Transcript of Opening Remarks by Senator Kent Conrad (D-ND)
at Senate Budget Committee Hearing
on the Current Account Deficit and the U.S. Foreign Debt
February 1, 2007

I want to particularly welcome our witnesses here today: Dr. Fred Bergsten, somebody who has testified before this Committee before and we are delighted to have him back, the Director of the Peterson Institute for International Economics; Dr. William Cline, Senior Fellow at the Peterson Institute; and David Malpass, Chief Global Economist at Bear Stearns. Welcome to you all. We deeply appreciate your taking your extremely valuable time to come before this Committee and help us try to make the case of the importance of dealing with these long-term fiscal imbalances.

As you know, Senator Gregg and I have been urging our colleagues to develop a process by which we would produce a bipartisan plan to address these long-term fiscal imbalances. We believe it is very important.

Today's hearing focuses on the danger of the 'twin deficits' – that is, the federal budget deficit and the trade deficit. Both of these deficits pose a serious threat to our nation's long-term economic security.

Although the U.S. trade deficit has fallen recently, we can still see that the trade deficit in 2006 will exceed $700 billion.

At the same time, our annual budget deficits are contributing to the wall of debt we now face. At the end of 2001, our gross federal debt stood at $5.8 trillion. At the end of this year, the Congressional Budget Office tells us it will be $9 trillion. And if we continue current policies, gross debt will reach over $12 trillion by 2012.

And, I might say, this is at the worst possible time, right before the baby boom generation retires. You know, we're having a very difficult time – let me be very frank – we're having a very difficult time persuading our colleagues and the administration of the need for urgent action. In a way, I think people are being lulled to sleep by the somewhat modest reduction in the deficit. While the deficit has shown some relatively slight improvement, the debt continues to mount in a way that is really unfavorable over the long-term, especially in light of the demographics of the country. And that's what I think we're having a hard time getting people to fully grasp. This demographic tsunami that is coming at us is unlike what we faced in the past. And so I think it is hard for people to get their minds around that.

Over the long-term, we can see that the nation's gross debt will continue to explode if all the tax cuts that the President has supported are extended without offset. In fact, according to the Center on Budget and Policy Priorities, we will more than double our debt level as a share of GDP by 2050 if all of the tax cuts are extended without offsets. This chart shows what happens as the debt will grow. In the case of the tax cuts expiring or being offset – that's the green part of this slide – that's what happens to the debt if the tax cuts expire or are offset. The red is what happens to additional debt if the tax cuts are extended without offset.

Now, as much as I would love to support every tax cut and every spending program – you know, as a politician there is nothing better than being for every tax cut and every spending program. The problem is we can't continue to do this. We cannot continue to do this.

The result of all of this is that we are becoming increasingly dependent on the kindness of strangers. We are building up foreign holdings of our debt at a dramatic rate. It took 42 Presidents – all the President's pictured here – 224 years to run up a trillion dollars of debt held externally. This President on his own has more than doubled that amount in six years. This is absolutely an unsustainable course.

And here are the top foreign holders of our national debt. We owe Japan now more than $600 billion; we owe China more than $300 billion; the United Kingdom more than $200 billion; the "oil exporters" almost $100 billion; and, my favorite, the Carribean Banking Centers, we owe the Carribean Banking Centers over $60 billion.

We are now, far and away, the world's largest borrower. In 2005, the United States was responsible for 65 percent of all world borrowing by countries – ten times as much as the next largest borrower.

We may be starting to see the ramifications of all of this debt. Last September, the *Wall Street Journal* reported that the World Economic Forum downgraded the United States from the most-competitive economy in the world to the sixth most-competitive economy. They stated: "Serial budget deficits in the U.S. have led to rising public debt, which means an increasing portion of government spending goes toward debt service. That means less money is available for spending on infrastructure, schools or other investments that could boost productivity. Heavy government borrowing, which means competing for money in financial markets with the private sector, also tend to drive up businesses' borrowing costs."

In testimony before this Committee last month, the Chairman of the Federal Reserve, Chairman Bernanke, emphasized the dangers of this growing debt. He said: "Ultimately this expansion of debt would spark a fiscal crisis which could be addressed only by very sharp spending cuts or tax increases or both. ... [T]he effects on the U.S. economy would be severe. High rates of government borrowing would drain funds away from private capital formation, and thus slow the growth of real incomes and living standards over time."

Our increasing reliance on foreign-held debt poses an added threat to the economy. Here is what the head of the Government Accountability Office, Comptroller General David Walker, told this Committee last month: "When, not if – when – foreign investors decide as a matter of mere prudence and diversification that they're not going to expose themselves as much to U.S. debt, then interest rates will rise, and that will start a compounding effect. And so what's important is that we act so that they don't take that step..."

We have already seen the potential impact on our economy from investment decisions made by foreign holders of our debt. Here is a *Financial Times* article from last November on the value of the dollar falling after a comment from a Chinese bank official on the need for China to diversify its foreign exchange reserves. The paper stated, and I quote: "The dollar was sent tumbling on Thursday after [the] governor of the People's Bank of China said the country was 'considering lots of instruments' to diversify its foreign exchange reserves." Just that comment sent the dollar down.

I hope very much that colleagues are paying attention. In fact, the dollar's value is already down considerably – more than 30 percent against the euro since 2002 – at least in part from market fears about our increasing federal indebtedness.

We simply have to get hold of this trajectory on deficits and debt. There really is no alternative. We have now been warned in this Committee by the head of the Government Accountability Office; we have been warned by the head of the Federal Reserve; we have been warned by the head of the Congressional Budget Office; we have been warned just yesterday by the former head of the Congressional Budget Office and by three other distinguished panelists including the Concord Coalition, which is known for their interest in fiscal responsibility; warned by the Heritage Foundation, one of their top economists that we are on a course that is unsustainable; warned by the head of the Hamilton Project, which is overseen of course by former Secretary of the Treasury Bob Rubin.

We have been warned and warned and warned. The question – is there a will to act? I would submit the first thing we have to do is submit a budget that is balanced by 2012, and at the same time engage in a much larger effort, a bipartisan effort, to produce a proposal to address these long-term fiscal imbalances. That's where the real danger lies.