, Sim. - Increased Gro	1.092	1.040	1.009	0.957	0.936
(Diff. in Level)	-0.007	-0.036	-0.054	-0.062	-0.064
(Pct. Diff. in Level)	-0.6	-3.3	-5.1	-6.0	-6.4
 Federal Reserve Dollar Index**, Baseline	1.146	1.188	1.240	1.266	1.315
Federal Reserve Dollar Index**, Sim. - Increased Gro	1.140	1.159	1.194	1.210	1.254
(Diff. in Level)	-0.006	-0.029	-0.046	-0.056	-0.061
(Pct. Diff. in Level)	-0.5	-2.4	-3.7	-4.4	-4.6
 Yen/\$, Baseline	105.4	98.6	100.2	97.2	91.4
Yen/\$, Sim. - Increased Growth	105.2	97.7	101.4	102.4	97.0
(Diff. in Level)	-0.2	-0.8	1.2	5.2	5.6
(Pct. Diff. in Level)	-0.2	-0.8	1.2	5.3	6.2
 \$/Euro, Baseline	0.969	1.035	1.135	1.197	1.228
\$/Euro, Sim. - Increased Growth	0.980	1.079	1.193	1.258	1.282
(Diff. in Level)	0.011	0.045	0.058	0.061	0.054
(Pct. Diff. in Level)	1.2	4.3	5.1	5.1	4.4
 \$/Pound, Baseline	1.544	1.563	1.706	1.759	1.771
\$/Pound, Sim. - Increased Growth	1.558	1.616	1.749	1.763	1.704
(Diff. in Level)	0.014	0.053	0.043	0.004	-0.067
(Pct. Diff. in Level)	0.9	3.4	2.5	0.3	-3.8
 S&P 500 Operating					
Earnings per Share					
Baseline	57.74	62.23	67.00	69.87	75.95
Sim. - Increased Growth	57.68	62.38	67.80	70.52	76.36
Difference	-0.06	0.15	0.79	0.65	0.41
(Pct. Diff. in Level)	-0.10	0.25	1.19	0.93	0.54
 S&P 500 Price Index					
Baseline	1454.1	1557.3	1706.0	1825.9	2037.4
Sim. - Increased Growth	1451.5	1548.7	1709.2	1836.8	2053.9
Difference	-2.6	-8.6	3.2	10.8	16.5
(Pct. Diff. in Level)	-0.2	-0.6	0.2	0.6	0.8

Table B-4 Macroeconomic Effects of Increased Growth Outside the United States-Variant 1*
Growth Rates of Major Variables that Describe the Economy --Percent Unless Noted Otherwise

GDP Growth		2000	2001	2002	2003	2004
	Base	5.1	3.8	2.9	2.6	3.5
	Sim. - Increased Growth	5.1	4.0	3.2	2.8	3.6
	Difference	0.0	0.2	0.3	0.2	0.1
Inflation						
	GDP Price Index					
	Base	2.5	2.5	2.2	1.8	1.8
	Sim. - Increased Growth	2.4	2.5	2.4	2.1	2.1
	Difference	-0.0	0.0	0.2	0.3	0.3
	CPI-U					
		3.3	2.9	2.7	2.3	2.2
		3.3	3.0	3.0	2.6	2.5
		0.0	0.2	0.2	0.3	0.4
Unemployment Rate						
	Base	4.0	4.2	4.7	5.2	5.2
	Sim. - Increased Growth	4.0	4.1	4.5	4.9	4.8
	Difference	-0.0	-0.1	-0.2	-0.3	-0.4
Federal Funds						
	Base	6.38	7.01	6.43	5.62	5.37
	Sim. - Increased Growth	6.41	7.10	6.64	6.01	5.96
	Difference	0.02	0.09	0.22	0.38	0.60
90 Day Treasury Bill						
	Base	5.92	6.64	5.88	5.17	4.91
	Sim. - Increased Growth	5.95	6.75	6.09	5.52	5.43
	Difference	0.03	0.11	0.21	0.35	0.53
10 Year Treasury Note						
	Base	6.39	6.26	5.97	5.73	5.57
	Sim. - Increased Growth	6.53	6.59	6.37	6.16	6.02
	Difference	0.14	0.33	0.40	0.43	0.45

S&P 500 Operating Earnings per Share	Base	13.2	7.8	7.7	4.3	8.7
	Sim. - Increased Growth	13.1	8.1	8.7	4.0	8.3
	Difference	-0.1	0.4	1.0	-0.3	-0.4
		8	8	8	8	8
S&P 500 Price Index	2000	2001	2002	2003	2004	
	Base	9.6	7.1	9.5	7.0	11.6
	Sim. - Increased Growth	9.4	6.7	10.4	7.5	11.8
	Difference	-0.2	-0.4	0.8	0.4	0.2
Yen/\$	Base	-7.3	-6.5	1.6	-3.0	-6.0
	Sim. - Increased Growth	-7.5	-7.1	3.7	1.0	-5.3
	Difference	-0.2	-0.6	2.1	4.0	0.7
\$/Euro	Base	-9.3	6.8	9.7	5.4	2.5
	Sim. - Increased Growth	-8.2	10.1	10.5	5.4	1.9
	Difference	1.1	3.3	0.8	0.0	-0.6
Morgan Trade-Weighted Index	Base	1.7	-2.1	-1.1	-4.2	-1.9
	Sim. - Increased Growth	1.1	-4.7	-2.9	-5.2	-2.2
	Difference	-0.6	-2.7	-1.8	-1.0	-0.3

Table B-5
Macroeconomic Effects of Increased Growth Outside the United States-Variant 2*

		2000	2001	2002	2003	2004
Current Account Balance						
(Bils. \$'s)	Base	-400.4	-392.6	-440.7	-508.7	-532.6
	Sim. - Easier Fiscal	-408.0	-378.8	-353.4	-376.2	-338.8
	(Diff. in Level)	-7.6	13.8	87.4	132.5	193.8
Current Account as % of GDP						
	Base	-4.1	-3.7	-4.0	-4.4	-4.3
	Sim. - Easier Fiscal	-4.2	-3.6	-3.2	-3.3	-2.8
	Difference	-0.1	0.1	0.8	1.1	1.6
Rest-of-World Inputs						
GDP Growth						
Major Industrial Trading Partners**						
	Base	2.8	2.7	2.6	2.8	3.0
	Sim. - Increased Growth	3.0	3.7	3.7	3.8	4.0
	Difference	0.2	1.0	1.0	1.0	1.0
Eurozone						
	Base	3.2	3.3	2.2	2.5	2.5
	Sim. - Increased Growth	3.3	3.8	3.2	3.5	3.5
	Difference	0.1	0.6	1.0	1.0	1.0
Japan						
	Base	1.9	2.1	2.3	2.7	3.1
	Sim. - Increased Growth	2.0	2.7	3.3	3.7	4.1
	Difference	0.1	0.6	1.0	1.0	1.0
U.K.						
	Base	2.9	2.8	2.4	2.4	2.4
	Sim. - Increased Growth	3.0	3.4	3.4	3.4	3.4
	Difference	0.1	0.6	1.0	1.0	1.0
Mexico						
	Base	2.3	3.0	3.0	3.0	3.0
	Sim. - Increased Growth	2.3	3.0	3.0	3.0	3.0
	Difference	-0.0	-0.0	-0.0	0.0	-0.0
Brazil						
	Base	3.8	5.4	5.3	5.3	5.3
	Sim. - Increased Growth	3.8	5.4	5.3	5.3	5.3
	Difference	0.0	0.0	0.0	0.0	0.0
Newly Industrializing Countries, ex-Singapore						
	Base	8.6	7.3	7.4	7.4	7.4
	Sim. - Increased Growth	8.9	9.2	10.5	10.6	10.6
	Difference	0.3	1.8	3.1	3.2	3.2

China						
	Base	7.3	7.6	7.6	7.6	7.6
	Sim. - Increased Growth	7.6	9.4	10.7	10.8	10.8
	Difference	0.3	1.8	3.1	3.2	3.2
Japan, Industrial Production						
	Base	6.5	6.5	6.5	5.8	5.8
	Sim. - Increased Growth	6.6	7.1	7.5	6.8	6.8
	Difference	0.1	0.6	1.0	1.0	1.0
Interest Rates						
Japan						
2-Month Gensaki Rate						
	Base	0.4	1.2	1.3	1.5	1.5
	Sim. - Increased Growth	0.9	2.2	2.5	3.0	3.0
	Difference	0.5	1.0	1.3	1.5	1.5
10-Year Gov. Bond						
	Base	1.8	2.4	3.2	3.3	4.0
	Sim. - Increased Growth	2.0	2.8	3.9	4.2	4.9
	Difference	0.2	0.4	0.6	0.9	0.9
Germany						
3-Month Deposit Rate						
	Base	4.2	4.8	5.0	5.0	5.0
	Sim. - Increased Growth	4.9	6.3	7.0	7.5	7.5
	Difference	0.7	1.6	2.0	2.5	2.5
10-Year Gov. Bond						
	Base	6.2	6.7	6.6	6.7	6.7
	Sim. - Increased Growth	6.5	7.5	7.6	8.2	8.2
	Difference	0.4	0.8	1.0	1.5	1.5
Eurozone						
ECB Refinance Rate						
	Base	4.1	4.5	4.8	4.8	4.8
	Sim. - Increased Growth	4.8	6.0	6.8	7.3	7.3
	Difference	0.8	1.5	2.0	2.5	2.5
Industrial Countries						
Government Bond Rate						
	Base	4.4	4.8	5.0	5.3	5.3
	Sim. - Increased Growth	4.7	5.4	5.8	6.5	6.5
	Difference	0.3	0.6	0.9	1.2	1.2
Nonborrowed Reserves						
(U.S., Bils. \$s)						
	Base	42.846	44.017	47.070	51.226	53.57
	Sim. - Increased Growth	42.846	40.342	43.22	47.376	49.72
	Difference	0.000	-3.675	-3.850	-3.850	-3.850

Oil Prices (\$/barrel)						
Refiners Cost, Foreign Oil	Base	26.40	25.81	26.18	26.79	27.42
	Sim. - Increased Growth	27.15	28.81	30.18	30.79	32.42
	Difference	0.75	3.00	4.00	4.00	5.00
Refiners Cost, Domestic Oil	Base	27.20	26.44	26.81	27.42	28.05
	Sim. - Increased Growth	27.95	29.44	30.81	31.42	33.05
	Difference	0.75	3.00	4.00	4.00	5.00
Spot Price, Domestic Oil	Base	28.68	28.32	28.69	29.30	29.93
	Sim. - Increased Growth	29.43	31.32	32.69	33.30	34.93
	Difference	0.75	3.00	4.00	4.00	5.00
Add Factors						
Import Price Index	Base	0.309	-0.061	0.023	-0.022	-0.022
	Sim. - Increased Growth	0.842	1.139	1.423	1.478	1.778
	Difference	0.533	1.200	1.400	1.500	1.800
Telecom. Exports	Base	-12.836	-19.154	-22.550	-28.554	-34.609
	Sim. - Increased Growth	-13.151	-20.854	-26.342	-33.706	-43.057
	Difference	-0.315	-1.700	-3.792	-5.152	-8.448
Service Exports	Base	-14.644	-17.087	-23.608	-24.103	-25.388
	Sim. - Increased Growth	-15.082	-19.307	-28.082	-32.020	-36.453
	Difference	-0.438	-2.220	-4.474	-7.917	-11.065

* Macroeconomic model simulation with the Sinai-Boston Quarterly Macroeconometric Model of the U.S. Economy. Simulation starting July, 2000
Variant 2-Higher growth and interest rates in the Eurozone, U.K., Japan and Asia. Higher import goods prices and oil prices.
Federal Reserve tightens monetary policy.

Table B-5
Macroeconomic Effects of Increased Growth Outside the United States-Variant 2*

	2000	2001	2002	2003	2004
Real GDP - Level (Bils. '96 \$'s)					
Baseline	9297.3	9648.0	9931.9	10194.8	10551.3
Sim. - Increased Growth	9301.4	9659.7	9883.3	10116.8	10494.6
(Diff. in Level)	4.0	11.7	-48.6	-78.0	-56.7
(Pct. Diff. in Level)	0.0	0.1	-0.5	-0.8	-0.5
Real GDP-Growth (Pctg. Pts.), Baseline	5.1	3.8	2.9	2.6	3.5
Real GDP-Growth (Pctg. Pts.), Sim. - Increased Gro	5.1	3.9	2.3	2.4	3.7
Difference	0.0	0.1	-0.6	-0.3	0.2
Consumption (Bils. '96 \$'s)					
Baseline	6291.5	6489.1	6667.4	6830.1	7077.6
Sim. - Increased Growth	6290.1	6457.1	6582.6	6712.1	6928.5
(Diff. in Level)	-1.5	-32.1	-84.8	-118.0	-149.0
(Pct. Diff. in Level)	-0.0	-0.5	-1.3	-1.7	-2.1
Business Capital Spending, Total (Bils. '96 \$'s)					
Baseline	1361.0	1469.8	1554.8	1627.4	1714.4
Sim. - Increased Growth	1361.9	1471.0	1511.2	1542.6	1623.3
(Diff. in Level)	1.0	1.2	-43.7	-84.8	-91.1
(Pct. Diff. in Level)	0.1	0.1	-2.8	-5.2	-5.3
Plant, Baseline	265.9	286.7	300.3	316.1	327.9
Plant, Sim. - Increased Growth	266.3	288.2	292.5	308.3	320.5
(Diff. in Level)	0.4	1.5	-7.8	-7.8	-7.3
(Pct. Diff. in Level)	0.2	0.5	-2.6	-2.5	-2.2
Equipment, Baseline	1109.8	1210.1	1293.6	1363.0	1456.5
Equipment, Sim. - Increased Growth	1110.4	1209.8	1252.0	1272.9	1358.1
(Diff. in Level)	0.6	-0.3	-41.6	-90.2	-98.4
(Pct. Diff. in Level)	0.1	-0.0	-3.2	-6.6	-6.8
Net Exports (Bils. '96 \$'s)					
Baseline	-370.9	-349.8	-366.9	-390.8	-416.6
Sim. - Increased Growth	-364.9	-281.5	-231.7	-201.4	-158.4
(Diff. in Level)	6.0	68.2	135.2	189.4	258.1
Real Exports					
Baseline	1137.4	1251.8	1337.2	1421.9	1532.5
Sim. - Increased Growth	1138.1	1268.4	1374.9	1482.9	1629.8
(Diff. in Level)	0.7	16.7	37.7	61.0	97.3
(Pct. Diff. in Level)	0.1	1.3	2.8	4.3	6.3

Real Imports	2000	2001	2002	2003	2004
Baseline	1508.3	1601.5	1704.1	1812.7	1949.0
Sim. - Increased Growth	1503.1	1550.0	1606.6	1684.3	1788.2
(Diff. in Level)	-5.3	-51.6	-97.5	-128.4	-160.8
(Pct. Diff. in Level)	-0.3	-3.2	-5.7	-7.1	-8.3
Nominal Net Exports (Bils. \$'s)					
Baseline	-328.8	-323.5	-373.9	-433.6	-461.3
Sim. - Increased Growth	-334.4	-314.8	-312.7	-340.3	-324.7
(Diff. in Level)	-5.6	8.6	61.2	93.3	136.6
(Pct. Diff. in Level)	-0.4	1.1	4.7	6.6	9.0
Nominal Exports					
Baseline	1100.7	1217.0	1298.3	1383.8	1497.0
Sim. - Increased Growth	1102.6	1245.8	1355.8	1467.3	1628.0
(Diff. in Level)	1.9	28.8	57.5	83.5	131.0
(Pct. Diff. in Level)	0.2	2.4	4.4	6.0	8.7
Nominal Imports					
Baseline	1429.5	1540.5	1672.3	1817.4	1958.3
Sim. - Increased Growth	1437.0	1560.7	1668.5	1807.6	1952.7
(Diff. in Level)	7.5	20.2	-3.8	-9.8	-5.6
(Pct. Diff. in Level)	0.5	1.3	-0.2	-0.5	-0.3
Budget Deficit (NIPA)					
(Bils. \$'S)					
Baseline	218.0	215.2	238.0	234.4	270.9
Sim. - Increased Growth	217.6	197.6	179.6	150.3	179.6
(Diff. in Level)	-0.4	-17.6	-58.4	-84.1	-91.3
(Pct. Diff. in Level)	-0.2	-8.2	-24.5	-35.9	-33.7
Current Account Balance (Bils. \$'s)					
Baseline	-400.4	-392.6	-440.7	-508.7	-532.6
Sim. - Increased Growth	-408.0	-378.8	-353.4	-376.2	-338.8
(Diff. in Level)	-7.6	13.8	87.4	132.5	193.8
Current Account as % of GDP					
Baseline	-4.1	-3.7	-4.0	-4.4	-4.3
Sim. - Increased Growth	-4.2	-3.6	-3.2	-3.3	-2.8
(Diff. in Level)	-0.1	0.1	0.8	1.1	1.6
Potential Output (Bils. 1992 \$'s)					
Baseline	7880.8	8164.4	8453.0	8734.2	9018.7
Sim. - Increased Growth	7880.5	8158.9	8432.1	8684.0	8957.2
(Diff. in Level)	-0.3	-5.5	-20.8	-50.2	-61.5

Potential Output Growth	4.0	3.6	3.5	3.3	3.3
Baseline	4.0	3.5	3.3	3.0	3.1
Sim. - Increased Growth (Diff. in Level)	-0.0	-0.1	-0.2	-0.3	-0.1

Employment, Compensation, and Unemployment Rate

Employment (Mils. Pers.)

