



**THE AFL-CIO and THE U.S. BUSINESS AND INDUSTRY COUNCIL**  
**present**  
**Trade Summit 2006: Crisis and Opportunity**  
**Wednesday, July 12, 2006**

**Business Leaders and Major Economists Speak Out on Trade Crisis**

**Bill Gates**, *Chairman, Microsoft Corp; philanthropist; world's richest man*

"I'm short the dollar... The ol' dollar, it's gonna go down... It is a bit scary... We're in uncharted territory when the world's reserve currency has so much outstanding debt."<sup>1</sup>

**Warren Buffett**, *Chairman, Berkshire Hathaway; philanthropist; world's second richest man*

"As [foreign] ownership [of our assets] grows, so will the annual net investment income flowing out of this country. That will leave us paying ever-increasing dividends and interest to the world rather than being a net receiver of them, as in the past. We have entered the world of negative compounding – goodbye pleasure, hello pain."<sup>2</sup>

**Alan Greenspan**, *former Chairman, U.S. Federal Reserve Board*

"It seems persuasive that, given the size of the U.S. current account deficit, a diminished appetite for adding to dollar balances must occur at some point."<sup>3</sup>

**Paul A. Volcker**, *former Chairman, U.S. Federal Reserve Board*

"I don't know of any country that has managed to consume and invest 6 percent more than it produces for long. The United States is absorbing about 80 percent of the net flow of international capital. And at some point, both central banks and private institutions will have their fill of dollars."<sup>4</sup>

**Lawrence H. Summers**, *former U.S. Secretary of the Treasury*

"I have previously used the term 'balance of financial terror' to refer to a situation where we rely on the costs to others of not financing our current account deficit as assurance that financing will continue."<sup>5</sup>

**George Soros**, *Chairman, Soros Fund Management; philanthropist*

“Because of, maybe, excessive borrowing, which allows a country to maintain a trade deficit over an extended period of time, or to engage in a currency or real estate boom financed by dollars, you have over-heating, trade imbalance, and then the capital flows reverse. People want to take their money out, instead of putting it in, and you have a crisis.”<sup>6</sup>

**Joseph E. Stiglitz**, *2001 Nobel Laureate; former Chairman, President’s Council of Economic Advisers; former Chief Economist and Senior Vice President, The World Bank*

“There is obviously something peculiar about a global financial system in which the richest country in the world, the United States, borrows more than \$2 billion a day from poorer countries... If other countries eventually lose confidence in an increasingly indebted U.S., the potential disturbances in the world’s financial markets would be massive.”<sup>7</sup>

**Franco Modigliani and Robert Solow**, *1985 and 1987 Nobel Laureates, respectively*

“The large and growing deficit in our international trade balance “may well be the greatest potential danger facing the economy in the years to come.”<sup>8</sup>

**Martin Feldstein**, *former Chairman, President's Council of Economic Advisors*

“The present level of the current account deficit is enormous, it is unprecedented and I believe it is unsustainable.”<sup>9</sup>

**Glenn Hubbard**, *former Chairman, President’s Council of Economic Advisors.*

“[T]he size of the current account deficit is very troublesome...the current account deficit as a share of GDP cannot continue to expand in the way that it has.”<sup>10</sup>

**Roger W. Ferguson**, *former Vice Chairman, U.S. Federal Reserve Board*

“[N]early all agree that the current trajectory of the U.S. current account deficit is unsustainable.”<sup>11</sup>

**Timothy P. Geithner**, *President, Federal Reserve Bank of New York*

“[I]t is not difficult to see that if the [U.S. current account] deficit continues to run at a level of close to 7 percent of GDP...the net international investment position of the United States will deteriorate sharply, U.S. net obligations to the rest of the world will rise to a very substantial share of GDP, and growing shares of U.S. income will have to go to service those obligations. This fact alone suggests that something will have to give eventually.”<sup>12</sup>

