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Alarming signs of rising pay settlements

The Government's inflation target will be exceeded

Standard feature of British cycle is to overlook inflation threat until it is too late

A recurrent feature of the British business cycle is that all the so-called "leading forecasting groups", in association with the Treasury and the Bank of England, fail to identify any inflationary threat in rapid money supply growth until much too late. Usually, they are tripped up by signs of rising pay settlements because of an over-heated labour market and/or by a marked worsening in the balance of payments. 1998 will fit the traditional pattern.

Rising pay settlements show that - once again - it is already too late

Income Data Services' latest *Report* (no. 753, January 1998) makes depressing reading. The first page notes that the Government's policy on public sector pay faces a "tough test", because of a widening disparity between pay in the private and public sectors. (Private sector earnings went up by roughly 12% from September 1995 to November 1997, whereas public sector earnings increased by only 5%. Messrs. Brown and Blair might reflect, somewhat ruefully, that the task of restraining public sector pay is not helped by the introduction of the minimum wage.) Pages 3 to 7 then list a series of recent pay settlements. A selection of headlines reads "McDonald's increases wage bands by between 7.7% and 12%", "Stagecoach (Fife) PRP exit package adds 5.5% to drivers' rates", "Engineering Construction industry agrees 5.7% rise in basic rates" and "Narrow Fabrics industry increases minimum by 8.3%". Apart from postal workers at the Royal Mail, not a single settlement mentioned on these pages is under 4%. The contrast with the mid-1990s - when settlements in most sectors were routinely between 2 1/2% and 4 1/2% - is obvious and indisputable. Settlements could rise further in the spring, as the headline rate of retail price inflation moves above 4%. The increase in national average earnings, which was 3 1/4% in late 1995, will be above 5% for much of 1998 and may go through 6% later in the year or in 1999. (It will be a few quarters before unemployment is again above the "natural rate", which is probably about 6%. The actual rate in December was 5%.) Even worse, UK pay inflation is accelerating while inflation in our neighbours is under good control. The agony in manufacturing will intensify, until the standard plunge into deficit on the current account undermines the pound on the foreign exchanges.

Bank of England's failure to meet targets part of wider official indifference to high money growth

The coming failure of the Bank of England and its inflation targets is the predictable consequence of its complacent attitude towards rapid money supply growth since 1995. (Its failure to adopt a money supply target, when granted operational independence by the Government, was consistent with its public attitudes throughout the 1970s and 1980s.) Given the evident danger that inflation will move above 4% and stay there for some time, long gilt yields of 6% and the inverted yield curve have to be described as weird.

Professor Tim Congdon 5th February, 1998

Summary of paper on

"Unsustainable"

Purpose of the paper

Recent financial turmoil in Asia will undoubtedly hurt the USA's balance of payments in 1998 and (probably) in 1999. The purpose of the paper is to assess the sustainability of current macroeconomic trends in the USA, particularly given its need to finance the world's largest-ever current account deficits.

Main points

* **Since 1991 domestic demand in the USA has increased faster than the trend rate of economic growth, which may be about 2 1/4% a year. The excess demand growth has been met in two ways,**

  - by the absorption of productive capacity, so that output may now be 1 1/2% or more above its trend level, and

  - by allowing the current account of the balance of payments to move from virtual balance in 1991 to a deficit of over 2% of GDP in 1997.

* **If trend or above-trend growth in output continues, inflation will accelerate without limit. The increase in labour costs has already started to rise, confirmation that unemployment is beneath its "natural rate". (See p. 4.)**

* **If the growth of demand continues to run ahead of the growth of output, the current account deficit will widen. In 1997 and 1998 the USA will have the largest current account deficits the world has ever seen. (See pp. 6 - 7.)**

* **So far the increase in the current account deficit has been financed easily by a more-than-equivalent increase in foreign buying of US government debt, particularly by the Japanese. (See p. 8.)**

* **It is very implausible that foreign buying of US Treasuries will rise in 1998 and 1999 by the extent of the deterioration in the current account deficit, not least because of the political tensions created by ever-increasing foreign ownership of the USA's national debt. (See pp. 10 -12.)**

This paper was written by Professor Tim Congdon. It is a revised version of a fax sent out to Lombard Street Research's clients on 17th December 1997.