Total Payrolls, Baseline	131.958	135.112	137.285	139.226	142.140
Total Payrolls, Sim. - Increased Growth (Diff. in Level)	132.011	135.407	137.175	138.996	142.326
	0.053	0.295	-0.111	-0.230	0.186
Manufacturing, Baseline	18.536	18.448	18.225	17.961	17.814
Manufacturing, Sim. - Increased Growth (Diff. in Level)	18.540	18.478	18.226	17.962	17.860
	0.004	0.030	0.002	0.001	0.046
Ex-Manufacturing, Baseline	113.422	116.664	119.061	121.265	124.326
Ex-Manufacturing, Sim. - Increased Growth (Diff. in Level)	113.471	116.929	118.948	121.034	124.466
	0.049	0.265	-0.112	-0.231	0.140

Unemployment Rate (Percent)

Baseline	4.0	4.2	4.7	5.2	5.2
Sim. - Increased Growth	4.0	4.1	4.7	5.2	5.0
Difference	-0.0	-0.1	-0.0	-0.0	-0.2

Compensation (Annual Pct. Chg)

Nonfarm Business, Baseline	4.5	5.1	5.2	5.1	5.0
Nonfarm Business, Sim. - Increased Growth	4.5	5.1	5.3	5.0	4.9
Difference	-0.0	-0.0	0.1	-0.1	-0.1
Manufacturing, Baseline	5.1	6.2	6.1	5.5	5.2
Manufacturing, Sim. - Increased Growth	5.1	6.3	6.2	5.5	5.2
Difference	0.0	0.1	0.1	-0.1	0.1
Avg Hourly Earnings, Non Mftg., Baseline	4.3	5.3	5.0	5.0	4.9
Avg Hourly Earnings, Non Mftg., Sim. - Increased	4.3	5.4	5.0	5.0	5.1
Difference	0.0	0.1	-0.0	0.0	0.1

Productivity (Annual Pct. Chg)

Nonfarm Business, Baseline	3.4	2.6	3.1	2.8	2.6
Nonfarm Business, Sim. - Increased Growth	3.4	2.5	2.9	2.4	2.5
Difference	-0.0	-0.1	-0.2	-0.3	-0.1

Inflation (Annual Pct. Chg)

	2000	2001	2002	2003	2004
GDP Chain Price Index, Baseline	2.5	2.5	2.2	1.8	1.8
GDP Chain Price Index, Sim. - Increased Growth	2.4	2.5	2.5	1.8	2.0
Difference	-0.0	0.0	0.2	0.0	0.1

Consumer Price Index (All Urban), Baseline	3.3	2.9	2.7	2.3	2.2
Consumer Price Index (All Urban), Sim. - Increased Growth	3.4	3.5	3.1	2.5	2.5
Difference	0.1	0.6	0.4	0.2	0.3
After-tax Profits (Bils. \$'s)					
After-tax Profits, Baseline	655.2	704.3	758.8	798.2	856.9
After-tax Profits, Sim. - Increased Growth	654.1	688.7	706.2	719.7	775.8
(Diff. in Level)	-1.1	-15.6	-52.6	-78.5	-81.2
(Pct. Diff. in Level)	-0.2	-2.2	-6.9	-9.8	-9.5
After-tax Profits/GDP (Percent of GDP)					
After-tax Profits/GDP, Baseline	6.7	6.7	6.8	6.9	7.0
After-tax Profits/GDP, Sim. - Increased Growth	6.7	6.5	6.4	6.2	6.4
(Diff. in Level)	-0.0	-0.1	-0.4	-0.6	-0.6
Wages/GDP (Percent of GDP)					
After-tax Wages/GDP, Baseline	48.4	47.6	47.8	48.1	48.3
After-tax Wages/GDP, Sim. - Increased Growth	48.4	47.6	47.9	48.4	48.5
(Diff. in Level)	0.0	0.1	0.2	0.3	0.3
Interest Rates (Percent)					
Federal Funds Rate, Baseline	6.38	7.01	6.43	5.62	5.37
Federal Funds Rate, Sim. - Increased Growth	6.45	8.44	7.73	6.63	6.34
(Diff. in Level)	0.06	1.43	1.31	1.01	0.97
90-day Treas. Bill, Baseline	5.92	6.64	5.88	5.17	4.91
90-day Treas. Bill, Sim. - Increased Growth	5.99	7.84	7.01	6.09	5.84
(Diff. in Level)	0.07	1.19	1.13	0.93	0.93
US 10-Year Note, Baseline	6.39	6.26	5.97	5.73	5.57
US 10-Year Note, Sim. - Increased Growth	6.53	7.09	6.98	6.69	6.61
(Diff. in Level)	0.14	0.83	1.01	0.96	1.04
30-year Treas, Baseline	6.17	5.91	5.80	5.63	5.49
30-year Treas., Sim. - Increased Growth	6.31	6.44	6.52	6.27	6.27
(Diff. in Level)	0.14	0.54	0.72	0.64	0.77
AAA-Equiv. Corp. New Issue, Baseline	7.93	7.93	7.66	7.25	7.09
AAA-Equiv. Corp. New Issue, Sim. - Increased Growth	8.13	8.75	8.70	8.20	8.17
(Diff. in Level)	0.20	0.82	1.04	0.95	1.09

Exchange Rates	2000	2001	2002	2003	2004
Morgan Trade-Weighted Index, Baseline	1.098	1.075	1.063	1.018	0.999
Morgan Trade-Weighted Index, Sim. - Increased Gro	1.087	1.023	1.011	0.953	0.931
(Diff. in Level)	-0.012	-0.052	-0.053	-0.065	-0.068
(Pct. Diff. in Level)	-1.1	-4.8	-4.9	-6.4	-6.8
 Federal Reserve Dollar Index**, Baseline	1.146	1.188	1.240	1.266	1.315
Federal Reserve Dollar Index**, Sim. - Increased Gro	1.137	1.146	1.195	1.206	1.250
(Diff. in Level)	-0.009	-0.042	-0.045	-0.060	-0.065
(Pct. Diff. in Level)	-0.8	-3.5	-3.6	-4.7	-4.9
 Yen/\$, Baseline	105.4	98.6	100.2	97.2	91.4
Yen/\$, Sim. - Increased Growth	104.9	97.4	103.5	105.0	100.8
(Diff. in Level)	-0.5	-1.2	3.3	7.8	9.4
(Pct. Diff. in Level)	-0.5	-1.2	3.3	8.0	10.3
 \$/Euro, Baseline	0.969	1.035	1.135	1.197	1.228
\$/Euro, Sim. - Increased Growth	0.985	1.067	1.165	1.257	1.285
(Diff. in Level)	0.016	0.032	0.030	0.060	0.058
(Pct. Diff. in Level)	1.7	3.1	2.6	5.0	4.7
 \$/Pound, Baseline	1.544	1.563	1.706	1.759	1.771
\$/Pound, Sim. - Increased Growth	1.567	1.620	1.706	1.704	1.607
(Diff. in Level)	0.023	0.057	0.000	-0.055	-0.164
(Pct. Diff. in Level)	1.5	3.6	0.0	-3.1	-9.3
 S&P 500 Operating					
Earnings per Share					
Baseline	57.74	62.23	67.00	69.87	75.95
Sim. - Increased Growth	57.57	61.45	63.57	64.84	71.59
Difference	-0.17	-0.78	-3.43	-5.02	-4.36
(Pct. Diff. in Level)	-0.30	-1.25	-5.12	-7.19	-5.74
 S&P 500 Price Index					
Baseline	1454.1	1557.3	1706.0	1825.9	2037.4
Sim. - Increased Growth	1444.3	1369.4	1410.5	1387.4	1400.9
Difference	-9.8	-188.0	-295.4	-438.5	-636.5
(Pct. Diff. in Level)	-0.7	-12.1	-17.3	-24.0	-31.2

Table B-5 Macroeconomic Effects of Increased Growth Outside the United States-Variant 2*
Growth Rates of Major Variables that Describe the Economy -- Percent Unless Noted Otherwise

GDP Growth		2000	2001	2002	2003	2004
	Baseline	5.1	3.8	2.9	2.6	3.5
	Sim. - Increased Growth	5.1	3.9	2.3	2.4	3.7
	Difference	0.0	0.1	-0.6	-0.3	0.2
Inflation						
	GDP Price Index					
	Baseline	2.5	2.5	2.2	1.8	1.8
	Sim. - Increased Growth	2.4	2.5	2.5	1.8	2.0
	Difference	-0.0	0.0	0.2	0.0	0.1
	CPI-U					
	Baseline	3.3	2.9	2.7	2.3	2.2
	Sim. - Increased Growth	3.4	3.5	3.1	2.5	2.5
	Difference	0.1	0.6	0.4	0.2	0.3
Unemployment Rate						
	Baseline	4.0	4.2	4.7	5.2	5.2
	Sim. - Increased Growth	4.0	4.1	4.7	5.2	5.0
	Difference	-0.0	-0.1	-0.0	-0.0	-0.2
Federal Funds						
	Baseline	6.38	7.01	6.43	5.62	5.37
	Sim. - Increased Growth	6.45	8.44	7.73	6.63	6.34
	Difference	0.06	1.43	1.31	1.01	0.97
90 Day Treasury Bill						
	Baseline	5.92	6.64	5.88	5.17	4.91
	Sim. - Increased Growth	5.99	7.84	7.01	6.09	5.84
	Difference	0.07	1.19	1.13	0.93	0.93
10 Year Treasury Note						
	Baseline	6.39	6.26	5.97	5.73	5.57
	Sim. - Increased Growth	6.53	7.09	6.98	6.69	6.61
	Difference	0.14	0.83	1.01	0.96	1.04
S&P 500 Operating Earnings per Share						
	Baseline	13.2	7.8	7.7	4.3	8.7
	Sim. - Increased Growth	12.8	6.7	3.5	2.0	10.4
	Difference	-0.3	-1.0	-4.2	-2.3	1.7

S&P 500 Price Index		2000	2001	2002	2003	2004
	Baseline	9.6	7.1	9.5	7.0	11.6
	Sim. - Increased Growth	8.9	-5.2	3.0	-1.6	1.0
	Difference	-0.7	-12.3	-6.5	-8.7	-10.6
Yen/\$						
	Baseline	-7.3	-6.5	1.6	-3.0	-6.0
	Sim. - Increased Growth	-7.8	-7.2	6.3	1.4	-4.0
	Difference	-0.5	-0.7	4.7	4.4	2.0
\$/Euro						
	Baseline	-9.3	6.8	9.7	5.4	2.5
	Sim. - Increased Growth	-7.7	8.3	9.2	7.9	2.3
	Difference	1.5	1.5	-0.5	2.4	-0.3
Morgan Trade-Weighted Index						
	Baseline	1.7	-2.1	-1.1	-4.2	-1.9
	Sim. - Increased Growth	0.6	-5.8	-1.2	-5.7	-2.2
	Difference	-1.1	-3.7	-0.1	-1.5	-0.4

Table B-6
Macroeconomic Effects of Increased Growth Outside the United States-Variant 3*

		2000	2001	2002	2003	2004
Current Account Balance						
(Bils. \$'s)						
	Baseline	-400.4	-392.6	-440.7	-508.7	-532.6
	Sim. - Easier Fiscal	-408.0	-388.6	-370.7	-222.3	-60.6
	(Diff. in Level)	-7.6	4.0	70.0	286.4	472.0
Current Account as % of GDP						
	Baseline	-4.1	-3.7	-4.0	-4.4	-4.3
	Sim. - Easier Fiscal	-4.2	-3.7	-3.4	-2.0	-0.5
	Difference	-0.1	0.0	0.6	2.4	3.8
Rest-of-World Inputs						
GDP Growth						
Major Industrial Trading Partners**						
	Baseline	2.8	2.7	2.6	2.8	3.0
	Sim. - Increased Growth	3.0	3.7	3.7	3.5	3.5
	Difference	0.2	1.0	1.0	0.7	0.5
Eurozone						
	Baseline	3.2	3.3	2.2	2.5	2.5
	Sim. - Increased Growth	3.3	3.8	3.2	3.2	3.0
	Difference	0.1	0.6	1.0	0.7	0.5
Japan						
	Baseline	1.9	2.1	2.3	2.7	3.1
	Sim. - Increased Growth	2.0	2.7	3.3	3.4	3.6
	Difference	0.1	0.6	1.0	0.7	0.5
U.K.						
	Baseline	2.9	2.8	2.4	2.4	2.4
	Sim. - Increased Growth	3.0	3.4	3.4	3.1	2.9
	Difference	0.1	0.6	1.0	0.7	0.5
Mexico						
	Baseline	2.3	3.0	3.0	3.0	3.0
	Sim. - Increased Growth	2.3	3.0	3.0	3.0	3.0
	Difference	-0.0	-0.0	-0.0	0.0	-0.0
Brazil						
	Baseline	3.8	5.4	5.3	5.3	5.3
	Sim. - Increased Growth	3.8	5.4	5.3	5.3	5.3
	Difference	0.0	0.0	0.0	0.0	0.0
Newly Industrializing						
Countries, ex-Singapore						
	Baseline	8.6	7.3	7.4	7.4	7.4
	Sim. - Increased Growth	8.9	9.2	10.5	10.0	9.8
	Difference	0.3	1.8	3.1	2.7	2.4

China						
	Baseline	7.3	7.6	7.6	7.6	7.6
	Sim. - Increased Growth	7.6	9.4	10.7	10.3	10.0
	Difference	0.3	1.8	3.1	2.7	2.4
Japan, Industrial Production						
	Baseline	6.5	6.5	6.5	5.8	5.8
	Sim. - Increased Growth	6.6	7.1	7.5	6.5	6.3
	Difference	0.1	0.6	1.0	0.7	0.5
Interest Rates						
Japan						
2-Month Gensaki Rate						
	Baseline	0.4	1.2	1.3	1.5	1.5
	Sim. - Increased Growth	0.9	2.2	2.5	3.0	3.0
	Difference	0.5	1.0	1.3	1.5	1.5
10-Year Gov. Bond						
	Baseline	1.8	2.4	3.2	3.3	4.0
	Sim. - Increased Growth	2.0	2.8	3.9	4.2	4.9
	Difference	0.2	0.4	0.6	0.9	0.9
Germany						
3-Month Deposit Rate						
	Baseline	4.2	4.8	5.0	5.0	5.0
	Sim. - Increased Growth	4.9	6.2	7.0	7.5	7.5
	Difference	0.7	1.5	2.0	2.5	2.5
10-Year Gov. Bond						
	Baseline	6.2	6.7	6.6	6.7	6.7
	Sim. - Increased Growth	6.5	7.5	7.6	8.2	8.2
	Difference	0.4	0.8	1.0	1.5	1.5
Eurozone						
ECB Refinance Rate						
	Baseline	4.1	4.5	4.8	4.8	4.8
	Sim. - Increased Growth	4.8	6.0	6.8	7.3	7.3
	Difference	0.8	1.5	2.0	2.5	2.5
Industrial Countries						
Government Bond Rate						
	Baseline	4.4	4.8	5.0	5.3	5.3
	Sim. - Increased Growth	4.7	5.4	5.8	6.5	6.5
	Difference	0.3	0.6	0.8	1.2	1.2
Nonborrowed Reserves						
(U.S., Bils. \$s)						
	Baseline	42.846	44.017	47.070	51.226	53.570
	Sim. - Increased Growth	42.846	38.342	36.220	34.876	37.220
	Difference	0.000	-5.675	-10.850	-16.350	-16.350

Oil Prices						
Refiners Cost, Foreign Oil	Baseline	26.40	25.81	26.18	26.79	27.42
	Sim. - Increased Growth	27.15	28.81	30.18	30.79	32.42
	Difference	0.75	3.00	4.00	4.00	5.00
Refiners Cost, Domestic Oil	Baseline	27.20	26.44	26.81	27.42	28.05
	Sim. - Increased Growth	27.95	29.44	30.81	31.42	33.05
	Difference	0.75	3.00	4.00	4.00	5.00
Spot Price, Domestic	Baseline	28.68	28.32	28.69	29.30	29.93
	Sim. - Increased Growth	29.43	31.32	32.69	33.30	34.93
	Difference	0.75	3.00	4.00	4.00	5.00
Add Factors						
Import Price Index	Baseline	0.3	-0.1	0.0	-0.0	-0.0
	Sim. - Increased Growth	0.8	1.1	1.4	1.5	1.8
	Difference	0.5	1.2	1.4	1.5	1.8
S&P 500 Price Index	Baseline	-89.1	-91.7	-157.6	-182.0	-163.4
	Sim. - Increased Growth	-89.1	-99.2	-155.1	-155.7	-157.4
	Difference	0.0	-7.5	2.5	26.3	6.0
Morgan Trade-Weighted Exchange Rate	Baseline	0.019	0.010	0.023	0.021	0.015
	Sim. - Increased Growth	0.019	-0.030	-0.037	-0.042	-0.049
	Difference	0.000	-0.04	-0.06	-0.063	-0.064
Yen/\$	Baseline	1.804	0.006	4.848	4.133	2.730
	Sim. - Increased Growth	1.804	-0.369	3.598	-3.867	-5.770
	Difference	0.000	-0.375	-1.250	-8.000	-8.500
\$/euro	Baseline	-0.117	-0.079	-0.064	-0.057	-0.056
	Sim. - Increased Growth	-0.117	-0.064	-0.049	0.018	0.064
	Difference	0.000	0.015	0.015	0.075	0.120
\$/Pound	Baseline	-0.094	-0.049	-0.044	-0.074	-0.075
	Sim. - Increased Growth	-0.094	-0.049	-0.044	0.001	0.025
	Difference	0.000	0.000	0.000	0.075	0.100
Business Exports	Baseline	26.138	41.500	39.672	38.600	66.477
	Sim. - Increased Growth	26.138	41.500	1.672	38.600	66.477
	Difference	0.000	0.000	-38.000	0.000	0.000
Computer Exports	Baseline	3.713	-2.998	-1.741	-5.556	-5.862
	Sim. - Increased Growth	3.713	-2.998	-19.241	-22.556	-24.612
	Difference	0.000	0.000	-17.500	-17.000	-18.750

Telecom. Exports	Baseline	-12.836	-19.154	-22.550	-28.554	-34.609
	Sim. - Increased Growth	-13.151	-20.854	-29.342	-37.331	-48.807
	Difference	-0.315	-1.700	-6.792	-8.777	-14.198
Service Exports	Baseline	-14.644	-17.087	-23.608	-24.103	-25.388
	Sim. - Increased Growth	-15.082	-19.307	-33.082	-47.020	-64.453
	Difference	-0.438	-2.220	-9.474	-22.917	-39.065
Business Imports	Baseline	-24.843	-24.239	-20.571	-22.560	-35.479
	Sim. - Increased Growth	-24.843	-24.239	-20.571	-17.560	-35.479
	Difference	0.000	0.000	0.000	5.000	0.000
Household Equity Assets	Baseline	272.850	356.073	355.533	458.223	428.230
	Sim. - Increased Growth	272.850	356.073	355.532	383.223	428.230
	Difference	0.000	0.000	-0.001	-75.000	0.000

* Macroeconomic model simulation with the Sinai-Boston Quarterly Macroeconometric Model of the U.S. Economy. Simulation starting July, 2000
Variant 3-Higher growth and interest rates in the Eurozone, U.K., Japan and Asia ex-Japan. Higher import goods prices and oil prices. Federal Reserve tightens monetary policy strongly.

