



What went wrong in the US?

The US has found itself in trouble over its level of debt. It avoided defaulting recently, but the problem has not gone away. Where did it come from?



Government debt (also known as public debt, national debt) is money (or credit) owed by a central government.

In the United States, "government debt" may also refer to the debt of a municipal or local government. By contrast, annual "government deficit" refers to the difference between government receipts and spending in a single year, that is, the increase of debt over a particular year.

Sovereign debt, specifically, is debt owed by a government that is issued in bonds with a foreign currency.

As a government draws its income from much of the population, government debt is an indirect debt of the taxpayers.

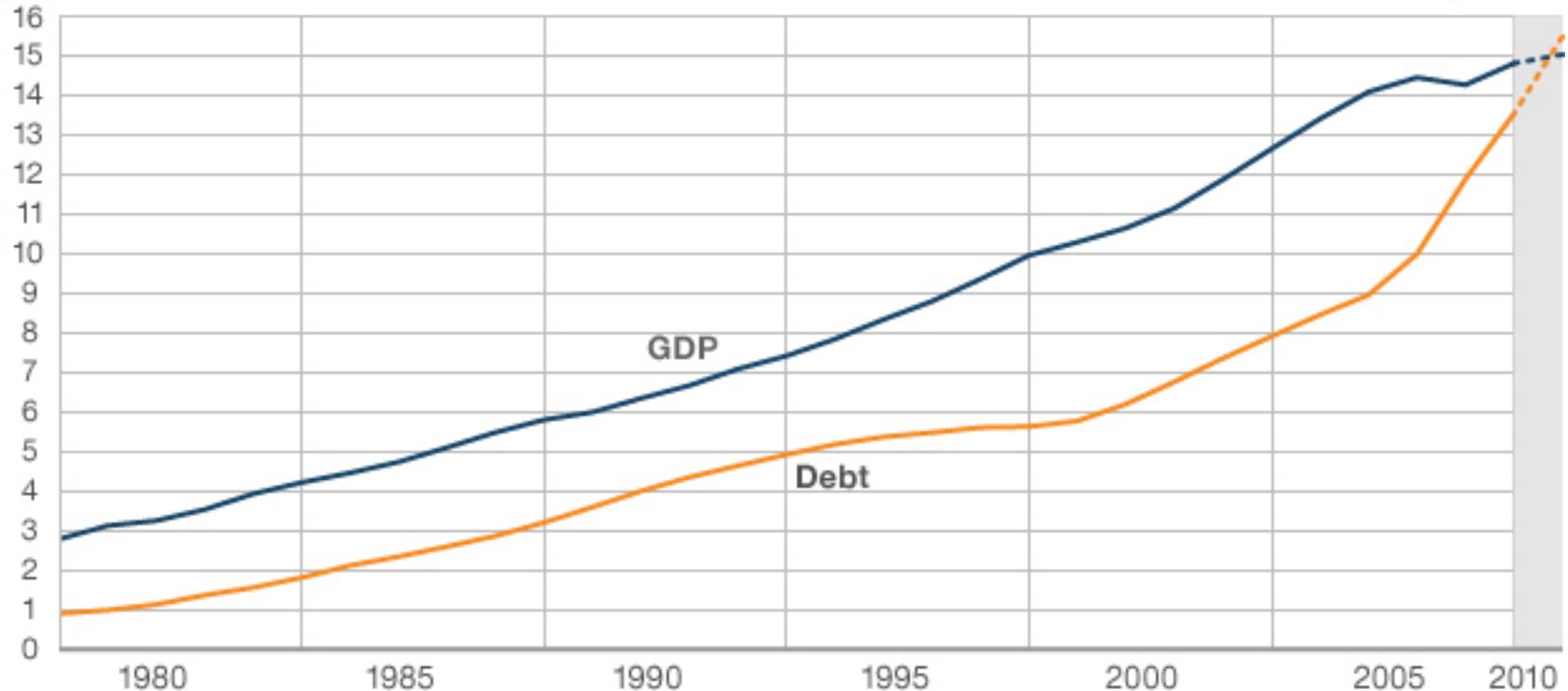
Government debt can be categorized as internal debt (owed to lenders within the country) and external debt (owed to foreign lenders). Governments usually borrow by issuing securities, government bonds and bills. Less creditworthy countries sometimes borrow directly from supranational institutions such as the International Monetary Fund (IMF).



