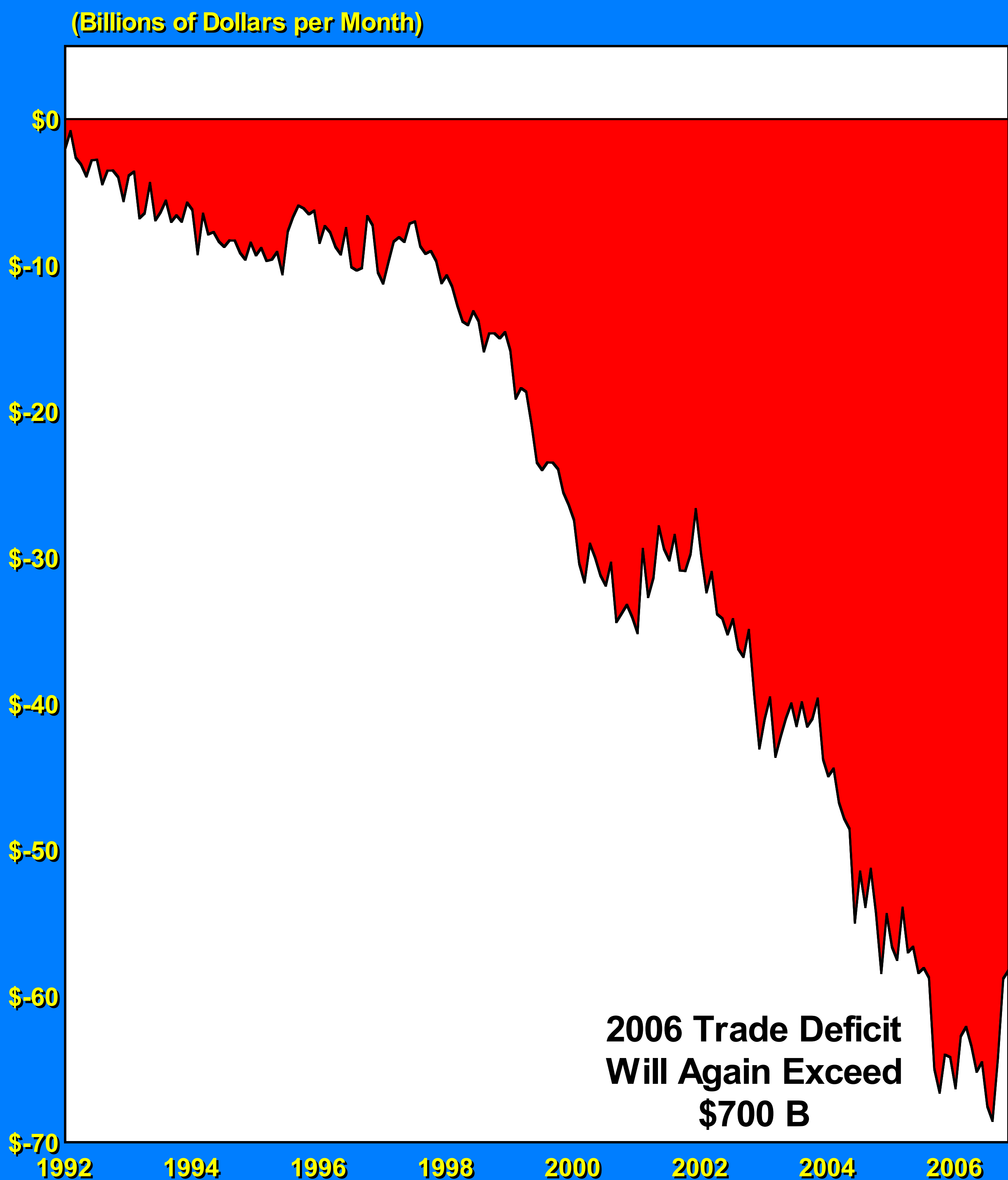
# U.S. Trade Deficit

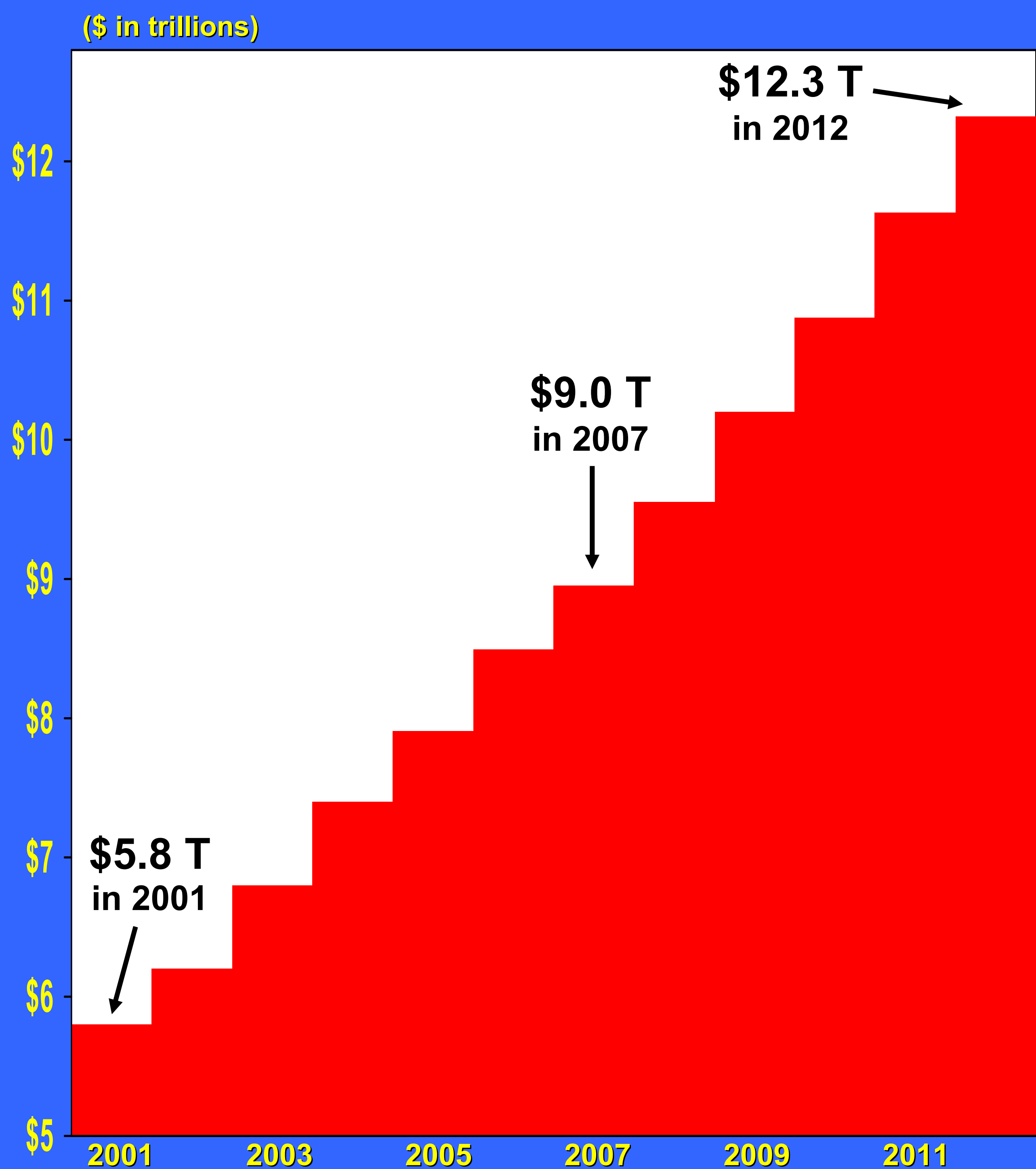



