Shocking, Little-Known Facts About Debt. Private Debt Exploding

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Both liberals and conservatives assume they have a rough idea of how much "the debt" is. But the real numbers are shocking …

Public Debt Is Soaring

Global debt has soared to $199 trillion dollars.

The debt to GDP ratio for the entire world is 286%. In other words, global debt is almost *3 times* the size of the world economy. (William Banzai sarcastically suggests we send out a space beacon asking aliens tobail us out.)

The Hill reports:

> The former U.S. comptroller general says the real U.S. debt is closer to about $65 trillion than the oft-cited figure of $18 trillion.
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> Dave Walker, who headed the Government Accountability Office (GAO) under Presidents Bill Clinton and George W. Bush, said when you add up all of the nation's unfunded liabilities, the national debt is more than three times the number generally advertised.
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> If you end up adding to that $18.5 trillion the unfunded civilian and military pensions and retiree healthcare, the additional underfunding for Social Security, the additional underfunding for Medicare, various commitments and contingencies that the federal government has, the real number is about $65 trillion rather than $18 trillion, and it's growing automatically absent reforms ….

But former Senior Economist for the President's Council of Economic Advisers and current Boston University economics professor Laurence Kotlikoff says that – when unfunded liabilities are taken into account – the fiscal gap for the U.S. is actually 3 times higher … $205 trillion.

Many states are also deeply in the red … For example:

- Illinois faces a $9 billion dollar annual deficit and $159 billion in IOUs
- New Jersey faces a structural deficit of $10.2 billion dollars

- Pennsylvania has to deal with a $2.3 billion budget deficit
- Wisconsin is running a $2.2 billion dollar deficit

And unfunded pension debts of the states collectively total between $1.4 trillion (according to Federal Reserve figures) and more than $3 trillion dollars (according to a Stanford finance professor).

Europe is in poor shape as well. For example:

- Greece's debt is 175% of its GDP
- Italy's debt is 132% of its GDP
- Portugal's debt-to-GDP ratio is 130%
- Ireland's 109%
- Cyprus' is 107.5%
- Belgium's is 106.5%

Asia is not immune:

- Singapore's debt is over 100% of GDP
- Japan has the most debt of any country on Earth … with a 245% debt-to-GDP ratio

Private Debt is Also Exploding

Goldman Sachs notes that U.S. corporate debt has *doubled* since 2008.

Corporate debt in emerging markets has exploded. For example, it's gone absolutely ballistic in China.

The Telegraph reported in September:

> The International Monetary Fund (IMF) has issued a double warning over higher US interest rates, which it said could trigger a wave of emerging market corporate defaults and panic in financial markets as liquidity evaporates.
>
> The International Monetary Fund (IMF) … said corporate debts in emerging markets ballooned to $18 trillion (£12 trillion) last year, from $4 trillion in 2004 as companies gorged themselves on cheap debt.
>
> It said the quadrupling in debt had been accompanied by weaker balance sheets, making companies more vulnerable to US rate rises.

Household debt is also rising in most of the world:

> Household debt is "reaching new peaks". Only in Ireland, Spain, the UK and the US have households deleveraged. According to the study, not only have household debt-to-income ratios continued to rise, they now actually exceed the peak levels in the crisis countries before 2008 in some cases, including advanced economies such Australia, Canada and Denmark.

And young adults are piling it on. For example, student debt in the U.S. has grown to $1.2 trillion.

Does Debt Matter?

Mainstream economists believe that deficits don't matter … and that private debt doesn't even "*exist*" as a force that acts on the economy.

Indeed, mainstream economists such a Alan Greenspan thought that paying off America's national debt would be so *harmful* to the economy that he suggested cutting taxes on the wealthy … to intentionally increase our debt.

People assume that this is a "Keynesian" versus "hawkish" debate … but that's barking up the wrong tree. We've got to get beyond labels to see what's really happening.

The world's most prestigious financial institution, known as the "Central Banks' Central Bank" – the Bank for International Settlements – warned in 2008 that bailing out the big banks would create sovereign debt crises, transferring the banks' problems to their host nations. That's *exactly* what's happened.

Last year, the head of the Bank for International Settlements said that things have gotten worse:

> The world economy is just as vulnerable to a financial crisis as it was in 2007, with the added danger that debt ratios are now far higher and emerging markets have been drawn into the fire as well, the Bank for International Settlements has warned.

A study of 124 banking crises by the International Monetary Fund found that propping up banks which are only pretending to be solvent – instead of forcing them to write off their bad debt – typically shreds the nation's economy:

> Existing empirical research has shown that providing assistance to banks and their borrowers can be counterproductive, resulting in increased losses to banks, which often abuse forbearance to take unproductive risks at government expense. The typical result of forbearance is a deeper hole in the net worth of banks, crippling tax burdens to finance bank bailouts, and even more severe credit supply contraction and economic decline than would have occurred in the absence of forbearance.
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> Cross-country analysis to date also shows that accommodative policy measures (such as substantial liquidity support, explicit government guarantee on financial institutions' liabilities and forbearance from prudential regulations)

> tend to be fiscally costly and that these particular policies do not necessarily accelerate the speed of economic recovery.
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> All too often, central banks privilege stability over cost in the heat of the containment phase: if so, they may too liberally extend loans to an illiquid bank which is almost certain to prove insolvent anyway. Also, closure of a nonviable bank is often delayed for too long, even when there are clear signs of insolvency (Lindgren, 2003). Since bank closures face many obstacles, there is a tendency to rely instead on blanket government guarantees which, if the government's fiscal and political position makes them credible, can work albeit at the cost of placing the burden on the budget, typically squeezing future provision of needed public services.

