History, Significance And Consequences Of U.s. National Debt

In this assignment, the important factor in every country's economy is National debt. I am going to include in this paper are consequences of a large national debt, economy will be hampered or not, has possibility to default its debt in future, Paul Krugman is not alarmed about the debt. These are discussed in full detailed in this comprehensive learning assessment. It will help us to know about U.S. economy and how they handle the situation.

Introduction

The sum of all outstanding debt owned by the federal government is called National debt. It doesn't include money borrowed by government but on the borrowed money interest must pay. Government choose debt when they couldn't able to collect much revenue to cover the expenses or obtain from spending on programs like military, building roads and bridges. Corporate, income taxes and government inflict fees are part of revenue came like for visa, passports, student loans and admission to national parks (Koba, 2012). Internal debt means sums owned to the citizens and institution and external debts refers to sums of owned to foreigners comprise. In short term interest bearing securities are held by government such as Treasury Bills, Ways and Means Advances (WMA). Treasury Bills has 90 days maturity period (Muley, para – 4 to 10).

Central bank gives money to government for borrowing to cover temporary deficits in the budget. Loans are raised by the government when they face long period usually excelling five years or more. Funded debt is loan repayable after a long period of time, more than a year and government maintains a separate fund which is long term debt. In short period or less than a year floating or unfunded loans are repayable (Muley, para -4 to 10).

History and Significance of U.S. National Debt

The debt would be roughly $900 billion in today's dollars and was 30% of gross domestic product in 1789. Hamilton instructed the Treasury to borrow $19,608.81 from the only two banks in the country at that time (the Bank of New York and Bank of North America) to pay interest on the new nation's debt. Repayment of bonds was secured by revenue from the 8% import tariff that congress had enacted (Schiller, 2013, para -1 to 3). Deficits exploded, breaking with the U.S. tradition of only running large deficits during wartime. Debt to GDP began to climb and it hit a postwar peak of more than 49% in the early 1990s. From 1986 to 1991, five sequestrations were triggered; all but one (1986) were rescinded. That one briefly cut $11.7 billion out of the defense and non-defense discretionary programs. The expected sequestration is more than $1 trillion (Schiller, 2013, para - 10).

In 1995, the publicly held debt outstanding was about 3.6% trillion (Phillips, 2012, para - 15). U.S. borrowing short higher to finance the Bush Administration's efforts to stabilize the banking system as the economy teetered on the brink in 2008. Total government debt available to be traded publicly rose from $3.41 trillion in December 2000 to $5.80 trillion in December 2008, an

increase of 70% the debt to GDP ratio went up from 34% in 2000 to 40.5% in 2008 (Phillips, 2012, para -16).

In 2000, final State of the Union address which was given by President Clinton, America's national debt was $5.5 trillion. Deficit spending makes debt reduction impossible (Schiller, 2013, para -1 to 3). In 2009, outlays increases to more than 25% of GDP, the highest level since World War 2. Somewhat that number declined, 24. 1 to % where it rested in both 2010 and 2011. The U.S. started 2012 with $10.48 trillion in publicly traded debt (Phillips, 2012, para -18). Now in 2017, total federal outlays, deficit, and federal debt was $3.98 trillion, $665 billion and $20.21 trillion. At the end of Fiscal Year 2018 the state government debt in U.S. is expected to be $1.2 trillion. Census Bureau reported in 2016, the state government debt was $ 1.16 trillion. At the end of FY 2017 the state government debt was guesstimated to be $1.18 trillion (USGovernmentspending).

Growing National Debt's Consequences

The three main consequences of rising national debt are identify by Budget experts. First drag on economic growth public borrowing crowds out private investment. Second, increasing interest payment caused by rising national debt leaves less revenue available to other public expenditure like spending on infrastructure investment. Third, if national debt growths too large, the nation has less capacity to respond to emergencies such as economic recession, to financial crisis, low wages (Min Xu, 2016, p. 72).

The implication of a large national debt includes lower national saving and income. Investment is decreased and higher interest rates are caused by large sustained federal deficits. More borrow from government, percentage of the saving is higher that available for investment would go towards government securities. The invested amount in private ventures decrease (factories, computers, workplace looks less productive). Mainly worker's productivity determined by negative effect wages, the reduction on investment would reduce wages as well. There should be less people incentive to work (Budgets&projection, 2014, para -6).

