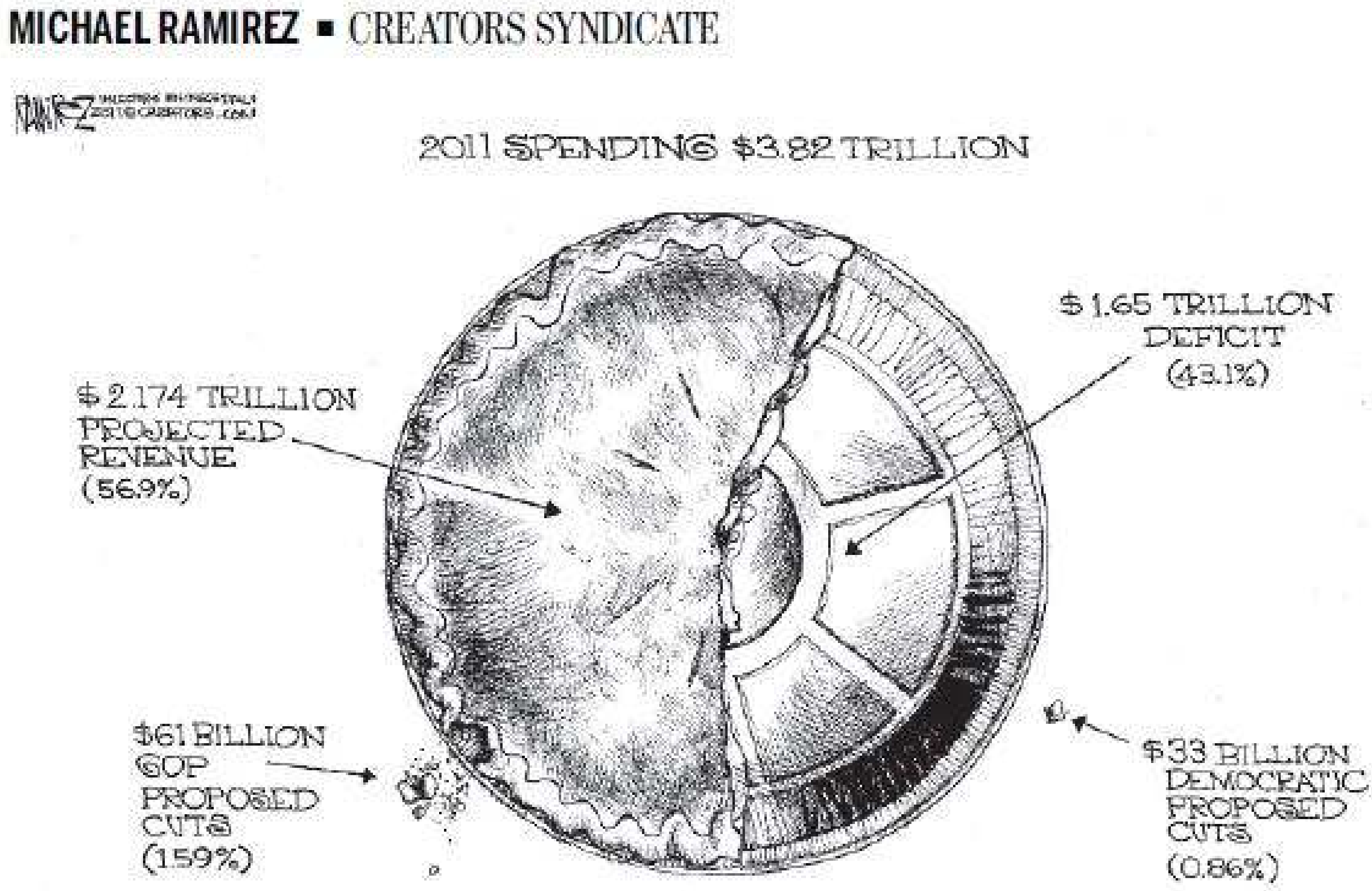
The US Debt: Where Are We? What Is Our Future?

Some debt quotes, of which there are many …

Never run into debt, not if you can find anything else to run into.
-- Josh Billings
1815-1885, American Humorist, Lecturer

Always live within your income, even if you have to borrow money to do so.
-- Josh Billings
1815-1885, American Humorist, Lecturer