Similarly, Bloomberg notes that high debt leads to austerity:

> Concerned that high debt loads would cause international investors to avoid their markets, many nations resorted to austerity measures of reduced spending and increased taxes, reining in their economies in the process as they tried to restore the fiscal order they abandoned to fight the worldwide recession.

And contrary to another mainstream myth, military spending is HORRIBLE for the economy … especially in the long-term.

But What About Private Debt?

But what about the global build-up of private debt?

In 2008, the most prestigious financial agency in the world – the Bank for International Settlements (BIS), often described as the "central bank for central banks" – said that failing to force companies to write off bad debts "will only make things worse".

Moreover:

> The recent edition of the Geneva report – "an annual assessment informed by a top drawer conference of leading decision makers and economic thinkers" – finds that the"poisonous combination" of spiraling debts and low growth could trigger another crisis. The report also notes:
>
> > Contrary to widely held beliefs, the world has not yet begun to de-lever and the global debt to GDP ratio is still growing, breaking new highs.
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> And as the Telegraph put it last year:
>
> > On a global level, growth is being steadily drowned under a rising tide of debt, threatening renewed financial crisis, a continued squeeze to living standards, and eventual mass default.

In addition, some top economists and economic agencies have recently verified that bubbles cause huge crashes, and are thus bad for the economy. See this, this and this.

Indeed, some Keynesians now acknowledge that "reaction to phases of excessive boom" was one of the primary causes of major recessions.

And that is why, in June 2007, the Bank for International Settlements "warn[ed] of Great Depression dangers from [the] credit spree":

> The Bank for International Settlements, the world's most prestigious financial body, has warned that years of loose monetary policy has fueled a dangerous credit bubble, leaving the global economy more vulnerable to another 1930s-style slump than generally understood.
>
> Virtually nobody foresaw the Great Depression of the 1930s, or the crises which affected Japan and southeast Asia in the early and late 1990s. In fact, each downturn was preceded by a period of non-inflationary growth exuberant enough to lead many commentators to suggest that a 'new era' had arrived.

In other words, the bigger the bubble, the bigger the bust. And given that the enormous super-bubble of debt may be about to burst, the world's skyrocketing might not look very smart in the coming years.

Despite what mainstream economists think, 141 years of history shows that excessive private debt – in and of itself – can *cause depressions*.

Indeed, an economics professor who bases his analysis on computer models says we'll have "a never-ending depression unless we repudiate the debt, which never should have been extended in the first place".

Well-known economist Michael Hudson agrees (starting around 4:00 into video):

> If the problem that is grinding the economy to a halt is too much debt, and if no one in the government – in either party – is looking at solving the debt problem, then … we're going to go into a depression as far as the eye can see.

The Bottom Line

We don't believe that all debt is *good*. For example, unlike many Keynesians, we don't think that paying people to dig holes and then fill them back in helps the economy.

But we also don't believe that all debt is *bad*. For example, we think that borrowing money for productive purposes – like funding basic innovation, helping to launch small businesses or re-tool manufacturing equipment – is beneficial.

But public and private debt have both been incurred for *non*-productive purposes.

For example, a very large chunk of the private corporate debt has gone into massive stock buybacks … to boost the bonuses of a handful of top executives.

In terms of public funding, we've fought the longest-running, most-expensive wars in American history… but they're only *decreasing* our national security. We might as well flush money down the drain …

Indeed, not only does war lead to debt, but high levels of debt lead to more war. For example, Martin Armstrong argued that war plans against Syria are really about debt and spending:

> The Syrian mess seems to have people lining up on Capital Hill when sources there say the phone calls coming in are overwhelmingly against any action. The politicians are ignoring the people entirely. This suggests there is indeed a secret agenda to achieve a goal outside the discussion box. That is most like the debt problem and a war is necessary to relieve the pressure to curtail spending.

Billionaire investor Jim Rogers agrees:

> Add debt, the situation gets worse, and eventually it just collapses. Then everybody is looking for scapegoats. Politicians blame foreigners, and we're in World War II or World War whatever.

So do many other top economic advisers.

And virtually none of the public debt has gone into helping the economy. Instead, governments chose big banks over their own people. The huge amount of debt was racked up to bail out the big banks … and it's still happening.

Central banks have been engaged in the the "greatest backdoor bailout of all time." Indeed, even mainstream economists are starting to admit that quantitative easing helps the rich … and hurts everyone else.

In essence, the elite financial players are manipulating the game so that they get the stimulus … and the little guy gets the austerity. Indeed, the IMF is recommending "financial repression" of the average person, to plug the giant debt holes created by the bank bailouts.

That's the *opposite* of using debt in order to help the main street economy and the average citizen.

Top economists say that Iceland did it right … and everyone else is doing it wrong. Here's why:

> Arni Pall Arnason, 44, Iceland's minister of economic affairs, says the decision to make debt holders [i.e. the people to whom the debts are owed … mainly bondholders] share the pain saved the country's future.

Even the IMF points to Iceland as a model for debt write-offs as a way out of its economic slump.

Postscript: Debt-forgiveness was historically considered the cornerstone of both religion and liberty.

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