Unsustainable

How will the USA finance the world's largest-ever current account deficits?

Strength of US macroeconomic situation is misleading and unsustainable

The main point of this paper is that current macroeconomic trends in the USA are unsustainable. Superficially, the macroeconomic situation is strong, with reasonable growth and low unemployment reconciled with the best inflation numbers since the 1950s. In fact, the benign numbers depend on remarkably high capital inflows from the rest of the world, particularly foreign purchases of US Treasury bonds. Because the USA's current account deficit will widen in 1998 and (probably) in 1999, these capital inflows must increase beyond their already extraordinary level. But the implied rise in foreign ownership of the US national debt is difficult to envisage, and would be politically dangerous and financially unstable. (In any case, it must of course be finite. Foreigners could own 50% or 60% of the US national debt, but they cannot own 110%.)

Excessive demand growth leads to pressure on capacity and widening payments gaps

The argument starts by reviewing the pattern of growth in the American economy over the 1990s. It shows that - with minor fluctuations - domestic demand has been growing faster than the underlying increase in productive potential, with two effects. First, spare capacity has been used up and the economy is now operating at above its trend level, with inflationary dangers. Secondly, the current account deficit on the balance of payments has widened, shifting the excess demand to foreign suppliers. In its final section the paper highlights the unsustainability of the capital flows which are financing the current account deficit.

At end of last recession US output may have been 1 1/2% beneath trend

The last recession is the USA was in 1991, following a sharp contraction in money growth from 5% - 6% a year in the late 1980s to less than 2% a year in 1990 to 1991. The recession caused national output to drop beneath its trend level, perhaps by as much as 1 1/2% to 2%. (The OECD estimates that the negative output gap was 1.8% in 1991. The "output gap" is the difference between the trend and actual level of output.) Fed funds rate was reduced to under 4%, and was at 3% for much of 1992 and 1993. The growth of domestic demand revived; it was particularly strong in 1994 and again in the 18 months to the third quarter 1997. In the six years 1992 to 1997 inclusive the average rate of increase in domestic demand was 3% a year. (Note that the increase in gross domestic product equals the increase in domestic demand minus the fall in net exports, where net exports equal exports minus imports.)

Demand growth of 3% a year met by

There is little evidence that the trend growth rate of the US economy is more than 2 1/4% a year. The 3% growth in domestic demand was therefore met in two ways,

i. above-trend output growth,

- by above-trend growth in GDP, which at first reduced the negative output gap and more recently caused output to go above its trend level, and

and ii. fall in net exports

- by a decline in net exports, which led to a widening in the current account deficit in the balance of payments.

Two responses are finite

These two responses can go so far, but they cannot go on for ever. The key issue for 1998 is to identify the limits of sustainability.