The narrowing margin between US debt and GDP

\$ trillion

2011 predictions: Debt \$15.5tn
GDP \$15.0tn*



*GDP prediction from IMF figures

Source: IMF, Whitehouse.gov

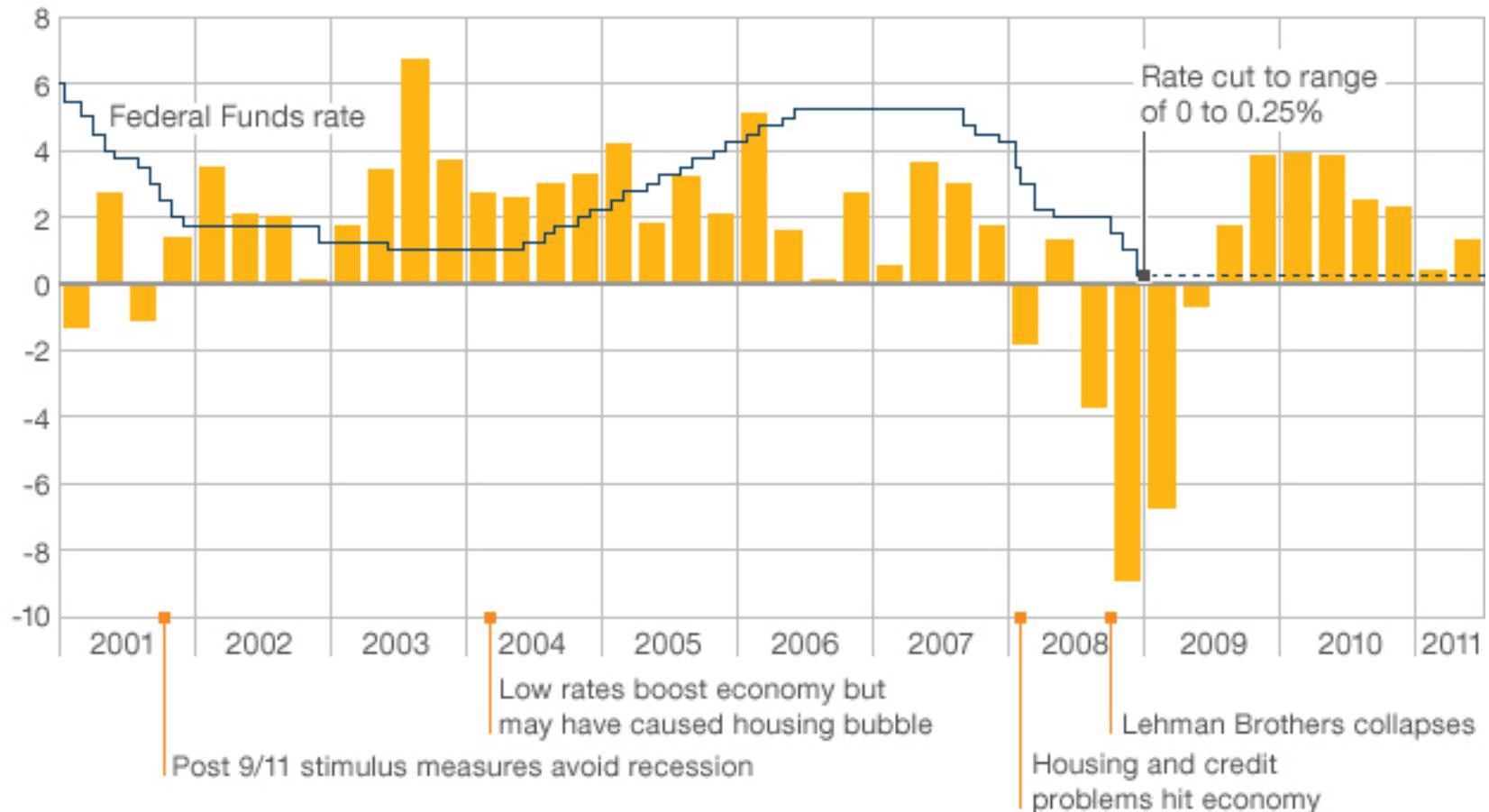
The US had its debt downgraded by the ratings agency Standard & Poor's last month after narrowly averting a debt default. The debt problem has not gone away, though, and total US debt is expected to overtake GDP, the total amount of goods and services produced in the country, this year.



