Economic Policy Institute

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# TROUBLE AHEAD AS FOREIGN BORROWING SURGES
## External debt headed for 64% of GDP in ten years, report says

With imports outstripping exports by an ever-widening margin, due in large part to a dollar that remains overvalued even after recent sharp declines against a set of major trading partners, the United States is left with a record-high and growing current account deficit that must be financed by increased foreign borrowing. The U.S. foreign debt, about 4% of GDP in 1992, surged to 24% of GDP at the close of 2003. By mid-2004, the U.S. was adding to its debt at a record annual rate of $665 billion, or $5,500 for every household in the country.

In an Economic Policy Institute report released today, two days before the U.S. Commerce Department's release of third-quarter current account figures, economist Josh Bivens shows where we are and where we're headed. **"Debt and the Dollar"** shows that unless the U.S. can stop burrowing deeper into its borrowing hole, U.S. foreign debt is on a trajectory to reach 64% of GDP by 2014.

"Doing nothing is not an option – the consequences will be much too costly," Bivens said. "As a nation we are financing today's consumption by mortgaging tomorrow's living standards."

"Eventually the piper will have to be paid," he added, "and unless we make a dramatic change in course, the bill will be a whopper."

Bivens analyzes the trends over several decades and constructs projections to 2014 based on the Congressional Budget Office's GDP forecast and on assumptions that the current account remains constant. Among the key trends, projections, and analyses highlighted in the report are these:

- By 2014, the cost of servicing just the additional debt incurred during the previous decade will reach 1.7% of GDP annually, or, about $250 billion (measured in 2004 dollars).
- Recent declines in the value of the dollar, while helpful, are not enough to restore needed balance.
- To correct the current imbalance, the U.S. must persuade nations, like China, that are keeping the dollar artificially high to preserve their edge in trade, to allow their currencies to rise against the dollar.

Click here to download "Debt and the Dollar"

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