

Navigating the New Financial Landscape



"Sovereign
Debt: A Cause
for Concern"

Vincent Reinhart
Resident Scholar
American Enterprise Institute

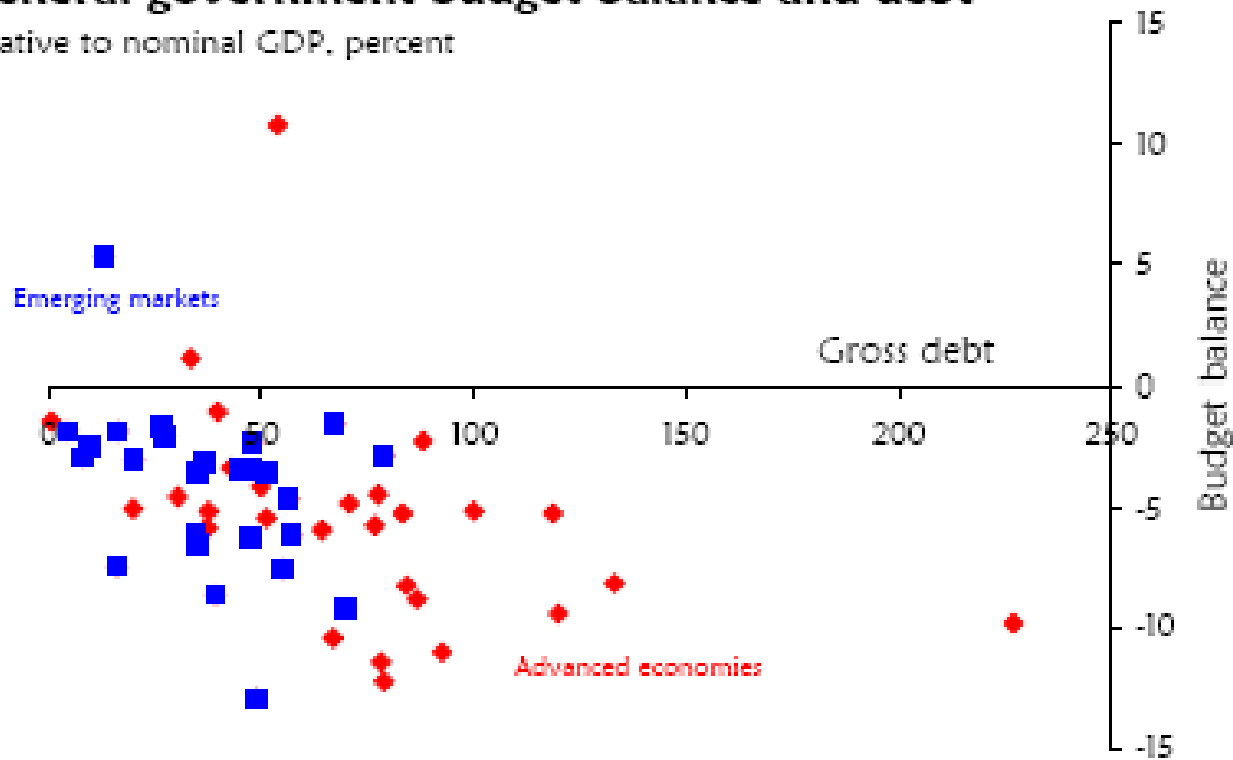
April 5, 2011

Our assignment

- ◆ The financial crisis has been followed by sovereign debt problems if not a sovereign debt crisis.
- ◆ The fiscal problems include hangover from the financial crisis, the recession, and stimulus packages as well as long-term unsustainable spending and tax policies.
- ◆ How will the euro area deal with the problems manifested already?
- ◆ Are other problems likely to surface?
- ◆ Is this crisis a wave that will wash ashore in the United States?
- ◆ How will some states' severe budget problems be resolved?