1. Effects of positive output gap on inflation

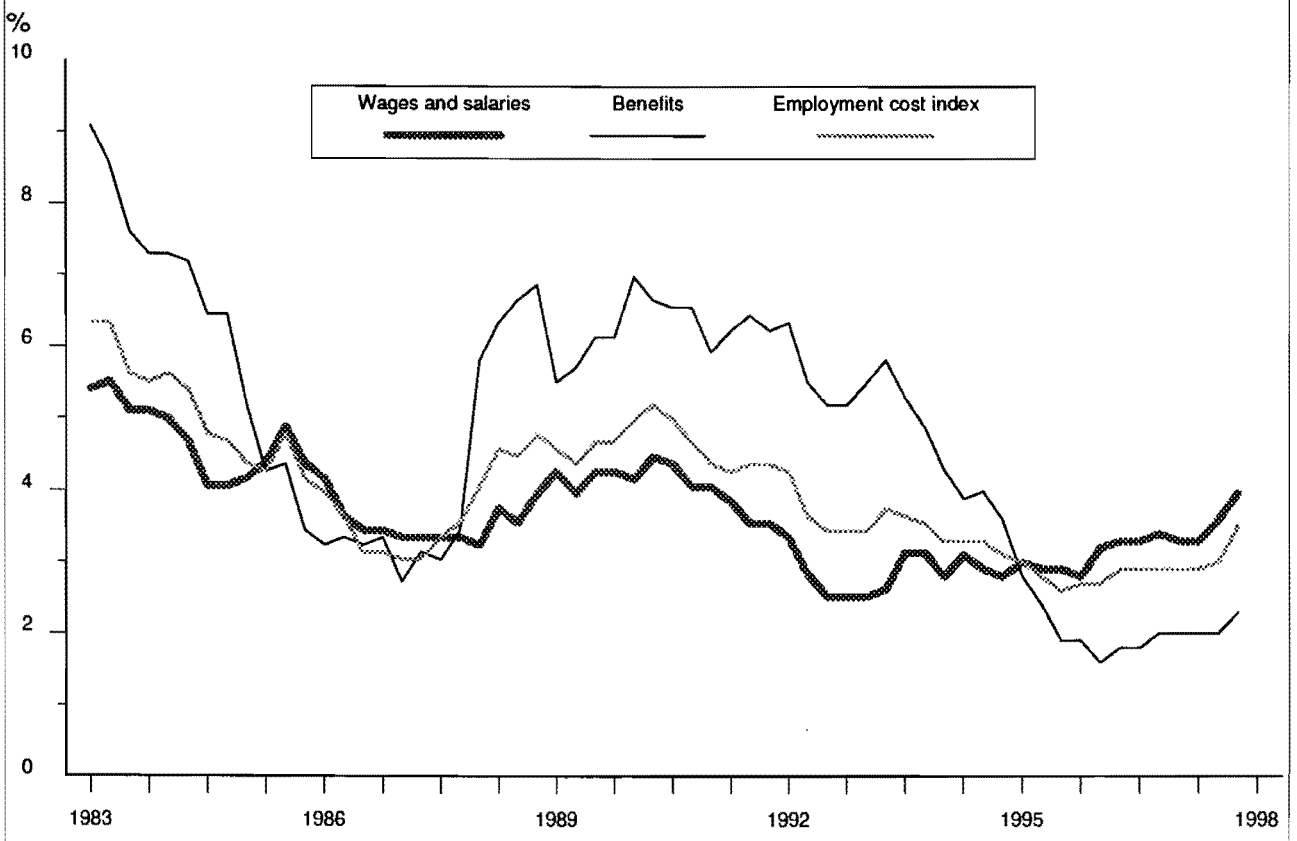
Starting from a negative output gap of 1 1/2% to 2% in late 1991/early 1992, above-trend growth in GDP was fine and - in accordance with Lombard Street Research's theory of the cycle and inflation - it was accompanied by low and sometimes falling inflation. But - once output goes above its trend level - continued above-trend growth is dangerous, because it exacerbates over-heating in the economy and tightness in the labour market, and it leads to accelerating inflation.

US output may now be 1 1/2% above trend

Views differ on when US output went above its trend level and about the extent to which it is above trend today. But the increase in hourly earnings has been rising since late 1995 or early 1996, when the unemployment rate was about

Employment costs in the USA

Chart shows annual increase in wages, non-wage benefits and the employment cost index for private industry



Source: *Department of Labor, Bureau of Labor Statistics*

5 1/2%. This would be consistent with the natural rate of unemployment being about 5 1/2%, somewhat less than would normally have been assumed in the 1970s and 1980s, but not dramatically so. Unemployment now is 4.7%, which would suggest - on Okun's law that cyclical output movements are twice employment movements - that output is, say, 1 1/2% to 2% above trend.

