IS AMERICA HEADED TOWARD A FUTURE DEBT CRISIS?

By Vivekanand Jayakumar, Ph.D.

The recent past has witnessed extraordinary developments in the U.S. fiscal policy realm, including budget deficits and unprecedented growth in national debt. The financial crisis and the Great Recession of 2007-2009 necessitated automatic fiscal adjustments and automatic stabilizers (falling tax revenues and rising spending on programs such as unemployment benefits and food stamps) to aid in the current budget deficits in modern American history. The massive deficits experienced during the past two fiscal years, along with the projections of continuing budgetary shortfalls for the next 10 years, have created an dilemma for the U.S. and abroad.

Prior to the Great Recession of 2007-2009, U.S. fiscal authorities allowed budget deficits to persist. In fact, the U.S. experienced a federal budget deficit (the amount by which the federal government’s total revenues exceed its total expenditures in a fiscal year) in each of the last 30 years, except for the four years between 1981 and 2001. The largest annual budget deficit on record, at $1.42 trillion, occurred in FY2009 (FY refers to fiscal year). For FY2010, the federal budget deficit was $1.29 trillion.

The persistence of annual deficits has contributed to the growth in the magnitude of the federal debt. The debt held by the public (primarily treasury issued) by the U.S. Treasury and held by domestic and foreign investors — individuals, corporations, central banks or foreign governments — and the gross federal debt (debt held by the public plus debt held by government accounts, such as the borrowings by the U.S. Treasury from Social Security trust fund replenishment) has risen in recent years. The gross federal debt was $11.85 trillion according to the CBO (Congressional Budget Office) at the end of FY2010. At the end of FY2012, the gross federal debt exceeded $17.5 trillion.

Figure 1: U.S. Federal Deficit & Federal Debt as a Percent of GDP (Projections are from the Congressional Budget Office)

The sharp nominal rise in budget deficits during FY2009 and FY2010 and the consequent rise in overall debt were exceptional. In order to get a sense of the true significance of recent changes, it is useful to examine debt and debt levels as a percentage of GDP (gross domestic product). As seen in Figure 1, it is apparent that during FY2000 and FY2010

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The Tampa-Metropolitan Statistical Area (Hillsborough, Pinellas and Pasco counties) continues to adjust to increased home values and elevated rates of unemployment. However, for the first time in 41 months, the Tampa MSA has observed a year-on-year increase in payroll jobs. The most recent data shows that the area gained 1,300 jobs between November 2009 and November 2010, or 0.1 percent increase (Figure 1). In addition, the U.S. and Florida economy started to experience one-on-one increases in payroll jobs, a sign that the worst of the storm may have passed at the local, state and national levels.

The Tampa MSA has lost 18.9 percent of all jobs since March 2007 peak of 1.27 million. In some cases, however, the area has observed an increase in jobs over the last 13-month period for which data exist (Table 1). The November 2009–November 2010 change in jobs was positive in mining and logging, computer and electronic product manufacturing, retail trade, insurance, other finance, professional and business services, physicians, ambulatory care, hospitals, amusement, gambling and recreation, other services, and local and state government.

### Table 1: Nonfarm Payroll Jobs, Tampa-MSA

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<th>Sep-05</th>
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<th>Jan-07</th>
<th>May-08</th>
<th>Aug-07</th>
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<td>State Government</td>
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<td>Federal Government</td>
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The unemployment rate in the Tampa MSA was 13.8 percent in November 2010, which is higher than the national unemployment rate. 2.0 percentage points or 0.4 of a percentage point higher than the unemployment rate for the state of Florida. In the same month.

Figure 1: Nonfarm Payroll Jobs — Percent change on previous year (NSA)

Source: Bureau of Labor Statistics

By Brian T. Kench, Ph.D.

The University of Tampa, Florida is America’s number one public university in "Best Value Schools for Your Money" for the 11th straight year. The Tampa Bay economy, which is the third-largest metropolitan area in Florida, is a major gateway to the West and Latin America and is home to many of Florida’s leading employers.

Inequality In The United States

The share of income for those in the bottom 20 percent of the population declined, levels of inequality. Both the higher and lower income groups enjoyed the growth in U.S. income inequality over the last 20 years. The growth of real income for the bottom 40 percent of families grew from 6 to 46 percent by 2008. The share of income for those in the bottom 20 percent of families grew by more than 3 percent annually and increased during the latter part of World War II and the beginning of the 1970s.

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In some sectors, however, the area started to experience year-on-year increases (Figure 1). In addition, the U.S. and Florida observed a year-on-year increase in payroll to adjust to decreased home values and elevated unemployment rates. In December 2009, the unemployment rate was 9.5 percent in Hernando County, 13.3 percent in Hillsborough County, 13.3 percent in Pasco County, and 13.4 percent in Pinellas County. (Figure 2)

The S&P Case-Shiller home price index for the Tampa-MSA reveals that home prices continued a two-year drift downward. After peaking in 2005, the index has declined 43 percent to 136 in September of 2010. The S&P Case-Shiller home price index for the Tampa-MSA, which shows that home prices continued a two-year drift downward. After peaking in 2005, the index has declined 43 percent to 136 in September of 2010. (Figure 2) In addition, the U.S. and Florida observed a year-on-year increase in payroll to adjust to decreased home values and elevated unemployment rates. In December 2009, the unemployment rate was 9.5 percent in Hernando County, 13.3 percent in Hillsborough County, 13.3 percent in Pasco County, and 13.4 percent in Pinellas County. (Figure 2)

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The Tampa-MSA has lost 10.8 percent of jobs in the period 11/06-11/10. This is across all industries, except mining and logging, which has gained 16.7 percent. In contrast, transportation and utilities have lost 2.7 percent and other durable goods (less consumer and electrical products manufacturing) have lost 6.8 percent.