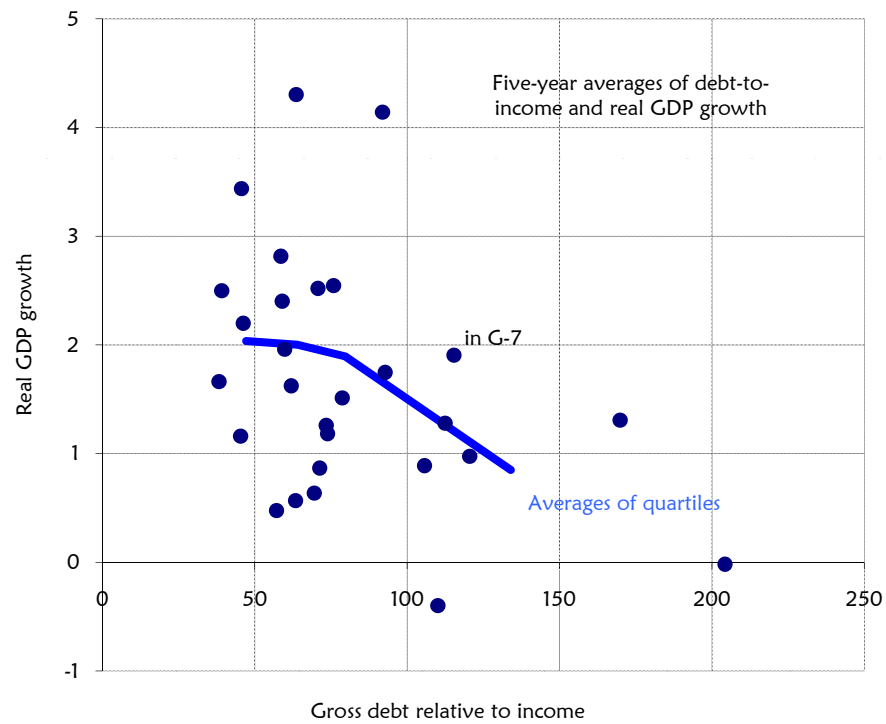
Fiscal arithmetic around the world has troubling dynamics