Another effect of higher national debt is interest payments creating pressure on other spending. More of the budget takes up by interest, less available to spend on programs. The more required revenue when the government continue to maintain benefits and services same level without running large deficit. Higher marginal tax rates occurred through increases, those higher rates would discourage people from working and saving, thus further reducing output and income (Budgets&projection, 2014, para -7).

Decreased ability to respond to problems are also one of the result of large national debt. Wars, financial crises and natural disasters are borrow address unexpected event often by Government. It's easy to do when federal debt low. If federal debt is large and growing then government has less option available. For example: Several years ago, during financial crisis when the debt was 40% of GDP, the government has ability to respond by increasing spending and cutting taxes in order to stimulate the economy. GDP share was almost double due to increased federal debt. Financial flexibility is reduced and dependence on foreign investors increased that accompany high and rising debt could weaken U.S. leadership in the International area (Budgets&projection, 2014, para -8).

Greater risk is created by Fiscal crisis which is caused by large national debt. At some point, losing confidence by investor in the government's ability to pay back borrowed funds, if the debt continues to climb. Increasing interest rate would reduce the market value of outstanding government bonds, causing losses for investors and perhaps precipitating a broader financial crisis by creating losses for mutual funds, pension funds, insurance companies, banks and other holders of government debts-losses that might be large enough to cause some financial institution to fall (Budgets&projection, 2014, para -9).

Economic growth hampered by debt

Yes higher debt definitely hamper economic growth and the reason are aging population high, rapid rise in the cost of health care, interest rates growth and less revenue. Which are discussed below. Spend on Medicare and social security because of high population in aging has drastic increase (Guell, 2015). High growth of retires, interest and cost of health but collected revenue is not enough (Guell, 2015). The government will spend more of its budget on interest costs, increasingly crowding out public investments when federal debt increases. There should be doubtful situation by investors to government's ability to repay debt and could demand of interest rates high, cost of borrowing for business and households further raising. Growth of productivity and wages of American workers would be slow over time by low confidence and reduced investment. Economic opportunity and social mobility has negative impacts because it crowds out investments that help America get ahead (Peterson, 2018, para -4 to 7).

Harder time for families because of higher interest rates to buy homes, finance car payments or pay for college. American businesses to remain on the cutting edge of innovation and would hurt wage growth in the U.S. due to harder time by Faltering R&D support. Fiscal challenges even worse which is created by slower economic growth, as lower incomes reduce tax collections and put the federal budget further out of balance. Government's flexibility reduce by higher levels of debt to respond to future emergencies, unanticipated challenges, wars or recessions (Peterson, 2018, para – 4 to 7). When interest payments are high that taxes can't cover them, thus credit rating gets downgraded, borrowing gets more expensive and government have to take money meant for services and reallocate to service debt (Bullington, 2016, para -2). Rising U.S. interest rates, increase prices and contribute to inflation. The suffering phase for stock market as any U.S. investment would be riskier, as investors fled to other countries safer stocks or gold then stock prices falls. Another recession would be created (Amadeo, 2018, para- 10).

In future, U.S. to default on its debts

Yes, in future, U.S. might default on its debt. Interest rate would rise since Treasury represents the benchmark borrowing rate. Corporation, state and local government, mortgages and consumer loans increases the cost. Dollar status lose as a global world currency and long-term dire effects should be creates. Less ability of U.S. government to pay salaries or benefits for federal or military personnel and retirees. Benefit of payment from Social security, Medicare and Medicaid would stop. Too high debt may stopped paying interest on Treasury bills, notes and bonds. Due to the fiscal crisis, U.S. investor in debt will need higher interest. So these will create a situation where government defaulting on its debt because of lose control of debt (Amaded, 2018, para – 3 to 7).

Higher level of US national debt but Paul Krugman never alarmed

Long term rising debt to GDP ratio should not necessary to deal due to many issues which they still face. Problem for future generations will be higher debt (Firestone, 2014, para -3). At low rate of interest government borrowed money and spent money on Medicare, roads, rails and other infrastructure. For future, current low interest gives advantage and borrow money for investment (McGuigan, 2013).

Conclusion

The national debt of U.S. is explained and able to show their history. How large national debt would impact in economic growth due to some reasons. In future, U.S. would default their debt due to fiscal crisis, high interest rate, U.S. government might default debt. If debt is high then it will create some serious problem in future so Nobel Prize economist never alarming. He thought that lower interest rate will help in future and taking advantages from that.

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