

Is the United States the Next Greece?



**EmpowerU to Decide
November 6, 2015
by Dan Regenold
Managing Board Member, EmpowerU.**



Goals of this Class:

- 1) Get a broad overview of the Facts to include the economic situation of both Greece and the US.
- 2) Learn More about the United States and some of the Economic Issues it is facing.
- 3) Have useful handouts that will help remind you about our Economic Situation and share with your friends.
- 4) Get Feedback from you regarding how close the U.S. is to becoming the next Greece—Focus Group.



“Look –the United States Could be the Next Greece”

-- Louisiana Governor Bobby Jindal

“A Greek-like Crisis could happen to the United States in About 10 years”

--Fox News Commentator Bill O’Reilly

“Absolutely we are on track for the United States to Turn into Greece in 10 years”

--John Stossel



“The only thing that really separates the United States from Greece is that the Greek creditors have figured out that Greece is broke and America’s creditors are still delusional.”—Peter Schiff, CEO Euro Pacific

“If we act now to reduce federal spending and reform entitlements, we can avoid the crisis to come. If not...Greece beckons.”—NY Post

“Everyone must recognize there is a problem”—Forbes Magazine

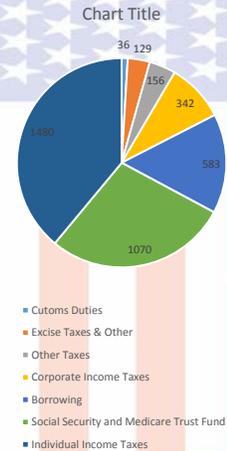






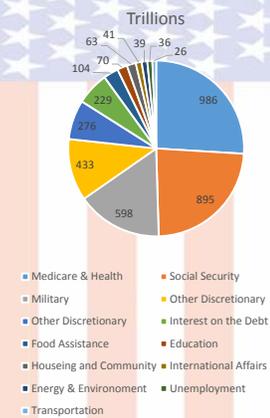
Foundational Basics—The Budget of the United States Government

Revenues	Revenues	Percent
Individual Income Taxes	1480	0.39
Social Security and Medicare Trust Fund	1070	0.28
Borrowing	583	0.15
Corporate Income Taxes	342	0.09
Other Taxes	156	0.04
Excise Taxes & Other	129	0.03
Cutoms Duties	36	0.01
Total Revenue & Borrowing(3.796 Trillion)	3,796	1.00



Foundational Basics—The Budget of the United States Government

Expenses	Billions	Percent
Medicare & Health	986	0.26
Social Security	895	0.24
Military	598	0.16
Other Mandatory (Congress legislates— (Vet Benefits, Transportation, Food & Agri.)	433	0.11
Other Discretionary	276	0.07
Interest on the Debt	229	0.06
Food Assistance	104	0.03
Education	70	0.02
Housing and Community	63	0.02
International Affairs	41	0.01
Energy & Environment	39	0.01
Unemployment	36	0.01
Transportation	26	0.01
Total (3.796 Trillion)	3,796	1.00



Foundational Basics—GDP vs. GNP

GDP= \$17.4 Trillion in 2014

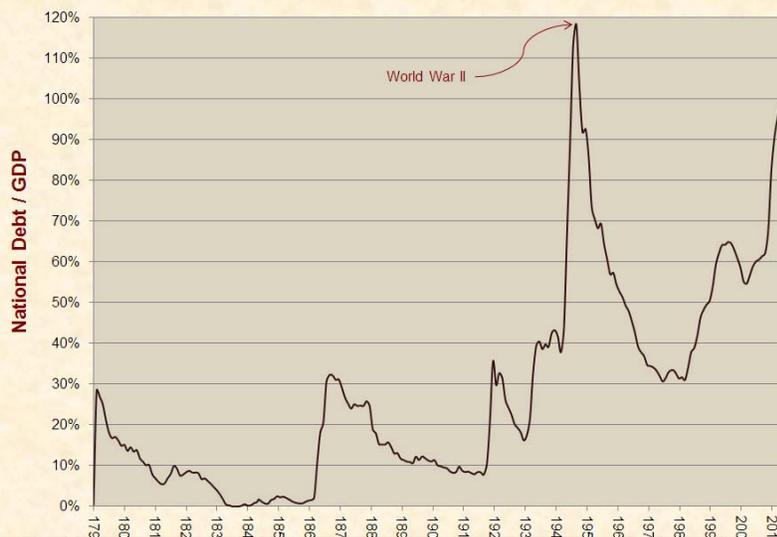
	<u>GDP</u>	<u>GNP</u>
Stands for	Gross Domestic Product	Gross National Product
Definition	An estimated value of the total worth of a country's production and services, within its boundary, by its nationals and foreigners, calculated over the course on one year.	An estimated value of the total worth of production and services, by citizens of a country, on its land or on foreign land, calculated over the course on one year. (GNP relies of more of a foreign Component)