General government budget balance and debt
relative to nominal GDP, percent

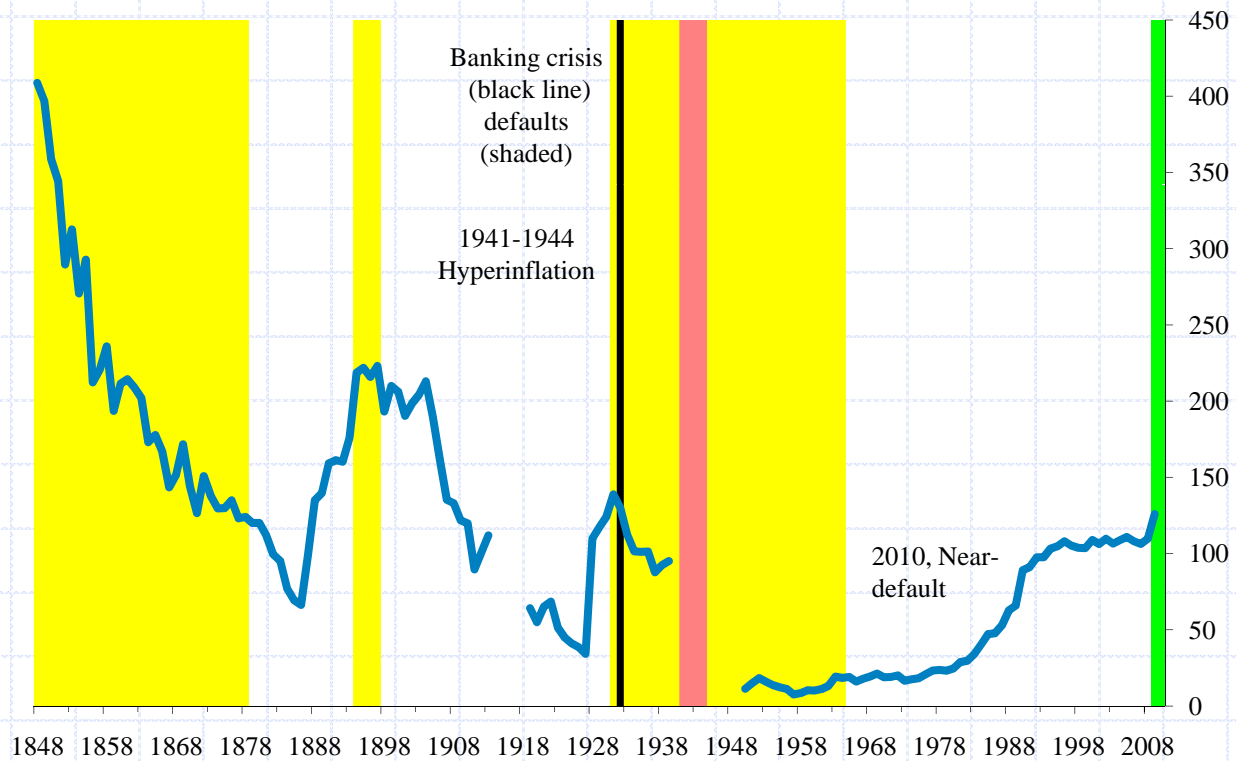


...and may impair growth if not addressed

Debt and real GDP growth
in G-7 countries, 1980 to 2010



Greece: Government debt relative to GDP, percent



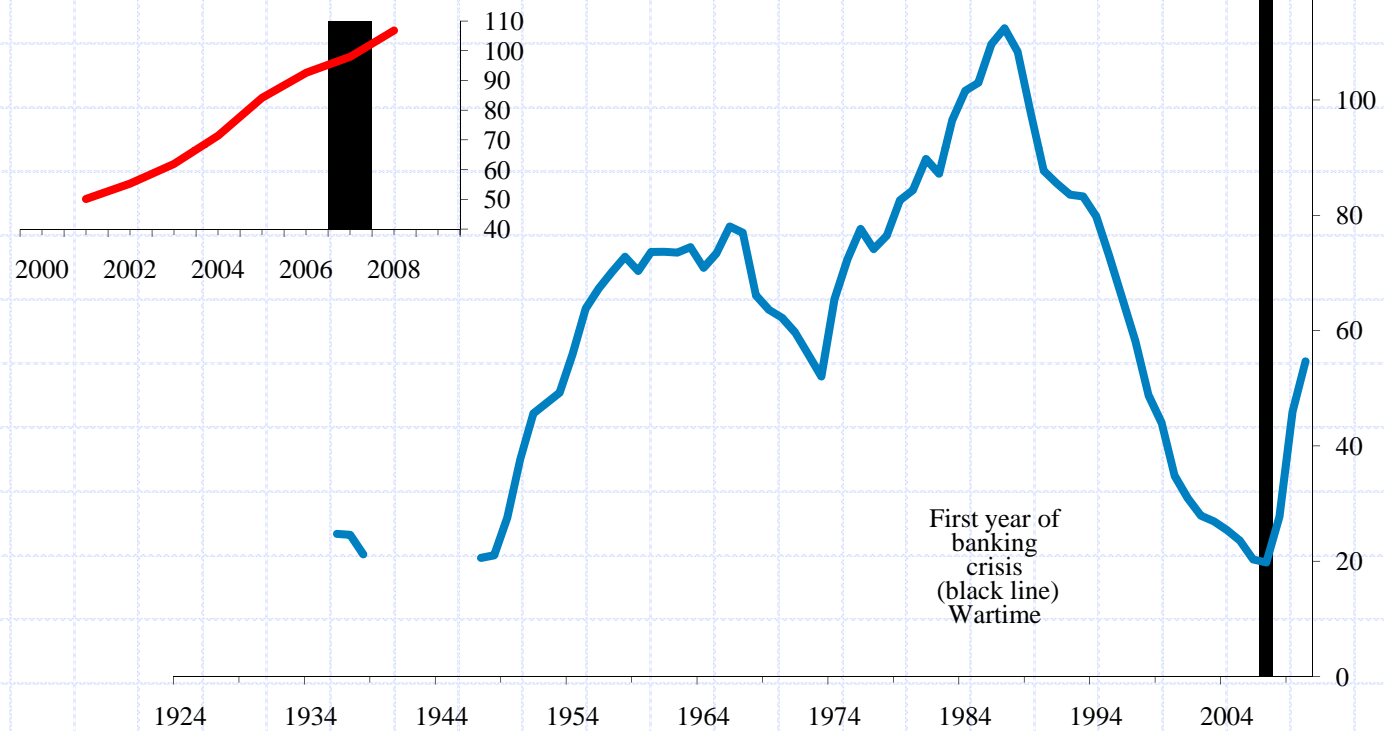
THIS TIME IS DIFFERENT CHARTBOOK:
COUNTRY HISTORIES ON DEBT, DEFAULT, AND FINANCIAL CRISES