On individual debt, many people blame the period of extremely low interest rates that followed the dotcom bubble bursting and 9/11 for creating the housing market boom, which then led to the sub-prime mortgage crisis. That was followed by the financial crisis that caused the 2008 recession.

Revised US GDP shows slow growth

Annualised % growth rate





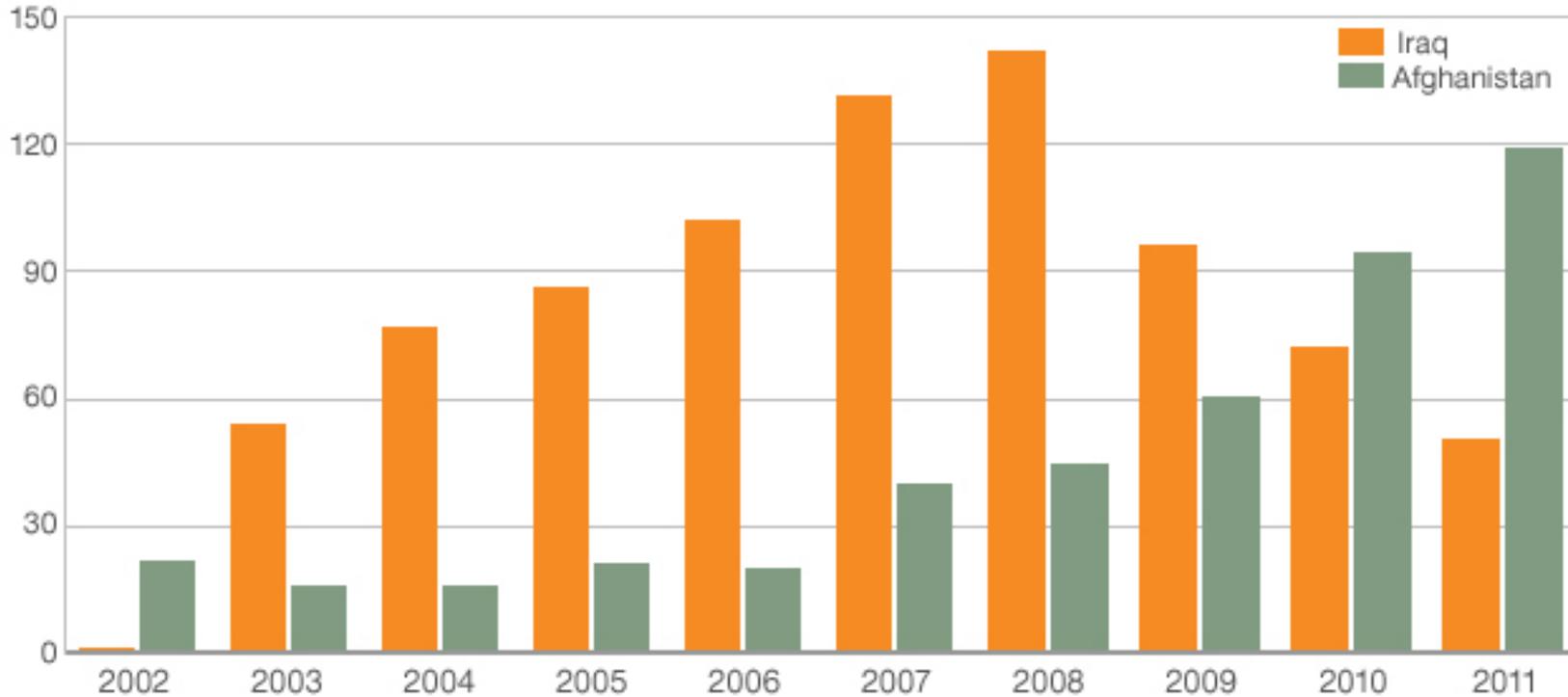
The federal government is estimated to have spent about \$1.6tn (£988bn) on its response to the financial crisis, which put a big dent in the public finances. The crisis also meant that the government received less in taxes from companies and individuals hit by the downturn.





Estimated war funding

Billions of dollars



Fighting wars in Iraq and Afghanistan has been another big cost for the public finances in the past 10 years, estimated to have cost about \$1.25tn so far. Some people also blame President Bush's tax cuts for the level of debt that the US government now finds itself dealing with.