**Federal Reserve Board staff**

“The staff noted that outsized external deficits could not be sustained indefinitely... the possibility that the adjustment could involve more wrenching changes could not be ruled out.”<sup>13</sup>

**Rodrigo de Rato**, *Managing Director, International Monetary Fund*

“The continued orderly financing of the U.S. current account deficit depends critically on the attitude of foreign investors, for they hold the bulk of US assets. A convincing and sustained set of policies must be in place to narrow the imbalances....”<sup>14</sup>

**Paul Craig Roberts**, *former Assistant Treasury Secretary for Economic Policy; former associate editor, editorial page, The Wall Street Journal.*

“The massive American trade and budget deficits are covered by the willingness of Asian countries, principally Japan and China, to hold U.S. government bonds and to continue to acquire ownership of America’s real assets in exchange for their penetration of U.S. markets. This game will not go on forever. When it stops, what is left to drive the U.S. economy?”<sup>15</sup>

**Gene Sperling**, *former National Economic Advisor to the President*

“If you look at any industrialized country, there’s never been a country that has had this high of a current account deficit who didn’t have what economists call a hard landing.”<sup>16</sup>

**William Dudley**, *Managing Director and Chief U.S. Economist, The Goldman Sachs Group*

“[T]his smooth matching of the savings rate plunging and the current account deficit widening, happening in a nice smooth way that doesn’t cause any problems for the economy, I think that is a very, very big risk going forward.”<sup>17</sup>

**Bill Gross**, *Manager, PIMCO Total Return Fund*

“[O]ur trade situation has become terribly unbalanced and will eventually come back at some point to hurt us. Anyone who has any semblance of common sense knows there has to be a balance.”<sup>18</sup>

**Stephen Roach**, *Chief Economist, Morgan Stanley*

“[A] disruptive strain of global rebalancing...has long been my biggest fear. The dramatic widening of the US current account deficit to a \$900 billion annual rate in the fourth quarter of 2005 -- fully 7% of US GDP -- was a warning shot to take this possibility seriously.”<sup>19</sup>

**Paul Krugman**, *Professor of Economics, Princeton University; columnist, The New York Times*

“Right now, forensic analysis seems to say that the U.S. trade position is worse, no better, than it looks. And the answer to the question, ‘Why haven’t we paid a price for our trade deficit?’ is, just you wait.”<sup>20</sup>

**Kenneth J. Rogoff and Maurice Obstfeld**, *former Chief Economist and Director of Research, the International Monetary Fund and Professor of Economics, the University of California, Berkeley, respectively.*

“The speed at which the U.S. current account ultimately returns toward balance, the triggers that drive that adjustment, and the way in which the burden of adjustment is allocated across Europe and Asia all have enormous implications for global exchange rates. Each scenario for returning to balance poses, in turn, its own risks to financial markets and to general economic stability...the risks of collateral damage -- beyond the risks to exchange rate stability--have grown substantially... Given the broader risks, it seems prudent to try to find policies that will gradually reduce global imbalances now rather than later.”<sup>21</sup>

**C. Fred Bergsten**, *Director, Institute for International Economics*

“[T]he United States must now attract almost \$7 billion of capital from the rest of the world every working day to finance its current account deficit and its own foreign investment outflows. Even a modest reduction of this inflow...would initiate a precipitous decline in the dollar....this

could in turn sharply push up U.S. inflation and interest rates, severely affecting the housing and equity markets and potentially triggering a recession.”<sup>22</sup>

**William R. Cline**, *economist, Institute for International Economics*

“Although many (including in the official sector) have downplayed the likelihood of a ...’hard landing,’ the risk of such an outcome [from U.S. current account deficits]...cannot be discounted and should be taken into account in prudent policy formulation....The United States might have a legitimate basis for imposing countervailing duties on imports from countries judged to be subsidizing exports by keeping their currencies artificially undervalued.”<sup>23</sup>

