



Common Cents
Economic and Market Perspective
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US Debt: How Much is Too Much?

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The United States is a heavily indebted country at every level: federal, which now includes government sponsored entities (GSE) Fannie Mae & Freddie Mac, state, local, business and household. US debt is categorized as public and gross debt, the latter including amounts owed to Social Security.

US gross debt is currently \$13.7 trillion and gross domestic product (GDP) is \$14.4 trillion. Gross debt is 95 percent of GDP. World Factbook ranks US gross debt/GDP 22nd worst out of 202 countries. Many countries, particularly developing countries, do not have multi-level debt like the US which has GSE, state and local debt. Research Affiliates' November 2009 Newsletter indicates that the US debt/GDP ratio is 141 percent when state, local and GSE debt is included. That ranks the US fourth worst in World Factbook behind only Zimbabwe, Japan and Lebanon. When business and household debt are included, aggregate debt is an unprecedented 557 percent of GDP. To this, add demographically flawed Social Security and Medicare entitlements plus a recent trend in national output away from the private sector toward the government sector, and the only rational conclusion is a slow to no-growth US economy, at best.

A Wall Street Journal editorial by Michael J. Boskin sites a study done by Ken Rogoff and Carmen Reinhart. They studied high levels of national debt on economic growth in the US and around the world in the last two centuries. The study concluded that debt levels in excess of 90 percent of GDP resulted in significant slowing of economic growth by at least one percentage point per year. The likely causes of economic slowdown were "expectation of much higher taxes, uncertainty over resolution of the unsustainable deficits, and higher interest rates curtailing capital investment". The current budget estimates long-term GDP growth potential at 2.5 percent. When adjusted for population increase that implies per capita growth of 1.7 percent. Boskin states that, "a decline of one percent would cut this annual growth rate by over half."

A slow to no-growth economic environment usurps personal opportunity through high unemployment, outflow of investment capital and inflation. US debt burden further challenges our competitiveness in the global economy where Asian and other developing economies have minimal public or household debt, and a very large population that is becoming opportunistic, productive and relatively prosperous. Common sense suggests that the US debt burden is unsustainable, and that we are mortgaging future generations - our children and our grandchildren. Generations succeeding the baby-boom generation are likely the first in US history to inherit diminished opportunity and potential.



Crossroads

History also suggests that high levels of government debt can be significantly and rapidly reduced through two key policy factors: reduced government spending and economic growth. Public debt increases most rapidly during recessions, but it can also decline rapidly when the economy expands by three percent or more, accompanied by fiscal constraint. It remains possible to change the direction of government spending. Reasonable minded, mainstream voters collectively have the power to demand fiscal responsibility and meaningful prioritization from elected officials at every level

Thomas Jefferson wrote, “wherever the people are well-informed they can be trusted with their own government; that whenever things get so far wrong as to attract their notice, they may be relied on to set them right.” The US debt crisis transcends politics and political parties. Viable, realistic solutions abide with concerned, involved, well-informed voters.

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