Carmen M. Reinhart

Working Paper 15815
<http://www.nber.org/papers/w15815>

Ireland: Government debt relative to GDP, percent

Household debt/GDP



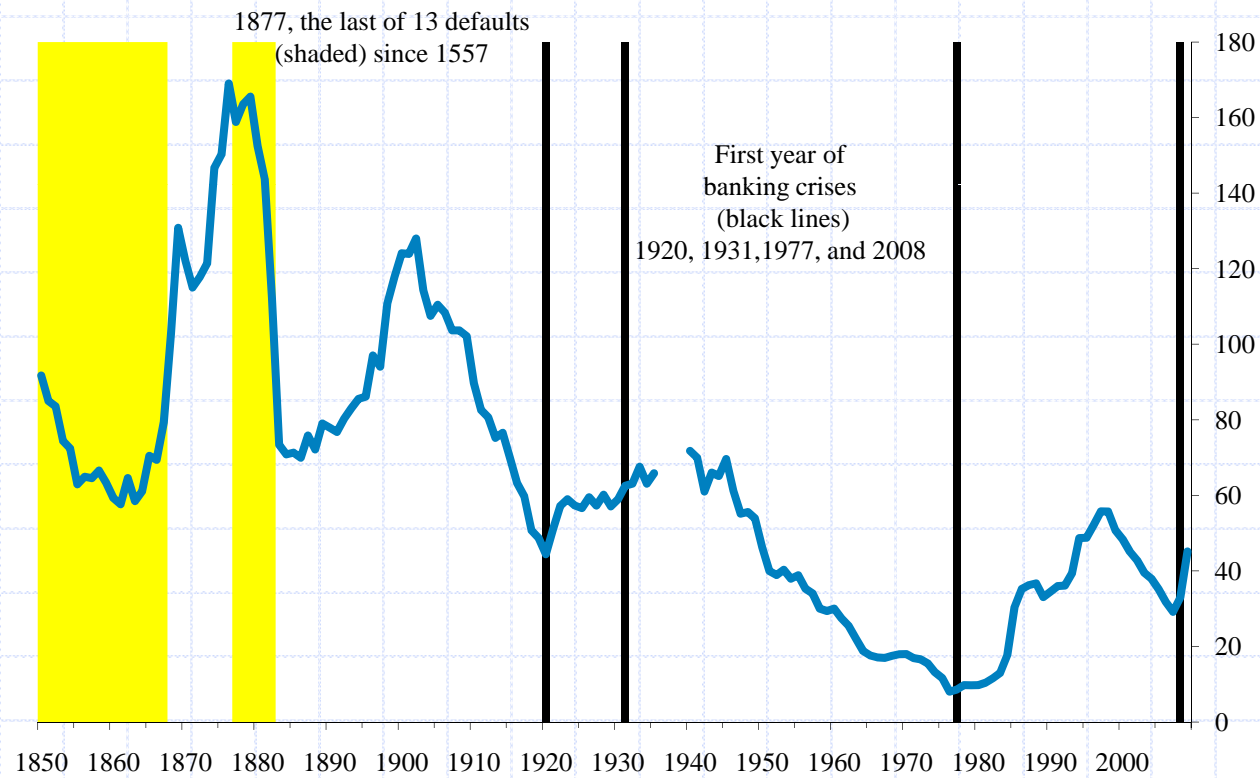
First year of
banking
crisis
(black line)
Wartime

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Spain: Government debt relative to GDP, percent