The average rate of increase in GDP in the six years 1992 to 1997 inclusive has been 2 3/4% a year, absorbing the "output gap" (i.e., reducing the negative output gap or increasing the positive output gap) by 1/2% a year. With a negative output gap of 1 1/2% a year in early 1992 and a 2 1/4% trend growth rate, that also points to a positive output gap in early 1998 of 1 1/2% to 2%. (No one knows precisely, but this assessment looks right in ballpark terms. In its December 1997 *Economic Outlook* the OECD estimates that the positive output gap was 0.9% in 1997 and will be 1.1% in 1998, assuming 3.8% growth of GDP in 1997 and 2.7% in 1998.)

Past experience suggests that inflation rises by. 1/2% a year for every 1% of positive output gap

One equation estimated by econometric work at Lombard Street Research says that the increase in consumer price inflation will run at 1/2% a year for every 1% of positive output gap. Moreover, inflation will continue to rise until the positive output gap is eliminated by a period of beneath-trend growth. On this basis, US consumer price inflation is due to rise by 1% or so over the next 12 months and by another 1% or so in the following 12 months (i.e., to 4% in 1999), unless beneath-trend growth supervenes. An upturn in the increase in hourly earnings in 1997 was consistent with this prognosis. In the final quarter the employment cost index rose by 1.0% or at an annualised rate of just above 4%, compared with 3.1% and 2.6% in the years to December 1996 and 1995 respectively. Renewed union militancy, including strikes, in a number of industries are also symptomatic of labour market tightness and have led to rising pay settlements.

Recent inflation figures have nevertheless been good,

But the latest inflation figures have been good. Has something gone wrong with the analysis? The answer is "not really". It is important to remember that oil prices rose in 1996, but fell in 1997, while the surge in the dollar has reduced the cost of imported goods. Moreover, since early 1995 the US Labour Department has tampered with the CPI to make it "more accurate". The adjustments have been downwards, distorting the comparison with inflation before and after the changes. A report in *Business Week* of 6th October last year mentioned some work by Mr. L. Douglas Lee of HSBC Washington which suggested that - at that stage - the adjustments had lowered inflation by 0.2 of 0.3 of a percentage point. By 1999 the reported rate of inflation could be as much as 3/4% lower than it would have been on the pre-1995 basis.

but the consumer price index will be misleading compared with history

In these circumstances it will be important to cross-check the CPI with inflation measures that have not been altered, such as the GDP deflator. At any rate, it is clear that continued above-trend growth in GDP is unsustainable. Further declines in unemployment would push the annual increase in hourly earnings towards 6%, 7% or above, implying inflation rates in late 1998, 1999 and later way above levels that have become regarded as normal in the 1990s.

2. Effect of excess demand on the balance of payments

Obviously, the rise in the dollar has been good for inflation. But it has aggravated the deterioration in the current account position. The weakening in the current account position has not been uniform in the 1990s, but the general pattern is easy to describe. The USA ran exceptionally large current account deficits in the mid-1980s, following the absurd over-valuation of the dollar in 1984 and early 1985. (The peak was in 1987, when a current account deficit of $168b. was 3 1/2% of GDP.) These deficits were corrected by a slowdown in domestic demand in the late 1980s and the recession of 1991, when the current account deficit was trifling, at $6b.

US domestic demand rising by 1/4% of GDP more than output, leading to deficit of over $160b. in 1997

But over the six years 1992 to 1997 inclusive domestic demand has increased typically by about 1/4% of GDP faster than GDP itself. So the balance on goods and services will be in deficit this year by about $120b., equal to a little more than 1 1/2% of GDP. Meanwhile the balance on investment income has deteriorated, as the sequence of current account deficits has increased both foreigners' net assets in the USA and their investment income on these assets. With the USA also running a large deficit on transfers (military spending, aid and so on), the current account deficit in 1997 was probably between $160b. and $170b.