Table B-6
Macroeconomic Effects of Increased Growth Outside the United States-Variant 3*

	2000	2001	2002	2003	2004
Real GDP - Level (Bils. '96 \$'s)					
Baseline	9297.3	9648.0	9931.9	10194.8	10551.3
Sim. - Increased Growth	9301.5	9651.7	9849.1	10062.9	10284.8
(Diff. in Level)	4.1	3.7	-82.8	-131.9	-266.6
(Pct. Diff. in Level)	0.0	0.0	-0.8	-1.3	-2.5
Real GDP-Growth (Pctg. Pts.), Baseline	5.1	3.8	2.9	2.6	3.5
Real GDP-Growth (Pctg. Pts.), Sim. - Increased Gro	5.1	3.8	2.0	2.2	2.2
Difference	0.0	-0.0	-0.9	-0.5	-1.3
Consumption (Bils. '96 \$'s)					
Baseline	6291.5	6489.1	6667.4	6830.1	7077.6
Sim. - Increased Growth	6290.1	6444.5	6530.6	6577.7	6672.6
(Diff. in Level)	-1.4	-44.6	-136.8	-252.5	-404.9
(Pct. Diff. in Level)	-0.0	-0.7	-2.1	-3.7	-5.7
Business Capital Spending, Total (Bils. '96 \$'s)					
Baseline	1361.0	1469.8	1554.8	1627.4	1714.4
Sim. - Increased Growth	1361.9	1469.5	1486.2	1460.4	1447.2
(Diff. in Level)	1.0	-0.3	-68.7	-167.0	-267.2
(Pct. Diff. in Level)	0.1	-0.0	-4.4	-10.3	-15.6
Plant, Baseline	265.9	286.7	300.3	316.1	327.9
Plant, Sim. - Increased Growth	266.3	287.5	290.8	291.4	289.1
(Diff. in Level)	0.4	0.8	-9.5	-24.6	-38.8
(Pct. Diff. in Level)	0.2	0.3	-3.2	-7.8	-11.8
Equipment, Baseline	1109.8	1210.1	1293.6	1363.0	1456.5
Equipment, Sim. - Increased Growth	1110.4	1208.8	1225.1	1195.4	1183.9
(Diff. in Level)	0.6	-1.3	-68.6	-167.7	-272.6
(Pct. Diff. in Level)	0.1	-0.1	-5.3	-12.3	-18.7
Net Exports (Bils. '96 \$'s)					
Baseline	-370.9	-349.8	-366.9	-390.8	-416.6
Sim. - Increased Growth	-364.9	-266.4	-134.6	42.1	155.1
(Diff. in Level)	6.0	83.4	232.3	432.9	571.6
Real Exports					
Baseline	1137.4	1251.8	1337.2	1421.9	1532.5
Sim. - Increased Growth	1138.1	1270.0	1352.9	1529.3	1657.0
(Diff. in Level)	0.7	18.3	15.7	107.4	124.5
(Pct. Diff. in Level)	0.1	1.5	1.2	7.6	8.1

Real Imports

Baseline	1508.3	1601.5	1704.1	1812.7	1949.0
Sim. - Increased Growth	1503.0	1536.4	1487.5	1487.2	1501.9
(Diff. in Level)	-5.3	-65.1	-216.5	-325.5	-447.2
(Pct. Diff. in Level)	-0.4	-4.1	-12.7	-18.0	-22.9

Nominal Net Exports (Bils. \$'s)

Baseline	-328.8	-323.5	-373.9	-433.6	-461.3
Sim. - Increased Growth	-334.5	-322.4	-326.9	-231.9	-128.8
(Diff. in Level)	-5.6	1.1	47.0	201.7	332.5
(Pct. Diff. in Level)	-0.4	0.6	3.6	13.6	19.6

Nominal Exports

Baseline	1100.7	1217.0	1298.3	1383.8	1497.0
Sim. - Increased Growth	1102.6	1247.9	1344.7	1530.6	1662.6
(Diff. in Level)	1.9	30.9	46.4	146.8	165.6
(Pct. Diff. in Level)	0.2	2.5	3.6	10.6	11.1

Nominal Imports

Baseline	1429.5	1540.5	1672.3	1817.4	1958.3
Sim. - Increased Growth	1437.0	1570.3	1671.6	1762.5	1791.4
(Diff. in Level)	7.5	29.9	-0.6	-54.8	-166.9
(Pct. Diff. in Level)	0.5	1.9	-0.0	-3.0	-8.5

Budget Deficit (NIPA)

(Bils. \$'S)

Baseline	218.0	215.2	238.0	234.4	270.9
Sim. - Increased Growth	217.6	186.8	130.7	47.0	3.7
(Diff. in Level)	-0.4	-28.5	-107.2	-187.5	-267.2
(Pct. Diff. in Level)	-0.2	-13.2	-45.1	-80.0	-98.6

Current Account Balance (Bils. \$'s)

Baseline	-400.4	-392.6	-440.7	-508.7	-532.6
Sim. - Increased Growth	-408.0	-388.6	-370.7	-222.3	-60.6
(Diff. in Level)	-7.6	4.0	70.0	286.4	472.0

Current Account as % of GDP

Baseline	-4.1	-3.7	-4.0	-4.4	-4.3
Sim. - Increased Growth	-4.2	-3.7	-3.4	-2.0	-0.5
(Diff. in Level)	-0.1	0.0	0.6	2.4	3.8

Potential Output (Bils. 1992 \$'s)

Baseline	7880.8	8164.4	8453.0	8734.2	9018.7
Sim. - Increased Growth	7880.6	8153.3	8394.6	8657.7	8920.2
(Diff. in Level)	-0.3	-11.1	-58.4	-76.5	-98.5

Potential Output Growth	4.0	3.6	3.5	3.3	3.3
Baseline	4.0	3.5	3.0	3.1	3.0
Sim. - Increased Growth (Diff. in Level)	-0.0	-0.1	-0.6	-0.2	-0.2
Employment, Compensation, and Unemployment Rate					
Employment (Mils. Pers.)					
Total Payrolls, Baseline	131.958	135.112	137.285	139.226	142.140
Total Payrolls, Sim. - Increased Growth (Diff. in Level)	132.012	135.367	137.337	139.328	141.468
	0.054	0.255	0.051	0.102	-0.672
Manufacturing, Baseline	18.536	18.448	18.225	17.961	17.814
Manufacturing, Sim. - Increased Growth (Diff. in Level)	18.540	18.478	18.228	18.048	17.925
	0.004	0.030	0.004	0.087	0.111
Ex-Manufacturing, Baseline	113.422	116.664	119.061	121.265	124.326
Ex-Manufacturing, Sim. - Increased Growth (Diff. in Level)	113.472	116.890	119.108	121.281	123.543
	0.050	0.226	0.048	0.015	-0.783
Unemployment Rate (Percent)					
Baseline	4.0	4.2	4.7	5.2	5.2
Sim. - Increased Growth	4.0	4.1	4.7	5.3	5.6
Difference	-0.0	-0.1	0.0	0.1	0.3
Compensation (Annual Pct. Chg)					
Nonfarm Business, Baseline	4.5	5.1	5.2	5.1	5.0
Nonfarm Business, Sim. - Increased Growth	4.5	5.0	4.9	4.7	4.6
Difference	-0.0	-0.1	-0.3	-0.4	-0.3
Manufacturing, Baseline	5.1	6.2	6.1	5.5	5.2
Manufacturing, Sim. - Increased Growth	5.1	6.3	5.9	5.2	4.6
Difference	0.0	0.0	-0.2	-0.4	-0.6
Avg Hourly Earnings, Non Mftg., Baseline	4.3	5.3	5.0	5.0	4.9
Avg Hourly Earnings, Non Mftg., Sim. - Increased	4.3	5.4	4.9	4.8	4.5
Difference	0.0	0.1	-0.2	-0.1	-0.5
Productivity (Annual Pct. Chg)					
Nonfarm Business, Baseline	3.4	2.6	3.1	2.8	2.6
Nonfarm Business, Sim. - Increased Growth	3.4	2.4	2.4	2.2	1.8
Difference	-0.0	-0.2	-0.8	-0.5	-0.8

Inflation (Annual Pct. Chg)	2000	2001	2002	2003	2004
GDP Chain Price Index, Baseline	2.5	2.5	2.2	1.8	1.8
GDP Chain Price Index, Sim. - Increased Growth	2.4	2.3	1.8	1.7	1.6
Difference	-0.0	-0.2	-0.4	-0.1	-0.3
Consumer Price Index (All Urban), Baseline	3.3	2.9	2.7	2.3	2.2
Consumer Price Index (All Urban), Sim. - Increased Growth	3.4	3.5	3.3	2.6	2.2
Difference	0.1	0.6	0.6	0.3	-0.0
After-tax Profits (Bils. \$'s)					
After-tax Profits, Baseline	655.2	704.3	758.8	798.2	856.9
After-tax Profits, Sim. - Increased Growth	654.1	677.2	646.7	621.1	623.6
(Diff. in Level)	-1.1	-27.1	-112.1	-177.1	-233.3
(Pct. Diff. in Level)	-0.2	-3.8	-14.8	-22.2	-27.2
After-tax Profits/GDP (Percent of GDP)					
After-tax Profits/GDP, Baseline	6.7	6.7	6.8	6.9	7.0
After-tax Profits/GDP, Sim. - Increased Growth	6.7	6.4	5.9	5.5	5.3
(Diff. in Level)	-0.0	-0.2	-0.9	-1.4	-1.7
Wages/GDP (Percent of GDP)					
After-tax Wages/GDP, Baseline	48.4	47.6	47.8	48.1	48.3
After-tax Wages/GDP, Sim. - Increased Growth	48.4	47.8	48.4	49.0	49.5
(Diff. in Level)	0.0	0.2	0.7	0.9	1.2
Interest Rates (Percent)					
Federal Funds Rate, Baseline	6.38	7.01	6.43	5.62	5.37
Federal Funds Rate, Sim. - Increased Growth	6.45	9.01	9.73	10.61	9.23
(Diff. in Level)	0.07	2.00	3.31	4.99	3.86
90-day Treas. Bill, Baseline	5.92	6.64	5.88	5.17	4.91
90-day Treas. Bill, Sim. - Increased Growth	5.99	8.31	8.67	9.40	8.33
(Diff. in Level)	0.07	1.67	2.79	4.23	3.42
US 10-Year Note, Baseline	6.39	6.26	5.97	5.73	5.57
US 10-Year Note, Sim. - Increased Growth	6.54	7.50	7.97	8.62	8.23
(Diff. in Level)	0.15	1.24	2.00	2.89	2.66
30-year Treas, Baseline	6.17	5.91	5.80	5.63	5.49
30-year Treas., Sim. - Increased Growth	6.34	6.88	7.19	7.74	7.50
(Diff. in Level)	0.17	0.97	1.39	2.11	2.01
AAA-Equiv. Corp. New Issue, Baseline	7.93	7.93	7.66	7.25	7.09
AAA-Equiv. Corp. New Issue, Sim. - Increased Growth	8.14	9.21	9.56	9.86	9.41
(Diff. in Level)	0.21	1.29	1.89	2.61	2.32

Exchange Rates	2000	2001	2002	2003	2004
Morgan Trade-Weighted Index, Baseline	1.098	1.075	1.063	1.018	0.999
Morgan Trade-Weighted Index, Sim. - Increased Gro	1.086	0.966	0.801	0.714	0.687
(Diff. in Level)	-0.012	-0.109	-0.262	-0.304	-0.312
(Pct. Diff. in Level)	-1.1	-10.2	-24.7	-29.9	-31.2
 Federal Reserve Dollar Index**, Baseline	1.146	1.188	1.240	1.266	1.315
Federal Reserve Dollar Index**, Sim. - Increased Gro	1.136	1.097	1.009	0.978	1.002
(Diff. in Level)	-0.010	-0.091	-0.231	-0.288	-0.313
(Pct. Diff. in Level)	-0.9	-7.7	-18.6	-22.7	-23.8
 Yen/\$, Baseline	105.4	98.6	100.2	97.2	91.4
Yen/\$, Sim. - Increased Growth	104.9	97.7	102.1	101.0	93.9
(Diff. in Level)	-0.5	-0.9	1.9	3.8	2.5
(Pct. Diff. in Level)	-0.5	-0.9	1.9	3.9	2.8
 \$/Euro, Baseline	0.969	1.035	1.135	1.197	1.228
\$/Euro, Sim. - Increased Growth	0.985	1.064	1.173	1.258	1.376
(Diff. in Level)	0.016	0.030	0.038	0.061	0.148
(Pct. Diff. in Level)	1.7	2.9	3.3	5.1	12.1
 \$/Pound, Baseline	1.544	1.563	1.706	1.759	1.771
\$/Pound, Sim. - Increased Growth	1.567	1.613	1.715	1.650	1.579
(Diff. in Level)	0.023	0.050	0.010	-0.109	-0.192
(Pct. Diff. in Level)	1.5	3.2	0.6	-6.2	-10.8
 S&P 500 Operating Earnings per Share					
Baseline	57.74	62.23	67.00	69.87	75.95
Sim. - Increased Growth	57.57	60.28	58.04	57.60	59.83
Difference	-0.17	-1.95	-8.97	-12.26	-16.11
(Pct. Diff. in Level)	-0.30	-3.13	-13.38	-17.55	-21.22
 S&P 500 Price Index					
Baseline	1454.1	1557.3	1706.0	1825.9	2037.4
Sim. - Increased Growth	1444.1	1290.1	1116.0	816.5	689.2
Difference	-10.0	-267.3	-589.9	-1009.5	-1348.2
(Pct. Diff. in Level)	-0.7	-17.2	-34.6	-55.3	-66.2

Variant 3-Higher growth and interest rates in the Eurozone, U.K., Japan and Asia ex-Japan. Higher import goods prices and oil prices. Federal Reserve tightens monetary policy strongly.

Table B-6 Macroeconomic Effects of Increased Growth Outside the United States-Variant 3*
Growth Rates of Major Variables that Describe the Economy -- Percent Unless Noted Otherwise

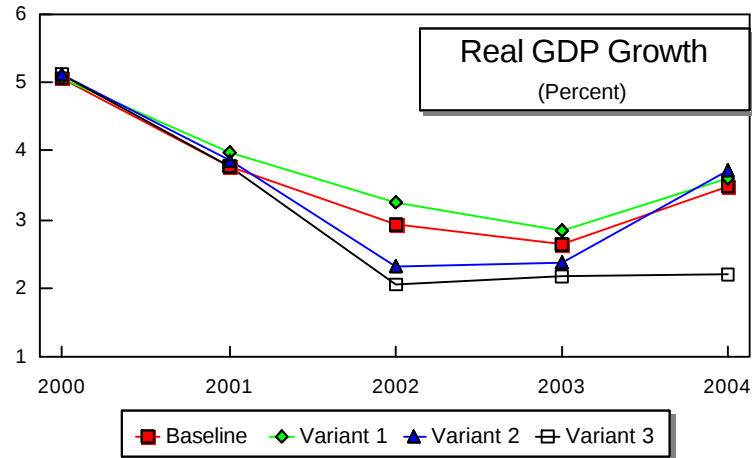
GDP Growth		2000	2001	2002	2003	2004
	Baseline	5.1	3.8	2.9	2.6	3.5
	Sim. - Increased Growth	5.1	3.8	2.0	2.2	2.2
	Difference	0.0	-0.0	-0.9	-0.5	-1.3
Inflation						
	GDP Price Index					
	Baseline	2.5	2.5	2.2	1.8	1.8
	Sim. - Increased Growth	2.4	2.3	1.8	1.7	1.6
	Difference	-0.0	-0.2	-0.4	-0.1	-0.3
	CPI-U					
	Baseline	3.3	2.9	2.7	2.3	2.2
	Sim. - Increased Growth	3.4	3.5	3.3	2.6	2.2
	Difference	0.1	0.6	0.6	0.3	-0.0
Unemployment Rate						
	Baseline	4.0	4.2	4.7	5.2	5.2
	Sim. - Increased Growth	4.0	4.1	4.7	5.3	5.6
	Difference	-0.0	-0.1	0.0	0.1	0.3
Federal Funds						
	Baseline	6.38	7.01	6.43	5.62	5.37
	Sim. - Increased Growth	6.45	9.01	9.73	10.61	9.23
	Difference	0.07	2.00	3.31	4.99	3.86
90 Day Treasury Bill						
	Baseline	5.92	6.64	5.88	5.17	4.91
	Sim. - Increased Growth	5.99	8.31	8.67	9.40	8.33
	Difference	0.07	1.67	2.79	4.23	3.42
10 Year Treasury Note						
	Baseline	6.39	6.26	5.97	5.73	5.57
	Sim. - Increased Growth	6.54	7.50	7.97	8.62	8.23
	Difference	0.15	1.24	2.00	2.89	2.66
S&P 500 Operating Earnings per Share						
	Baseline	13.2	7.8	7.7	4.3	8.7
	Sim. - Increased Growth	12.8	4.7	-3.7	-0.7	3.9
	Difference	-0.3	-3.1	-11.4	-5.0	-4.8

S&P 500 Price Index		2000	2001	2002	2003	2004
	Baseline	9.6	7.1	9.5	7.0	11.6
	Sim. - Increased Growth	8.9	-10.7	-13.5	-26.8	-15.6
	Difference	-0.8	-17.8	-23.0	-33.9	-27.2
Yen/\$						
	Baseline	-7.3	-6.5	1.6	-3.0	-6.0
	Sim. - Increased Growth	-7.8	-6.9	4.5	-1.0	-7.1
	Difference	-0.5	-0.4	2.9	2.0	-1.1
\$Euro						
	Baseline	-9.3	6.8	9.7	5.4	2.5
	Sim. - Increased Growth	-7.8	8.1	10.2	7.2	9.4
	Difference	1.5	1.3	0.5	1.8	6.8
Morgan Trade-Weighted Index						
	Baseline	1.7	-2.1	-1.1	-4.2	-1.9
	Sim. - Increased Growth	0.6	-11.1	-17.1	-10.9	-3.7
	Difference	-1.1	-9.0	-15.9	-6.6	-1.9

