Professor Laura Tyson Views Post-Crisis Economy

Member of President’s Council of Economic Advisors sees hope in Emerging Markets

by Gary Carr

For the U.S. economy, there’s good news and bad news. The bad news remains constant for the rest of the year. The good news may begin to emerge in 2011, but recovery is a long way off.

Professor Laura Tyson spoke on “The World Economy, Post-Crisis” at the Distinguished Speaker Luncheon on April 15 at the Omni Hotel in San Francisco. Dr. Tyson is the S. K. and Angela Chan Professor of Economics at UC Berkeley’s Haas School of Business. She also serves on President Obama’s Council of Economic Advisors.

Professor Tyson led off by echoing her statement to *Newsweek* magazine on the shape of things to come, which she made earlier in the week.

“The optimistic forecasts predict an average growth rate of about 3.5 percent for the next five years, while the more pessimistic predict an average growth rate between 2.5 and 2.8 percent. Unfortunately, for now I find the pessimistic forecasts more convincing.”

Dr. Tyson sees the first half of 2010 being better than the second, thanks to the effects of Federal stimulus packages. However, once this money runs out, the states will be on their own, and it will be up to the private sector to make up the difference. Whether companies will be strong enough to aid the recovery remains to be seen.

She sees the biggest driver of the economy to be the real estate sector. The Federal Government will need to be involved in propping up real estate, both commercial and residential. Such involvement makes it difficult, if not counterproductive, for the Fed to consider increasing interest rates.

Dr. Tyson was icy in her feelings toward ratings agencies, the former major player in the real estate industry: “Ratings agencies are not credible in any way anymore.”

Consumption, she pointed out, has been too large a percentage of growth. “We can’t go back to consumption growth of 3 percent per year, as was the case over the last decade.”

The only hope is for consumption to go down, leading to a slower growth rate, so that the U.S. will not have to borrow so much from the rest of the world.

Some good news lies in companies beginning to invest again in IT. President Obama, she reported, will focus on exports as a way to “sell” ourselves out of the mess.

On this note, Dr. Tyson sees great hope in emerging markets. Currently, we export most of our goods to Europe and import most from Asia. It is the emerging markets, especially in Asia, that should be the target of our export efforts.

Large companies, like General Electric, know how to do this, and size is important. She points out that 80 percent of U.S. exports come from the top 1 percent of U.S. companies. The measure of our current unbalance can be seen in the fact that exports account for 10 percent of US GDP, while consumption accounts for 65 percent.

If the U.S. is to increase its exports into China, the exchange rate issue will have to be addressed, she said. In the latest meeting between President Obama and President Hu Jintao, "things got very heated," she said.

"It's best that no head of state ever talk about exchange rates," she cautioned. "Wiser heads (and lower placed) will prevail, as long as we don't let the President and Congress talk about it."

Regarding the current deficit, Dr. Tyson was unfazed. "The problem is not the size of the deficit in a given year – government debts rise dramatically during recessions, and it is not uncommon for them to double."

If the U.S. is to stabilize its deficit by 2015, we will have to bring the current "untouchables" into play – Social Security, Medicare, Defense, and Taxes. "Politically," she asked, "is the U.S. capable of doing this?"

Professor Tyson last spoke to the HKANC in 2001 during the Clinton Administration, when she was Chair of the Council of Economic Advisors, the first woman ever to hold that post.

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