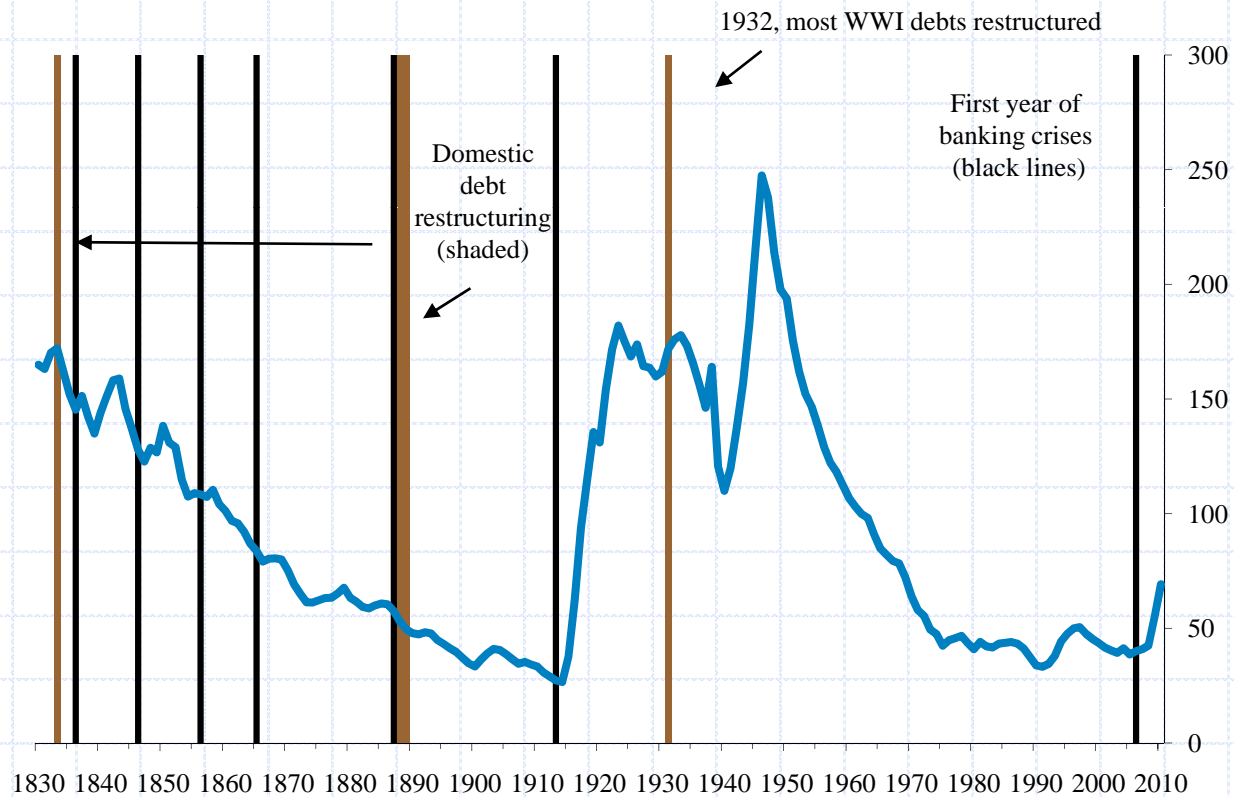


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United Kingdom: Government debt relative to GDP, percent