Source: U.S. Department of Commerce

1/31/07

# Building a Wall of Debt

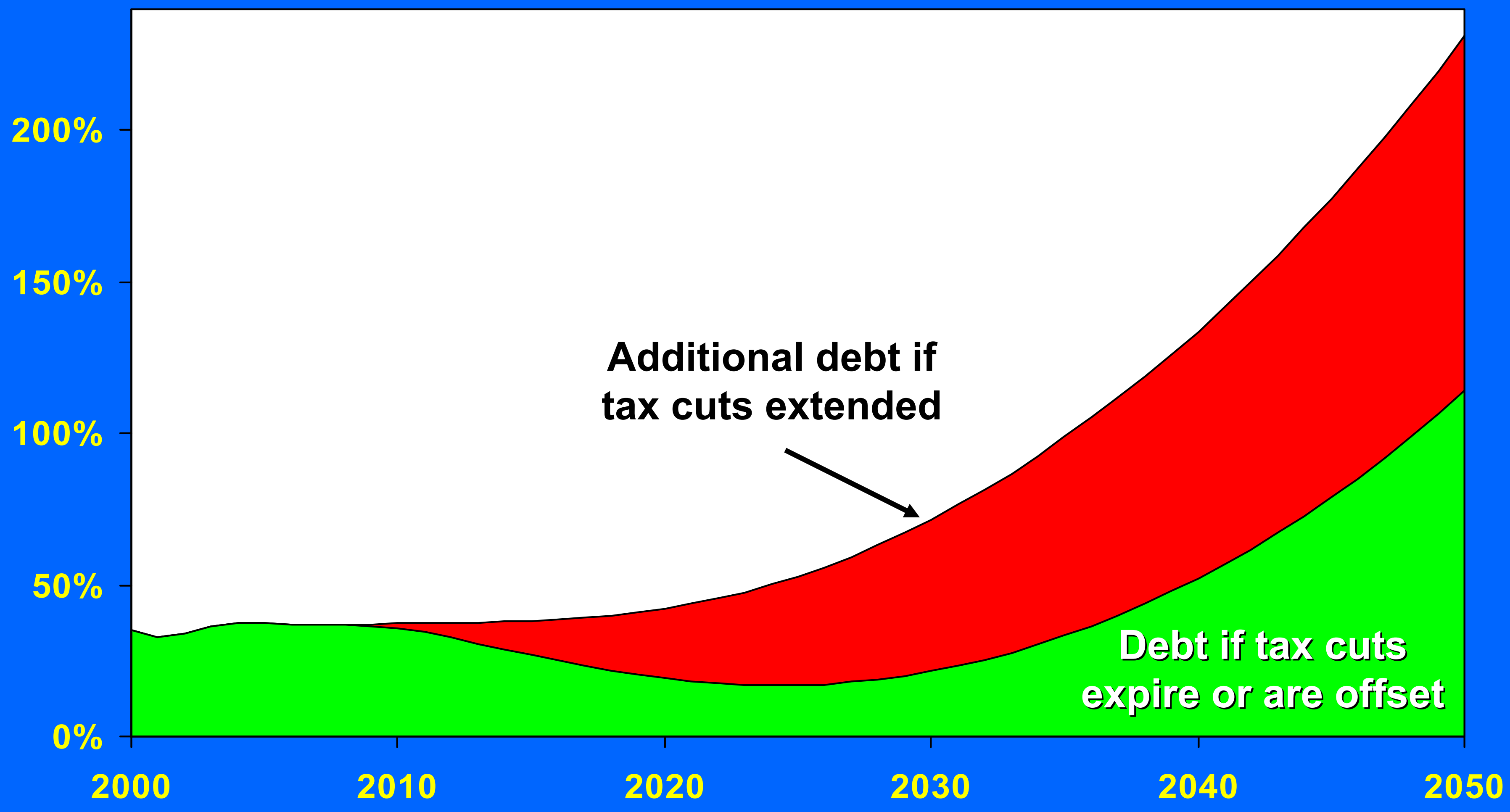
## Gross Federal Debt Soars