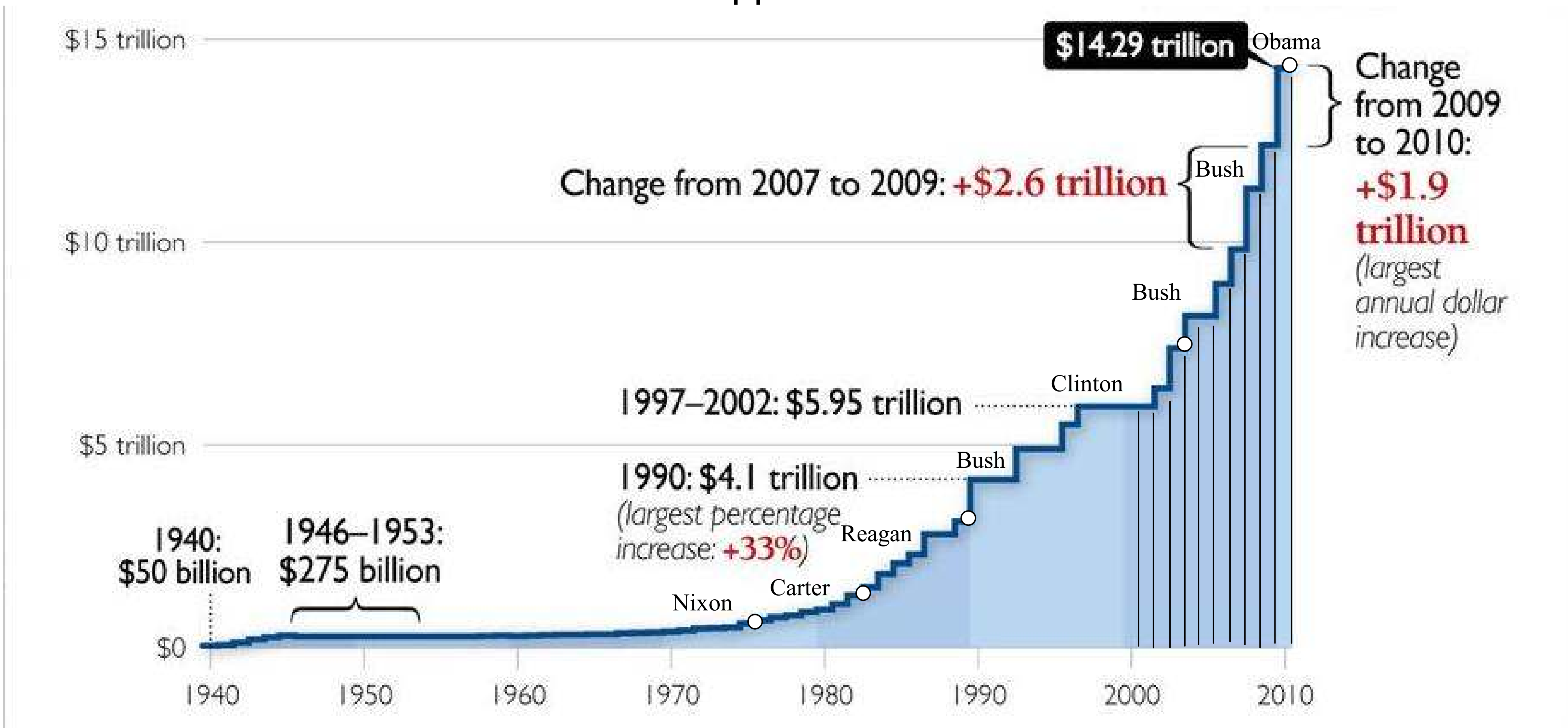
Credit buying is much like being drunk. The buzz happens immediately, and it gives you a lift. The hangover comes the day after.
-- Dr. Joyce Brothers
1927-, American Psychologist, Television and Radio Personality



Revenue is currently about 56% of spending. Can this be sustained?

THE BUDGET PIE ILLUSTRATED.

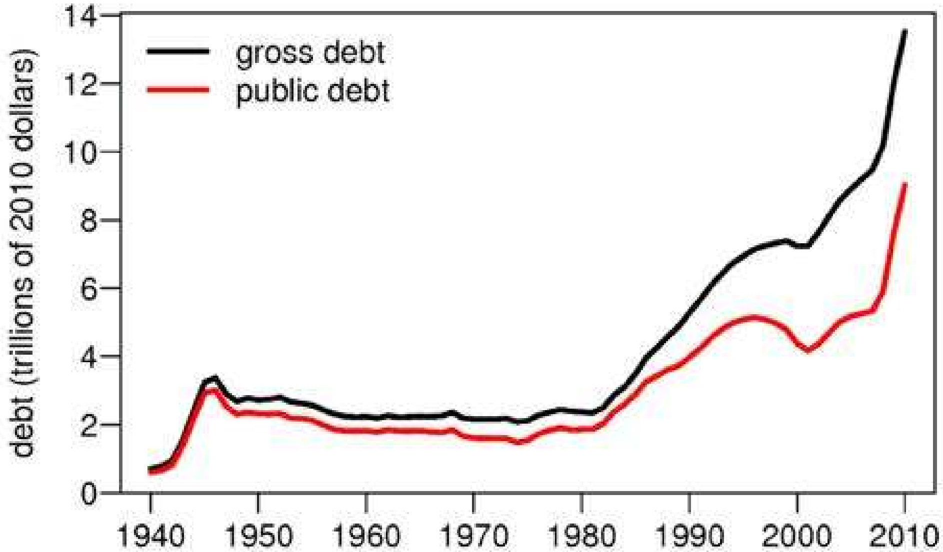
What Happened?