Deficit will widen in 1998 because of i. "Asian effect",

Economic commentators disagree about many things, but one feature of 1998 is definite, a pronounced widening in the US current account deficit. This forecast can be made with certainty for at least four reasons. First, the so-called "Asian effect" will hit the USA particularly badly. The various financial crises in East Asia will require the countries concerned to shift resources into their balance of payments, so that current account deficits become current account surpluses. The USA - as "importer of last resort" - will have to absorb much of the impact.

ii. US-Japan contrast,

Secondly, demand conditions in the USA and Japan, the world's second largest economy, are in marked contrast. Japanese domestic demand may contract in 1998, while US domestic demand seems likely to continue to grow by over 4% a year. (The latest data on US mortgage applications point to an exceptionally buoyant housing market in early 1998. Levels of consumer confidence remain very high, partly because share prices are close to all-time peaks after a long bull market.) The under-employed Japanese economy will produce more exports to meet the excess demand from the over-employed American economy.

iii. Delayed effects from dollar revaluation, and

Thirdly, the J-curve effect from the strong dollar is bound to curb the growth of export volumes and to stimulate imports. The delayed effect of the dollar's appreciation - which began in mid-1995 - on the current account will be coming through in 1998 and 1999. (The initial effect of a currency appreciation is to reduce a nation's current account deficit, because it changes the values of trade flows before it alters volumes. In 1997 the values of US exports and imports increased by a similar percentage, but export volume was up by 12.6% and import volume by 14.5%, according to the December 1997 issue of the OECD's *Economic Outlook*.)

iv. Deteriorating balance on investment income

Finally, the continued build-up of foreigners' net assets in the USA will increase the deficit on international flows of investment income. 1997's current account deficit implies than foreigners' net assets increased by over $150b. While it is wrong to be mechanical about the effect on investment income, a reasonable rule of thumb is that the investment income deficit will subsequently increase by at least 5% of the previous current account deficit, as 5% is not much less than the yield on US Treasuries, and foreigners are also holding more equities and bank deposits.

Current account deficit may head for $250b. in 1998

The first two of these effects are commonly put at 1/2% to 1% of US GDP (i.e., $35b. to $70b.); the third effect depends on the price elasticities of exports and imports, whose estimation varies from one researcher to another, and involves a complicated econometric exercise, but it might be guesstimated at $25b.; the final effect implies a higher investment income deficit of perhaps $7 1/2b. (In its December 1997 *Economic Outlook* the OECD puts the USA's deficit on investment income at $11.9b. in 1997 and $16.3b. in 1998.) Admittedly, these numbers are crude, but - in ballpark terms - the USA's current account deficit in 1998 may be $70b. to $100b. higher than in 1997. In other words, a plausible forecast is that the deficit will be between $250b. and $275b.

and over $300b. in 1999

In nominal terms, this would be the highest current account deficit the world has ever seen. As a share of US GDP, it would be 3% or a little more, less than in 1987. The figure for 1999 will - almost certainly - be worse, for at least two reasons. One is the self-reinforcing nature of the "investment income effect" (i.e., add 5% of $250b. - $275b. to the investment income deficit), as long as the USA has a current account deficit. Secondly, sooner or later, the dollar must drop. The initial J- curve effect on the balance of payments will be adverse. So it is reasonable to pencil in a current account deficit for 1999 of $300b. - $350b., which might be higher as a share of GDP than in 1987.

The next stage of the analysis is to identify the capital inflows required to cover these two current account deficits, i.e., to repeat, of,

- $250b. - $275b. in 1998, and
- $300b. - $350b. in 1999.

3. The capital account flows that cover the current account deficit

The structure of the USA's international payments has changed enormously over the years. One obvious and important point should be conceded at the outset. The USA is a land of countless private sector investment opportunities, many of them likely to give excellent returns to foreign savers. Further, there is nothing intrinsically wrong with the USA, or any other country, running a current account deficit. However, alarm bells have to be rung if the capital account is becoming lop-sided, with too important a role for one item, particularly where the commitment by the foreign investors can be quickly and easily reversed.

The figures at the top of page 8 show key features of the USA's capital account position in 1996 and the first three quarters of 1997. All figures are in $b.