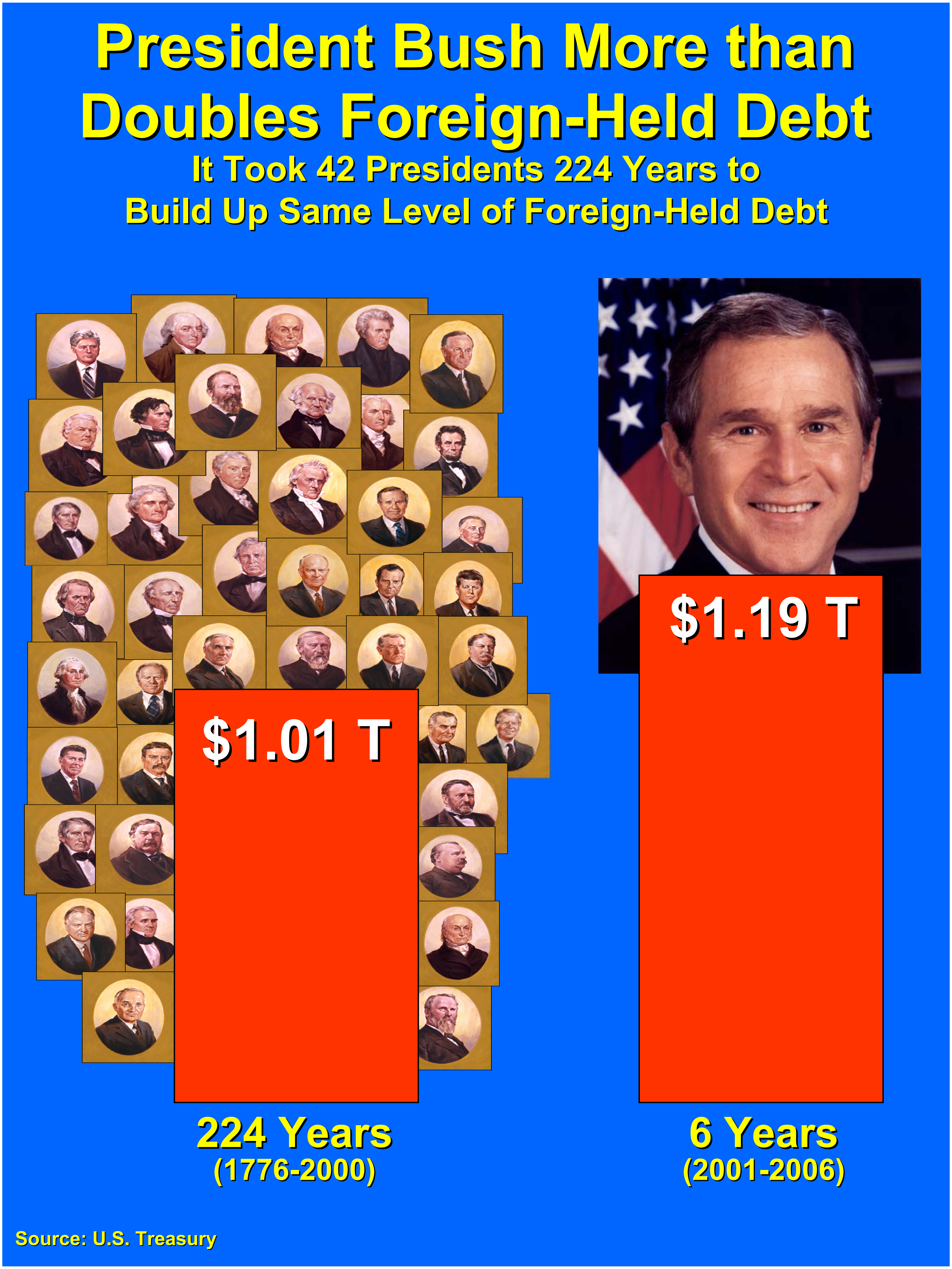

Source: OMB, CBO and SBC Democratic staff
Note: CBO January 2007 estimate with tax cuts made permanent, AMT reform, ongoing war costs, Bush defense buildup, and without extension of 2007 emergency funding.