Foundational Basics

The Debt as a Percentage of GDP

National Debt as a Portion of the U.S. Economy, 1790-2014



Foundational Basics—The Debt

- As of April 3, 2015, the official debt of the United States government is \$18.2 trillion (\$18,152,112,019,695).
- This amounts to: \$56,649 for every person living in the U.S.
- \$147,304 for every household in the U.S.
- 104% of the GDP-Gross Domestic Profit
- 540% of annual federal revenues.
- Interest on the Debt Currently runs \$229 Billion Per Year. Currently Interest is 1.3% of GDP in 2015. It is expected to rise to 3.0% by 2024. This would mean interest expense by 2025 would be equal to \$560 Billion an increase of \$331 billion compared to current amounts.



Greece—The Facts

- 10,816,286 People
- Largest City is Athens with 3 Million People
- Inhabited as early as the Paleolithic period—2.6 million years ago—old
- Main industries are tourism, shipping, industrial products, mining and petroleum. The economy is not overly diversified. (Tourism=17%)
- GDP= \$238 billion (Less than 2% of US Economy)
- Greece's Tax rate for annual incomes > \$100,000=45%
- It's Corporate Tax Rate for 2014=24%
- (US has the highest Corporate Tax Rate in the World AVE: 39.1%)



Greece—What Happened

- Greece's Debt as a Percentage of GDP has continued to increase over the last several years. Currently Greece's Government consumes 49.3% of GDP in 2014.
- In June 2015, Greece defaulted on a \$1.73 billion payment
- In August, Greece got its third bailout to buy itself time
Creditors are demanding that Greece Sell Assets (including Power Distribution) to pay debt.
- Creditors are demanding that Greece Reduce Public Pensions and Increase the Sales Tax.
- Core Problems:
 - Growing Cost of Health Care and Retirement
 - Because Greece is part of the Euro—it does not control its own monetary policy. It has been unable to impose fiscal austerity by offsetting its problems with easy money as it does not have its own central bank.
- A Majority of Greece's Debt is held by foreign Entities causing more pressure on its economy.



Comparison—Greece to the United States

Government Spending as a Percentage of GDP

Greece total Spending
State & Local as a % of GDP = 49.0% of GDP

Federal Spending United States = 20.5% of GDP
State and Local Spending = 28.5% of GDP
Total = 49.0% of GDP

Currently (state & local) Governments in the US are Spending the Same Percent on Government as Greece--49.0%



**16 Important Factors Decide
if the US will become the Next Greece**

**EmpowerU Focus Group tonight
Will Decide Which are the Most
Important**



“The laws of economics, like the laws of science are real. There is a point of irreversibility from which no generation and the larger society can recover.”

--Mark R. Levin

Attorney and Author of Plunder and Deceit



Positive Factors

These are Reasons that the US Will Not be the Next Greece



#1 –Greece Does Not Have a Central Bank

- What turned Greek debt troubles into a catastrophe was Greece's inability, thanks to the euro, to do what countries with large debts usually impose fiscal austerity, yes, by offsetting it with easy money.
- The key difference is that United States has its own central bank—the most powerful in the world. Greece, meanwhile, does not, and in the face of a crisis, must largely fend for itself (Eurozone is just a common currency)
- Countries that borrow in a currency they control play under a different set of rules. They can never run out of money to pay back what they owe, since they can always print what they need as a last resort. (That's not to say they actually do or should turn to the printing press to finance themselves).



#2 –The U.S. Economy is Larger & More Diversified

- The U.S. economy is much larger and better diversified than Greece.
- Greece’s main industries are tourism, shipping, industrial products, mining and petroleum. The economy is not overly diversified. (Tourism=17%)
- The United States is a world leader in almost every industry with jobs in virtually every segment of the economy.



#3 –U.S. Government Real Spending Down

--Our government is spending just 20.6% of GDP down from 24.4% of GDP in 2009 (Sequester).

