

Economics

External Debt Management and Bond Market Development Problems

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In the elite of the world's economic sciences, there is a heated debate about the problems of measuring and managing the state debt and the external debt, in particular. The subject of dispute between economists is what amount the debt should be and what its universal unit of measurement is. The current unit debt-to-GDP ratio is noteworthy, but it is better to compare debt service with government revenues. Debt is also a kind of investment and it is impossible to support development of the economy without this channel of investment in the modern world. To determine the optimal level of debt, it is interesting to analyze the US debt, and not just copy its debt management methods. The record increase in the US foreign debt from 1970 to 2019 from almost \$1 trillion to almost \$23 trillion is largely due to the Republicans, though it may not be the basis for the country's default because it has a special status in the world with its economy, currency, bonds, etc; China, Japan and other countries need the US market to finance their exports, so European and Asian giants cannot abandon the US bonds and sell them at once. Small developing countries are in different situations. The problem of external debt servicing should be measured not only with respect to GDP, but also with respect to budget revenues, net exports and new options must be identified. © 2020 Bull. Georg. Natl. Acad. Sci.

Foreign debt, exchange rates, debt management, bonds

The world is facing difficult challenges today. Anyway, it has become clear once again that the US economy is not only the mainstay, but, in fact, it is the only backbone of the world economy on which the economies of the other leading countries of the world are based. There is no balance and the world market is vulnerable in this regard: one wrong move by the US politicians and economists may plunge the world economy into the abyss. The most important issue now is the problem of the United

States' foreign debt and debt limits, as well as the war between Republicans and Democrats at the beginning of the fiscal year. It is noteworthy that in relation to foreign debt the Republicans set bond issuance in such a huge amount as the main operating factor, and today it is surprising that it is the Republicans, who block the upper margin of the debt limit [1-11]. They oppose it when the authors of such an ideology of government and public finances are themselves. The present study is

mainly devoted to the analysis of these problems, various aspects of which are more or less analyzed in the publications of scientists.

US Debt Anatomy

The US government debt is about 107% of its total domestic product and is about \$22 trillion, Japan's foreign debt is 250% of GDP. For Georgia the same indicator as of June 30, 2019 is US \$18.2 billion. Which is the optimal? Consider the US foreign debt (Fig. 1).

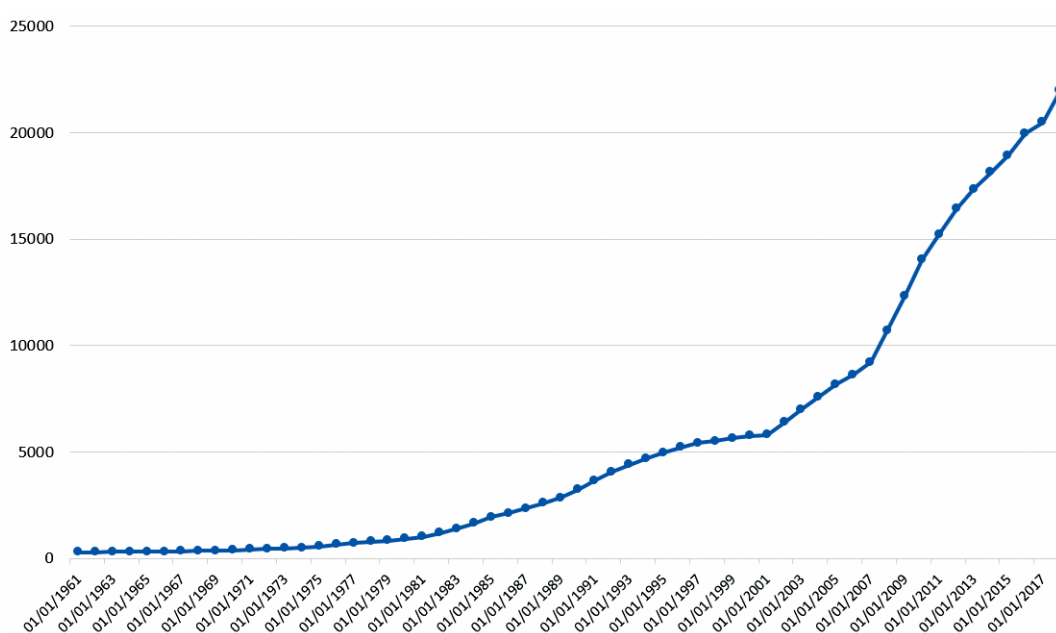


Fig. 1. The US government debt (1961-2018, billion USD) Bloomberg Terminals (30.11.2019).

Such a dramatic increase in the US foreign debt began mainly after Nixon and Ford presidency (1970-75), when the Bretton Woods currency system collapsed. The Jamaican conference is approaching and the world is moving towards a new currency system, free floating exchange rate, while the whole world is in an oil crisis.