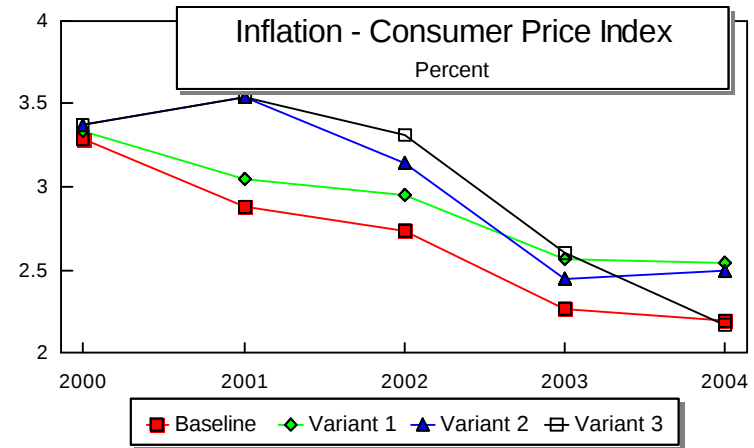
Chart B-4.1

“Hard Landing” Variants (World Growth Pickup, Weaker Dollar, More Inflation, Fed Tightening, Shift in Investment and Lending Away from the U.S.)*

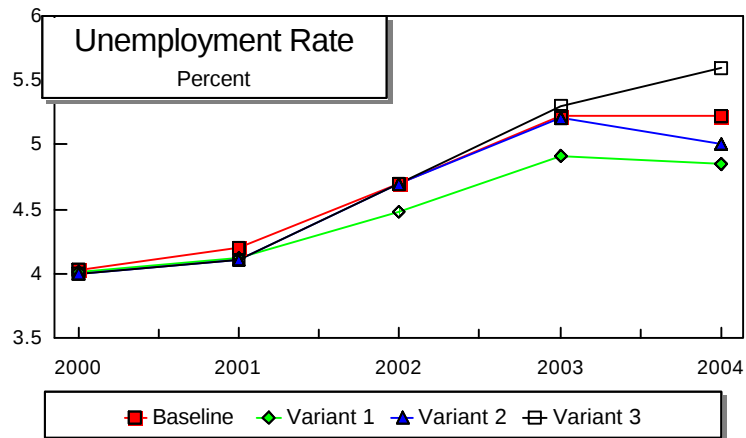
Economy Suffers Various Degrees of Hard-Landing on Higher Inflation, Tighter Money, Weaker Stock Market



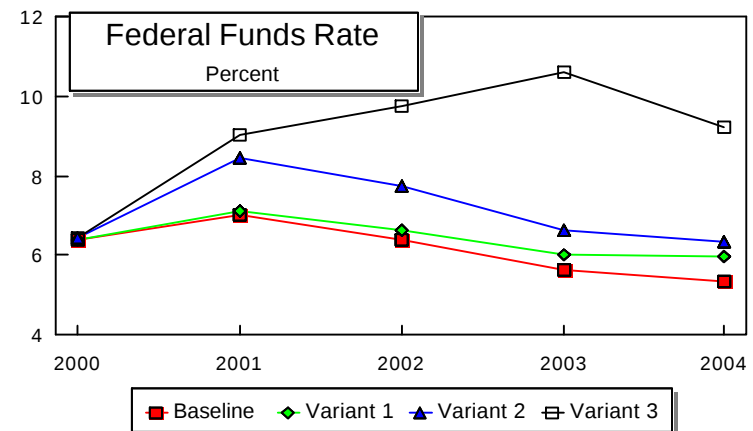
Inflation a Worse Problem on the World Growth Pickup and Dollar Weakness



Much Higher Unemployment Rate



Fed Policy Gets Extremely Tight to Fight Inflation and Protect Dollar



*Variant 1—Global Growth and Interest Rate Pickup, Eurozone, U.K., Japan, Asia ex-Japan, Not in Canada Nor Latin America; Modest Declines in Dollar; No Fed Response.

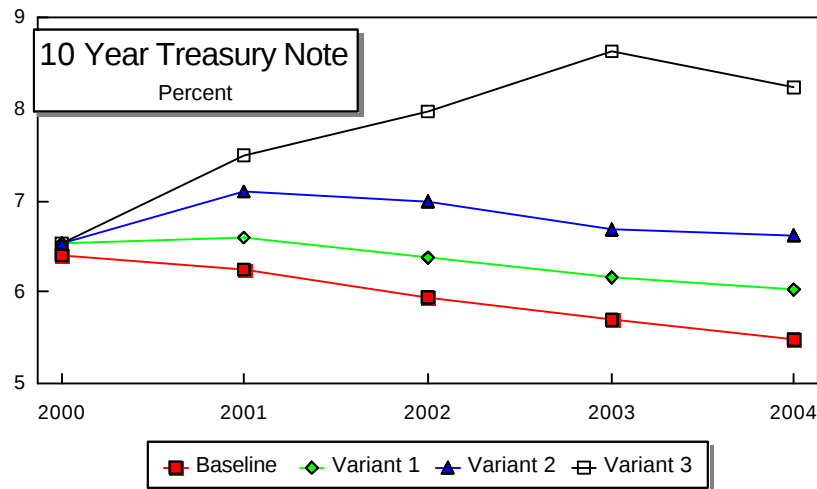
*Variant 2—World Import Goods and Crude Oil Prices Shoot Higher on the Global Growth Pickup, Fed Tightens, Investors Move Out of the U.S..

*Variant 3—“Hard Landing” Components—Investors Flee the Stock Market and the Dollar, Fed Tightening Extreme to Protect the Dollar and Hold Down Inflation, a Dollar Fall.

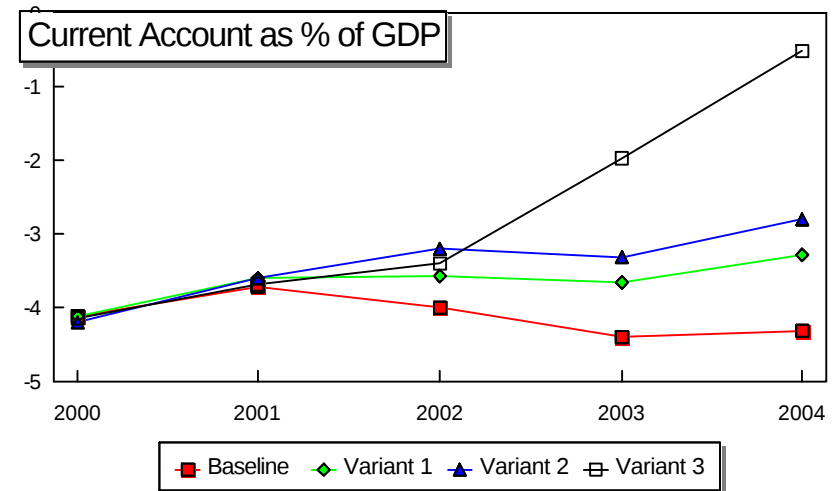
Simulations with the Sinai-Boston Quarterly Macroeconometric Model of the U.S. Economy.

Chart B-4.1 (Cont.)
Hard Landing Variants (World Growth Pickup, Weaker Dollar, More Inflation, Fed Tightening, Shift in Investment and Lending Away from the U.S.)*

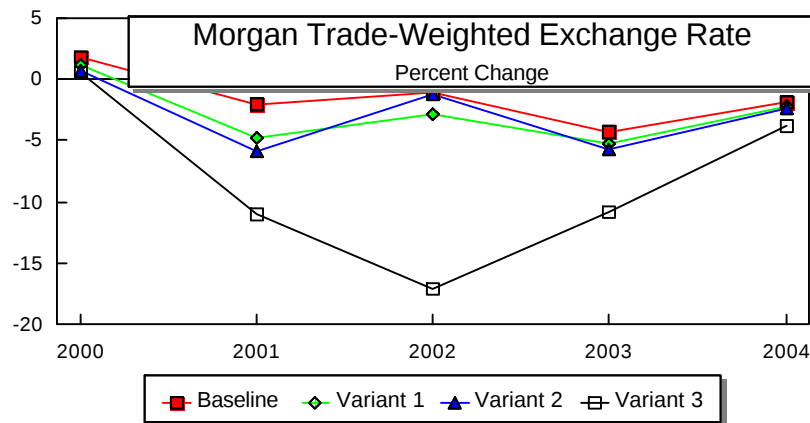
Sustained High Long-Term Interest Rates



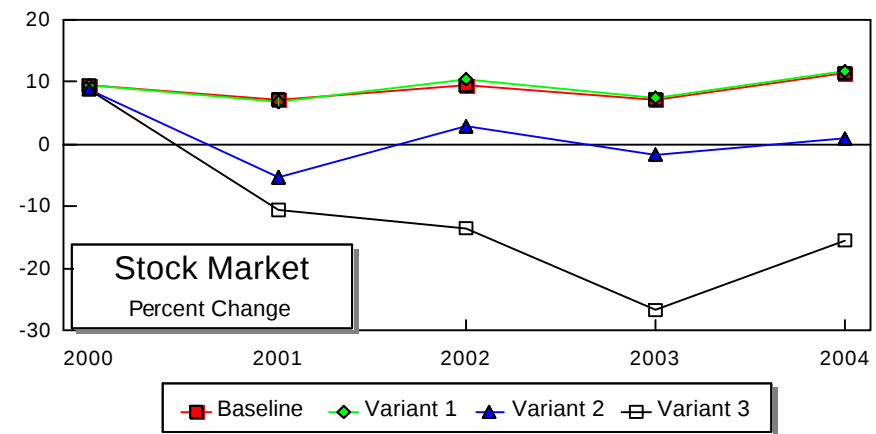
Better Current Account Because of Hard-Landing Taking Down Imports and Cheaper U.S. Exports



Dollar Falls with Hard-Landing . . .



and Stock Market in a Bear Configuration



*Variant 1—Global Growth and Interest Rate Pickup, Eurozone, U.K., Japan, Asia ex-Japan, Not in Canada Nor Latin America; Modest Declines in Dollar; No Fed Response.

*Variant 2—World Import Goods and Crude Oil Prices Shoot Higher on the Global Growth Pickup, Fed Tightens, Investors Move Out of the U.S..

*Variant 3—“Hard Landing” Components—Investors Flee the Stock Market and the Dollar, Fed Tightening Extreme to Protect the Dollar and Hold Down Inflation, a Dollar Fall. Simulations with the Sinai-Boston Quarterly Macroeconometric Model of the U.S. Economy.

Appendix C—Trade Policy and the Current Account

Table C.1

Macroeconomic Effects of Higher Exports with Fixed Labor Supply and Capacity

Chart C-1.1

Higher Exports with Fixed Labor Supply and Capacity

Table C.2

Macroeconomic Effects of a High Current Account Deficit

Chart C-2.1

High Current Account Deficit

Table C-1
Macroeconomic Effects of High Exports with Fixed Resources*

		2000	2001	2002	2003	2004
Current Account Balance						
(Bils. \$'s)	Baseline	-400.4	-392.6	-440.7	-508.7	-532.6
	Sim. - Easier Fiscal	-365.5	-282.3	-264.8	-269.7	-232.3
	(Diff. in Level)	34.9	110.3	175.9	239.0	300.3
Current Account as % of GDP						
	Baseline	-4.1	-3.7	-4.0	-4.4	-4.3
	Sim. - Easier Fiscal	-3.7	-2.6	-2.3	-2.3	-1.8
	Difference	0.4	1.1	1.6	2.1	2.5
Add Factors						
Exports, Business	Baseline	26.1	41.5	39.7	38.6	66.5
	Sim- High Exports	41.1	80.8	107.1	128.5	178.8
	Difference	15.0	39.3	67.4	89.9	112.4
Exports, Telecommunications	Baseline	-12.8	-19.2	-22.5	-28.5	-34.6
	Sim- High Exports	-12.2	-18.1	-21.1	-26.6	-32.1
	Difference	0.7	1.0	1.5	2.0	2.5
Exports, Consumer	Baseline	6.6	9.7	4.7	0.4	-1.5
	Sim- High Exports	10.6	16.8	15.8	15.1	16.8
	Difference	4.0	7.0	11.0	14.7	18.4
Exports, Computer	Baseline	3.7	-3.0	-1.7	-5.5	-5.7
	Sim- High Exports	5.3	0.3	3.6	1.6	3.2
	Difference	1.6	3.3	5.4	7.1	8.9
Exports, Services	Baseline	-14.6	-17.1	-23.6	-24.1	-25.4
	Sim- High Exports	-5.4	7.1	17.8	31.1	43.6
	Difference	9.2	24.2	41.4	55.2	69.0
Equipment, Computers	Baseline	-49.7	-7.8	5.6	22.7	49.9
	Sim- High Exports	-51.4	-13.4	-6.3	-4.7	14.6
	Difference	-1.7	-5.6	-11.9	-27.3	-35.3
Equipment, Information Processing	Baseline	-23.2	-41.7	-56.9	-69.7	-96.1
	Sim- High Exports	-24.2	-49.1	-73.3	-94.9	-126.7
	Difference	-0.9	-7.4	-16.4	-25.2	-30.6
Equipment, Ex- Information Processing	Baseline	-168.4	-141.6	-131.7	-177.5	-267.5
	Sim- High Exports	-170.8	-153.9	-155.6	-216.7	-328.6
	Difference	-2.4	-12.3	-23.9	-39.3	-61.1

Nonresidential Const.	Baseline	-2.8	-3.5	-4.1	-4.8	-6.1
Mining	Sim- High Exports	-2.9	-3.7	-4.5	-5.4	-6.9
	Difference	-0.1	-0.2	-0.4	-0.6	-0.7
Nonresidential Const.	Baseline	-43.3	-46.7	-42.2	-30.7	-27.8
Ex-Mining	Sim- High Exports	-43.5	-47.5	-45.8	-37.2	-36.5
	Difference	-0.1	-0.8	-3.6	-6.5	-8.8
Nonfarm Payroll	Baseline	-1.063	-0.943	-0.980	-0.895	-0.872
Employment	Sim- High Exports	-1.560	-2.010	-2.752	-3.451	-4.177
(Mils. Pers.)	Difference	-0.496	-1.067	-1.772	-2.556	-3.305
Manufacturing Employment	Baseline	-0.306	-0.341	-0.392	-0.430	-0.410
	Sim- High Exports	-0.339	-0.426	-0.536	-0.638	-0.674
	Difference	-0.033	-0.084	-0.144	-0.208	-0.264
Civilian Labor Force	Baseline	0.0	-0.1	-0.0	-0.1	-0.1
	Sim- High Exports	0.0	-0.1	-0.1	-0.1	-0.1
	Difference	-0.0	-0.0	-0.0	-0.0	-0.1
Civilian Employment Level	Baseline	-1.5	-2.2	-2.7	-3.2	-3.2
	Sim- High Exports	-1.7	-2.8	-3.8	-4.8	-5.2
	Difference	-0.2	-0.6	-1.1	-1.6	-2.0
Capacity Utilization,	Baseline	0.0	0.0	0.0	0.0	0.0
Manufacturing	Sim- High Exports	-0.3	-0.8	-1.3	-1.8	-2.2
(Percentage Points)	Difference	-0.3	-0.8	-1.3	-1.8	-2.2

* Macroeconomic model simulation with the Sinai-Boston Quarterly Macroeconometric Model of the U.S. Economy. Simulation starting July, 2000.

Table C-1
Macroeconomic Effects of High Exports with Fixed Resources

	2000	2001	2002	2003	2004
Real GDP - Level (Bils. '96 \$'s)					
Baseline	9297.4	9648.2	9932.0	10195.0	10551.5
Sim. - High Exports	9324.2	9728.6	10078.8	10407.1	10831.4
(Diff. in Level)	26.8	80.4	146.8	212.1	279.9
(Pct. Diff. in Level)	0.3	0.8	1.5	2.1	2.7
Real GDP-Growth (Pctg. Pts.), Baseline	5.1	3.8	2.9	2.6	3.5
Real GDP-Growth (Pctg. Pts.), Sim. - High Exports	5.4	4.3	3.6	3.3	4.1
Difference	0.3	0.6	0.7	0.6	0.6
Consumption (Bils. '96 \$'s)					
Baseline	6291.6	6489.1	6667.4	6830.2	7077.6
Sim. - High Exports	6295.1	6507.4	6709.5	6897.4	7175.1
(Diff. in Level)	3.5	18.3	42.1	67.3	97.5
(Pct. Diff. in Level)	0.1	0.3	0.6	1.0	1.4
Durables					
Baseline	901.3	919.8	977.2	1037.7	1131.4
Sim. - High Exports	902.7	926.1	990.1	1057.3	1160.0
(Diff. in Level)	1.4	6.2	12.9	19.5	28.6
(Pct. Diff. in Level)	0.2	0.7	1.3	1.9	2.5
Motor Vehicles & Parts					
Baseline	347.8	339.2	353.1	373.0	406.5
Sim. - High Exports	348.9	342.6	359.0	380.8	417.0
(Diff. in Level)	1.1	3.4	5.9	7.7	10.5
(Pct. Diff. in Level)	0.3	1.0	1.7	2.1	2.6
Business Capital Spending, Total (Bils. '96 \$'s)					
Baseline	1361.0	1469.9	1554.9	1627.5	1714.4
Sim. - High Exports	1361.3	1470.0	1556.0	1626.2	1714.3
(Diff. in Level)	0.3	0.1	1.1	-1.3	-0.1
(Pct. Diff. in Level)	0.0	0.0	0.1	-0.1	-0.0
Plant					
Baseline	265.9	286.7	300.3	316.1	327.9
Sim. - High Exports	265.9	286.9	300.6	316.8	328.9
(Diff. in Level)	0.0	0.1	0.3	0.7	1.0
(Pct. Diff. in Level)	0.0	0.0	0.1	0.2	0.3
Equipment					
Baseline	1109.8	1210.2	1293.6	1363.1	1456.5
Sim. - High Exports	1110.1	1210.1	1294.6	1360.9	1456.3
(Diff. in Level)	0.3	-0.0	0.9	-2.1	-0.2
(Pct. Diff. in Level)	0.0	-0.0	0.1	-0.2	-0.0

Equipment Ex-Information Processing	2000	2001	2002	2003	2004
Baseline	522.4	556.3	564.2	562.4	569.9
Sim. - High Exports	522.4	556.4	564.3	561.5	570.3
(Diff. in Level)	0.0	0.1	0.2	-0.9	0.4
(Pct. Diff. in Level)	0.0	0.0	0.0	-0.2	0.1

