Mitchell's Musings 7-23-12: No Clock?

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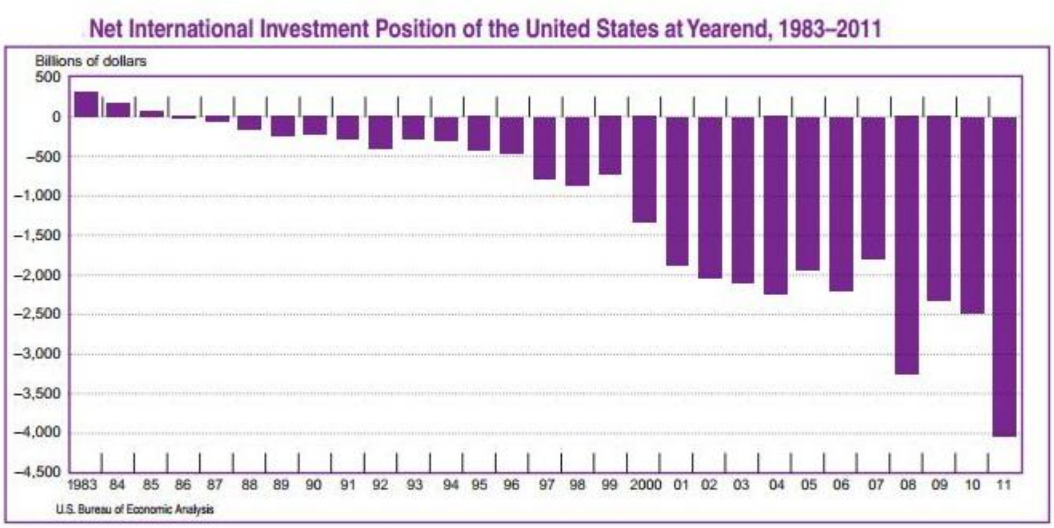
One of the devices used by those concerned about the national debt is the debt clock:

Nowadays, of course, you don't have to find one on a wall someplace. Just look on the web at http://www.usdebtclock.org/.

The national debt that the wall version of the clock features is essentially that of the federal government. As is often pointed out in such discussions, one feature of the national debt is that much of it is just that – national, i.e., owed to Americans.

The online debt clock version does include data on the trade deficit but not the net international debt of the U.S. However, the U.S. Bureau of Economic Analysis has now published its estimate for 2011, summarized on the chart below:



Now admittedly, it would be complicated to create a clock that went backwards and forwards as exchange rates and securities prices change, causing fluctuations up and down in the bars. As the chart shows, sometimes – due to such factors – the net international debt of the U.S. falls, although the ongoing trend is clearly in the direction of more net international debt over time.[1] One suspects, however, that the reason there is no international debt clock is that those who put out such clocks want us to worry about the federal debt and presumably are not concerned about the international debt.

However, apart from the price and exchange rate fluctuations, the way in which the international debt grows in the longer term is that the U.S. spends more abroad on goods and services (on imports) than it earns from sales of goods and services (exports). In times of relatively full employment – which have not been seen since 2006-07 – this discrepancy shows up in a displacement of domestic jobs from the "tradable" sector – heavily manufacturing – into non-tradable industries such as retail. In times of high unemployment, the discrepancy shows up as just displacement of jobs – to nowhere. But no one seems to want to post a job loss from trade clock.

On its face, the chart on the previous page seems to suggest that something unsustainable is occurring. But just as bubbles are often rationalized while they are in progress with "this-time-it's-different" explanations, similar stories surround the growing U.S. net international debt. It is said that since the dollar is an international currency, the world will just hold as many dollars as flow abroad. Or it is said that the U.S. is such a desirable place to invest – a safe haven - that the rest of the world just can't get enough U.S. assets. While there is some element of truth in these stories, can we be confident they have no limits?

A run on the dollar would presumably take the form of a big drop in its exchange value relative to other currencies. There could be a salutary effect of such a drop since – *other things equal* – it would tend to improve U.S. competitiveness and reduce or reverse the trade deficit – with a resulting positive job impact. Paying back the international debt ultimately can only be done with a job-creating trade surplus. However, sudden shifts in financial markets can create adverse macro conditions and job loss rather than gain, as the crisis of 2008 amply demonstrated. If major financial institutions have bet that the dollar won't fall and then it suddenly does, cascades of problems and panics can arise.

I'm not sure what the value of debt clocks really is. But if we are to have national debt clocks, surely an international version is in order.

[1] The chart appears as part of an annual summary of the international debt that appears in July issues of the *Survey of Current Business*. The latest edition is at http://www.bea.gov/scb/pdf/2012/07%20July/0712_iip.pdf.