It is widely known that the world crisis of the 1970s was the second time that the monetary policy and the organization of public finances changed and foreign debt was pushed to a new dimension. Since then foreign debt is accounted in trillions. For the first time in the 1970s during Nixon's

presidency, due to rising spending on Vietnam's military operations and a shortage of investment, they resorted to large-scale debt collection practices. The first trillion of debt was accumulated at Nixon's time. Then there was Ford and, naturally, the turning point of the 1980s, when the whole world, including English and American economies, was in great disaster, including huge demand for military spending. In turn, rising oil costs also had a major impact on the US economy. Under Carter's rule, the volume of foreign debt increased to \$2

trillion. Since then, the leitmotif of Reagan's campaign was to reduce budget deficits and foreign debt. However, debt taken at Reagan's period exceeded that of all previous presidents. Reagan's and Bush's trillion and a half dollar debt exceeded \$5 trillion by the time of the Bush Jr. administration in the 1990s.

In 1984 the budget deficit was announced. Under Reagan, the budget deficit would have been reduced to \$2.16 trillion (Bloomberg Terminals). By that time every sixth dollar in public finance debt was used for debt service. The Congress decided to take effective action and passed the

Gramm-Rudman-Hollings Act in 1985, which aimed to reduce the deficit over the next five budget years and totally eliminate it in 1990. This was considered to be the cornerstone of Reagan's economic policy, though it was later extended up to 1992. Finally, the promise was not fulfilled, as it was a very optimistic decision at the time. It was not possible to be performed in the hands of Republicans. In fiscal policy, this model looked rather dubious, and America's subsequent development showed that it could not avoid deficit.

The crisis began again in the early 1990s. From 1983 to 1990 the economy recovered due to some of Reagan's moves in economy. For example, promoting free trade, the Nafta Treaty with the US countries, which initially played a positive role in attracting investment and stabilizing the stock market. The crisis of the 1990s began and the US government was forced to increase its budget deficit. Under G. Bush administration, Congress again decided that the deficit should be \$110 billion (Bloomberg Terminals). The enacted law was also breached. Although the government took steps to reduce federal spending, the current state of the economy did not allow Republicans to reduce their budget deficits.

Finally, federal budget cut plan was approved in November 1990 to reduce the deficit more than the figures set out in the Gramm-Rudman-Hollings Act [13]. The approved plan included number of vague and unnecessary clauses. For example, the plan would save money if the government leased the buildings instead of buying them. This would obviously reduce costs in 1990, but long-term costs would increase. Similarly, with the federal Medicare program, which is still the apple of discord, doctors' reimbursement was delayed for the next financial year. The financial year in the US since 1976 begins on October 1 and ends on September 30. Until 1976, the budget year began in July. The budget execution act (BIA) was adopted as part of the budget implementation act, which would then control the budget deficit. The annual

margin for several categories of discretionary expenditure was set. So shortage framework was violated. Discretionary costs that is, army maintenance, health care, etc. are changing, except for the expenses incurred in the preceding year on debt service, agricultural subsidy, etc. The internal discretionary spending, which is about 19-20%, is considered as the most difficult and controversial part of the budget law. At the discretionary expense, a system called pay as you go is already set up to prevent debt from being taken. Despite the Republicans' desire for the provision to have a desired effect on the budget, it did not change anything in that difficult situation.

American Debt Management Model

The budgetary situation was relatively improved during the Clinton administration in 1995-2000, although the external debt rate also increased during a period. In 1997, the Clinton administration, along with the ruling party, attempted to persuade the Congress to pass legislation aimed at balancing the federal budget. The major part of the savings came to cutting healthcare, so called Medicare costs. The Republicans in this case demanded the program to be cut. The program would eventually save 55 billion annually. The \$95 billion tax cut initiative over the next five years was also important. The program was aimed at providing credits for higher education, helping families with children and reducing capital gains. It was a very risky move for the Democrats. It can be said directly that they were contrary to nature [14].

The Clinton administration was able to achieve some success eliminating the budget deficit and securing the surplus. The most important was the so-called dot.com boom in 1999-2001 when the quotation of the shares of electronic companies reached its peak. This was a major boost to the American economy. Thousands of Internet companies were opened and their stocks increased. It was a period of great ascension. At the time, Alan

Greenspan was in charge of the Federal Reserve System (FRS). He tried to increase business activity by providing cheaper money. They were following the same policy as Ben Bernanke. It was the beginning of the bubble burst, which ended in 2007.

It should be noted that the government, represented by the Democrats, was able to invest resources in more productive areas and reduce social expenditure in budget expenses. Not social spending, but promotion of production and investment in strategic areas became active in the hands of Democrats in public finances. All of this resulted in a \$81 billion budget surplus during Clinton's presidency.

