Professor sees decline in US living standards

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The low savings rate among Americans also hampers US productivity, Hatsopoulos said.

Japanese companies have more capital for investment because the Japanese save a greater portion of their personal earnings in banks than Americans do, he explained. This means that Japanese banks have more money to loan to companies, he said. As a result, Japanese companies invest at three-and-a-half times the rate of their American counterparts.

"Japanese companies can explore a much greater range of products and markets than American companies can," he concluded. "The Japanese have the ability to invest in the future. US corporations cannot plan so far ahead."

As an example, Japanese auto companies suffered losses in the American market from the early 1960s to the late 1970s, Hatsopoulos pointed out. No American car company would be able to afford similar long-term losses in order to break into a new market, he claimed.

US economy in "black hole"?

Lester C. Thurow, professor of economics and management, suggested that Congress' recently approved Gramm-Rudman plan for cutting the federal budget deficit promises to do the absurd.

The plan specifies that the president has the authority to make cuts in an unbalanced federal budget. But because major financial programs such as social security, military hardware and personal expenses are exempted from the plan, a number of smaller federal programs will have to absorb any budget-balancing measures, Thurow said.

For example, 60 percent of the funds presently going to federal prisons and to the Coast Guard will have to be cut, he claimed. The president will also have to reduce military supplies, such as gasoline, because military personnel and equipment cannot be cut.

Nevertheless, America's economic problems arise from the federal budget deficit as well as the trade deficit, Thurow explained. The US is caught in an economic "black hole" because it cannot decrease one deficit without aggravating the other.

"You can't stay there, but you can't get out," Thurow said. "The American economy is much weaker today than it was in 1936. The banking industry is going bad, farmlands are going bad, oil loans are going bad, and the real estate industry is sagging."

Rodger Dornbusch, professor of economics, proposed that a reduction in interest rates would reduce both deficits. "We have a once-in-a-lifetime opportunity to improve the economy," Dornbusch asserted.

But the United States probably will not lower interest rates, he said, because Congress and the Reagan administration want to avoid the inflation that would follow such an action. Lower interest rates would cause inflation to rise to eight or nine percent, he estimated.

Krugman sees isolated economies

The world is heading toward a less integrated, more divided global economy, as more countries adopt protectionist trade policies, said Paul R. Krugman, professor of economics.

"When things go wrong, people call for the closing of trade," Krugman said. "As the world economic situation worsens, we will see more and more closed, fragmented economies."

Many changes have taken place in the US economy since the late 1970s, he said. "In the late Carter years, we had high inflation and disinflation," Krugman remarked. "Inflation went down under Reagan, but we lost a lot of GNP (Dunn National Product) to bring down inflation."

The growth we have achieved under Reagan is approximately the same as under Ford and Carter," he added.

But the gap has grown between the upper and lower classes of American society, he said. Power- ty in the United States has increased.

"We're better off than we were in 1983, but we're also more hopeless," he explained. "We were facing a debt crisis as well as serious trade issues. We still believe that the situation was reversible, that we could somehow turn the economy back. We've pulled the economy away from the brink of disaster, but things went slower than expected. The bounce-back has been very disappointing."

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