# Debt Explodes if All Tax Cuts are Extended Without Offsets

*Debt as a Share of the Economy*




Source: CBPP projections based on CBO data.

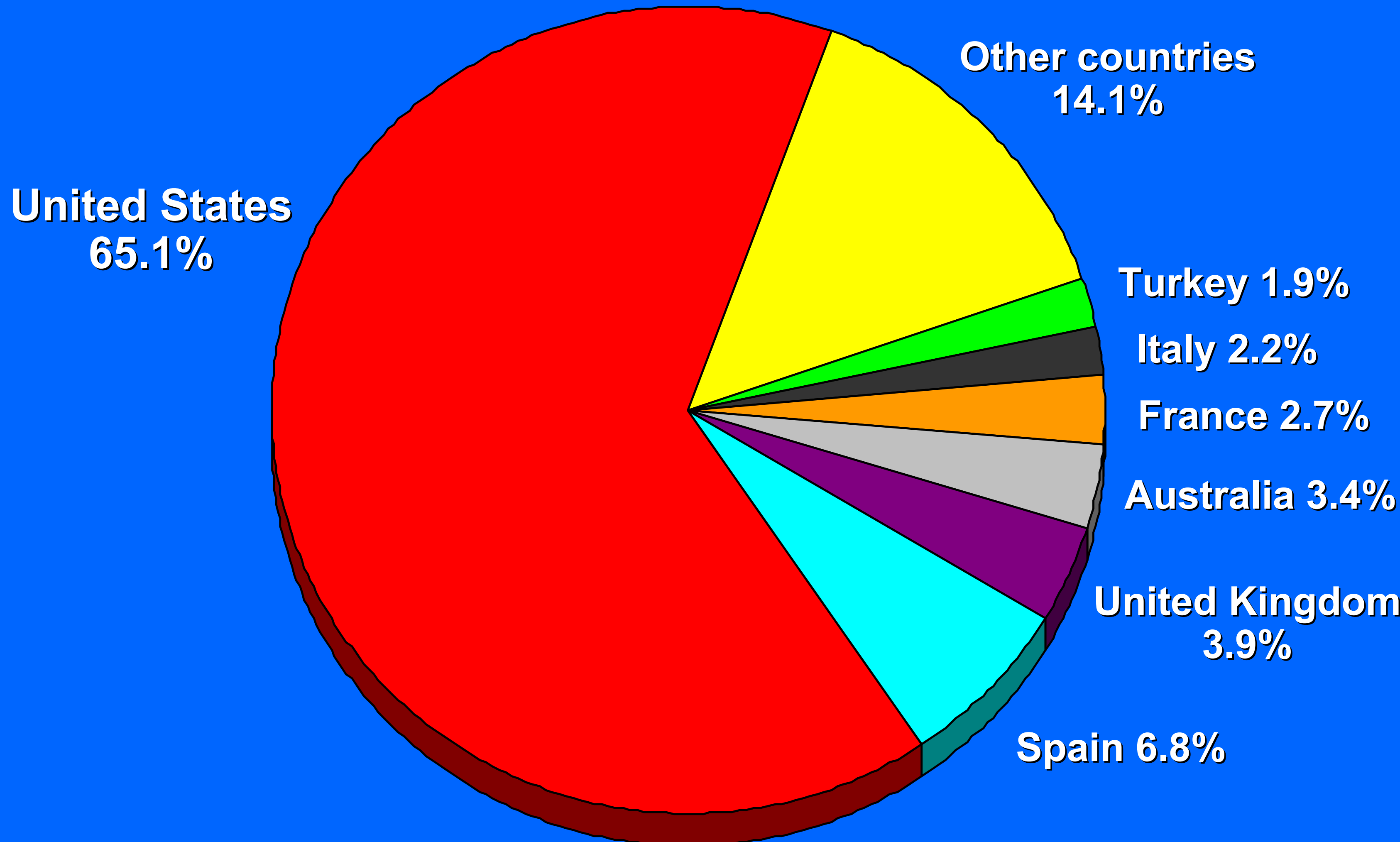

President Bush More than
Doubles Foreign-Held Debt
It Took 42 Presidents 224 Years to
Build Up Same Level of Foreign-Held Debt
$1.01 T
$1.19 T
224 Years
(1776-2000)
6 Years
(2001-2006)
Source: U.S. Treasury

# Top Ten Foreign Holders of Our National Debt

| | |
|---|---|
| Japan | $637 B |
| China | $346 B |
| United Kingdom | $224 B |
| "Oil Exporters" | $97 B |
| South Korea | $68 B |
| "Caribbean Banking Centers" | $64 B |
| Taiwan | $63 B |
| Germany | $52 B |
| Brazil | $51 B |
| Hong Kong | $51 B |

Source: Department of Treasury
Note: As of November 2006

# World's Biggest Borrowers




Note: Percent of world borrowing by country.
Source: IMF

THE WALL STREET JOURNAL.

WEDNESDAY, SEPTEMBER 27, 2006

# Economic Forum Warns U.S. Of Budget Deficit's Ill Effects

By MARCUS WALKER

The U.S.'s huge budget deficit threatens to make the country's economy less competitive, according to a study by the World Economic Forum, an institute in Switzerland.

The institute's annual study of global competitiveness says the U.S. economy is the sixth most-competitive in the world, slipping from first place in last year's ranking, a result of mediocre scores for its public finances.

Switzerland ranks No. 1 in this year's survey, thanks to what the forum sees as a combination of efficient public administration and flexible markets. Three Nordic countries—Finland, Sweden and Denmark—come next, followed by Singapore and the U.S.

The competitiveness study ranks countries according to a range of criteria—including macroeconomic policies, market regulations, technological development, education systems and public institutions—that the forum believes influence an economy's level of productivity, and thereby its ability to sustain economic growth over many years. The ranking combines economic indicators with the findings from a survey of business executives.