Equipment, Information Processing Ex-Computers

Baseline	366.9	395.2	432.8	459.2	479.5
Sim. - High Exports	367.0	395.0	432.8	459.7	480.0
(Diff. in Level)	0.1	-0.1	0.0	0.5	0.4
(Pct. Diff. in Level)	0.0	-0.0	0.0	0.1	0.1

Equipment, Computers

Baseline	293.0	366.6	508.2	727.9	1061.1
Sim. - High Exports	293.4	366.7	511.5	724.6	1070.2
(Diff. in Level)	0.3	0.1	3.3	-3.3	9.1
(Pct. Diff. in Level)	0.1	0.0	0.7	-0.5	0.9

Structures

Baseline	265.9	286.7	300.3	316.1	327.9
Sim. - High Exports	265.9	286.9	300.6	316.6	328.0
(Diff. in Level)	0.0	0.1	0.3	0.5	0.1
(Pct. Diff. in Level)	0.0	0.0	0.1	0.2	0.0

Nonres Const. Ex-Mining

Baseline	237.4	251.5	260.9	271.7	279.0
Sim. - High Exports	237.4	251.6	261.1	271.9	278.8
(Diff. in Level)	0.0	0.1	0.1	0.2	-0.3
(Pct. Diff. in Level)	0.0	0.0	0.1	0.1	-0.1

Nonres Const. Mining

Baseline	26.9	28.7	28.9	29.0	29.4
Sim. - High Exports	26.9	28.7	29.0	29.2	29.7
(Diff. in Level)	0.0	0.0	0.1	0.2	0.4
(Pct. Diff. in Level)	0.0	0.1	0.3	0.8	1.2

Capacity Utilization, Manufacturing (Percent)

Baseline	82.1	81.8	80.9	80.1	80.1
Sim. - High Exports	82.0	81.8	80.9	80.1	80.1
(Diff. in Level)	-0.0	-0.0	0.1	0.0	-0.0
(Pct. Diff. in Level)	-0.0	-0.0	0.1	0.0	-0.0

Net Exports (Bils. '96 \$'s)

Baseline	-370.9	-349.8	-366.9	-390.8	-416.5
Sim. - High Exports	-347.3	-290.2	-269.8	-252.2	-240.7
(Diff. in Level)	23.6	59.5	97.1	138.6	175.8

Real Exports	2000	2001	2002	2003	2004
Baseline	1137.4	1251.8	1337.2	1421.9	1532.5
Sim. - High Exports	1165.9	1352.3	1513.6	1663.7	1842.9
(Diff. in Level)	28.5	100.5	176.4	241.8	310.4
(Pct. Diff. in Level)	2.5	8.0	13.2	17.0	20.3

Real Imports					
Baseline	1508.3	1601.5	1704.1	1812.7	1949.0
Sim. - High Exports	1513.2	1642.5	1783.4	1915.9	2083.6
(Diff. in Level)	4.9	41.0	79.3	103.2	134.6
(Pct. Diff. in Level)	0.3	2.6	4.7	5.7	6.9

Nominal Net Exports (Bils. \$'s)					
Baseline	-328.9	-323.5	-374.0	-433.7	-461.5
Sim. - High Exports	-302.9	-241.0	-243.6	-259.0	-244.1
(Diff. in Level)	25.9	82.5	130.4	174.7	217.3
(Pct. Diff. in Level)	2.4	7.0	10.7	13.6	15.8

Nominal Exports					
Baseline	1100.7	1217.0	1298.2	1383.6	1496.8
Sim. - High Exports	1128.1	1311.9	1463.9	1613.6	1794.6
(Diff. in Level)	27.5	95.0	165.6	230.0	297.8
(Pct. Diff. in Level)	2.5	7.8	12.8	16.6	19.9

Nominal Imports					
Baseline	1429.5	1540.5	1672.2	1817.3	1958.3
Sim. - High Exports	1431.1	1552.9	1707.5	1872.6	2038.8
(Diff. in Level)	1.5	12.5	35.2	55.3	80.5
(Pct. Diff. in Level)	0.1	0.8	2.1	3.0	4.1

Budget Deficit (NIPA)

(Bils. \$'S)					
Baseline	218.0	215.3	238.0	234.4	270.9
Sim. - High Exports	222.1	236.5	275.1	290.1	344.7
(Diff. in Level)	4.1	21.2	37.1	55.7	73.7
(Pct. Diff. in Level)	1.9	9.9	15.6	23.8	27.2

Current Account Balance (Bils. \$'s)

Baseline	-400.4	-392.6	-440.7	-508.7	-532.6
Sim. - High Exports	-365.5	-282.3	-264.8	-269.7	-232.3
(Diff. in Level)	34.9	110.3	175.9	239.0	300.3

Current Account as % of GDP

Baseline	-4.1	-3.7	-4.0	-4.4	-4.3
Sim. - High Exports	-3.7	-2.6	-2.3	-2.3	-1.8
(Diff. in Level)	0.4	1.1	1.6	2.1	2.5

Potential Output (Bils. 1992 \$'s)	2000	2001	2002	2003	2004
Baseline	7880.8	8164.4	8453.0	8734.2	9018.7
Sim. - High Exports	7903.8	8230.0	8572.0	8907.7	9243.1
(Diff. in Level)	23.0	65.6	119.0	173.5	224.4
Potential Output Growth	4.0	3.6	3.5	3.3	3.3
Baseline	4.3	4.1	4.2	3.9	3.8
Sim. - High Exports	0.3	0.5	0.6	0.6	0.5
(Diff. in Level)					
Employment, Compensation, and Unemployment Rate					
Employment (Mils. Pers.)					
Total Payrolls, Baseline	131.958	135.112	137.285	139.226	142.140
Total Payrolls, Sim. - High Exports	131.912	135.051	137.308	139.194	142.089
(Diff. in Level)	-0.046	-0.061	0.023	-0.032	-0.051
	2000	2001	2002	2003	2004
Manufacturing, Baseline	18.536	18.448	18.224	17.961	17.814
Manufacturing, Sim. - High Exports	18.535	18.437	18.203	17.913	17.747
(Diff. in Level)	-0.001	-0.011	-0.022	-0.048	-0.067
Ex-Manufacturing, Baseline	113.422	116.664	119.061	121.265	124.326
Ex-Manufacturing, Sim. - High Exports	113.377	116.614	119.105	121.282	124.342
(Diff. in Level)	-0.046	-0.051	0.045	0.017	0.016
Unemployment Rate (Percent)					
Baseline	4.0	4.2	4.7	5.2	5.2
Sim. - High Exports	4.0	4.2	4.7	5.3	5.2
Difference	0.0	0.0	0.0	0.0	0.0
Compensation (Annual Pct. Chg)					
Nonfarm Business, Baseline	4.5	5.1	5.2	5.1	5.0
Nonfarm Business, Sim. - High Exports	4.5	5.1	5.4	5.3	5.2
Difference	-0.0	0.1	0.2	0.2	0.2
Manufacturing, Baseline	5.1	6.2	6.1	5.5	5.2
Manufacturing, Sim. - High Exports	5.2	6.4	6.3	5.8	5.4
Difference	0.0	0.1	0.2	0.2	0.3
Avg Hourly Earnings, Non Mftg., Baseline	4.3	5.3	5.0	5.0	4.9
Avg Hourly Earnings, Non Mftg., Sim. - High Exports	4.3	5.4	5.2	5.1	5.1
Difference	0.0	0.1	0.2	0.2	0.2
Productivity (Annual Pct. Chg)					
Nonfarm Business, Baseline	3.4	2.6	3.1	2.8	2.6
Nonfarm Business, Sim. - High Exports	3.8	3.3	4.0	3.6	3.3
Difference	0.4	0.7	0.9	0.8	0.7

Inflation (Annual Pct. Chg)

GDP Chain Price Index, Baseline	2.4	2.5	2.2	1.8	1.8
GDP Chain Price Index, Sim. - High Exports	2.4	2.6	2.2	1.8	1.8
Difference	0.0	0.1	-0.0	-0.0	0.0
Consumer Price Index (All Urban), Baseline	3.3	2.9	2.7	2.3	2.2
Consumer Price Index (All Urban), Sim. - High Expor	3.3	2.7	2.6	2.2	2.2
Difference	-0.0	-0.2	-0.1	-0.1	-0.0

After-tax Profits (Bils. \$'s)

After-tax Profits, Baseline	655.2	704.3	758.8	798.2	856.9
After-tax Profits, Sim. - High Exports	661.9	738.2	810.1	860.5	932.1
(Diff. in Level)	6.7	33.8	51.2	62.3	75.2
(Pct. Diff. in Level)	1.0	4.8	6.8	7.8	8.8

After-tax Profits/GDP (Percent of GDP)

After-tax Profits/GDP, Baseline	6.7	6.7	6.8	6.9	7.0
After-tax Profits/GDP, Sim. - High Exports	6.7	6.9	7.2	7.3	7.4
(Diff. in Level)	0.0	0.3	0.4	0.4	0.4

Wages/GDP (Percent of GDP)

After-tax Wages/GDP, Baseline	48.4	47.6	47.8	48.1	48.3
After-tax Wages/GDP, Sim. - High Exports	48.2	47.3	47.3	47.5	47.5
(Diff. in Level)	-0.1	-0.3	-0.5	-0.6	-0.7

	2000	2001	2002	2003	2004
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Interest Rates (Percent)

Federal Funds Rate, Baseline	6.38	7.01	6.43	5.62	5.37
Federal Funds Rate, Sim. - High Exports	6.43	7.21	6.78	6.24	6.28
(Diff. in Level)	0.04	0.20	0.35	0.61	0.91

90-day Treas. Bill, Baseline	5.92	6.64	5.88	5.17	4.91
90-day Treas. Bill, Sim. - High Exports	5.96	6.81	6.18	5.66	5.60
(Diff. in Level)	0.04	0.16	0.29	0.49	0.70

US 10-Year Note, Baseline	6.39	6.25	5.95	5.70	5.48
US 10-Year Note. Sim. - High Exports	6.38	6.24	5.99	5.74	5.56
(Diff. in Level)	-0.01	-0.01	0.04	0.04	0.08

30-year Treas, Baseline	6.17	5.91	5.80	5.63	5.49
30-year Treas., Sim. - High Exports	6.14	5.89	5.90	5.71	5.61
(Diff. in Level)	-0.02	-0.01	0.09	0.08	0.12

AAA-Equiv. Corp. New Issue, Baseline	7.93	7.93	7.66	7.25	7.09
AAA-Equiv. Corp. New Issue , Sim. - High Exports	7.92	7.92	7.75	7.37	7.30
(Diff. in Level)	-0.01	-0.00	0.08	0.11	0.21

Exchange Rates	2000	2001	2002	2003	2004
Morgan Trade-Weighted Index, Baseline	1.098	1.075	1.063	1.018	0.999
Morgan Trade-Weighted Index, Sim. - High Exports	1.110	1.127	1.136	1.095	1.080
(Diff. in Level)	0.012	0.052	0.073	0.077	0.081
(Pct. Diff. in Level)	1.1	4.8	6.8	7.5	8.1
 Federal Reserve Dollar Index**, Baseline	1.146	1.188	1.240	1.266	1.315
Federal Reserve Dollar Index**, Sim. - High Exports	1.154	1.229	1.302	1.335	1.392
(Diff. in Level)	0.008	0.041	0.062	0.069	0.077
(Pct. Diff. in Level)	0.7	3.5	5.0	5.4	5.9
Yen/\$, Baseline	105.4	98.6	100.2	97.2	91.4
Yen/\$, Sim. - High Exports	106.5	103.1	105.5	101.9	95.8
(Diff. in Level)	1.0	4.5	5.3	4.7	4.4
(Pct. Diff. in Level)	1.0	4.6	5.3	4.9	4.8
 \$/Euro, Baseline	0.969	1.035	1.135	1.197	1.228
\$/Euro, Sim. - High Exports	0.962	1.001	1.082	1.129	1.142
(Diff. in Level)	-0.007	-0.033	-0.053	-0.068	-0.085
(Pct. Diff. in Level)	-0.7	-3.2	-4.7	-5.7	-7.0
\$/Pound, Baseline	1.544	1.563	1.706	1.759	1.771
\$/Pound, Sim. - High Exports	1.518	1.413	1.402	1.300	1.163
(Diff. in Level)	-0.026	-0.150	-0.304	-0.459	-0.608
(Pct. Diff. in Level)	-1.7	-9.6	-17.8	-26.1	-34.3
 S&P 500 Operating Earnings per Share					
Baseline	57.74	62.23	67.00	69.87	75.95
Sim. - High Exports	58.88	66.30	73.47	77.91	86.09
Difference	1.14	4.07	6.46	8.04	10.14
(Pct. Diff. in Level)	1.97	6.54	9.65	11.51	13.35
 S&P 500 Price Index					
Baseline	1454.1	1557.3	1706.0	1826.0	2037.4
Sim. - High Exports	1464.4	1624.1	1868.4	2143.0	2567.4
Difference	10.3	66.7	162.4	317.0	530.0
(Pct. Diff. in Level)	0.7	4.3	9.5	17.4	26.0

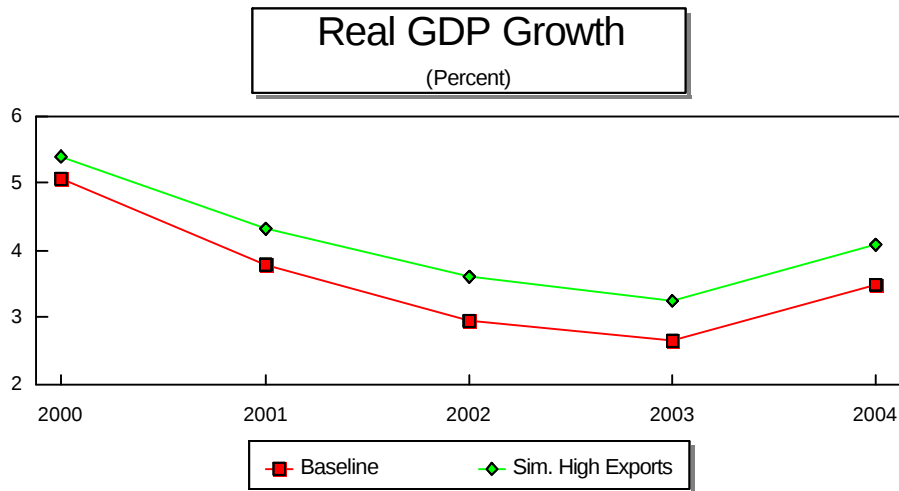
Table C-1 Macroeconomic Effects of High Exports with Fixed Resources
Growth Rates of Major Variables that Describe the Economy -- Percent Unless Noted Otherwise

GDP Growth		2000	2001	2002	2003	2004
	Baseline	5.1	3.8	2.9	2.6	3.5
	Sim. - High Exports	5.4	4.3	3.6	3.3	4.1
	Difference	0.3	0.6	0.7	0.6	0.6
Inflation						
	GDP Price Index					
	Baseline	2.4	2.5	2.2	1.8	1.8
	Sim. - High Exports	2.4	2.6	2.2	1.8	1.8
	Difference	0.0	0.1	-0.0	-0.0	0.0
	CPI-U					
	Baseline	3.3	2.9	2.7	2.3	2.2
	Sim. - High Exports	3.3	2.7	2.6	2.2	2.2
	Difference	-0.0	-0.2	-0.1	-0.1	-0.0
Unemployment Rate						
	Baseline	4.0	4.2	4.7	5.2	5.2
	Sim. - High Exports	4.0	4.2	4.7	5.3	5.2
	Difference	0.0	0.0	0.0	0.0	0.0
Federal Funds						
	Baseline	6.38	7.01	6.43	5.62	5.37
	Sim. - High Exports	6.43	7.21	6.78	6.24	6.28
	Difference	0.04	0.20	0.35	0.61	0.91
90 Day Treasury Bill						
	Baseline	5.92	6.64	5.88	5.17	4.91
	Sim. - High Exports	5.96	6.81	6.18	5.66	5.60
	Difference	0.04	0.16	0.29	0.49	0.70
10 Year Treasury Note						
	Baseline	6.39	6.25	5.95	5.70	5.48
	Sim. - High Exports	6.38	6.24	5.99	5.74	5.56
	Difference	-0.01	-0.01	0.04	0.04	0.08
S&P 500 Operating Earnings per Share						
	Baseline	13.2	7.8	7.7	4.3	8.7
	Sim. - High Exports	15.4	12.6	10.8	6.0	10.5
	Difference	2.2	4.8	3.1	1.8	1.8

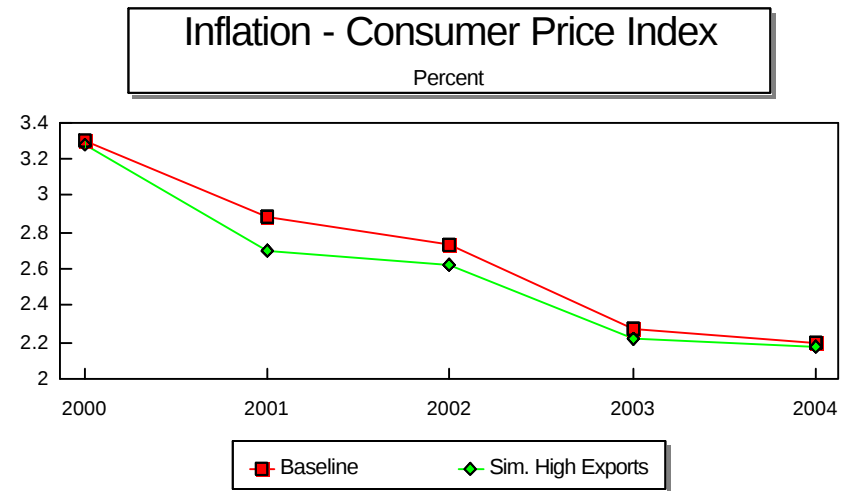
S&P 500 Price Index		2000	2001	2002	2003	2004
	Baseline	9.6	7.1	9.5	7.0	11.6
	Sim. - High Exports	10.4	10.9	15.0	14.7	19.8
	Difference	0.8	3.8	5.5	7.7	8.2
Yen/\$						
	Baseline	-7.3	-6.5	1.6	-3.0	-6.0
	Sim. - High Exports	-6.4	-3.2	2.3	-3.4	-6.0
	Difference	0.9	3.4	0.7	-0.4	-0.0
\$/Euro						
	Baseline	-9.3	6.8	9.7	5.4	2.5
	Sim. - High Exports	-9.9	4.1	8.1	4.3	1.1
	Difference	-0.6	-2.7	-1.6	-1.1	-1.4
Morgan Trade-Weighted Index						
	Baseline	1.7	-2.1	-1.1	-4.2	-1.9
	Sim. - High Exports	2.8	1.5	0.8	-3.6	-1.3
	Difference	1.1	3.6	1.9	0.6	0.5