(Still not great) As far as State and local spending we are spending 48%-50% of GDP, roughly the same as Greece’s 49.3%. (But down is down)

Problem: Boehner’s New Budget Bill adds \$112 Billion to Spending—going against Sequester.



GOP House, Lower Spending

Federal outlays in current dollars and as a share of GDP, fiscal 2009-2015

	Share of GDP	Current dollars (trillions)
2009	24.4%	\$3.52
2010	23.4	3.46
2011	23.4	3.6
2012	22	3.54
2013	20.8	3.45
2014	20.3	3.51
2015	20.6*	3.68*

*Estimated

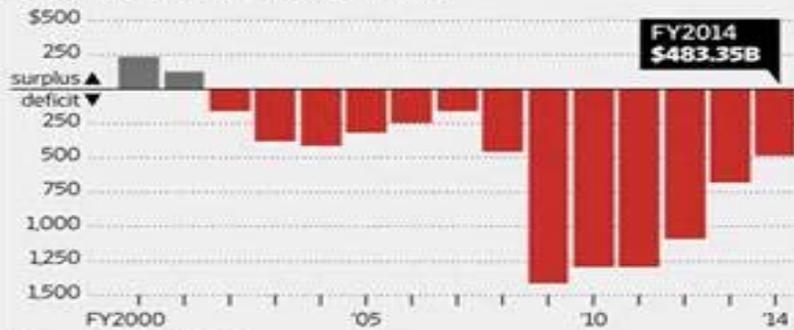
Source: CBO, OMB

#4 –Budget Deficit Down

- Our budget deficit is down to “just” \$486 billion compared to \$1.4 trillion as recently as 2009.

Smaller Shortfall

Federal budget surplus/deficit, in billions



Note: Fiscal year ends Sept. 30.

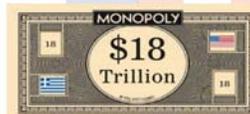
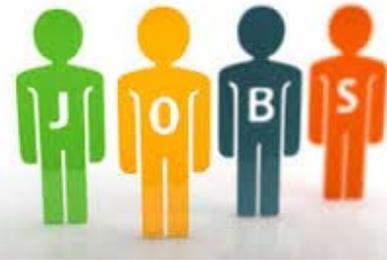
Sources: Congressional Budget Office (historical); U.S. Treasury Dept. (2014)

The Wall Street Journal



#5 –U.S. Has a Good Labor Market

- It's much harder for an unemployed man in Greece to move to get a job in Germany than it is for somebody who loses his job in Pennsylvania to find work in Texas.
- So Greece's unemployment rate has stayed disastrously high, even as other eurozone nations have enjoyed a robust recovery
- **Greece's Unemployment Rate is 25.6% as of March 2015**
- **US Unemployment Rate is 5.5% in May 2015 (many people doubt this #**



#6 –Debt Held by Creditors

- For countries that don't control their currencies, like Greece, it's borrowing too much from foreigners that clearly leads to much higher borrowing costs
- As the Greek economy tumbled downward, Greece had to raise its interest rates to above 12% to sell the additional debt it needed to stay afloat. (by contrast US is paying much less than this) By the summer of 2010, Greece was pushed to the point of default—not being able to pay its lenders.



#7 –Growth

- The US could grow it's way out of this problem.
- A 4% increase in GDP causes our borrowing needs (deficit) to be reduced by \$151 Billion/ \$583 or 25% of the deficit.
- This growth also reduces the amount of interest expense that we have to pay.
- If this happens every year for 4 years (and spending stays the same) the yearly deficit is wiped out.
- **(Problem) Spending has to stay the same.**



#8 –The Problem Will Just go Away



Negative Factors

These are Reasons that the US Will become the Next Greece



“We’ve become an immoral people demanding that Congress forcibly use one American to serve the purposes of another. Deficits and runaway national debt are merely symptoms of that real problem.”

--Walter Williams

George Mason University Economics Professor



#9 –Debt

- The Nation’s debt was \$10.6 trillion on in January 2009
- Now as of April 2015 the debt was \$18.152 trillion
- A 71% increase in 6.5 years.
- In 1998 Federal Debt was 39% of GDP
- In 2014 Federal Debt was 74% of GDP
- By 2039 Federal Debt could be up to 180% of GDP
- (could be higher debt to GDP than the Greece Level)
- -According to the Congressional Budget Office, “Such a large amount of federal debt will reduce the nation’s output and income below what would occur if the debt was smaller, and it raises the risk of a fiscal crisis (in which the government would have less the ability to borrow money at affordable interest rates).



