

National Debt - stats

National Debt Statistics 1

	\$	% of GDP	% of Total Nat Debt
GDP 2012-Q2 <small>Bureau of Economic Analysis Table 1.1.5</small>	15,606,100,000,000		
Total Public Debt Outstanding <small>TreasuryDirect.gov (9/20/2012)</small>	16,014,424,023,772	103%	100%
Intragovernmental Holdings incl 2.6 trillion owed to Social Security trust fund <small>TreasuryDirect.gov (9/20/2012)</small>	4,760,879,912,509	31%	30%
Debt "Held by the Public" <small>TreasuryDirect.gov (9/20/2012)</small>	11,253,544,111,262	72%	70%
Held by Federal Reserve Banks <small>Office of Debt Mgmt (Sep 2012) - Data as of June 2012</small>	1,754,570,000,000	11%	11%
Held by Fed Gov & Fed Res	6,515,449,912,509	42%	41%
Net of US Gov & Fed holdings	9,498,974,111,262	61%	59%

National Debt - stats

National Debt Statistics 2

	\$	% of GDP	% of Total Nat Debt
Held by foreigners Office of Debt Mgmt (Sep 2012) - Data as of Mar 2012	5,135,000,000,000	33%	32%
Net of US Gov, Fed Res, foreign	4,363,974,111,262	28%	27%
banks, insurance, mutual funds Office of Debt Mgmt (Sep 2012) - Data as of Mar 2012	1,415,300,000,000	9%	9%
pension funds Office of Debt Mgmt (Sep 2012) - Data as of Mar 2012	784,500,000,000	5%	5%
state and local governments Office of Debt Mgmt (Sep 2012) - Data as of Mar 2012	436,000,000,000	3%	3%
financial institutions & other gov	2,635,800,000,000	17%	16%
general public (incl sav bonds) Office of Debt Mgmt (Sep 2012) - Data as of Mar 2012	1,728,174,111,262	11%	11%

National Debt – stats

Simple Projection National Debt Growth

assumed GDP
growth rate: 2.5%

1,000,000,000,000 :projected annual deficit
@2.5% GDP growth:

year GDP growth		projected national debt	% of GDP
2013	15,996,252,500,000	17,014,424,023,772	106%
2014	16,396,158,812,500	18,014,424,023,772	110%
2015	16,806,062,782,813	19,014,424,023,772	113%
2016	17,226,214,352,383	20,014,424,023,772	116%

Current and Potential Future Interest Payments

Interest payment in 2011 on \$15 trillion was **\$453 billion**
the average interest rate on government debt was **2.9%**

In 2001 the average interest rate on government debt was **6.5%**
at this rate interest payments in 2011 would be **\$1,015 billion**
For the anticipated 20 trillion debt in 2016 it would be **\$1.35 trillion**

National Debt – defined

Definitional Issues

- ▶ **It is the obligations of the U.S Treasury only**
- ▶ **Does not include:**
 - Federal unfunded liabilities for
Social Security, Medicare, Medicaid, & Veterans' benefits*
 - *Federal employee unfunded pension & retiree health care liabilities*
 - *Federal Reserve Bank liabilities*
 - *State and local government debt,
and retiree pension and health care liabilities*
 - *Private corporate and individual debt*
- ▶ **Focusing on absolute amount of debt can be misleading**
 - *Absolute size v. size relative to GDP*
 - *But which part of the national debt really matters?
the total debt, or just the part "held by the public"*

National Debt – defined

Will the Real Debt Please Stand Up

- ▶ **Depending who you ask, you will get different numbers (as % of GDP)**
 - 100% *total national debt*
 - 70% *portion “held by the public” – net of intra-governmental holding*
 - 60% *portion “held by the public”, also net of Federal Reserve holdings*
- ▶ **Should we exclude what is owed to other parts of the government?**
 - *Think of borrowing from the money you set aside to pay your mortgage*
 - *In fact, the social insurance funds now require repayments,
and thus a surplus in the rest of the government’s budget*
- ▶ **How about the money owed to the Federal Reserve Banks?**
 - *What happens when the Fed needs to sell bonds
to conduct contractionary monetary policy?*

Debunking Misconceptions and Myths 1

- ▶ **Of course, the Federal Reserve System could fund the entire debt**

Just print money to buy all government bonds, and problem solved?

- *But this would produce inflation, which has the same effect as a tax, by reducing purchasing power.*
- *The scale needed to retire a significant part of the national debt would lead to hyperinflation, destroy the money and the economy, and produce a depression.*

Debunking Misconceptions and Myths 2

- ▶ **Internally held national debt need not be as bad as some think it is**
 - *We owe it to ourselves.*
 - *Japan's national debt is 200% of GDP, but almost all of it internally held*
 - *By contrast Greece's debt is largely external*
 - *Ours is 33% external, which is approaching dangerous levels*

- ▶ **Let's don't count too much on US privileged position in global finance**
 - *The US dollar is the reserve currency and the US is the biggest economy*
 - *And with Europe's current problems,*
we benefit from being the "prettiest horse in the glue factory."
 - *We also benefit from the Chinese desire to save*
and indirectly finance their economic transformation.
 - *But, these fortunate circumstances will not last*
and when they change we will face a potential crisis

Debunking Misconceptions and Myths 3

- ▶ **National debt is not necessarily an intergenerational transfer**
 - as long as it is relatively small
 - *We borrow from Peter to pay Paul today*
 - *an intra-generational transfer*
 - *And then tax Paul's children to pay Peter's children*
 - *also intra-generational*
 - *But it does have distributional implications*

- ▶ **Debt service payments are a transfer from poor to rich**
 - thus promote income inequality*
 - *Borrowing from richer Peter to give to poorer Paul today may reduce inequality,*
 - *But when we tax Paul's children to pay back Peter's children, we will likely be fostering greater inequality*

National Debt – problems

When is the National Debt a Real Problem? When it is too BIG.

1. Debt Service and National Budget

- If **debt service** is large enough it can lead to **drastic budget cuts**
- This does imply an **intergenerational transfer** of economic burden as future generations will be denied government services

2. Crowding-Out and Economic Growth

- Large deficits and national debt increase interest rates
- Higher interest rates decrease investment and **economic growth**
- And this too engenders an **intergenerational transfer**

3. Credit Worthiness and Sovereign Debt Crisis

- Too large a debt risks lenders/investors questioning **credit-worthiness**
- When this might happen is unpredictable
though debt that is 100% of GDP is considered dangerous
- And when it does happen, the effects tend to be devastating
The interest rate on government debt goes through the roof,
making the budget unsustainable, necessitating drastic cuts in spending.

National Debt – problems

Problems When the National Debt is too BIG (cont.)

4. Drag on the Economy

a) Expectations of future taxes & inflation

- *are likely to lower **consumer and investor confidence***
- *as well as increase interest rates, which will lower investment spending*

b) Higher interest rates will reverberate in the credit markets

- *causing problems for states, municipalities, & gov. agencies*

5. Renders Keynesian Policy Ineffective

a) Fiscal policy

- *At some point, rising debt service payments, and falling creditor confidence will overwhelm the ability of the government to use discretionary spending to spur the economy*
- *Fiscal policy will become unavailable to stimulate the economy*

b) Monetary policy may also not be available in a Sovereign Debt Crisis

- *Bank holdings of sovereign debt will likely engender a banking crisis too.*
- *Banks trying to shore up their capital position, will be loath to lend to firms and consumers.*
- *Without bank lending, expansionary monetary policy will be ineffective*