Key features of the USA's balance of payments

	1996	1997 First 3 qts.
Current account	-148.2	-120.0
Capital account items:		
US gov. assets inc. reserves	+6.0	+3.8
Increase in US private assets abroad	-358.4	-324.1
Increase in foreign assets in the USA, of which	+547.6	+494.7
- claims on US banks	+14.5	+84.5
- US Treasuries & gov. secs.	+272.0	+167.4
- other claims	+261.1	+242.8
Discrepancy	-47.0	-54.4
Net position	Nil	Nil

(The net position is the sum of the current account position and all the items in the capital account.)

Source: *Federal Reserve Bulletin*, various issues.

The USA's "goldilocks economy" is dependent on capital inflows from abroad

The salient points here are,

- the striking magniture of the capital flows compared with the current account position and the consequent scope for huge swings in the cpaital account items,

- the rough equivalence of the increase in the USA's private sector assets abroad and the increase in foreign assets in the USA, excluding increased holdings of US Treasuries and other government securities, and

- the spectacular increase in foreign holdings of US Treasuries, running at an annual rate of roughly $250b. in 1996 and 1997, and exceeding the current account deficit by quite a wide margin.

Plainly, without the $250b. of foreign purchases of US Treasuries, the USA's balance of payments would have an altogether different structure and character. *It is not going too far to say that the continuation of the current account deficit*

and the strong dollar - and, hence, of the sequence of happy non-inflationary years with domestic demand growing faster than the trend rate of GDP growth - depends on foreigners' willingness to purchase US Treasuries at a rate equal to about 3% of the USA's GDP.

The scale of the foreign purchases of US Treasuries over the last two years is unprecedented. The figures below show the purchases over the 1990s. The latest numbers are remarkable.

Foreign purchases of US Treasury securities and other government securities (all in $b.)

	Official purchases	*Private purchases*
1990	32.1	-2.5
1991	18.7	18.8
1992	25.0	36.9
1993	54.4	24.8
1994	39.2	34.3
1995	73.5	99.5
1996	116.4	155.6
1997 First 3 qts.	22.7	144.7

Source: *Federal Reserve Bulletin*, various issues

Foreign share in ownership of US national debt rising sharply

An inevitable consequence of the enormous foreign buying of US Treasury bonds is that the foreign-owned shared of the US national debt has increased sharply. At the end of 1994 foreign and international investors held $688.6b. (14.3%) out of a gross US public debt of $4,800.2b., but $1,199.1b. (22.3%) out of $5,380.9b. at the end of Q1 1997. The figures are even more striking if US official holders are excluded from the analysis. At the end of 1994 private sector holdings of the US debt were $3,169.0b. and the foreign stake was 21.7% of this figure; at the end of Q1 1997 private sector holdings were $3,468.5b. and the foreign stake was 34.6%. The foreign stake at the end of 1997 probably approached 40%.

What capital flows will match the wider current account deficit?

Earlier analysis established that the USA is heading for higher current account deficits in 1998 and 1999 than in 1997. It is an arithmetical certainty that, overall, the capital account inflows must match the increased current account deficits. What will be the relevant items in the US capital account? An attempt to answer the question identifies and emphasizes the unsustainability of the capital account flows and, by extension, of broader macroeconomic trends in the USA.

1997 saw unusually strong foreign buying of US equities

1997 was an unusual year in international equity flows. The normal pattern is for US buying of foreign equities to exceed foreign buying of US equities. But last year foreign buying of US equities exceeded US buying of foreign equities. In view of the ambitious valuation of the US stock market at present, a further

departure from the normal pattern seems unlikely in 1998 and 1999. On the contrary, the prospect is surely for less net foreign buying of US equities.

In 1998 and 1999 foreign buying of T-bonds may have to increase sharply,

The wider current account deficit must therefore be covered by stronger net capital inflows of other kinds. Suppose that banking inflows and direct investment are the same as their 1997 levels. This again seems reasonable (or even optimistic), because - like equity investors - direct investors do not like buying over-valued assets. It follows that - to keep the current and capital accounts balanced - foreign buying of US Treasury securities must in 1998 and 1999 be higher than in 1997 by the extent of

- the widening of the current account deficit, and

- the reduction in the net foreign buying of US equities.