#10 –The Interest Rate Problem

- With the Increasing Debt, Interest payments are expected to more than double relative to the size of the Economy from 2% to 4.5% of GDP
- And Interest Rates having to be paid are going to go up (we can't have 0% interest rates forever.....)
- With rising interest rates and expected increases in the Federal Debt, at some point in the next ten years, annual interest payments are on pace to exceed the U.S. Defense budget (see slide #10). The Federal Open Market committee (part of the fed) has made it clear that rates will only rise when the economy's recovery from the Great Recession is well under way. For the federal budget, the news about rising rates is anything but good.
- Interest Rate hikes projected by the CBO could add almost \$2.9 trillion to U.S. debt over the next 10 years. (Assumes rates go to 3%).



#10 –The Interest Rate Problem—Page Two

- Currently we are paying \$229 interest on the Federal Debt of \$18 Trillion (about 1.3% interest)
- If Interest Rates rise to 3% that means our debt payments will be about \$528 billion.
- **Where do we come up with the additional \$528-\$229 = \$329 billion in interest expense. (Over half what the military costs us now)?**
- Do we have to borrow the Interest expense?

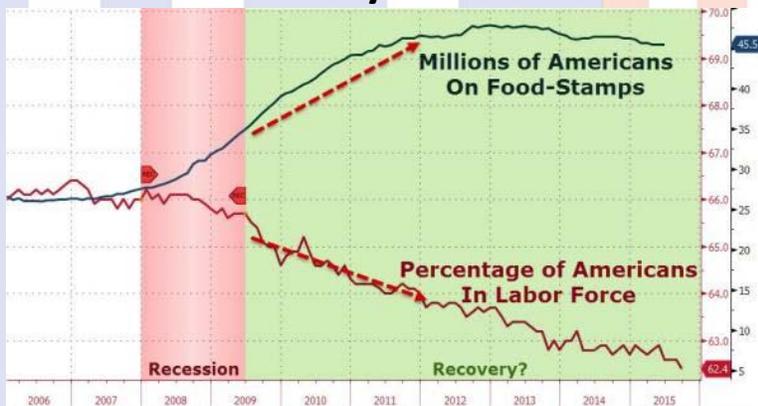


#11 –Social Security and Entitlements

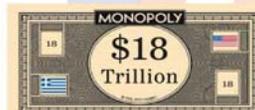
- Social Security’s expenses are now 24% of federal spending. This is the largest single component of the federal budget.
- Social Security has expanded from its original scope in the 1935 to include workers’ dependents and survivors as well as the disabled. As a result there are 58 million people receiving benefits more than double the number in 1970.
- In 1940 there were 159 workers for every beneficiary. This ratio has dropped from 16.5 in 1950 to 5.1 in 1960 to 3 in 2010. In 2030 there will only be 2.2 workers for every beneficiary.
- There will be a cash deficit averaging about \$77 billion annually through 2018 which will rise steeply as the number of beneficiaries continues to grow. All trust funds will be depleted by 2033.
- The present value of unfunded obligations for Social Security for the next seventy-five years is \$10.6 trillion—this is above what tax revenues the Government receives from Social Security Taxes. **Where will this \$10.6 Trillion come from?**



#11 –Social Security and Entitlements



How is this Sustainable?



Boston University Professor of Economics Dr. Laurence J. Kotlikoff testifying before the Senate Budget Committee said:

“Our economy is broke. It’s not broke in 75 years or 50 years or 25 years or 10 years. It’s broke today. Indeed, it may well be in worse fiscal shape than any developed country, including Greece.”

-Dr. Laurence Kotlikoff

Boston University Professor of Economics



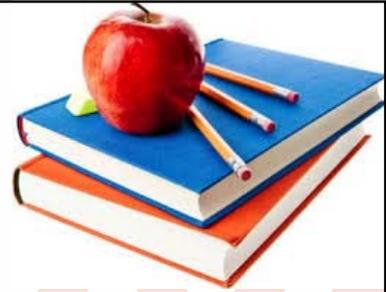
#12 –Medicare & Obamacare

- History of Medicare is similar to that of Social Security. It was first touted as an insurance system but never was. Younger people are taxed today for health-care coverage they will receive in their senior years.
- Like Social Security Medicare is expanding and imploding.
- Today an average worker that paid in \$60,000 will get \$170,000 in benefits.
- The unfunded obligations on Medicare through 2075 is \$3.6 Trillion (amount needed to pay above what is received as taxes).
- In 2013 The GAP (General Accounting Office) reported “We have designated Medicare as a high risk program because of fraud. Over \$50 billion in fiscal year 2013 was paid out as fraudulent improper payments.
- Obama-care—The Heritage Foundation estimates that by 2023, Obamacare will add \$1.8 Trillion to federal health care spending (see slide #10).
- At the same time Obamacare is draining \$716 billion per year from Medicare...mostly from funds used to reimburse hospitals and private insurers.
- **How will these massive shortfalls be covered?**