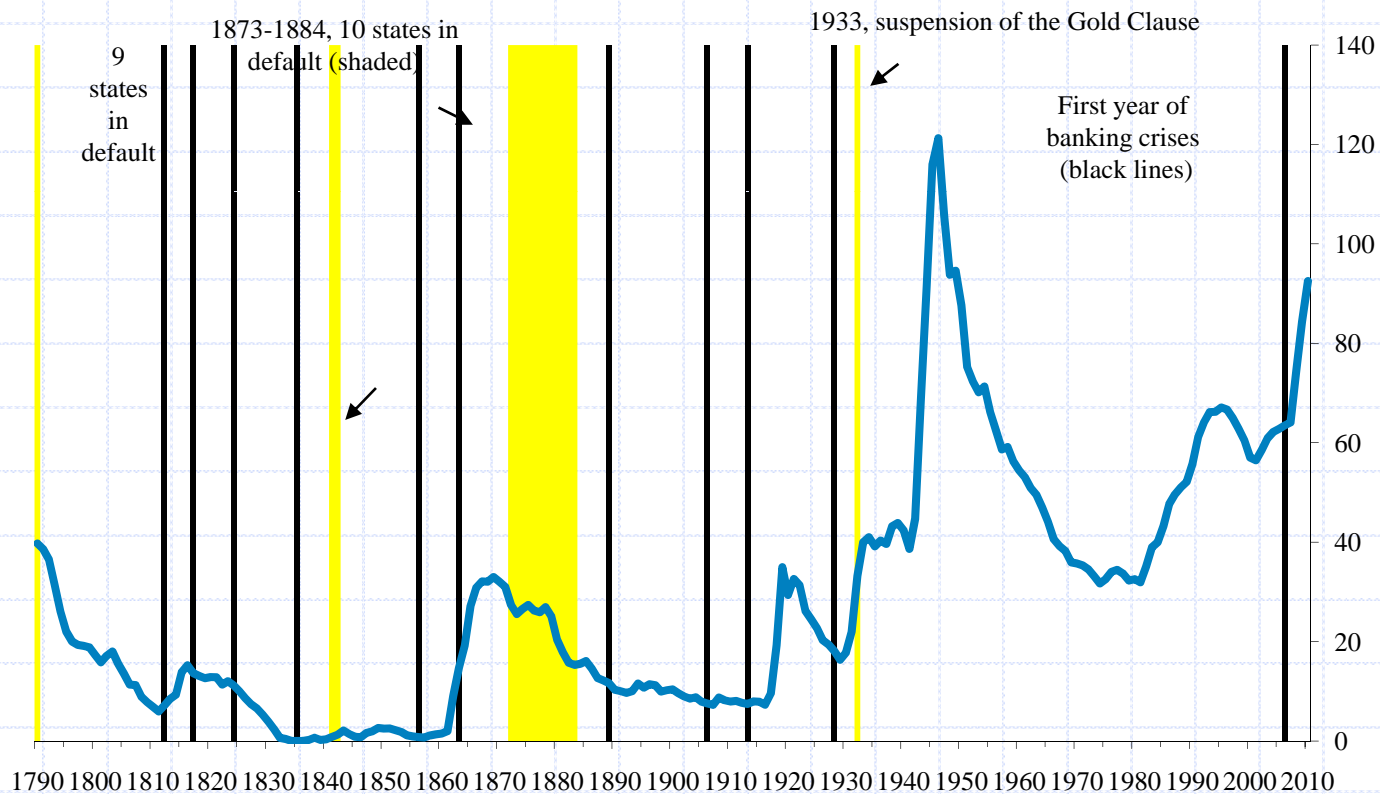


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United States: Government debt relative to GDP, percent



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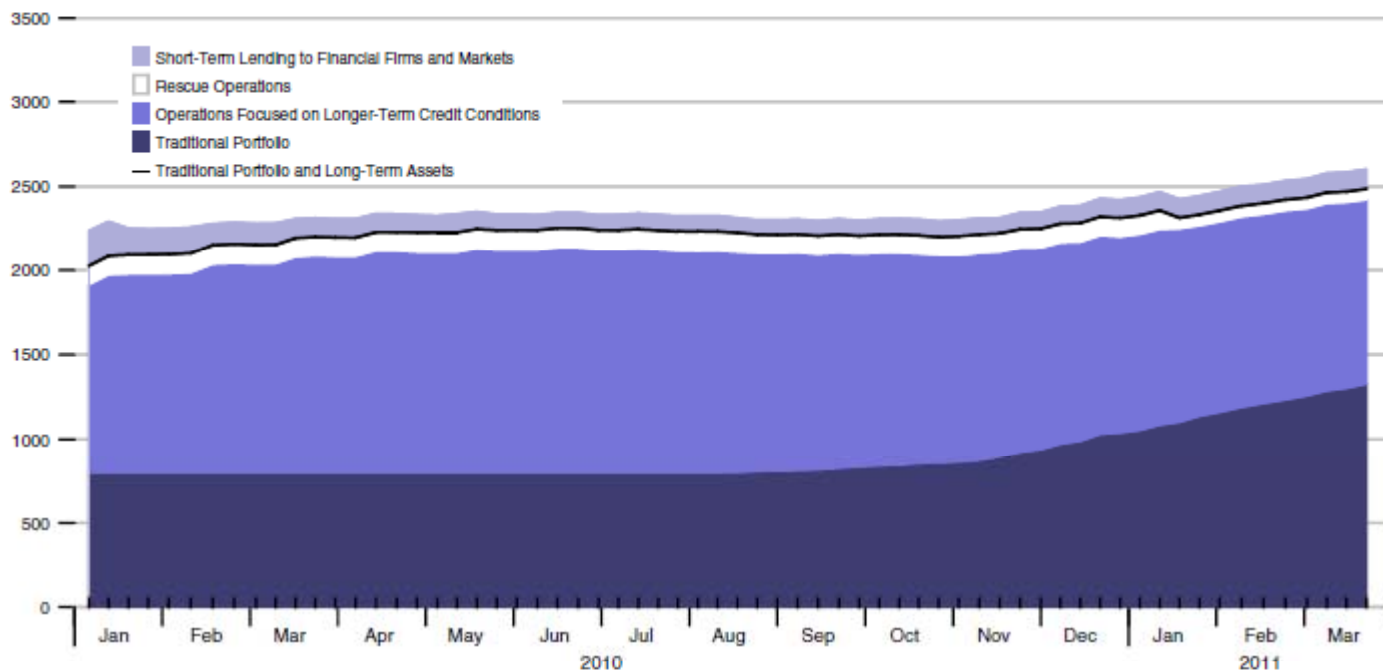
Working Paper 15815
<http://www.nber.org/papers/w15815>

Will this threaten the fiscal domination of the Fed?

Composition of Federal Reserve Assets

End of Period Wednesday Figures

Billions of Dollars



Panelists



- ◆ *Peter Hooper*, Managing Director and Chief Economist, Deutsche Bank Securities
- ◆ *Angel Ubide*, Director of Global Economics, Tudor Investment Corporation
- ◆ *Bob Eisenbeis*, Managing Director and Chief Monetary Economist, Cumberland Advisors



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