Chart C-1.1 **Higher Exports with Fixed Labor Supply and Capacity**

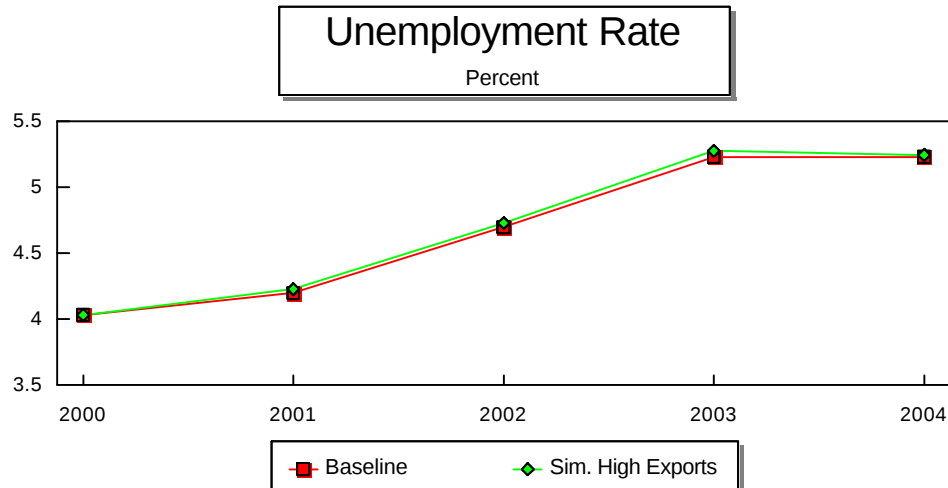
Higher Exports Raise GDP



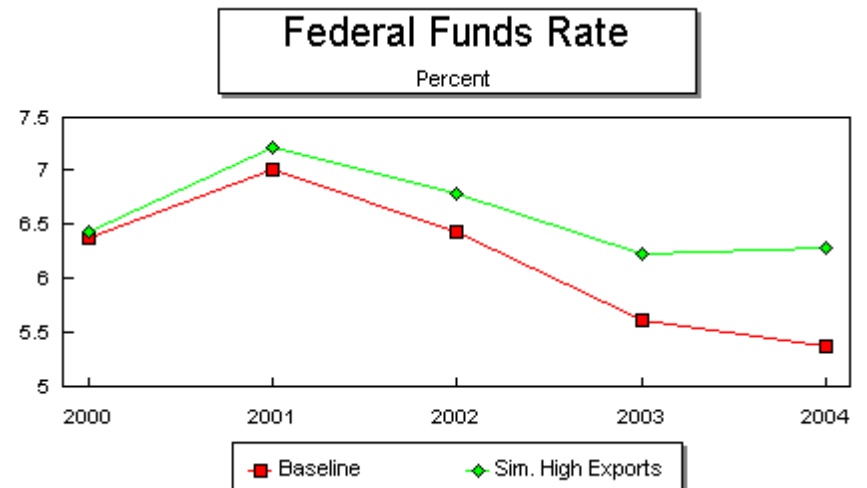
Higher Dollar Allows Inflation to Fall



But the Labor Supply and Employment Have No Slack



Higher Growth Moves Short-Term Interest Rates Upward



Exports increased by \$300 billion over five years, but the labor supply and capital stock are assumed to be fixed. Sources of increases could be trade policy, new products, or autonomous.

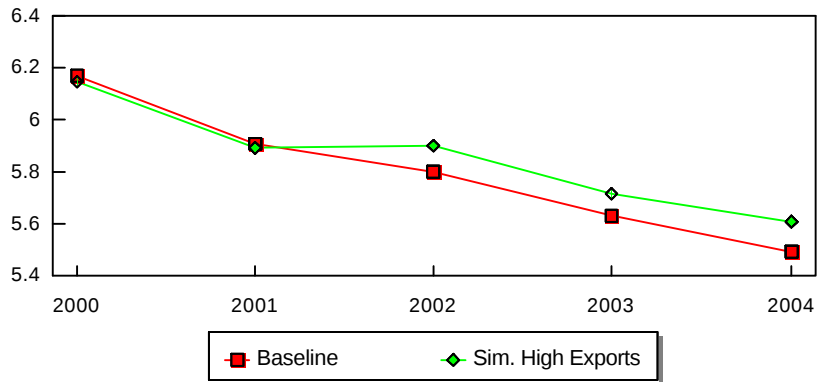
Simulation with the Sinai-Boston Quarterly Macroeconometric Model of the U.S. Economy.

Chart C-1.1 (Cont.) **Higher Exports with Fixed Labor Supply and Capacity**

Long-term Interest Rates Rise

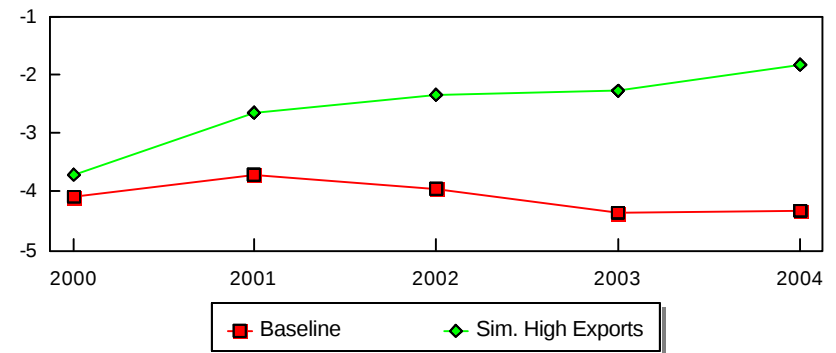
10-Year Treasury Note

Percent



Higher Exports Narrow the Current Account Deficit ...

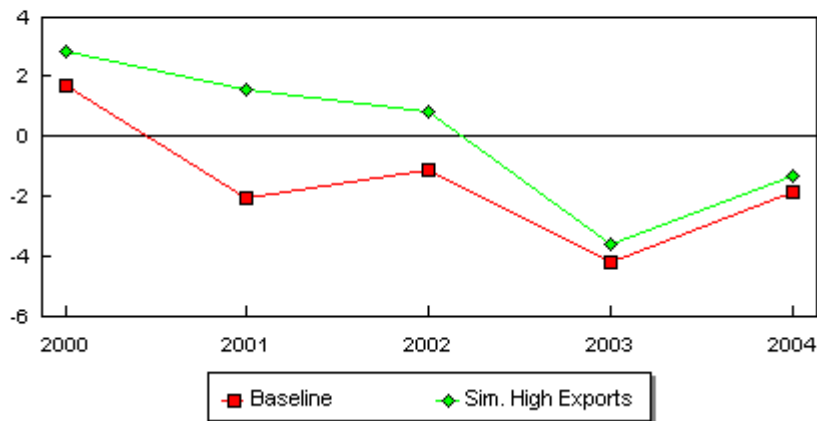
Current Account as % of GDP



and Raise the Dollar

Morgan Trade Weighted Exchange Rate

Percent Change from Year Ago



Better Growth Helps Stocks

S&P Stock Price Index

(Percent Change From Year Ago)

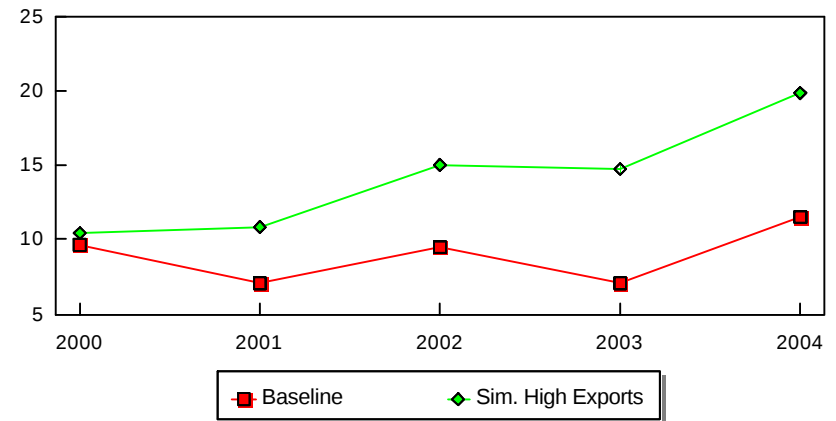


Table C-2
Macroeconomic Effects of a High Current Account Deficit*

	2000	2001	2002	2003	2004
Current Account Balance					
(Bils. \$'s)					
Baseline	-400.4	-392.6	-440.7	-508.7	-532.6
Sim. - High Deficit	-528.6	-786.7	-1041.7	-1166.3	-1104.7
(Diff. in Level)	-128.2	-394.1	-601.0	-657.6	-572.1
Current Account as % of GDP					
Baseline	-4.1	-3.7	-4.0	-4.4	-4.3
Sim. - High Deficit	-5.3	-7.3	-9.1	-9.9	-9.1
Difference	-1.3	-3.6	-5.2	-5.5	-4.7
Add Factors on Imports					
Business Imports					
Baseline	-24.8	-24.2	-20.5	-22.6	-35.0
Sim. - High Deficit	1.8	15.7	39.4	37.4	24.9
Difference	26.7	40.0	60.0	59.9	59.9
Consumer Imports					
Baseline	13.5	17.0	29.0	35.0	34.2
Sim. - High Deficit	40.5	58.3	91.2	98.0	97.2
Difference	27.0	41.3	62.3	63.0	63.0
Computer Imports					
Baseline	-26.6	-15.9	-4.8	11.8	30.9
Sim. - High Deficit	1.0	27.6	61.5	80.2	99.3
Difference	27.6	43.5	66.3	68.4	68.4
Service Imports					
Baseline	-2.0	-1.8	-2.0	-2.1	-2.1
Sim. - High Deficit	4.9	6.1	8.6	6.0	6.0
Difference	6.9	7.9	10.6	8.1	8.1
Other Add Factors					
Consumption-Furniture Ex-Computers					
Baseline	11.1	8.7	3.9	0.5	2.8
Sim. - High Deficit	23.1	35.7	48.9	54.5	56.8
Difference	12.0	27.0	45.0	54.0	54.0
Consumption-Computers					
Baseline	-23.9	-24.9	-25.3	-28.9	-23.7
Sim. - High Deficit	-11.9	2.1	19.7	25.1	30.3
Difference	12.0	27.0	45.0	54.0	54.0
Consumption-Motor Vehicles					
Baseline	50.6	18.9	12.4	0.6	-4.8
Sim. - High Deficit	80.6	108.9	162.4	180.6	175.2

Difference	30.0	90.0	150.0	180.0	180.0
Consumption-Other Durables					
Baseline	25.0	2.4	-0.1	-4.4	-6.8
Sim. - High Deficit	43.0	56.4	89.9	103.6	101.2
Difference	18.0	54.0	90.0	108.0	108.0
Consumption-Clothing and Shoes					
Baseline	6.1	8.1	8.1	4.0	4.0
Sim. - High Deficit	15.1	35.1	53.1	58.0	58.0
Difference	9.0	27.0	45.0	54.0	54.0
Consumption-Food					
Baseline	21.7	26.9	25.7	17.7	17.7
Sim. - High Deficit	27.7	44.9	55.7	53.7	53.7
Difference	6.0	18.0	30.0	36.0	36.0
Consumption-Other Nondurables					
Baseline	8.1	14.1	6.7	-1.9	-6.2
Sim. - High Deficit	17.1	41.1	51.7	52.1	47.8
Difference	9.0	27.0	45.0	54.0	54.0
Equipment-Computers					
Baseline	-35.9	-7.8	5.6	22.7	49.9
Sim. - High Deficit	-29.9	10.2	35.6	58.7	85.9
Difference	6.0	18.0	30.0	36.0	36.0
Equipment-Information Processing Ex-Computers					
Baseline	-125.4	-141.6	-131.7	-177.5	-267.5
Sim. - High Deficit	-119.4	-123.6	-101.7	-141.5	-231.5
Difference	6.0	18.0	30.0	36.0	36.0
Equipment-Ex-Information Processing					
Baseline	-16.4	-41.7	-56.9	-69.7	-96.1
Sim. - High Deficit	-10.4	-23.7	-26.9	-33.7	-60.1
Difference	6.0	18.0	30.0	36.0	36.0
Import Price Ex-Petroleum					
Baseline	5.9	-0.1	0.0	-0.0	-0.0
Sim. - High Deficit	6.3	1.1	1.4	1.5	1.8
Difference	0.4	1.2	1.4	1.5	1.8
Nonborrowed Reserves					
Baseline	42.8	44.0	47.1	51.2	53.6
Sim. - High Deficit	42.8	42.0	42.1	42.2	44.6
Difference	0.0	-2.0	-5.0	-9.0	-9.0

* Macroeconomic model simulation with the Sinai-Boston Quarterly Macroeconometric Model of the U.S. Economy. Simulation starting July, 2000.

Table C-2
Macroeconomic Effects of a High Current Account Deficit

	2000	2001	2002	2003	2004
Real GDP - Level (Bils. '96 \$'s)					
Baseline	9297.4	9648.2	9932.0	10195.0	10551.5
Sim. - High Deficit	9361.7	9889.0	10216.7	10350.6	10402.9
(Diff. in Level)	64.2	240.8	284.7	155.6	-148.6
(Pct. Diff. in Level)	0.7	2.5	2.9	1.5	-1.4
Real GDP-Growth (Pctg. Pts.), Baseline	5.1	3.8	2.9	2.6	3.5
Real GDP-Growth (Pctg. Pts.), Sim. - High Deficit	5.8	5.6	3.3	1.3	0.5
Difference	0.7	1.9	0.4	-1.3	-3.0
Consumption (Bils. '96 \$'s)					
Baseline	6291.6	6489.1	6667.4	6830.2	7077.6
Sim. - High Deficit	6393.0	6780.6	7081.6	7233.7	7366.7
(Diff. in Level)	101.5	291.4	414.2	403.5	289.1
(Pct. Diff. in Level)	1.6	4.5	6.2	5.9	4.1
Business Capital Spending, Total (Bils. '96 \$'s)					
Baseline	1361.0	1469.9	1554.9	1627.5	1714.4
Sim. - High Deficit	1380.2	1564.6	1690.8	1705.9	1647.8
(Diff. in Level)	19.2	94.7	136.0	78.4	-66.6
(Pct. Diff. in Level)	1.4	6.4	8.7	4.8	-3.9
Plant, Baseline	265.9	286.7	300.3	316.1	327.9
Plant, Sim. - High Deficit	266.1	287.8	302.5	307.7	300.5
(Diff. in Level)	0.2	1.1	2.2	-8.4	-27.3
(Pct. Diff. in Level)	0.1	0.4	0.7	-2.7	-8.3
Equipment, Baseline	1109.8	1210.2	1293.6	1363.1	1456.5
Equipment, Sim. - High Deficit	1130.8	1314.3	1443.2	1455.9	1395.1
(Diff. in Level)	21.0	104.1	149.6	92.9	-61.4
(Pct. Diff. in Level)	1.9	8.6	11.6	6.8	-4.2
Net Exports (Bils. '96 \$'s)					
Baseline	-370.9	-349.8	-366.9	-390.8	-416.5
Sim. - High Deficit	-455.4	-559.7	-691.2	-742.1	-777.9
(Diff. in Level)	-84.5	-209.9	-324.3	-351.3	-361.4
Real Exports					
Baseline	1137.4	1251.8	1337.2	1421.9	1532.5
Sim. - High Deficit	1137.3	1260.3	1342.7	1413.0	1496.9
(Diff. in Level)	-0.1	8.5	5.5	-8.9	-35.6
(Pct. Diff. in Level)	-0.0	0.7	0.4	-0.6	-2.3

Real Imports

Baseline	1508.3	1601.5	1704.1	1812.7	1949.0
Sim. - High Deficit	1592.7	1820.0	2033.9	2155.1	2274.8
(Diff. in Level)	84.4	218.4	329.8	342.4	325.8
(Pct. Diff. in Level)	5.6	13.6	19.4	18.9	16.7

Nominal Net Exports (Bils. \$'s)

Baseline	-328.9	-323.5	-374.0	-433.7	-461.5
Sim. - High Deficit	-418.5	-600.9	-795.3	-893.8	-860.0
(Diff. in Level)	-89.7	-277.4	-421.3	-460.1	-398.5
(Pct. Diff. in Level)	-6.3	-17.6	-24.6	-25.1	-20.9

Nominal Exports

Baseline	1100.7	1217.0	1298.2	1383.6	1496.8
Sim. - High Deficit	1101.4	1239.0	1330.8	1397.8	1461.8
(Diff. in Level)	0.7	22.0	32.6	14.2	-35.0
(Pct. Diff. in Level)	0.1	1.8	2.5	1.0	-2.3

Nominal Imports

Baseline	1429.5	1540.5	1672.2	1817.3	1958.3
Sim. - High Deficit	1519.9	1839.9	2126.1	2291.6	2321.8
(Diff. in Level)	90.4	299.4	453.9	474.3	363.5
(Pct. Diff. in Level)	6.3	19.4	27.1	26.1	18.6

Budget Deficit (NIPA)

(Bils. \$'S)

Baseline	218.0	215.3	238.0	234.4	270.9
Sim. - High Deficit	227.6	254.8	276.1	229.6	190.2
(Diff. in Level)	9.6	39.6	38.1	-4.8	-80.8
(Pct. Diff. in Level)	4.4	18.4	16.0	-2.1	-29.8

Current Account Balance (Bils. \$'s)

Baseline	-400.4	-392.6	-440.7	-508.7	-532.6
Sim. - High Deficit	-528.6	-786.7	-1041.7	-1166.3	-1104.7
(Diff. in Level)	-128.2	-394.1	-601.0	-657.6	-572.1

Current Account as % of GDP

Baseline	-4.1	-3.7	-4.0	-4.4	-4.3
Sim. - High Deficit	-5.3	-7.3	-9.1	-9.9	-9.1
(Diff. in Level)	-1.3	-3.6	-5.2	-5.5	-4.7