"The U.S. remains a very competitive economy," said Augusto Lopez-Claros, the forum's chief economist. "It leads in innovation and patent registrations, has some of the best universities in the world, and it has extremely high levels of collaboration between universities and industry," he said. "However, how you manage your public finances is very important."

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 tends to drive up businesses' borrowing costs.

Middling scores were awarded to the fast-growing emerging economies of the world considered to be changing the economic balance of power: India ranks 43rd out of 125 countries in the survey, China ranks 54th, Russia 62nd and Brazil 66th.

Russia and China, despite good scores for macroeconomic management, are marked down for a lack of transparency and even-handedness in their public institutions, including their bureaucracy and judiciary, and for protections for property rights. Brazil is making progress on improving its public finances, but at too slow a pace, according to Mr. Lopez-Claros. Of the four countries, only India improved its ranking in the survey this year.

Although many economists and investors believe economic output in these four countries will overtake that of most of the world's established economic powers by midcentury, the World Economic Forum warns that the emerging economies' growth could hit barriers unless they develop more-efficient public institutions.

# Federal Reserve Chairman Bernanke on Danger of Growing Debt

"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."

– Federal Reserve Chairman Ben Bernanke
Testimony before Senate Budget Committee
January 18, 2007

# GAO Comptroller General Walker on Danger of Relying on Foreign-Held Debt

**"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..."**

– Government Accountability Office
Comptroller General David Walker
Testimony before Senate Budget Committee
January 11, 2007

WEEKEND

FINANCIAL TIMES

USA SATURDAY NOVEMBER 11/SUNDAY NOVEMBER 12 2006

# China forces dollar into the spotlight

By Peter Garnham

China made its presence felt in the currency markets this week as the prospect of the country diversifying its large foreign exchange stockpiles sent the dollar reeling to a 10-week low against the euro and to its weakest level in 18 months against sterling.