In the same period, employment in construction has declined 11.4 percent and manufacturing has declined 2.5 percent. Construction is still performing far worse than other industries. The unemployment rate is 11.4 percent in the Tampa-MSA, compared to 8.4 percent of the state of Florida and 9.8 percent of the nation. In the same month, unemployment was 7.7 percentage points higher in the Tampa-MSA than the national average. The Tampa-MSA unemployment rate is 2.8 percentage points higher than the national unemployment rate by the end of 2010.

The unemployment rate in the Tampa-MSA at the beginning of 2009 was 4.4 percent, compared to the national average of 5.0 percent. By the end of 2009, the unemployment rate in the Tampa-MSA has increased to 7.9 percent. In May 2010, the unemployment rate in the Tampa-MSA dropped to 5.9 percent, which is still 2.4 percentage points higher than the national average. The unemployment rate in the Tampa-MSA is expected to continue to improve in the near future, but it is still considerably higher than the national average.

In the Tampa-MSA, the average wage in manufacturing has declined 16.6 percent from November 2008 to November 2009. The average wage in mining and logging has increased 16.7 percent from November 2008 to November 2009. The average wage in construction has declined 20 percent from November 2008 to November 2009.

The average wage in the state of Florida has declined 13.3 percent from November 2008 to November 2009. The average wage in the nation has declined 11.4 percent from November 2008 to November 2009.

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It may be reasonable to expect defense or billionaire hedge fund managers facing prevalent under the current system, such lead to the avoidance of unfair scenarios dividends as regular income. This will removes the 'double-taxation' conundrum and noting that elimination of corporate taxes attractive destination for global businesses.

Elimination of or a sharp reduction in continued from page 3

Is America Headed Toward A Future

attainment (as measured by the average near $1.2 trillion (accounting for about 5.1 spending. Already in 2010, the entitlement sheets. This may impair not only government deleveraging and re-structure their balance financial institutions undertake long overdue employment prospects, as consumers and characterized by sub-par growth and poor there is, however, a risk that the U.S. may

way to promote economic growth without actually leak out of the country. Economists Charles Goulden and Lawrence Katz of Harvard University report that after 1980 the growth of educational attainment (as measured by the average years of education) had significantly. The rate of growth of educational attainment was before 2 percent per year. At the end of the day, two important phenomena have each contributed to the growth of income inequality since 1980: The first is a sharpened pace of technologically-defined skills driven by information technology, which in turn is the slower growth of educational attainment. Other factors, such as globalization, outsourcing or government policies, have each played a role, but the interaction of new technologies and education is the driving force. In fact, the impact of technology and education on the growth income inequality is significant in emerging economies as well. Emerging economies with a higher quality of education and with workers better able to adapt to new technologies have experienced a slower growth of income inequality.

The future of U.S. income inequality continued from page 3

The U.S., the quality and quantity of higher education is the driving force. In fact, new technologies have experienced a slower growth of income inequality since 1980. The achievement of the benefits of globalization and the growth of income inequality not only in the U.S. but also for the world economy.

For more significant, however, is the long-term challenge posed by entitlement spending. According to the nonpartisan government operating and analysis.

fluctuate over the years. The U.S. faces a daunting future if current levels of benefits are maintained. As August 2013 CBO report estimated that in 2020, Social Security payments would cost $2.2 trillion (assuming the about 1 percent of GDP, and Medicare payments would exceed $3.6 trillion (assuring the about 4 percent of GDP).

Another challenge growing in recent years is the potential of government's financial crisis. The global financial crisis resulting from the recent financial crisis created a need for stimulus for significant economic issues of U.S. Treasury securities in 2008 and 2010. However, since the global financial recovery gains a more solid footing, the risk of future government's financial crisis is diminishing. The U.S. faces a daunting future if current levels of benefits are maintained.

It may be reasonable to expect increased spending and other distortions spending to decline or at least not increase significantly over the coming decades as overall inflation and relative supply of skilled workers continues to grow. It may be reasonable to expect increased spending and other distortions spending to decline or at least not increase significantly over the coming decades as overall inflation and relative supply of skilled workers continues to grow.
Is America Headed Toward A Future Debt Crisis?

by foreigners (including foreign central banks such as the People’s Bank of China). Hence, a sizable portion of the interest payments on this large and growing government debt will actually leak out of the country. If the U.S. economy através good nominal GDP growth rates or if the deficit to GDP ratio falls, the debt to GDP ratio will stabilize or decline. Thus, to avoid a future crisis, the U.S. needs to find ways to reduce the budgetary deficits. This may be accomplished by cutting entitlement spending and reducing the income and corporate tax rates. Additionally, the U.S. needs to undertake significant structural reforms that can create sustainable growth. This could include a shift away from excessive consumption and savings in the country in the face of an economic downturn in the country. In this context, a slowdown in the recovery would be preferable. It is important to note that nominal GDP can increase because of a rise in actual production or because of higher inflation rates. This may result in tempe multa inflation away some of its debt — higher inflation implies that the federal government is paying back debt in dollars that are worth less. However, there is an enormous risk underlying this strategy. The international confidence in the U.S. dollar, which gave America an enormous advantage, will be severely impacted if the country tries to depreciate the dollar through higher domestic inflation aimed at reducing the debt burden. This may, in fact, lead to higher borrowing costs in the future.

Historically, countries with debt to GDP ratios of more than 80 percent have found themselves in financial trouble sooner or later. While the U.S. is unique in some respects, believe that the 10-year relaxation may not lead to a severe financial shock in the future that would be costs not for just the American economy but also for the global economy.

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