#13 –Education

- 71% who graduated in the last few years owe an average of \$29,400 in outstanding student loans.
- 41.4% of those under 35 who went to college are now burdened with student loan debt.
- College student loan debt is the fastest growing type of indebtedness in the country.
- Those without student loan debt had more than seven times the overall net worth of similar households with student loans.
- In 2010, as part of Obamacare, the act made the federal Department of Education the students' new loan officer. It will now make nearly 100% of future student loan--s which will be completely guaranteed by the taxpayer.
- Barclay's Capital has warned that Obama's generosity to borrowers could leave the student loan program with as much as \$250 billion in deficits over the next decade (see slide #10).
- (In 2016 it had a \$21.8 billion shortfall). **How will this shortfall be covered?**
- **How can graduating students help us solve our budget problem if they already are so much in debt?**

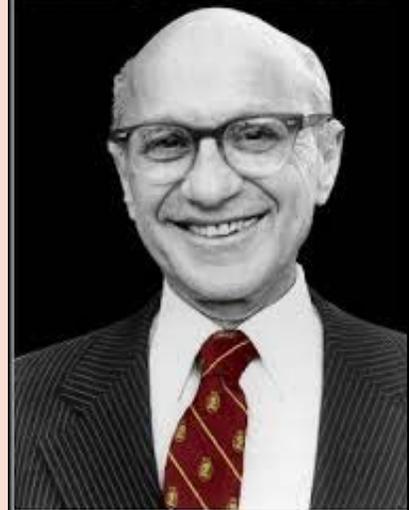


#14 –Immigration

“It’s one thing to have free immigration to jobs. It’s another thing to have free immigration to welfare....And you cannot have both.”

-Dr. Milton Friedman
American Economist and 1976 Nobel Prize Award Winner

MILTON FRIEDMAN



#14 –Immigration—The Background

- Between 2000 and 2014 14 million new permanent legal immigrants were admitted to the United States.
- In the next eight years legal and illegal immigration will reach 51 million which represents 82% of the population growth in American.
- Interior deportations have fallen by 23% and almost anyone in the word who manages to get into the interior of the United States –by any means—overstaying a visa, is free to live , work and claim benefits in the US at American’s expense.
- 28% of all immigrants in the country are here illegally.
- Most economics believe that waves of legal and illegal immigration have contributed significantly to the income deterioration of low-income American earners and have contributed “inequality gap” between rich and poor. Immigration polices are devastating to American’s younger people and future generations—where 40% of college graduates are unable to find full-time work. (1/2 of all unemployed are younger workers)



#14 –Immigration—The Problem—Part 2

- **On average unlawful immigrant households receive \$24,721 per household in governments benefits. (direct benefits, means-test benefits, education, population based services). In contrast unlawful immigrant households on average paid on \$10,334 in taxes.**
- **With the number of immigrants radically rising how will be budget be impacted by this benefit vs. cost problem—how we we pay all these new costs?**



#15 –National Security

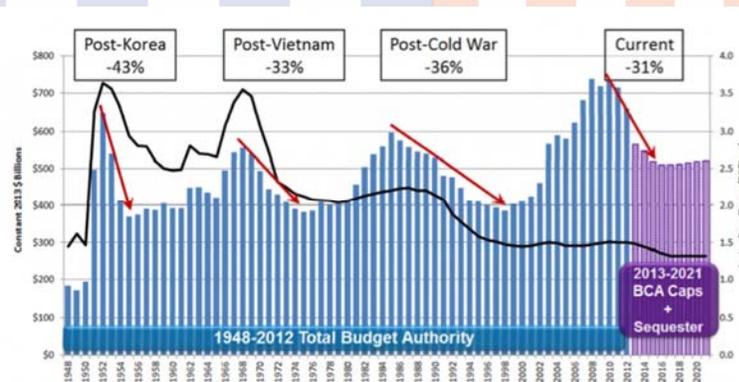
- The United States faces serious national security threats from numerous sources around the world:
- Islamic Terrorism—spreading throughout the world—through various threats.
- The Soviet Union & China who have greatly increased their militaries
- Iran and North Korea, the later having 20 Ballistic warheads which could hit the USA, Iran close to ready.
- International Terrorism—in areas such as Syria, Yemen, Libya, Afghanistan & Pakistan
- There is the significant threat of Cyber-terrorism
 - Taking Out American Satellites (China, Brazil, Iran, Iraq and Turkey have all impacted American Satellites in recent years)
 - Pew Research study says 61% percent of cybersecurity experts believe that there will be a major cyber-attack by 2025. Chinese hackers recently launched a massive attack on federal government databases stealing personnel information and security clearance details on millions of Federal workers.
 - At the same time our defense resources are being decreased. With the NDP-National Defense Panel saying “there is a growing gap between what the strategic objectives of the U.S. military is expected to achieve and the resources required to do it.

