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THE DEBTOR'S EMPIRE

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Isn't it just a little twisted that the United States, the world's richest country, is on track to borrow more than \$ 500 billion from abroad this year? Isn't it even stranger that this borrowing includes sizable chunks from countries such as India and China, many of whose 2.3 billion people live on less than a dollar or two a day?

Sure, I know there are reasons why money flows the way it does. For one thing, the United States has a long history of treating foreign investors pretty decently, going back to the 1780s, when the first Treasury secretary, Alexander Hamilton, decided to honor pre-Revolutionary War debt. And the United States is growing decently (roughly 4 percent next year), albeit less than India (6 percent) or China (8 percent).

But whatever the reasons, and they are admittedly complex, isn't it still a bit nutty that the world's richest country has become by far the world's biggest borrower, with a net debt to the rest of the world (assets minus liabilities) of more than \$ 2 trillion? The Romans would be jealous: They went to a lot of trouble to extract taxes from their empire; the world just gives money to the United States.

Even with the morality of it all set aside, pure self-interest ought to dictate that the United States be a net lender to the rest of the world rather than a borrower. We are an aging population that ought to be saving for retirement in real assets abroad. Unfortunately, you'd never know it from the consumption frenzy of recent years. We Americans may have coined the phrase "a penny saved is a penny earned," but these days it's "I'll gladly pay you Tuesday for a genetically modified hamburger today."

State governments are bleeding red. California alone is still running a deficit that by many measures is bigger than those of many countries. As for the federal government -- well, Washington is on track to achieve deficit records that could take a generation to break. And the American consumer? We save less of our income than any other rich economy. China's citizens save more than 40 percent of their income; the United States would be lucky if its citizens ever decided to save at half that rate. No matter how rich you are, if you continually spend more than you earn, you are eventually going to run into problems.

Okay, I admit that just now our spending culture suits the exigencies of the moment and is helping support a long-awaited economic recovery. Indeed, the rest of the world is cheering us on as we spend each fistful of dollars. But what happens in the morning if a natural order returns and the United States starts reversing its spiral into international indebtedness? Talk to American officials about it and they'll say not to worry, this

country can always handle a little more international debt. Sure, the same way an alcoholic can always handle another drink.

The numbers tell a different story. They strongly suggest that someday, all this borrowing has to dramatically slow down if not unwind. Even a slowdown in the rate of borrowing could be enough to push the dollar off a cliff, and all of sudden, those happy voices in the rest of world are not going to be cheering us on anymore. Europe is already wheezing as it tries to keep up with the recovery going on elsewhere. A sharp further rise in the euro-dollar exchange rate -- making European exports much more expensive -- could halt European growth in its tracks. And Japan's situation is even more precarious. The United States is not an island; an economic collapse in the rest of the world would threaten the sustainability of our recovery as well.

So what to do? Do we just hold our collective breath and pray that the biggest borrowing binge of all time unwinds smoothly, no sweat? Or should we be a little worried that when it all ends, we will be yearning for the halcyon days of the "jobless" recovery? Well, it would help if Europe and Japan grew a bit faster. But growth abroad can't be the whole story; China is already growing much faster than us, but it is running a surplus, and Japan has remained a saver over the past several decades, through boom and bust. Most of all, Americans need to save more, starting with the debt-happy government sector.

Is it not obvious that something has to give? There are no certainties in global economics, but when a country's overall borrowing from abroad (public and private) starts to mirror its government's borrowing, as is now increasingly the case for the United States, it should be read as a flashing red light. And when the U.S. borrowing binge ends, it could be a global economic mess. Fortunately, there is good news too. If the United States starts being a lender again then, just maybe, after any mess gets cleaned up, the world will make a little bit more sense.