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Economical Analysis of the North American Public Debt, its effects and determinants.

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Abstract

The main purpose of the research is to analyse the US Public Debt based on its characteristics, peculiarities and on the related economical policies. Throughout the project are introduced and analysed many important topics as the basic characteristics of the debt, its temporal evolution and finally the sustainability of the current panorama.

Key words:

Public Debt, United States, Economics.

Introduction

The US Debt market is the biggest and most active one in the world, and so its securities play a very important role in the global financial markets. The scope and easy access of the US Government to credit can offer a good preview over the force of the US economy and the future of the world's finances. Therefore, the project tried to cover the whole spectrum of the variables and determinants involved in the evolution of the debt, to help analyzing the viability in the long term of the debt.

Results and Discussion

The research was based on not only the reading of a bibliography suitable to the topic, but also on the making of a database about the facts and figures regarding the public debt. This database enabled the better understanding of the evolution of the debt and its composition.

One big distinction that needs to be made, for example, is between debt held by the public and intragovernmental debt. While the first represents the borrowings outside the Federal Government, like the banks and foreign governments, the second encompasses all the securities carried by entities of the American public sector. The securities are also divided according to their marketability (marketable, nonmarketable). As to the latest values observed (June 2016¹), almost three fourths of the debt is held by the public, and among this almost all of it is marketable. As to the intragovernmental debt, it is mostly composed by nonmarketable securities.

Each security type has its own method of remuneration, and therefore pleases different types of investors, making the US Treasury securities very attractive worldwide. This way there are numerous entities across the globe that demand these securities. As of Dec/2015², the three main category of owners are the private investors, the intragovernmental investors, and the then the foreign holders. Only between 2011-15, the debt carried by foreign holders grew \$1.1 trillion. Amidst this group, most debt is held by the so called foreign official investors (international governmental banks or financial institutions), especially in order to accumulate financial reserves.

It is hard to understand the behavior of the outstanding amount of debt over time due to the many variables and determinants involved. The best approach to evaluate the debt in relation to the GDP, as to take into account the effects of the inflation and economic growth.

One of the main variables involved in the analysis are the deficits or surpluses of the country, which in turn are determined by the outlays and receipts of the government. *Ceteris paribus*, higher outlays generate higher deficits, which increases the debt, and higher receipts reduces the deficit or generates a surplus, leading to lower debt. Also the GDP is an important variable, as a higher GDP allows the economy to absorb more debt, thus decreasing the debt held by the public and the debt/GDP ratio.

Over time, there were both periods of increase and decrease of the ratio, due to the behavior of this variables. For example, during the 2nd World War the debt reached its historical peak, thanks to the enormous outlays of war. Since the crisis of 2008, the ratio grew because of factors like tax cuts and the after effects of the recession, and the tendency is that it continues to grow over the next years. That is why it is important to understand the long-term viability of the debt.

According to the US Congressional Budget Office (CBO), responsible for the federal debt and budget, the debt/GDP ratio will increase due to higher outlays with the social security, and small increase in the receipts. Also the payment of net interests will rise thanks to a higher interest rate and deficits. However, the interest rate in the US has been and remains very low, and so the impact on the budget is low. The average maturity of the debt too is lowering over time, also reducing the cost of the debt.

Conclusions

Even though it is hard to draw conclusions over such a complex theme, based on the above-mentioned factors allow us to conclude that the current panorama of the debt, that will most likely continue in the next decades, is of: persistence of the deficits; growth of the outstanding debt and the debt held by the public; increase in the quantity of securities held by foreign investors; increase of the mandatory outlays (payments regarding social security) and maintenance of the current level of outlays with interest payments. Even though this whole scenario is certainly worrisome in the long run, there are no reasons to believe that either the US Government will have its future or finances harmed by the debt, or that it will allow the economy to reach such alarming state.

¹ Source: MSPD Report

² Source: US Treasury Bulletin