AMERICA'S DEBT CULTURE
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Gary U.S. Bonds sings in "Can't Teach an Old Dog New Tricks":
"There's no such thing as a sure thing
Life as we know it, has no guarantees…
People talk and make promises about this and that
But action's the only thing that excites me
All those promises they're making
I'd be crazy if I take 'em".

CONCLUSION

America continues to have a love affair with debt. The nation has achieved remarkably little progress in improving its comprehensive (all-inclusive) debt situation since 2009's very elevated debt relative to nominal GDP percentage. Increasing federal indebtedness has substantially though not entirely outweighed modest improvements in the consumer and state and local government domains. As the national government is a representative (democratic; "We, the People") one, the country has not significantly mended its troubling overall debt problem.

AMERICA: ENAMORED OF DEBT

"Tell the folks back home this is the promised land callin'
And the poor boy's on the line". Chuck Berry, "Promised Land"

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America's federal budget deficits indeed have declined substantially from their monumental heights of a few years ago. The US economy has grown since the mournful times of late 2008/early 2009. Household net worth has ballooned since the dreadful days of the worldwide economic disaster. Look at the glorious US corporate earnings of the past couple of years! The S+P 500 has more than tripled its March 2009 major low around 667.

Such happy considerations surely encourage optimism regarding the American economic scene. So has the related sustained highly accommodative monetary policy rhetoric and action of the Federal Reserve Board and its central banking friends around the globe. Yet although fancy Fed policies such as mammoth money printing, severe interest rate repression, and wordplay regarding forward guidance have boosted morale and purchased time for action on America's major debt challenge, they have not manufactured a solution to that issue.

To better perceive and assess America's lack of noteworthy progress on the debt front, sentinels should embrace a wider perspective, gazing at the overall United States debt picture over a long historical span.

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A review of total American credit marketplace debt portrays the development and entrenchment of a national culture of debt. The long run trend toward greater debt holdings (and tolerance of debt) probably indicates and intertwines with a growing bias toward consumption and spending rather than saving. The increasing borrowing and massive debt accumulation arguably in part also probably reflect an increasingly widespread sense of entitlement to American Dream goals of the "good life" and a "better life".

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Total United States credit marketplace debt at end 2014 stood at about $58.7 trillion (Federal Reserve Board, "Financial Accounts of the United States", Z.1 data; 3/12/15). The total includes US household, financial and non-financial business, and government debt, plus the relatively small foreign/rest of the world category. Compare 2001's $29.2tr. Thus America's credit marketplace debt has doubled in roughly a dozen years, and there has been no yearly fall in the sum since 2001.

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What does a long run examination of total United States credit marketplace debt as a percent of nominal GDP reveal? Review the post-World War Two landscape. For over five decades, from the early 1950s up through the glorious Goldilocks Era that ended in 2007, and for a couple of years thereafter, total US indebtedness as a percentage of nominal GDP climbed steadily and substantially.

The bottom in overall US credit marketplace debt as a percent of GDP was 1951's 129.5 percent. It inexorably edged up for about thirty years. It then started to accelerate from 1981's 164.1pc. In 1985, it reached 200.3pc, with 1998's 257.4pc, and 2001's 275.1pc. In 2003, that measure attained 298.2pc. As debt became increasingly popular, it joyously soared during the blissful Goldilocks period to 346.1pc in 2007. As the gloomy American (and global) financial crisis emerged and proceeded, total US credit marketplace debt peaked at 362.0pc in 2009.

Despite pillow talk from many pundits about improving American debt conditions, that gigantic percentage has fallen only modestly since 2009. It slipped to 349.7pc of nominal GDP in 2010, and 340.6pc in 2012. However, it has diminished very little since then, with 2013 at 338.0pc and 2014 at 337.1pc. Significantly, 2014's percentage remains not far from the heavenly Goldilocks Era 346.1pc height of 2007.

Another statistic further underscores the growth and persistence of America's debt culture. Not only is the current credit marketplace debt as a percent of GDP level still historically high and close to the Goldilocks plateau. The arithmetic drop of 24.9 percentage points from the five years 2009 to 2014 (362.0pc less 337.1pc) is only about half the 47.9 point increase over the four years from 2003-07 (298.2 versus 346.1).