Potential Output (Bils. 1992 \$'s)

Baseline	7880.8	8164.4	8453.0	8734.2	9018.7
Sim. - High Deficit	7890.8	8220.3	8558.0	8815.3	9008.3
(Diff. in Level)	10.0	55.9	104.9	81.1	-10.4

Potential Output Growth	4.0	3.6	3.5	3.3	3.3
Baseline	4.2	4.2	4.1	3.0	2.2
Sim. - High Deficit (Diff. in Level)	0.1	0.6	0.6	-0.3	-1.1
Employment, Compensation, and Unemployment Rate					
Employment (Mils. Pers.)					
Total Payrolls, Baseline	131.958	135.112	137.285	139.226	142.140
Total Payrolls, Sim. - High Deficit (Diff. in Level)	132.377	137.023	139.398	140.109	140.262
	0.419	1.911	2.113	0.883	-1.878
Manufacturing, Baseline	18.536	18.448	18.224	17.961	17.814
Manufacturing, Sim. - High Deficit (Diff. in Level)	18.582	18.614	18.354	17.935	17.567
	0.046	0.166	0.130	-0.026	-0.247
Ex-Manufacturing, Baseline	113.422	116.664	119.061	121.265	124.326
Ex-Manufacturing, Sim. - High Deficit (Diff. in Level)	113.795	118.409	121.044	122.174	122.695
	0.373	1.745	1.983	0.908	-1.631
Unemployment Rate (Percent)					
Baseline	4.0	4.2	4.7	5.2	5.2
Sim. - High Deficit	3.9	3.5	3.9	4.8	5.6
Difference	-0.1	-0.7	-0.8	-0.4	0.4
Compensation (Annual Pct. Chg)					
Nonfarm Business, Baseline	4.5	5.1	5.2	5.1	5.0
Nonfarm Business, Sim. - High Deficit	4.5	5.1	5.9	5.6	5.0
Difference	-0.1	0.1	0.7	0.4	0.0
Manufacturing, Baseline	5.1	6.2	6.1	5.5	5.2
Manufacturing, Sim. - High Deficit	5.2	6.8	7.4	6.4	4.9
Difference	0.1	0.6	1.4	0.9	-0.3
Avg Hourly Earnings, Non Mftg., Base	4.3	5.3	5.0	5.0	4.9
Avg Hourly Earnings, Non Mftg., Sim.	4.4	5.8	5.5	5.1	4.2
Difference	0.1	0.6	0.5	0.1	-0.7
Productivity (Annual Pct. Chg)					
Nonfarm Business, Baseline	3.4	2.6	3.1	2.8	2.6
Nonfarm Business, Sim. - High Deficit	3.6	3.2	3.8	2.4	1.4
Difference	0.2	0.6	0.7	-0.3	-1.1
Inflation (Annual Pct. Chg)					
GDP Chain Price Index, Baseline	2.4	2.5	2.2	1.8	1.8
GDP Chain Price Index, Sim. - High Defi	2.4	2.3	2.5	2.1	2.2
Difference	-0.1	-0.3	0.3	0.3	0.4

Consumer Price Index (All Urban), Baseli	3.3	2.9	2.7	2.3	2.2
Consumer Price Index (All Urban), Sim. -	3.3	3.3	3.4	2.8	2.1
Difference	0.0	0.4	0.7	0.6	-0.1
After-tax Profits (Bils. \$'s)					
After-tax Profits, Baseline	655.2	704.3	758.8	798.2	856.9
After-tax Profits, Sim. - High Deficit	664.0	740.1	801.6	815.8	838.1
(Diff. in Level)	8.7	35.8	42.8	17.7	-18.9
(Pct. Diff. in Level)	1.3	5.1	5.6	2.2	-2.2
After-tax Profits/GDP (Percent of GDP)					
After-tax Profits/GDP, Baseline	6.7	6.7	6.8	6.9	7.0
After-tax Profits/GDP, Sim. - High Deficit	6.7	6.9	7.0	6.9	6.9
(Diff. in Level)	0.0	0.2	0.2	0.0	-0.1
Wages/GDP (Percent of GDP)					
After-tax Wages/GDP, Baseline	48.4	47.6	47.8	48.1	48.3
After-tax Wages/GDP, Sim. - High Deficit	48.3	47.3	47.3	47.8	48.3
(Diff. in Level)	-0.1	-0.3	-0.4	-0.3	0.0
Interest Rates (Percent)					
Federal Funds Rate, Baseline	6.38	7.01	6.43	5.62	5.37
Federal Funds Rate, Sim. - High Deficit	6.57	8.87	9.39	9.19	7.77
(Diff. in Level)	0.18	1.86	2.97	3.57	2.40
90-day Treas. Bill, Baseline	5.92	6.64	5.88	5.17	4.91
90-day Treas. Bill, Sim. - High Deficit	6.08	8.16	8.29	8.06	6.89
(Diff. in Level)	0.16	1.51	2.40	2.90	1.98
US 10-Year Note, Baseline	6.39	6.26	5.97	5.73	5.57
US 10-Year Note. Sim. - High Deficit	6.45	6.78	6.85	6.69	6.21
(Diff. in Level)	0.06	0.52	0.88	0.95	0.64
30-year Treas, Baseline	6.17	5.91	5.80	5.63	5.49
30-year Treas., Sim. - High Deficit	6.21	6.26	6.58	6.32	5.96
(Diff. in Level)	0.04	0.36	0.78	0.69	0.46
AAA-Equiv. Corp. New Issue, Baseline	7.93	7.93	7.66	7.25	7.09
AAA-Equiv. Corp. New Issue , Sim. - Hig	7.99	8.40	8.55	8.23	7.82
(Diff. in Level)	0.06	0.47	0.89	0.97	0.73

Exchange Rates	2000	2001	2002	2003	2004
Morgan Trade-Weighted Index, Baseline	1.098	1.075	1.063	1.018	0.999
Morgan Trade-Weighted Index, Sim. - High Deficit	1.079	1.001	0.993	0.971	1.002
(Diff. in Level)	-0.019	-0.074	-0.070	-0.047	0.002
(Pct. Diff. in Level)	-1.8	-6.9	-6.6	-4.6	0.2
Federal Reserve Dollar Index**, Baseline	1.146	1.188	1.240	1.266	1.315
Federal Reserve Dollar Index**, Sim. - High Deficit	1.130	1.127	1.180	1.223	1.317
(Diff. in Level)	-0.016	-0.061	-0.060	-0.043	0.002
(Pct. Diff. in Level)	-1.4	-5.1	-4.8	-3.4	0.2
Yen/\$, Baseline	105.4	98.6	100.2	97.2	91.4
Yen/\$, Sim. - High Deficit	101.4	83.3	80.9	76.8	75.1
(Diff. in Level)	-4.0	-15.3	-19.3	-20.5	-16.2
(Pct. Diff. in Level)	-3.8	-15.5	-19.3	-21.0	-17.8
\$/Euro, Baseline	0.969	1.035	1.135	1.197	1.228
\$/Euro, Sim. - High Deficit	0.969	1.009	1.076	1.144	1.220
(Diff. in Level)	-0.000	-0.026	-0.060	-0.053	-0.007
(Pct. Diff. in Level)	-0.0	-2.5	-5.3	-4.4	-0.6
\$/Pound, Baseline	1.544	1.563	1.706	1.759	1.771
\$/Pound, Sim. - High Deficit	1.602	1.916	2.567	3.322	3.710
(Diff. in Level)	0.058	0.354	0.862	1.563	1.938
(Pct. Diff. in Level)	3.8	22.6	50.5	88.9	109.4
S&P 500 Operating Earnings per Share					
Baseline	57.74	62.23	67.00	69.87	75.95
Sim. - High Deficit	60.06	70.78	77.74	76.38	75.33
Difference	2.31	8.55	10.74	6.51	-0.62
(Pct. Diff. in Level)	4.01	13.74	16.02	9.32	-0.81
S&P 500 Price Index					
Baseline	1454.1	1557.3	1706.0	1826.0	2037.4
Sim. - High Deficit	1457.7	1478.6	1509.4	1416.0	1533.0
Difference	3.6	-78.7	-196.5	-409.9	-504.4
(Pct. Diff. in Level)	0.2	-5.1	-11.5	-22.5	-24.8

Table C-2 Macroeconomic Effects of a High Current Account Deficit*
Growth Rates of Major Variables that Describe the Economy -- Percent Unless Noted Otherwise

GDP Growth		2000	2001	2002	2003	2004
	Baseline	5.1	3.8	2.9	2.6	3.5
	Sim. - High Deficit	5.8	5.6	3.3	1.3	0.5
	Difference	0.7	1.9	0.4	-1.3	-3.0
Inflation						
	GDP Price Index					
	Baseline	2.4	2.5	2.2	1.8	1.8
	Sim. - High Deficit	2.4	2.3	2.5	2.1	2.2
	Difference	-0.1	-0.3	0.3	0.3	0.4
	CPI-U					
	Baseline	3.3	2.9	2.7	2.3	2.2
	Sim. - High Deficit	3.3	3.3	3.4	2.8	2.1
	Difference	0.0	0.4	0.7	0.6	-0.1
Unemployment Rate						
	Baseline	4.0	4.2	4.7	5.2	5.2
	Sim. - High Deficit	3.9	3.5	3.9	4.8	5.6
	Difference	-0.1	-0.7	-0.8	-0.4	0.4
Federal Funds						
	Baseline	6.38	7.01	6.43	5.62	5.37
	Sim. - High Deficit	6.57	8.87	9.39	9.19	7.77
	Difference	0.18	1.86	2.97	3.57	2.40
90 Day Treasury Bill						
	Baseline	5.92	6.64	5.88	5.17	4.91
	Sim. - High Deficit	6.08	8.16	8.29	8.06	6.89
	Difference	0.16	1.51	2.40	2.90	1.98
10 Year Treasury Note						
	Baseline	6.39	6.26	5.97	5.73	5.57
	Sim. - High Deficit	6.45	6.78	6.85	6.69	6.21
	Difference	0.06	0.52	0.88	0.95	0.64
S&P 500 Operating Earnings per Share						
	Baseline	13.2	7.8	7.7	4.3	8.7
	Sim. - High Deficit	17.7	17.9	9.8	-1.7	-1.4
	Difference	4.5	10.1	2.2	-6.0	-10.1

S&P 500 Price Index		2000	2001	2002	2003	2004
	Baseline	9.6	7.1	9.5	7.0	11.6
	Sim. - High Deficit	9.9	1.4	2.1	-6.2	8.3
	Difference	0.3	-5.7	-7.5	-13.2	-3.3

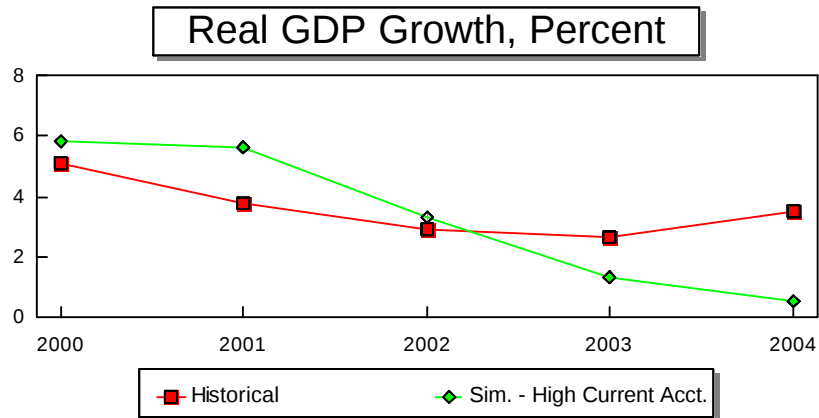
Yen/\$						
	Baseline	-7.3	-6.5	1.6	-3.0	-6.0
	Sim. - High Deficit	-10.8	-17.9	-2.8	-5.1	-2.1
	Difference	-3.5	-11.4	-4.5	-2.1	3.9

\$Euro						
	Baseline	-9.3	6.8	9.7	5.4	2.5
	Sim. - High Deficit	-9.3	4.1	6.7	6.3	6.7
	Difference	-0.0	-2.7	-3.1	0.9	4.1

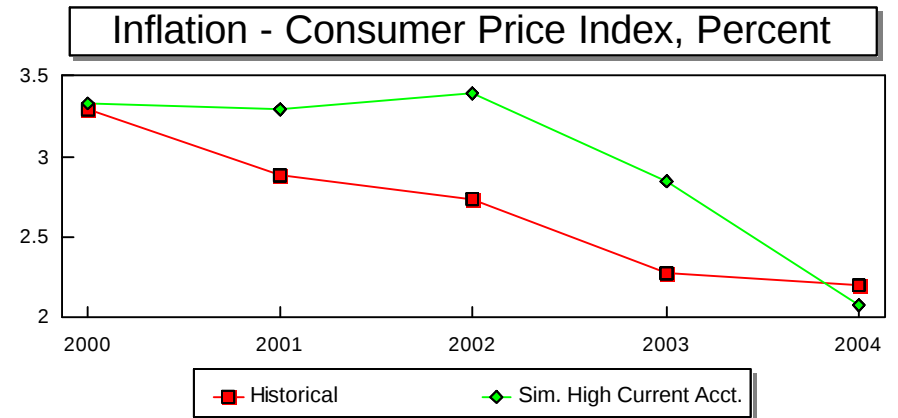
Morgan Trade-Weighted Index						
	Baseline	1.7	-2.1	-1.1	-4.2	-1.9
	Sim. - High Deficit	-0.1	-7.2	-0.8	-2.2	3.2
	Difference	-1.8	-5.1	0.3	2.0	5.0

Chart C-2.1
High Current Account Deficit

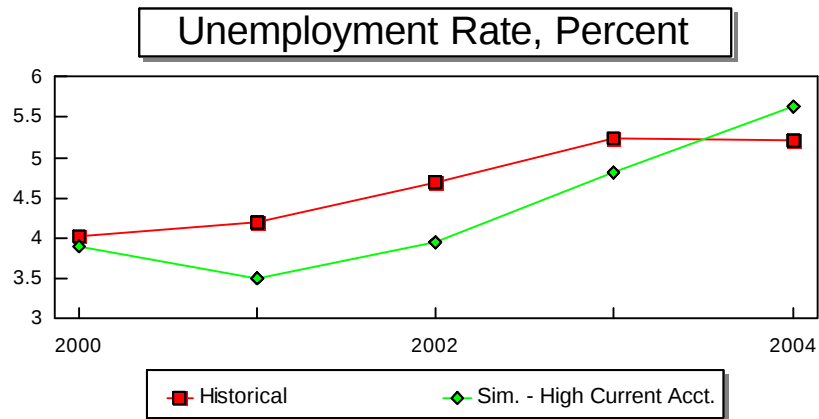
Higher Growth from More Consumption and Involvement



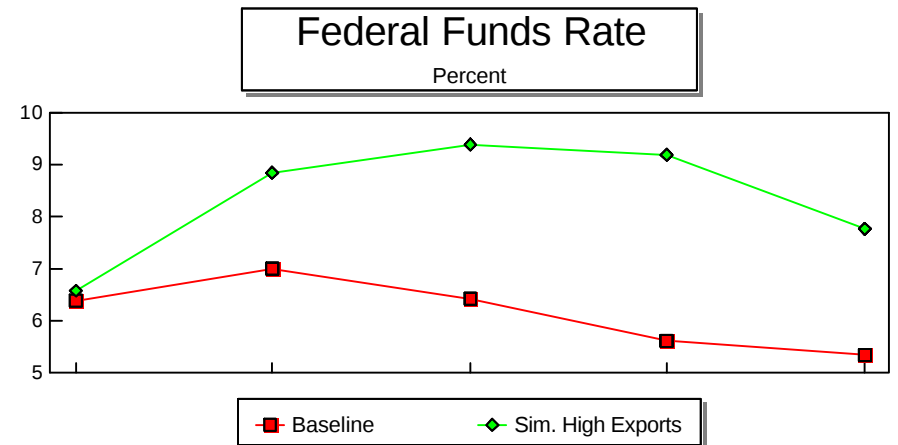
Raises Inflation



Lowers the Unemployment Rate



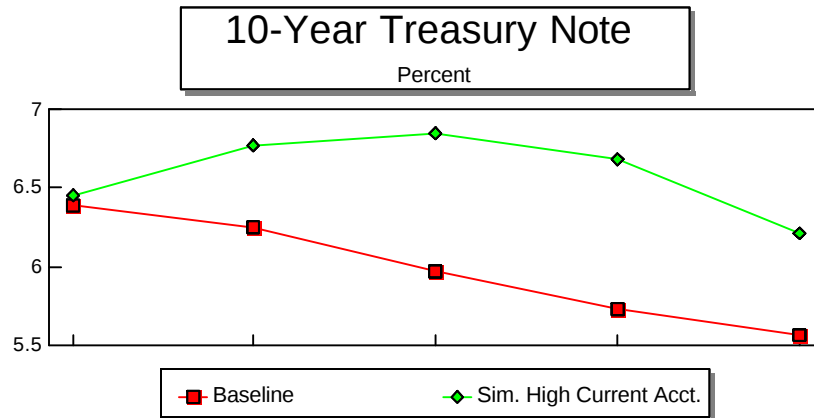
Forces the Federal Funds Rate Up Sharply



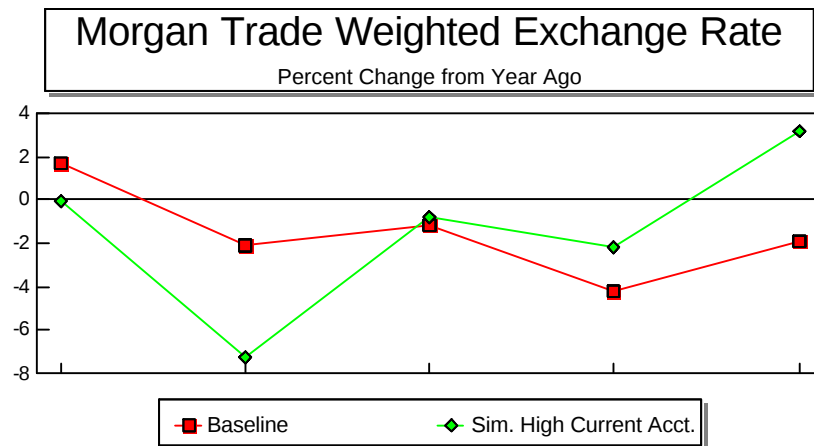
A surge of consumption and investment raises imports and causes the current account to rise to 10 percent of GDP. Simulation with the Sinai-Boston Quarterly Macroeconometric Model of the U.S. Economy.