NATIONAL SECURITY



#15 –National Security—Part II

- With real defense spending way down over the last few years, How does the United States respond to the myriad of crises and events that are impacting national security?
- Where will the money come from in a debt impacted budget that has little wiggle room to pay for this National Security?



#15 National Security-- The Cities—Part III



- **Chicago Public Schools**—borrows \$1 billion to make a \$600 million pension payment.
- **Puerto Rico**, which has been struggling with about \$72 billion of debt, may not be able to [pay](#) its debtors and might declare bankruptcy.
- **Illinois**, The state has spent the past several years struggling under the growing weight of a massive deficit that has increased the costs of credit and is now disrupting routine operations such as reimbursements to vendors who contract with the state. Illinois has come out and said it can only make partial payments to winners of the Illinois Lottery.
- **Detroit's** descent into fiscal insolvency can be traced back to the waning days of long-time Mayor Coleman Young's administration (1974-93), when the city was already deep in debt and struggling with a budget deficit and their bond interest rates skyrocketed.
- **New Jersey**, A gaping [\\$807 million hole](#) in the state budget. Warnings that the state may not be able to make its promised [pension payments](#).
- **Who's Going to Bail Out the Cities/States?**



#16 Unfunded Liabilities

- According to Forbes Magazine—the US currently owes at least five times GDP in unfunded entitlements. This includes:
 - Underfunded Entitlements (Social Security and Medicare)
 - State and Local Debt
 - Underfunded public pensions.
- This means instead of having a National Debt of \$18 Trillion our National Debt is closer to \$108 Trillion
 $(\$18 * 5 + \$18 \text{ (current debt)}) = \108 trillion

Forbes Concludes:

“It is clear that this unfunded debt is an unsustainable debt load even if the estimates turn out to be off by a factor of two or four”

**“Uncle Sam is already more overweight than Greece ever was”
—Forbes Magazine**



New York Post on Unfunded Liabilities

“The danger for the United States is that spending on entitlements will surge in the coming decades, and will take over the economy. There is no one there to bail us out.

—The New York Post



“Avoid, likewise the accumulation of debt not only by shunning occasions of expense but by vigorous exertions to discharge the debts, by not throwing upon posterity the burden which we ourselves ought to bear”

--George Washington

1st President of the United States at his farewell address





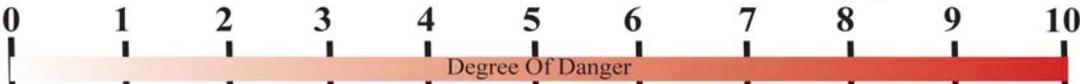
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Will the United States Become the Next Greece?

Review the 16 Factors that you rated. Did you choose all negative factors, positive factors, a combination of both? Use these factors to determine a final rating:



0 1 2 3 4 5 6 7 8 9 10

The U.S. will not become the next Greece and is in no significant danger. A few danger signs exist for the US that bear watching over the next few years. The U.S. has several concerns that it must address but isn't in any immediate danger now. Without significant change the US has an excellent chance to suffer a major Financial setback in the next few years. The U.S. Will Become The Next Greece it's just a Question of When

1. What is your final rating between 0-10: (ok to use decimals)
2. What comments do you have about the U.S. Becoming the Next Greece? : _____
3. What 3 factors were most serious to you: 1) _____ 2) _____ 3) _____

(Thank You for Attending EmpowerU--comments will be placed on blog site <http://www.empoweruohio.org>)

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*Next Steps for
the Informed Citizen*