On Monday, China's state television network reported that its foreign currency reserves, the world's largest, had exceeded $1,000bn for the first time.

Analysts said while that was widely expected, it might spark a debate about the renminbi, which many of China's trading partners believed was undervalued.

However, it was the dollar that was thrust into the spotlight as Fan Gang, director of China's National Economic Research Institute and member of China's monetary policy committee, went on the offensive.

Mr Fan said the real problem the world faced was an overvalued dollar, not only against the renminbi but against all leading currencies. "The main responsibility for this imbalance lies with the US Treasury, which is printing too much money," he said.

Analysts said that with 70 per cent of China's reserves thought to be in dollars and Chinese officials making noises about the currency's overvaluation, there was a chance that the country was considering a fundamental change in reserve allocation.

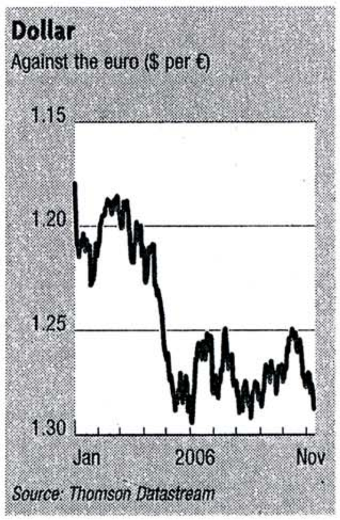
The dollar was sent tumbling on Thursday after Zhou Xiaochuan, governor of the People's Bank of China, said the country was "considering lots of instruments" to diversify its foreign exchange reserves.

Over the week, the dollar fell 1.1 per cent to $1.2860 against the euro, fell 0.7 per cent to $1.9140 against sterling and dropped 0.4 per cent to Y117.50 against the yen.

Marc Chandler, currency strategist at Brown Brothers Harriman in New York, said Mr Zhou's remarks were nothing new and that dollar bears had merely used them as an excuse to sell the greenback.

"The real source of pressure on the dollar at present is not China's $1,000bn of reserves, but the US's $80bn, which is roughly the value of the US Treasury bonds maturing and coupon payments due on November 15," said Mr Chandler.

He added that foreign investors would probably be receiving about 40 per cent of those payments.



Source: Thomson Datastream

Mr Chandler said that the continuing reduction of the US interest rate premium over the eurozone might encourage leakage of the payments away from simply being recycled into US Treasuries and put more pressure on the dollar.

The euro had a strong week, rising to a record high against the yen and climbing to a one-month peak against sterling amid increasingly hawkish rhetoric from the European Central Bank.

Writing in the Financial Times, Jean-Claude Trichet, president of the ECB, advocated the use of money supply data as well as price data in interest rate decision making.

Analysts said that stressing its role at a time when eurozone money supply was growing at a rate close to its fastest since 1999 pointed to a willingness on Mr Trichet's part to tighten eurozone monetary policy further after the 25 basis point rise widely expected next month.