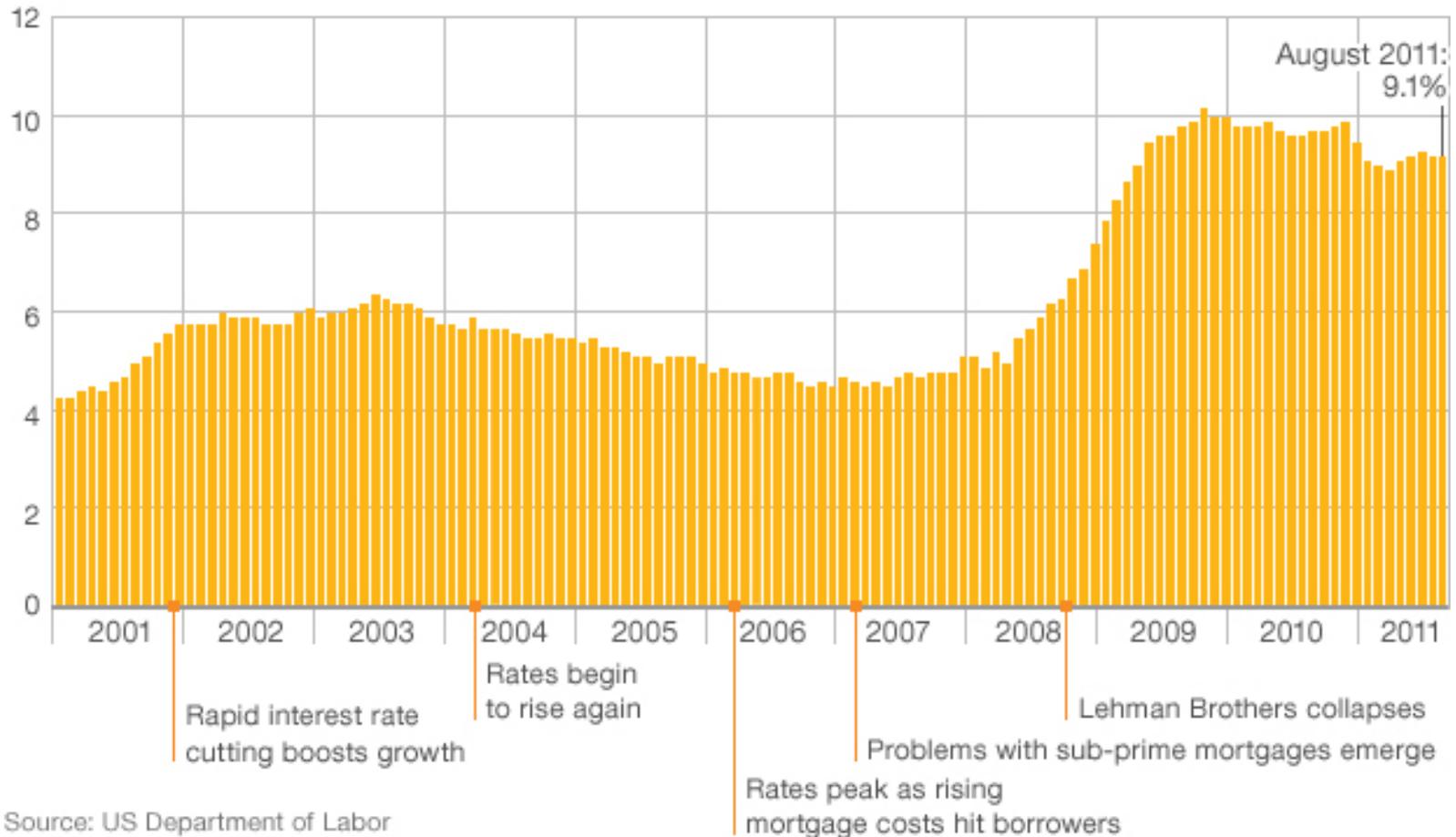
Source: Congressional Research Service



Among the most serious problems since the financial crisis has been rising unemployment, which increases the amount the government has to pay in benefits as well as reducing the tax take. Most disturbingly, there has been zero net job creation in the US since 2000.

US unemployment rate

% of workforce



Source: US Department of Labor



2010 budget, spending and borrowing

TOTAL SPENDING: \$3,456,000,000,000

Mandatory spending: \$1.954tn

Including social security, Medicare and Medicaid

More than half of the annual budget is mandatory spending, which would be difficult to cut. Of the discretionary spending, more than half goes on security, which is also hard to reduce. Without tax rises or major economic growth, it would be hard to cut enough to get rid of the deficit.