In other words, foreign buying of US Treasury securities has to rise from, say, $250b. in 1997 to $325b. - $360b. in 1998 and $375b. or more in 1999.

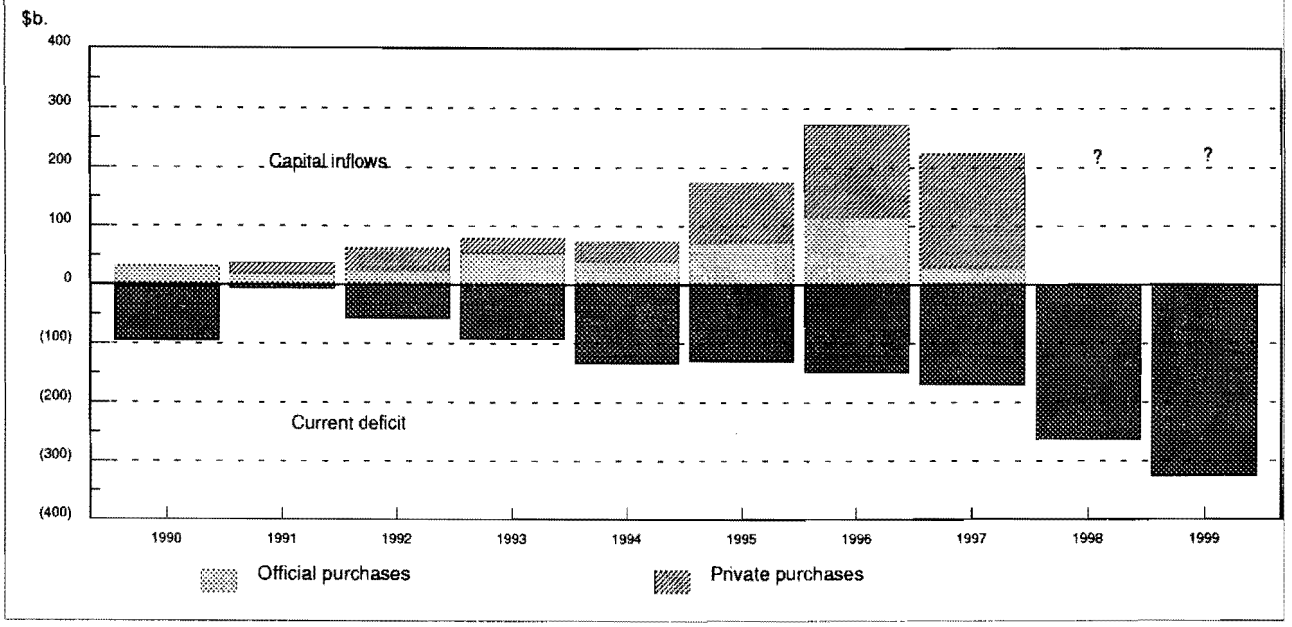
but this makes no sense

But this is ridiculous. Given the prospect for a negligible US budget deficit over the next couple of years, the foreign-owned share of the non-official holdings would move up to 45% at the end of next year and 55% by the end of 1999. The huge rise in foreign ownership of the US national debt would raise numerous politically sensitive concerns in both the USA and in the investing countries (such as Japan). (Anecdotal reports indicate that the US Treasury

The USA's dependence on foreign capital

In the 1990s foreign buying of US Treasury debt has financed the growing current account deficit. But will this continue in 1998 and 1999?

Bars for "capital inflows" relate to foreign buying of US Treasury bills and bonds.



makes comments when the Bank of Japan tries to sell more than, say, $3b. or $4b. of US government debt. If so, the Japanese government and the Bank of Japan ought to think hard about whether these assets - in principle its core foreign assets - are truly liquid. After all, there is a long history of countries with big foreign debts blocking the foreign creditors' access to their money.)