Chart C-2.1 (Cont.) High Current Account Deficit

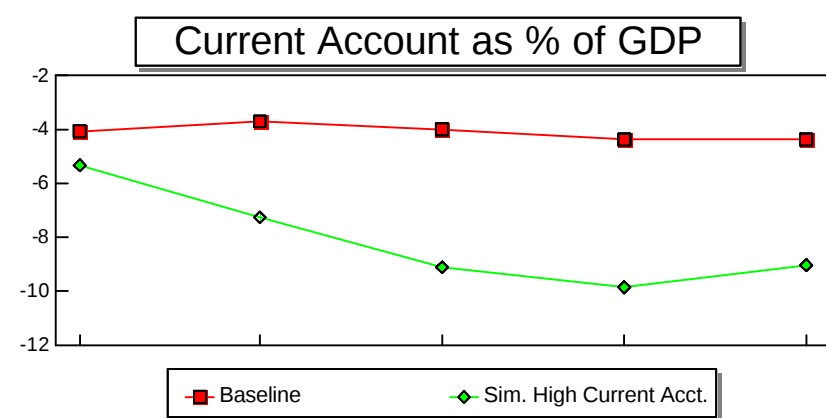
Leading to Higher Long-Term Interest Rates



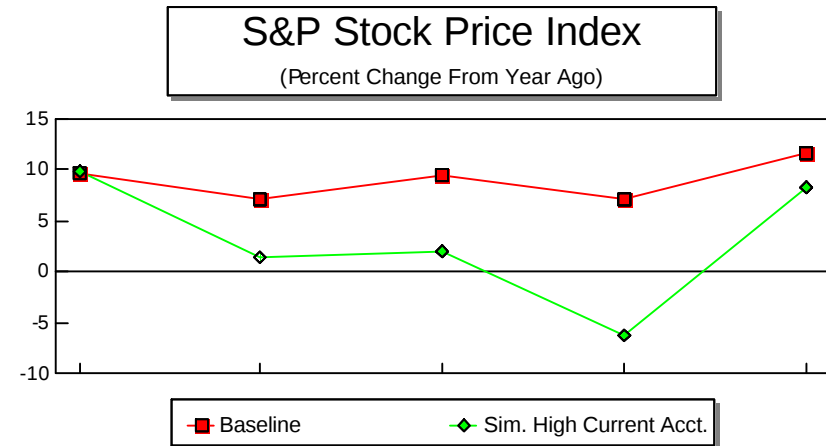
... and Depresses the Dollar



Booming Domestic Demand Worsens the Current Account



Lowering the Stock Market



Appendix D—The Mechanics of the Model Simulations

The Sinai-Boston Quarterly Macroeconometric Model of the U.S. Economy is designed to be used for economic analysis, forecasting, policy simulations, and “what-if” quantitative macroeconomic analyses. As such, it has been constructed to embody the complex economic relationships in a set of dynamic, simultaneous, nonlinear equations based on historical data. The Model undergoes a wide variety of validation tests, historical, future, policy, and with destructive shocks applied to ensure its reliability in forecasting and simulation. This Appendix (D) briefly describes how the Retrospective (Historical) and Forecast (Future) simulations in this project were carried out.

The Sinai-Boston Quarterly Macroeconometric Model is based on sets of equations that are designed to capture the behavior of the macroeconomy—aggregate demand, aggregate supply, production and productivity, incomes and jobs, profits, interest rates, the stock market, exchange rates, expectations formation, foreign trade, the current account, and some aspects of rest-of-the-world economic behavior. The Model includes behavioral equations that describe how certain economic variables respond to conditions in the economy, and identity (definition) equations, that, in some cases, aggregate components to a total, e.g., the components of GDP up to total GDP, and in other cases, more limited partial relationships, e.g., total national saving, income as the sum of its components, or the current account.

The behavioral equations are regressions relating a dependent variable to various causal influences that are the independent variables. The behavioral equations capture the interrelationships of the variables over the time periods that are involved. As a consequence, the responses embodied in the equations reflect the historical behavior that actually occurred.

In the project, the Retrospective simulations (1991 to 1999) addressed the question of what the economy would have looked like if the current account deficit had been closer to balance.

The Retrospective scenarios examined the impact of monetary, fiscal or exchange rate policies on GDP growth, inflation, unemployment, other key economic variables, and the current account deficit. As such, the simulations represented “counterfactual” results that did not happen in history and would not be reflected in the track of history produced by the Model.

In order to perform the Retrospective simulations, a stochastic Historical Baseline solution of the Model had to be created that nearly exactly tracks the actual history of the data. To obtain a Baseline stochastic representation of history, the track of history is exactly replicated by the Model through adjusting the behavior equations with plus adds and minus adds to match the actual historical data. The resulting stochastic historical simulation is used as the Baseline for “what-if” analyses. The stochastic solution then can be shocked by changes in exogenous variables or by shifting certain behavior equations to represent the scenario, or the “what if” questions being asked of the Model. Technical adjustments to certain equations, where Model accommodation of the scenarios being analyzed is difficult, also are made.

The Retrospective simulations involved constructing a counterfactual situation in which key variables were different from their values in history, e.g., what if the Federal Reserve had pursued a high-interest rate policy to restrain the current account deficit? To run the simulations, key levers (variables) in the model were changed in order to simulate what the economy would have looked like in an alternative situation.

To perform the simulations for any “what-if” questions, numerical values of some variable inputs need to be changed to generate the economic responses. In the Retrospective simulations, the aim was to reduce the current account deficit, as a ratio of GDP, to beginning-of-period levels, approximately 0.5%. The changes are made as adjustments to the input variables that the model takes as given, the exogenous variables, or the shifting of the equations for variables the Model determines, the endogenous variables.

The second set of Model simulations looked forward at what the economy would do under various alternatives over the years 2000-2004. The Prospective scenarios examined “what-if” conditions, or realistic prospects, over the future time horizon.

In the Tables of results that describe each simulation, Appendix Tables A.1 to A.3, B.2 to B.4, C.1 to C.2, changes in exogenous variables and adjustments to behavioral equations (add factors) are necessary to depict the scenario and for technical reasons, and are shown early in the Tables.

Retrospective Simulations

D.1. The first of the Retrospective scenarios involved restrictive monetary policy, where the Federal Reserve pursued a policy of higher interest rates designed to keep the ratio of the current account deficit to GDP at its level of 1991.

Taking down economic activity through tighter money was the macroeconomic policy mode used to keep the current account deficit low as a proportion of GDP. Decreases in nonborrowed bank reserves and in Federal Reserve Credit raised the federal funds rate, the key short-term interest rate for Fed policy. A higher federal funds rate flowed through to other short-term interest rates, such as the three-month U.S. Treasury bill rate and the prime rate, and to long-term interest rates, such as the ten-year U.S. Treasury note and the Corporate AAA-Equivalent New Issue rate. The fiscal policy of the federal government, including income tax rates and government spending, were kept unchanged from historical levels. Growth rates in the rest-of-the-world were assumed to be unchanged from the Baseline historical track. Technical adjustments to a relatively small number of behavior equations also were made, denoted as “add” factors.

D.2. The second of the Retrospective scenarios involved a restrictive fiscal policy in which the federal government cut federal defense and non-defense expenditures and raised individual income tax rates to restrain the current account deficit. Lowering federal government expenditures reduced GDP directly because government spending on goods and services is one component of GDP. Higher taxes reduced GDP by lowering consumers’ incomes, in turn leading to lower consumption spending. In performing the fiscal policy simulations, the Federal Reserve was made to follow a “Taylor Rule” (Appendix E) in setting the federal funds rate. The “Taylor Rule” tells the Federal Reserve to raise the federal funds rate if inflation rises above a target rate or if the growth rate of GDP rises above its trend. Growth rates in the rest-of-the-world were assumed to be unchanged from the Baseline. Technical adjustments to a relatively small number of behavior equations also were made, denoted as “add” factors.

D.3. The third Retrospective simulation was one where exchange rates were reduced by exogenous adjustment, e.g., add factors. For this simulation, the dollar was adjusted downward against the Morgan trade-weighted exchange rate, the yen, the Euro, the pound sterling and the Canadian dollar, using “add” factors. Exports rise and imports fall when the dollar declines. Dollar weakness makes U.S. exports relatively less expensive and imports relatively more expensive. The adjustments were designed to set off forces that work to move the current account closer to balance. No change in monetary policy was made. The growth rates in the rest-of-the-world were assumed to be unchanged from the Baseline. Technical adjustments to a number of behavioral equations were made, denoted as “add” factors.

Prospective Simulations

There were seven Prospective simulations. These covered a wide variety of situations.

They were as follows: 1) Restrictive Monetary Policy in response to a Boom; 2) Expansionary (Easier) Fiscal Policy; 3) Stronger Foreign Growth for various reasons with three different situations showing the responses in financial markets and the U.S. economy, depending upon the degree of foreign lending and investments into the U.S. and other factors (three variants); 4) Higher Exports with Constrained Resources, and 5) a significantly Higher Current Account Deficit relative to GDP, targeted at 10%.

The first three Prospective situations were designed to analyze the effects on the economy, under more realistic possibilities, of the current account deficit and its sources. The last two Prospective simulations, Higher Exports and Higher Current Account Deficit were attempts to see whether measures of some kind to raise exports could permanently improve the current account deficit and to examine the response of the dollar to a worsening of the current account deficit, respectively.

D.4. In the case of Restrictive Monetary Policy in response to a Boom, consumption, business investment and government spending for non-defense goods and services were pushed higher than in the Baseline. This set the stage for the Federal Reserve to tighten. It was necessary to increase consumption and investment by adjustments (add factors) to generate a higher path for GDP and price inflation, then to have the Federal Reserve lower nonborrowed reserves to raise the federal funds rate and tighten monetary policy.

The variables increased were consumer spending on motor vehicles, durable goods including boats, aircraft, toys and sporting goods, non-durable goods including some home furnishings, toys and sports supplies, transportation, and services such as recreation and education. Business equipment spending was also increased, as were state-and-local government spending on goods and services.

Growth rates in the rest-of-the-world were assumed to be unchanged. Technical adjustments were made to some behavior equations, through “add” factors.

D.5. In the case of an Expansionary Fiscal Policy, the federal government increases defense and non-defense spending and cuts personal income taxes against a background of a healthy economy and continued federal government budget surplus. The spending increases are modest, roughly \$10 to \$20 billion each year for defense and non-defense spending. The personal income tax cut is a 5 per cent reduction in tax rates. The cuts in fiscal stimulus show a clear reversal of the budget restraint of the middle and late 1990s. In performing the fiscal policy simulations, the Federal Reserve is set to follow a “Taylor Rule” in setting the federal funds rate. Once again, growth rates in the rest-of-the-world were assumed to be unchanged from the Baseline. And, certain technical adjustments to a number of behavior equations were made through “add” factors.

D.6.A. (Variant 1). The case of Stronger Foreign Growth was considerably more complex to simulate. Increased foreign growth has both positive and negative impacts on the United States. Increased foreign growth raises demand for U.S. exports. Growth was assumed to be higher in the Eurozone, the U.K., Japan and Asia ex-Japan through changing the levels of the exogenous activity variables for those countries in the Sinai-Boston Model. Growth in Latin America was assumed not to increase because these countries are tied more closely to the United States. Foreign producer and consumer prices in Europe and Asia were assumed to increase by small amounts (0.2-0.3 percentage points). In Variant 1, foreign economic growth neither forces up world oil prices nor forces down the dollar sufficiently to raise U.S. import prices significantly. Sometimes a weaker dollar can push up import prices. This simulation was designed to examine a mild kind of possible Hard-Landing for the dollar because of increased non-U.S. economic growth, a dollar negative.

D.6.B.; D.6.C. (Variants 2 and 3). Higher foreign income also increases foreign interest rates. More inflation is assumed in response to the pick up in world growth. Oil prices are increased above the Baseline by \$3/per barrel over 2000-2002, \$4/barrel in 2003, and \$5/barrel in 2004. The combination of higher foreign GDP growth and higher oil prices pushes foreign inflation up compared with Variant 1. Higher world inflation pushes up foreign interest rates by 50 to 100 basis points (hundredths of a percentage point). Higher foreign inflation translates into higher prices for imported goods. To achieve this, the price index for imports ex-petroleum is raised, in part, by add factors. The Federal Reserve defends the dollar by raising the federal funds rate. The higher interest rates, weaker stock market, and reversal in growth characterize the simulation in the later years.

Variant 3 is the most extreme of the three cases. Growth abroad weakens in the later years (2003-2004), but is still above the levels in the Baseline. A flight from the dollar is assumed to occur, represented by adjustments to exchange rates. The Federal Reserve has to mount a stronger defense of the dollar by raising the federal funds rate much higher than in Variant 2.

Through all the Variants, 1-through-3, fiscal policy is kept unchanged.

D.7. The case of Higher Exports with Fixed Labor Supply and Capacity simulates what the economy might look like if exports moved up by some \$300 billion over the forecast horizon and by 2004. Available resources are not allowed to change. Adjustments through add factors hold the business capital stock, utilization rate, labor force and unemployment rate to their levels in the Baseline.

The sources of the higher exports could be almost anything, one possibility being the removal of unfair trade practices between countries. But, autonomous increases in U.S. exports because of new products also are a potential source. The goal here was to see whether the U.S. could maintain permanently higher exports and a permanently lower trade deficit through whatever might have happened to permanently raise exports over the future horizon.

D.8. The case of a much Higher Current Account Deficit, reaching ten per cent of GDP late in the simulation period, required a boom in imports. It was brought about through higher consumption of durable and non-durable goods and in business equipment spending. Import categories of goods and services, except oil, were adjusted upward through “add” factors to raise the current account deficit to such a high percentage of GDP, far, far above the historical range. Higher import prices occur from resulting from dollar depreciation. Higher inflation leads the Federal Reserve to raise interest rates through decreases in nonborrowed bank reserves.

This simulation was designed to see whether a higher current account deficit alone, from the sources indicated, could crash the dollar. It did not.

Appendix E ¾ The Sinai-Boston Model of The U.S. Economy

The Sinai-Boston Econometric Model of the U.S. is a large-scale quarterly econometric model that includes considerable detail on:

- aggregate demand,
- financial markets,
- sectoral flows-of-funds and balance sheet states,
- interactions of the financial system with the real economy,
- inflation modeled through a stage-of-processing approach, and
- detailed trade and international financial flows.

The Model is “open economy” in its orientation and considers extensively the interactions of money, finance, credit and sectoral balance sheet states in the real economy. Trade and international capital flows are integral to the dollar exchange rate, which has considerable effect on inflation, interest rates and the economy.

The Sinai-Boston Model contains over 1000 variables, 700 endogenous and 300 exogenous (including identities and discrepancy equations). The financial system and corporate financial variables are extensively covered, with nearly one-third of the behavioral equations, including the flows-of-funds for various sectors, encompassing the financial system.

Aggregate Demand

The real side of the model includes 41 categories of final demand, including 17 for consumption, 11 for capital spending and inventories, 10 for imports and exports, and the remainder for government purchases. Computers are separately identified in all relevant final demands, minimizing distortions caused by the rapid decline in computer prices. For simulation purposes, this richness of detail allows the model to yield differentiated impacts among the various demand categories, improving the linkages to downstream systems such as industry forecasting models.

Expectations

The formation of expectations in financial and real markets distinguishes the Model from many others, with model-consistent, “permanent,” and extrapolative expectations empirically estimated and appearing in different market situations. A “quick” effect of expectations into asset prices and returns characterizes key financial markets through the generation and discounting present of model-consistent expectations of factors in long-term interest rates, the U.S. equity market, and the exchange rate. In turn, real final demands or aggregate demands are impacted sooner through the financial-real interactions of the Model than might otherwise occur if expectations were not so modeled.

There is a “goods” market, “money” market, “loan” market, numerous “fixed income” securities markets, “equity” market, and a “currency exchange” market. There is a “labor” market, which helps to determine aggregate supply and the potential growth of the economy. There is an “international” market, where trade and capital flows are modeled. There is a “depository institutions” sector, comprised of commercial banks and thrift institutions.

Large Financial Sector

Flows-of-funds by sector and sectoral balance sheets are represented for households, non-financial corporations, the federal government, state and local government, commercial banks, thrift institutions, and the rest-of-the-world, another novel feature of the Model that distinguishes it from most others. Spending and financing are jointly determined, with financial flows, liquidity, and financial risk feeding back into the real sector expenditure functions. The Real Side of the model explicitly recognizes “wealth” effects on real spending as a result of capital gains or losses in equities and housing markets.

Key Financial Linkages

Interest rates are modeled through a segmented market approach, with fixed income markets showing demands and supplies for various assets across sectors with interrelated behavior between different markets. Real after-tax interest rates provide a major input into spending and borrowing, rather than nominal interest rates. And, tax considerations enter extensively throughout the Model through prices and incentive effects. Monetary policy, credit demands, fiscal policy and budget deficits, depository institutions' activity, inflation, and the exchange rate are key determinants of interest rates.

The stock market reflects the demands and supplies for equities in a fundamental valuation approach, based on the present value of expected earnings, expected after-tax returns on equity, and interest rates. The expectations are forward-looking, reflecting market behavior that incorporates future expectations into current prices. Multiple interest rates play a key role in determining stock market behavior.

The dollar exchange rate is modeled against key bilateral exchange rates such as the yen, euro, and sterling, in addition to a trade weighted average of nineteen countries. The dollar is modeled as a function of expected inflation in the United States vis-à-vis several key OECD countries, a comparison of interest rates in the United States and abroad, trade flows, expectations of growth, and real interest rates in the United States versus other countries.

Price and Wage Inflation

Prices and inflation rates are determined by a stage-of-processing approach that flows from producer price indexes through consumer price indexes to chain price indexes for GDP components. Prices also reflect the production and supply side of the economy. Wages and benefits are determined by labor market conditions and are influenced by price inflation.

Foreign Linkages

The Model uses foreign demand variable prices and interest rates to link the rest-of-the-world to the U.S. economy. Export equations are driven by foreign demands, exchange rates and prices. Price variables from key foreign countries help determine prices in the U.S., capturing the increased importance of trade in the 1990s. Foreign exchange rates play a part in interest rate determination.