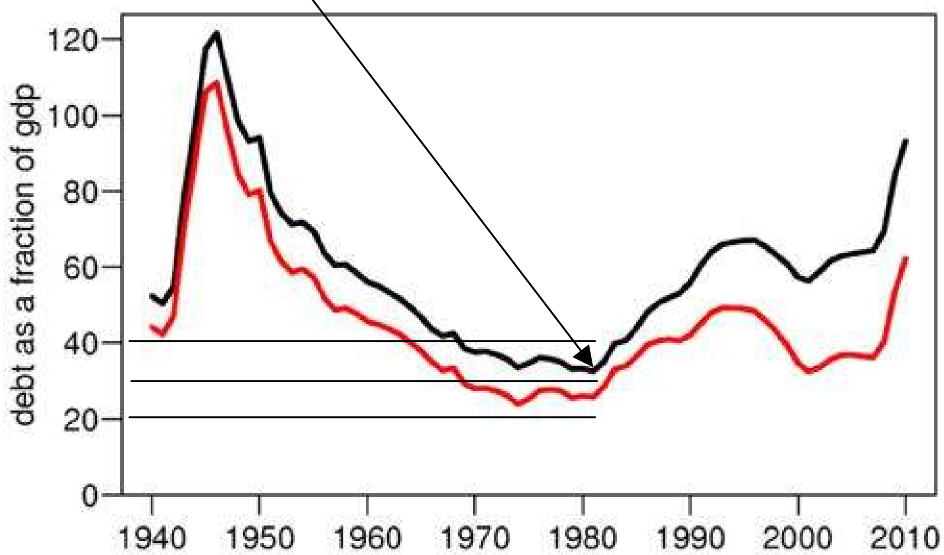


Source: Congressional Research Service and White House Office of Management and Budget (Table 7.3, Historical Tables). Chart 26 of 42

The national debt doubled from 2003 to 2010, a period of 7 years.
Doubling in 7 years is an annual compound growth rate of 70/7 = 10%/yr.
Is the 10% per year increase in debt a sustainable rate?
Possibly, but not under current conditions in the US.

Doubling of the debt about every 7 years also happened during the Reagan administration. Reagan had a much lower debt to GDP; only a little over 30%.





A debt-to-GDP ratio of 60% is quite often noted as a prudential limit for developed countries. This suggests that crossing this limit will threaten fiscal sustainability. For developing and emerging economies, 40% is the suggested debt-to-GDP ratio that should not be breached on a long-term basis.

The US will soon be at the 100% level. Letting the debt rise unchecked will lead to lower credit ratings, increased interest rates, and dwindling sources of credit.

Does Greece provide an insight into a future US situation?

Greece debt to GDP is about 115%. The US will soon be at 100%.
http://www.nytimes.com/2010/05/12/business/economy/12leonhardt.html

Greece needs to borrow money to meet its government expenses cash flow. Likewise the US is borrowing money to meet its government expense cash flow.

In this sense, neither country has a valid balanced budget because the level of borrowing is not sustainable (serviceable). In both countries money has to be borrowed to meet operating expenses and debt payment obligations.

Greece plans on borrowing over $100 billion at 3.5% interest and refinancing another $53 billion of existing debt at the lower 3.5% interest. The existing debt holders have to be willing to have reduced earnings under the new plan. We do not know if the debt holders agree to this new plan nor do we know how the rating agencies will rate the risk of Greece's new debt.

Greece's austerity program includes tax increases of up to 5% of income on households, increased social security contributions, cutting all gov temp positions, replacing only 1 in 10 retiring civil servants, cuts in social benefits, healthcare cuts, defense cuts, see http://www.politics.ie/forum/economy/163777-details-proposed-greek-austerity-program-revealed.html for more info.

The world and rating agencies are now wondering if the US can service its debt. Once the ratings for US debt drop below AAA and interest rates rise, a cascading situation develops in which the US economy could quickly collapse.

Latest News: Proposed cuts by the President: http://www.nytimes.com/2011/07/23/us/politics/23fiscal.html?_r=1&nl=todaysheadlines&emc=tha2 1 trillion in domestic and defense budgets, 650 billion more in medicare, entitlements, farm subsidies, education, social security cost of living. The President's objective is to minimize the pain of downsizing.

The current situation is that neither the President's plan nor the Republican plan go far enough. Even under the President's least pain plan we still add about one trillion dollars debt each year. This is likely to eventually lead to bankruptcy even if the debt ceiling is continuously raised.

To me it looks like we're in big financial trouble with no painless way out.

If this is the case, how will default on the US debt and not meeting its operating cash flow for its social programs affect US citizens and social services?

Discussion….

After the Discussion:

Most opinions followed along the lines of conservative and liberal arguments. There was consensus that the military spending needs to be curtailed as far as foreign wars and the closing of foreign bases.

I did not hear anyone say that we needed an across the board tax increase as well as a reduction in spending. Our leaders are simply taking rigid stands that are the same as our own beliefs, depending on which side you are on.

The increased taxes and cutting of government spending is a part of Greece's austerity program. Until everyone recognizes a need for both tax increases and significant cost reductions in government spending, the US is likely to continue adding debt at too high an annual rate – in my opinion. If we default on debt in the next few days our economy and possibly the world economy might collapse. Are we ready for the world to fall into another great depression? That's where we are headed.

Gene's opinion…