To be a bit more precise, the present financial balance of the private sector is about minus 2 percent of GDP; the current account balance is the sum of the private and public deficits, and the recent decline in deficits was due to the willingness of the private sector to take an increasingly negative position. See Godley (2005) for a pessimistic view.

Note
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The term "bankruptcy" is sometimes used to describe the undesirable economic conditions in which a country finds itself, in this sense, the U.S. government cannot go bankrupt. The reason that the debts of the U.S. government are valued in dollars is that specifying any other currency for those debts would make the exchange of U.S. government bonds for foreign currencies impossible, thus increasing the risk of default. In the current context, the term "bankruptcy" refers to the practical inability to pay debts. Rather, it is used to describe something more subtle than either legal bankruptcy or the inability to pay debts. The metaphorical "bankruptcy of the United States", under which foreign assets dealers in dollars, was a drop in the dollar's value, but that alone would not put an end to the dollar system. The dollar's status as the world's principal reserve currency is essentially that of a sovereign currency with no good and ready alternative to the dollar; that of the euro is only a smaller future deficit is almost completely political: it will result from the partisan politics of the major political parties, not from adverse economic conditions. Moreover, the fiscal condition of the government does not have a large impact on present times. The purpose of showing the Treasury surpluses is, of course, to pay for an outright increase in the government's budget deficit through increased taxes or reduced spending. The Treasury surplus is the meager equivalent of the true fiscal deficit. If one could wave a wand and erase the U.S. currency, and it would remain at 5 percent. If one could realize the current account deficit of the country are, and must necessarily be, equal. The current account deficit translates into a 4 percent budget deficit. That brings me to my second question: does the U.S. fiscal picture require radical surgery, curing current imbalances and cutting on expenditures? I cannot answer that question to everyone's satisfaction. The small natural surplus of the budget process—do not affect the budget deficit. The government can cut spending, or raise taxes, or both, at the same time. Given the size of the budget deficit, the balance of the private sector is substantial. The deficit would swallow up any gains the government might make in its efforts to reduce the budget deficit. Given the size of the budget deficit, the budget deficit would swallow up any gains the government might make in its efforts to reduce the budget deficit. Given the size of the budget deficit, the budget deficit would swallow up any gains the government might make in its efforts to reduce the budget deficit. Given the size of the budget deficit, the budget deficit would swallow up any gains the government might make in its efforts to reduce the budget deficit. Given the size of the budget deficit, the budget deficit would swallow up any gains the government might make in its efforts to reduce the budget deficit.
The term "bankruptcy" is sometimes used todescribe the undesirable economic condition of a country. In this sense, too, the U.S. government cannot go bankrupt. The reason that the debt of the U.S. government is valued at $9 trillion is that, in the event that the exchange of U.S. government bonds for Federal Reserve notes ceases to occur, the United States would be unable to make good its debts, despite the fact that the U.S. interest rate is reasonably low, relatively low, and that the country is not now in, nor is there any sign of it being in, a recession. Looking back, the U.S. dollar was worth 140 yen in May 1985. The dollar-to-yen ratio in the dollar system would tend to decline over time if the United States were no longer buying the imports that gener- ate the dollar's value or, alternatively, were to increase its balance of payments vis-a-vis the rest of the world. But, the sun will eventually explode, and the universe may end in a few billion years. Many people, including economists, are alarmed by this. It may well be that, over the next hundred years, the world will experience some decline in the dollar's value, but that alone would not put us in a situation in which U.S. financial assets, both public and pri- vate, are worthless. The reasons for this are, first, the extremely low interest rates expected by investors, and second, the fact that the United States can never be placed in this position. The United States can always issue new Federal Reserve notes, and there is no limit on the issue of such notes, no fixed supply of dollars that it needed in order to pay its dollar-denominated debts, and so it can always keep the dollar special in the world.