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The Federal Reserve's long-running extraordinary and very easy monetary policy (notably money printing/quantitative easing and interest rate yield repression) seek not only to ignite and sustain economic recovery and buy time for serious action in the federal and other debt realms. The Fed has battled to boost inflation to a supposedly sufficient level, while it has simultaneously repressed debt securities yields. Its artful strategies reflect the central bank's ardent devotion on behalf of the constituency of debtors (borrowers) relative to the one of savers (creditors).

GOOD HOUSEKEEPING?

Survey the post-World War Two period from the consumer standpoint (Federal Reserve Board, "Financial Accounts of the United States", Z.1; 3/12/15). US household debt as a percentage of nominal GDP reached its ceiling in 2007 at the height of the glorious Goldilocks Era at 95.5pc ($13.8 trillion). By end calendar 2014, energetic housekeeping efforts had slashed this percentage to 77.5pc.

The Fed's Financial Obligations Ratio compares required household debt payments to total disposable income. This indicator peaked (1980 to present) at 18.1 percent in 4Q07. It tumbled under 16.0pc with 1Q11's 15.9pc. Since then, the FOR has stayed around that level, reaching a new low of 15.0pc in 4Q12 (slightly under the prior record bottom of 15.1pc in 4Q80), resting at about 15.3 in 4Q14.

The net worth of households (and nonprofit organizations) at end 4Q14 stood at $82.9 trillion. This spiked 46.7 percent from end 2008's $56.5tr (Z.1, Table B.100; the financial crisis low was1Q09's $55.0tr).

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Nevertheless, despite the decline in US consumer debt as a percent of nominal GDP, the reduced Financial Obligations Ratio, and the increase in household net worth, digging into the Fed's Z.1 statistics reveals that current household debt levels remain quite substantial from the long run historical perspective.

The household debt percentage of nominal GDP stood at merely 12.4 percent in 1945. After the war ended, a culture of debt blossomed in the consumer sector. By 1965, and perhaps partly because Depression Era memories had faded to some extent, it ascended to 45.7pc. To many people nowadays, the 1945 to 1965 era represents an ancient epoch, for that was a lifetime of 50 to 70 years ago. Household debt as a percentage of nominal GDP remained relatively steady for the next decade or so. However, the passion for debt grew. From 1977's 45.5 percent (about the same as in 1965; 42.8pc was the trough from 1965 to 1977), America's household debt percentage marched uphill. Why be thrifty? In any case, savers become spenders (and many become debtors). It reached 60.8pc of GDP in 1991, mounted to 71.8pc in 2001, jumped to 82.3pc in 2003, and leaped to 2007's 95.5pc roof.

By end calendar 2014, the household debt as a percent of nominal GDP yardstick fell to 77.5pc (2013's was 78.5pc). Thus many endearing stories are told about the much better (encouraging) situation for consumers. However, although this is a notable fall from 2007's pinnacle, the level still hovers well above 2001's 71.8pc. And even 2001 soars over 1977's and earlier percentages. From the long run vantage point, the improvement in the US household debt situation since 2007 probably has not yet produced a moderate debt level. The current household debt percentage still reflects America's fervent allegiance to its debt culture, particularly when viewed alongside the overall national government debt situation.

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The long run history of America's personal savings as a percent of disposable personal income also hints at the growing cultural attachment to spending rather than saving. From 1946 through 2014, it averaged 8.7 percent (Bureau of Economic Analysis data; from 1929 to 2014, 8.9pc). For the 1992-2014 span, it was 5.3pc (1992's was 8.9pc, with 2005's 2.5pc the lowest since 1938's 2.9pc). Even for the six year 2009-2014 aftermath of the worldwide financial crisis, the personal savings rate averaged only 5.8pc (it was 7.2pc in 2012, 4.8pc in 2014).

DEBT AND REPRESENTATIVE GOVERNMENT

"American Hustle" (David Russell, director), the con artist Irving Rosenfeld says:: "You can fool yourself for just so long, that your next reinvention you better have your damn feet on the ground….The art of survival is a story that never ends."

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At the end of 2014, total United States federal, state, and local debt was $15.9 trillion, with the federal share about $13.0tr. In 2014, federal debt was 74.7 percent of nominal GDP, state and local 16.8pc (based upon Federal Reserve Z.1 data).