**Nouriel Roubini and Brad Setser**, *Professor of Economics, New York University and research associate, Oxford University, respectively*

“[M]odern-day Panglosses tell us not to worry: the world’s greatest power, they say, can also be the world’s greatest debtor... But in fact, the economic and financial risks that arise from the U.S. current account deficit (and the resulting dependence on foreign financing) have not been exaggerated. If anything, they have received too little attention -- and are set to grow in the coming years....”<sup>24</sup>

## ENDNOTES

<sup>1</sup> Quoted in James Hertling and Simon Clark, “Bill Gates, World's Richest Man, Bets Against Dollar,” Bloomberg News, Jan. 29, 2005.

<sup>2</sup> Warren Buffett, “America’s Growing Trade Deficit Is Selling the Nation Out...” *Fortune*, Oct. 26, 2003.

<sup>3</sup> “Fed chairman worries aloud about impact of trade deficits,” Associated Press, Nov. 19, 2004.

<sup>4</sup> Paul A. Volcker, “An Economy On Thin Ice,” *The Washington Post*, April 10, 2005.

<sup>5</sup> “The U.S. Current Account Deficit and the Global Economy,” 2004 Per Jacobsson Lecture, Oct. 3, 2004, p 8.

<sup>6</sup> Interview, PBS *Frontline*, 1999.

<sup>7</sup> Joseph E. Stiglitz, “The IMF’s America Problem,” column, 2006.

<sup>8</sup> Franco Modigliani and Robert M. Solow, “America Is Borrowing Trouble,” *New York Times*, April 9, 2001.

<sup>9</sup> “Dollar Slump Looms,” *Daily Mail* (London), June 21, 2006.

<sup>10</sup> “The Iceberg Cometh,” *Harper’s Magazine*, June 2005.

<sup>11</sup> “U.S. Current Account Deficit: Causes and Consequences,” Remarks to the Economics Club of the University of North Carolina at Chapel Hill, Chapel Hill, N.C., April 20, 2005.

<sup>12</sup> “Policy Implications of Global Imbalances,” Remarks at the Global Financial Imbalances Conference at Chatham House, London, Jan. 23, 2006.

<sup>13</sup> “Minutes of the Federal Reserve Open Market Committee,” June 29-30, 2004.

<sup>14</sup> “Correcting Global Imbalances – Avoiding the Blame Game,” Remarks to the Foreign Policy Association Financial Services Dinner, New York City, Feb. 23, 2005

<sup>15</sup> Paul Craig Roberts, “Watching the economy crumble,” syndicated column, Aug. 9, 2005.

<sup>16</sup> Interview, *The Charlie Rose Show*, March 8, 2006.

<sup>17</sup> Transcript from an International Monetary Fund panel, Sept. 17, 1999.

<sup>18</sup> “Rx for the Economy: A Weaker Dollar,” *Business Week*, June 14, 2006.

<sup>19</sup> “Why Imbalances Matter,” Investors Insight Publishing, May 22, 2006.

<sup>20</sup> Paul Krugman, “CSI: Trade Deficit,” *New York Times*, April 24, 2006.

<sup>21</sup> Maurice Obstfeld and Kenneth J. Rogoff, “Global current account imbalances and exchange rate adjustments,” Brookings Papers on Economic Activity, March 22, 2005.

<sup>22</sup> C. Fred Bergsten, “The U.S. Trade Deficit and China: Testimony before the Hearing on US-China Economic Relations Revisited,” Committee on Finance, U.S. Senate, March 29, 2006.

<sup>23</sup> William R. Cline, *The United States as a Debtor Nation* (Institute for International Economics: Washington, D.C.), Sept., 2005, pp. 2,8.

<sup>24</sup> Brad Setser and Nouriel Roubini, “Our Money, Our Debt, Our Problem,” *Foreign Affairs*, July / August 2005.