Foreign investors may start to worry about a weak dollar

It is particularly worrying that the purchases of dollar bonds would have to take place despite the emergence of the world's largest-ever current account deficit on the part of the country issuing the debt (i.e., the USA) and the eventual likelihood of a large dollar devaluation to bring the deficit under control. Recent trends in the American balance of payments, and - more specifically - in the financing of the current account deficit, are clearly unsustainable.

Japanese are largest foreign investors in US government debt,

The natural question to ask now is "who have been the foreign buyers of US Treasury bonds?". According to the data prepared by the US Treasury, the buyers are very miscellaneous, but the two biggest nations are the UK and Japan. Thus, in the first seven months of 1997 the UK is attributed with net buying of Treasury bonds and notes of almost $50b. and Japan with about $35b. But the UK's role does not square with data on the life assurance companies' and pension funds' asset dispositions prepared in this country. The relevant UK data show modest changes in the institutions' holdings of foreign government bonds in the last two years. By contrast, the comparable Japanese data confirm substantial shifts in asset allocations, with quite large rises in the ratio of foreign securities to total assets. (For example, "foreign securities" held by Japanese trust banks went up from 19,202b. yen in August 1996 to 23,652b. yen in August 1997, which is - roughly - a rise from $175b. to $200b., after allowing for the exchange rate change. There was a larger movement for the Japanese life insurance companies.)

probably responsible for a third to a half of all foreign buying

A reasonable surmise is that most of the apparent flow into US Treasuries from "the UK" is not for UK beneficiaries, but reflects purchases by UK-based fund management operations on behalf of foreign, non-UK beneficiaries. A fair proportion of these may be Japanese, although it is difficult to be certain. Data published by the Bank of Japan's Research and Statistics Department would not be inconsistent with the suggestion that the ultimate source of about a third to a half of the net foreign buying of US government debt in the last two years has been Japan. Most of this buying has been by private institutions and individuals, not the Japanese government or the Bank of Japan. A fair chunk of the other buying has also been from East Asia.

A response to low Japanese yields and falling yen

The Japanese buying of US Treasuries has been motivated by two main incentives, the yield differential between US and Japanese government bonds and expectations of a decline in the yen against the dollar on the foreign exchanges. The buying has been on such a scale that it has been a key reason both for the strength of the dollar (and so for low US inflation) and for the fall in Treasury bond yields to under 6%.

Problems will come for US financial markets when the widening in the US current account deficit has gone so far that

- the foreign buying of US Treasuries can no longer fill the gap, and

- the need to reduce the deficit causes the still-pervasive expectations of dollar appreciation to be replaced by expectations of dollar depreciation.

Need for reappraisal of macroeconomic outlook

Of course, no one knows exactly when perceptions and anticipations will change, and - as always in financial markets - there will be a complex interplay between economic events and investor beliefs. But - to reiterate - macroeconomic trends in the USA are unsustainable. *Sooner or later the growth of US domestic demand will have to slow from the 3%-a-year average seen in the six years 1992 - 97 to a figure of under 2% a year, and probably rather lower (at least for a few quarters), in order*

- to convert the positive output gap of 1 1/2% - 2% to a zero positive gap, and so to stop accelerating inflation, and

- to halt widening of the current account deficit and, eventually, to reduce it to manageable levels.

Japanese will not indefinitely purchase claims on US government equal to 1%-2% of US GDP,

American policy-makers and financial markets are naive to believe that they will be able, indefinitely into the future, to sell ever-increasing amounts of the US government's dollar-denominated liabilities to Japanese investors. They are also naive to believe the projections of "a slowdown" routinely trotted out over the last 18 months by "consensus forecasters". These projections have been rubbish; they will continue to be rubbish until the Federal Reserve changes its tack on interest rates. There is nothing yet in reliable leading indicators of activity (including real money growth, on which Lombard Street Research places particular emphasis, asset price movements and pointers to housing market activity) to indicate any slowdown in domestic demand in 1998. (GDP may, however, be held back by the fall in net exports.)

but why do they do it at all?

Of course, there is another and perhaps deeper puzzle here: it is to understand the motives and expectations of the Japanese savings institutions, given the evident unsustainability of the macroeconomic trends their actions have made possible.