Some commentators underline that in the past few years, and despite notable variation between some states and local governments, the state and local debt position has improved modestly. Indeed, the American state and local debt percent of GDP peaked at 20.6 percent in 2009. However, 2014's 16.8pc level hovers well above 2000's 11.7pc. Viewers should temper their optimism on this front.

What about the level and trend of the nation's federal debt situation? Underscore that the federal amount of 74.7pc of nominal GDP at end 2014 soars way beyond 2001's 31.8pc. Therefore, despite debt reductions relative to GDP on the state/local and household fronts, the federal fiscal situation has deteriorated substantially.

Some marketplace wizards warn of dangers to economic growth and financial stability when overall (general) national debt (federal, state, and local obligations combined) exceeds 90 percent of GDP. America recently crossed that threshold. Federal, state, and local debt a percent of nominal GDP touched 91.6 percent as of end 2014 (end 2013 was 91.2pc).

This very elevated general government total admittedly is below that at the end of World War 2, 1945's 115.7pc. However, America's overall government debt position (federal plus state/local) generally, despite some twists and turns, has ascended steadily higher in recent decades. Recall 1974's 36.6pc of GDP low. It bounced up to 62.4pc in 1991. It tumbled to 44.1pc in 2001 (above 1974's elevation). However, it stepped up to and stayed around 55.0pc as of 2007 (it averaged 55.3pc from 2004-2007), near the end of the Goldilocks Era. It spiked to 74.7pc in 2009 as the international economic disaster unfolded. Despite America's real GDP growth since 2009, that debt percentage nevertheless expanded to 2014's 91.6pc. Thus from the general government perspective, America's debt position has worsened.

And even though US household debt as a percent of nominal GDP peaked in 2007 and that for state/local debt topped in 2009, the federal percentage continued to expand after 2007 (and 2009). In 2007, the federal sum was 35.4 percent of nominal GDP, with 2009's 54.1pc. By 2014, it had grown to 74.7pc of nominal GDP. Consequently, America's debt burden (obligation; promises) simply has shifted somewhat from the household and state/local sectors to the federal level.

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What is the prognosis for America's federal debt situation? Some believe that significant cuts in federal budget deficits in the recent past and for the next few years relative to the lofty summits during the Great Recession and its aftermath signal fundamental (lasting) progress. Obviously much can happen over the next decade and beyond, but the long run budget situation remains worrisome.

Anyway, recall 2009's $1.4 trillion deficit (9.8pc of nominal GDP) and both 2010 and 2011's nearly $1.3tr each (8.7 and 8.5pc of GDP). Remember 2012's nearly $1.1tr shortfall (6.8pc of GDP). The Congressional Budget Office's "Updated Budget Projections: 2015 to 2025" (3/9/15) states the fiscal year 2014 deficit fell to $485bb, or 2.8pc of GDP. Looking forward, the CBO forecasts that huge deficits from the financial crisis period and shortly thereafter will not reappear soon.

This clairvoyant declares that 2015's deficit will be $486bb (2.7 percent of GDP). Those for fiscal 2016 through fiscal 2018 average about $466, or 2.4pc of GDP. Yet these are still deficits, right? In any event, the CBO notes that these deficits thereafter gradually rise. It predicts deficits will reach $696bb in 2020 (3.1pc of GDP) and slightly over a trillion dollars in 2025 (3.8pc of GDP).

From the federal vantage point, America's debt situation nevertheless probably will remain troublesome. Even over the next several years, the federal outlook does not really improve; it merely ceases worsening significantly. Although federal debt held by the public edges down from fiscal 2015's 74.2 percent of GDP to 72.9pc in 2018, it creeps up to 77.1pc by 2025 (Table 1). The ongoing substantial US debt mountain consequently remains a problem for US and international economic growth.

Washington's partisan political battles in recent years are not likely to improve the country's debt circumstances significantly as Presidential election year 2016 approaches. For the next two years, a Democratic President faces a Republican House and Senate. Besides, how many national leaders are talking seriously and offering specifics regarding running a budget surplus, as in fiscal year 2000's $236 billion (2.3 percent of nominal GDP)?

Moreover, although much can happen over the murky long run, scan the CBO's projections ("The 2014 Long-Term Budget Outlook", Table 1-1: July 2014). By 2039, federal debt held by the public is 106.0 percent of GDP, a monumental amount, and nearly the same as the 110.0pc in 1945 shortly after the end of World War II.

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