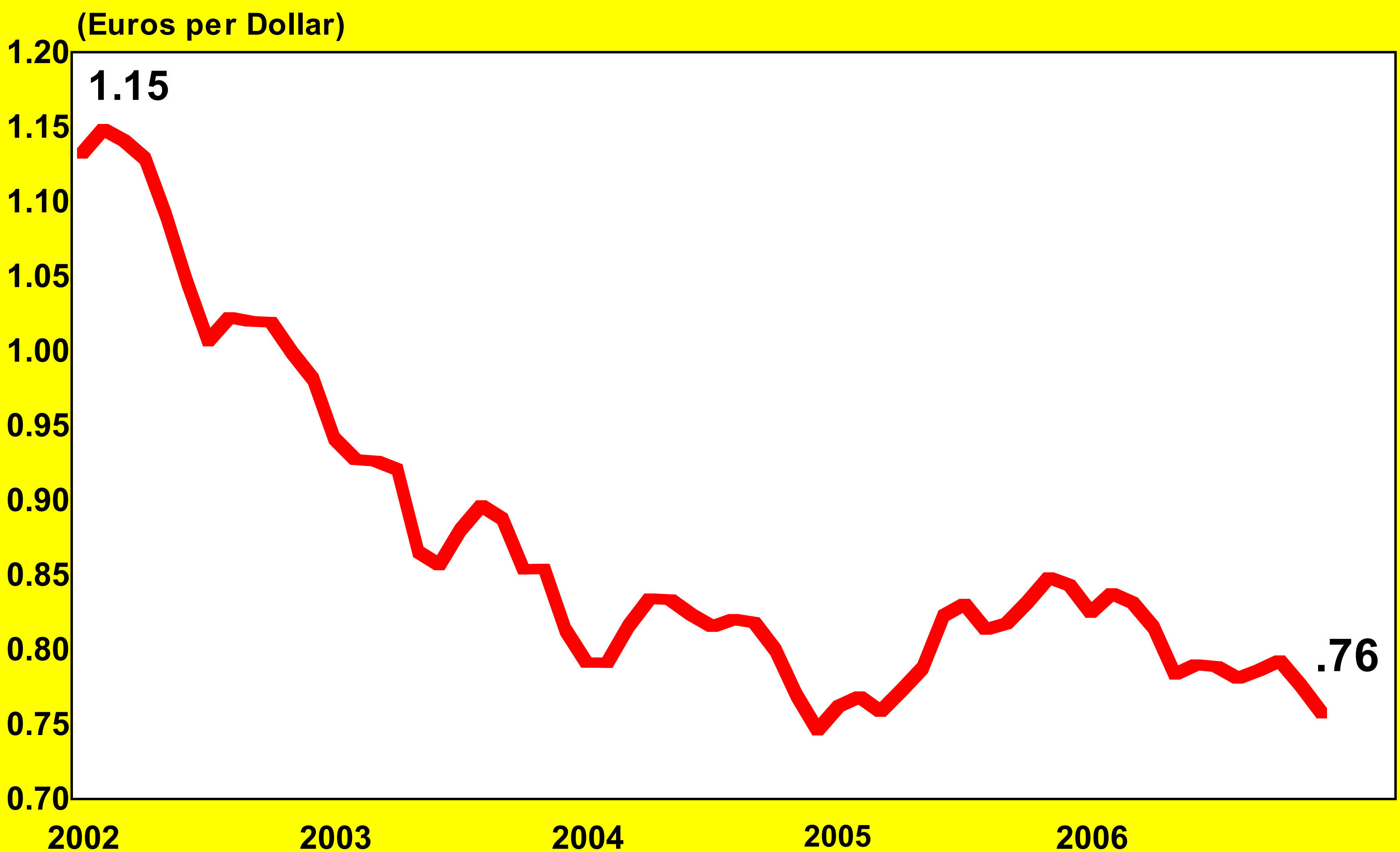
The euro rose 0.6 per cent to £0.6720 against sterling and 0.7 per cent to Y151.08 against the yen.

The euro's rise against sterling was exacerbated as the Bank of England struck a neutral tone on the future path of UK interest rates after raising them to 5 per cent after its monthly policy meeting.

The euro's climb against the yen set off alarm bells in Tokyo. Toshihiko Fukui, governor of the Bank of Japan, voiced concern about the effects on the yen of a sharp unwinding of carry trades, where investors borrow in currencies with low interest rates to invest in high-yielding assets.

Mansoor Mohi-uddin, chief foreign exchange strategist at UBS, said Mr Fukui's remarks were the most explicit to date on the subject and showed that Japanese policymakers had become worried about the size of short yen positions in the market.

# Dollar Down More Than 30 Percent Against the Euro




Source: Federal Reserve Board

1/12/07