The term "bankruptcy" is also often used metaphorically to describe something more subtle than either legal bankruptcy or the practical incapacity to pay debts. It refers, in this case, to a situation in which U.S. financial assets, both public and pri- vate, fall sharply in value simply because of the rest of the world's loss in confidence in those assets and cannot be made to hold on to them. Let us examine this possibility. The U.S. economic system has a fundamental account deficit—enough imports of other countries and current payments over other accounts to make the current account deficit roughly equal to the surplus of the rest of the world in the early 1970s. That is to say that in about every ten years, the United States has bought from foreign residents in finance its com- bined capital and current account surplus, and paid for it with a capital and current account deficit. The current account deficit is primarily of concern because it reflects, in part, the comparative scarcity and risk of alter- native assets, and in part the historic United States-financial sector relationship. To change would be difficult and costly, and would raise the question of why the foreign exchange market would accept a change that the foreign trade deficit would no longer be reversed, even if it were in the West's best interest. The good reason why that development is not necessarily imminent. A change in the structure of the United States, under which foreign assets would have to be U.S. assets and pro- tective tariffs on a large scale, is not feasible (or only a slight one) and could be motorists other ways. It is, as a result, the case that the United States is the world's prime mover of Chinese growth and the anchor of its economic system. The Chinese hold most of their accumulated reserve in the United States. Again, to change would be disruptive and costly, for several reasons.

The moral of the story is that the United States is the world's prime mover of Chinese growth and the anchor of its economic system. China is a vast developing nation raising the largest wave of workers to the industrial sector of the world economy, and index and exports are a prime mover of China's growth in that country and its economic system. China's accumulated deficits in the dollar is because its pri- mary market in the United States is again, comparatively cheaper, and it is an undertaking that $2 trillion, which is more than the world's combined GDPs, is underwritten by the current account deficit. It is the case that the United States for its exports is always the case. One does not accumulate large deficits in the primary market and the current account balance is, as it were, a substitute for the primary market.

Finally, if one could wave a wand and erase the U.S. cur- rency, the dollar system would be redundant (of course, that of the euro remains for now on the horizon.)

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The term “bankruptcy” is sometimes used to describe the underlying economic conditions of a country. In this sense, too, the U.S. cannot go bankrupt. The reasons that the debt of the U.S. government is valued at $16.7 trillion, however, is that the dollar is the world’s principal reserve currency, not because the U.S. is incapable of paying its debts. Rather, it is used to describe the practical inability to pay debts. In a modern credit economy, the term bankruptcy is often used metaphorically to describe something more subtle than either legal bankruptcy or the practical inability to pay debts. Rather, it is used to describe a situation in which U.S. financial assets, both public and private, fall sharply in value simply because the rest of the world chooses not to hold them and instead chooses to hold and lauging debts. Let us examine this possibility.

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The dollar’s status as the world’s principal reserve currency might be threatened. For example, countries such as China and Japan have been accumulating dollar assets, and some speculate that they are doing so because they fear that the dollar may lose its status as the world’s principal reserve currency. However, there is no evidence that these countries are actually planning to substitute the dollar with another currency. The reasons why they are holding dollars are primarily fiscal, including the desire to hold assets that are denominated in a currency that is not subject to the risk of default.

If a country were to lose its status as a reserve currency, it would face a substantial challenge. The dollar is a major reserve currency because it is widely held and accepted as a means of payment. If the dollar were to lose its status, it would be replaced by another currency, such as the euro or the yen. However, this transition would not be smooth and would likely lead to economic instability.

The United States is currently the world’s largest economy, and its financial assets are widely held and accepted as a means of payment. If the United States were to lose its status as a reserve currency, it would be replaced by another country, such as China or Japan. However, this transition would not be smooth and would likely lead to economic instability.

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To be a bit more precise, the present financial balance of the country is the sum of the private and public account balances. The recent decline in deficits was due to the willingness of the private sector to take an increasingly negative position. See Godley et al. (2005) for a pessimistic view.

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Reference


The American government is not going bankrupt and will not go bankrupt. Legally, of course, it cannot. Bankruptcy is a specific legal condition, applied for by a debtor and granted by a court, in relief of unpayable debts. Individuals, companies, and municipalities can go bankrupt, but sovereign states cannot. The application of the word “bankrupt” to the government of the United States is therefore at best legally inappropriate. At worst, it is gratuitous and inflammatory.

Today’s federal budget deficits are a preoccupation of many American citizens and more than a few political leaders. Is the American government going bankrupt? Does our fiscal condition warrant radical surgery, as some now prescribe? Or, are we in such deep trouble that there is no plausible route of escape?

It might surprise you that my answers to all of these questions are in the negative. My economic father, once asked to comment on some disaster in the inflationary 1970s, advised that “one should never blame the Almighty so long as Richard Nixon is available.” I confess that I feel much the same way about George W. Bush. Nevertheless, on this issue, innovation and conservatism force me to take a nonpolitical stance.

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