■ **Discretionary spending: \$1.306tn,**
roughly the same as the deficit (\$1.293tn)

Interest : \$196bn

Security: \$815bn

Health: \$84bn

Education: \$64bn

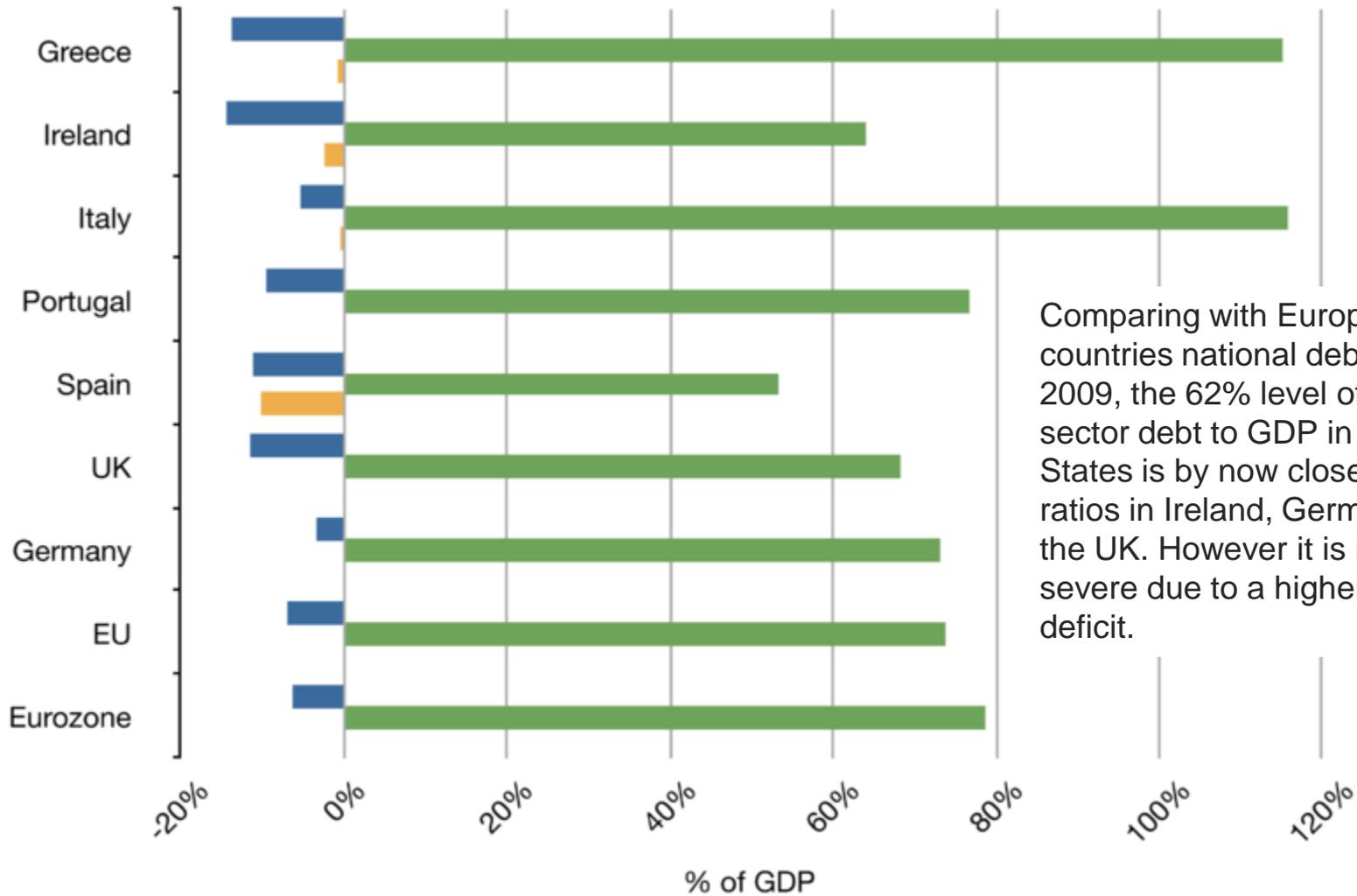
Other: \$228bn

NASA: \$19bn

Housing: \$43bn

Agriculture: \$25bn

Justice: \$28bn

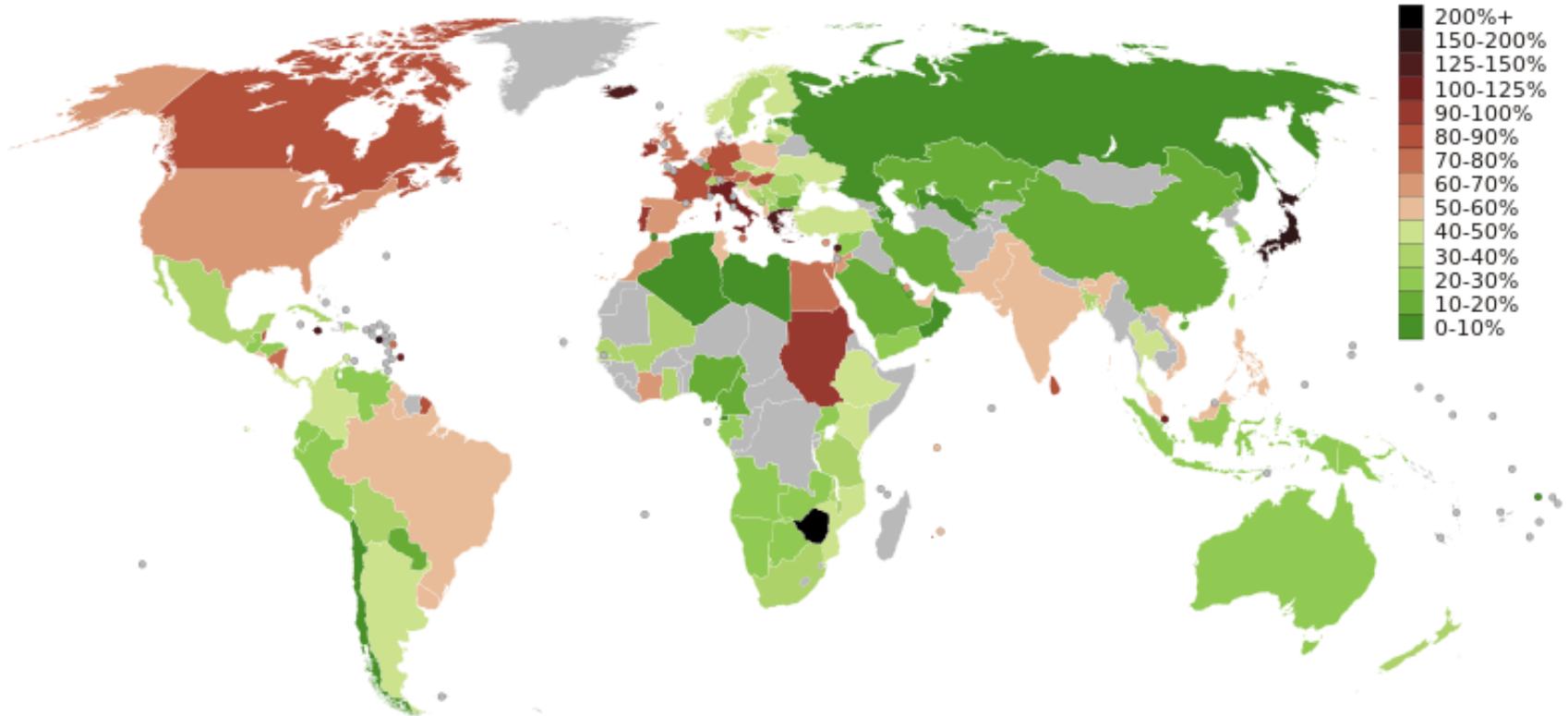


Comparing with European countries national debt in 2009, the 62% level of public sector debt to GDP in United States is by now close to the ratios in Ireland, Germany and the UK. However it is more severe due to a higher budget deficit.

■ Surplus/deficit ■ Public sector debt ■ GDP growth (Q4)



Comparison of the national debt as a percentage of GDP across the world.



Top Ten Foreign Creditors

The United States currently owes debt to 28 countries. There are 10 nations that hold the largest share of the debt owed by the United States to foreign countries. These countries are: People's Republic of China, Japan, Brazil, United Kingdom, Russia, Luxembourg, Taiwan, Hong Kong, Switzerland and Germany.

China is the largest foreign creditor of the United States. The debt the United States owes to China is approaching \$1 trillion. Twenty-five percent of the overall U.S. foreign debt is owed to China.