This trend should continue for the next 10 years. Alan Greenspan's era of cheap money supply begins in 2001, when the Federal Reserve System and Greenspan decided to revive the economy with cheap money. The market was filled with cheap money with a high speed, and the reign of the Republicans started, who received from the Democrats a budget with reduced deficit and surplus. It should be noted, however, that during Clinton's presidency foreign debt did not decline, on the contrary, it rose to \$5.6 trillion in 2000, and Republicans received the debt at that rate (Bloomberg Terminals).

G. Bush's governance is very important in the history of the US foreign debt. Although Alan Greenspan pursued a fairly liberal monetary policy, the level of foreign debt since 2000 reached 5.5 trillion. Thereafter, the "bull trend" in foreign debt growth quickly began. By 2000-2013, that debt grew from 5.5 to 16 trillion dollars, so it means that during the Obama era, the US foreign debt was tripled (Bloomberg Terminals).

Under G. Bush's Republican rule, foreign debt became \$12 trillion since 2000, and Obama led it to \$16 trillion. The trend during G. Bush's presidency did not slow down. It is interesting, that G. Bush used pretty well the consequences of fiscal policy of B. Clinton's period. He used a surplus budget and took a course to cut taxes. Initially, the tax

would have to be cut by \$1.6 trillion, but Congress, even G. Bush's loyalists, questioned the plan because it was a huge reduction. On June 7, 2001, G. Bush cut his own version and lowered the benchmark to 1.3 trillion that should have been accomplished in 10 years. [15]. Under G. Bush's plan, economic-business growth was envisaged. Tax cuts would stimulate business. Congress supported such an approach. According to the majority leader Dick Arnie, the drug addicts should be cured and Congress is not going to save them with somebody else's money, because stimulating the economy was more important then. A key element of G. Bush's plan was to reduce the individual income tax rate, gradually to abolish the real estate taxes and to encourage the employees with lending, for example for education or other logical need. It was a major republican plan, which also envisaged an improvement in the individual pension scheme and a 10-15% increase in charitable spending. While the Bush administration's plan was heavily criticized, he implemented three more tax cuts that could cut budget revenues by \$10 trillion over the next 10 years (Bloomberg Terminals).

Unfortunately, the budget surplus was not materialized, the costs exceeded revenues and debt increased catastrophically. Economic reaction, terrorist acts and corporate scandals during the Bush presidency, also military operations in Iraq and Afghanistan with new spendings increased government debt. At the time of the Bush administration, \$5 trillion of debt was added to the surplus budget. Already in 2007, the budget deficit was 2.4 trillion and foreign debt exceeded 9 trillion (Bloomberg Terminals).

Trump is still struggling about building a wall with Mexico and stopping Obama's Health Care program (which involves raising funding for the extremely poor population's health program). Meanwhile, the US government debt is already \$23 trillion about 1/3 of it in the form of Treasury bonds

(Bloomberg Terminals). It is owned by foreigners,

Thus, the record increase in the US foreign debt

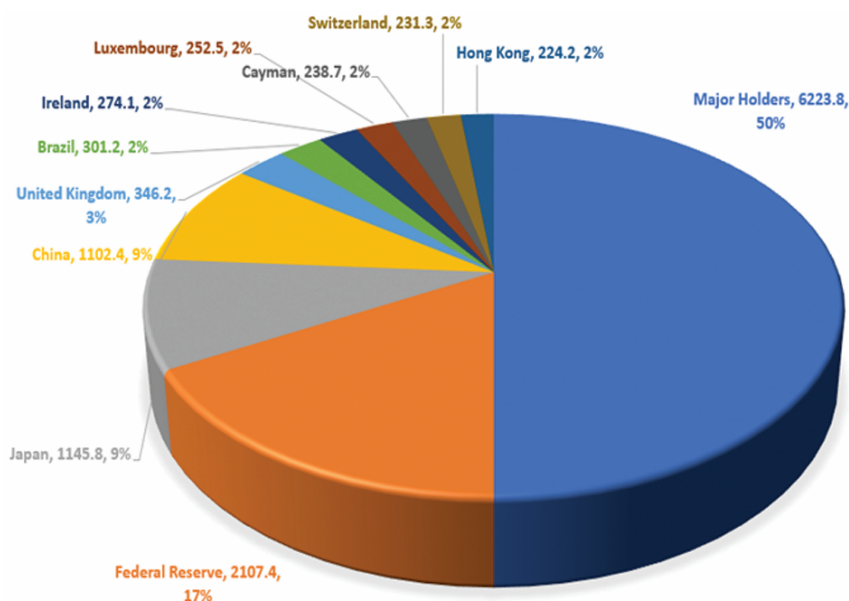


Fig. 2. Foreign holders of US debt Bloomberg Terminals (30.09.2019).

including the Chinese and Japanese (Fig. 2).

Conclusion. Such an increase in foreign debt prompted a heated debate among specialists. It is noteworthy that when in Nixon's period foreign debt reached trillion for the first time, many economists predicted the end of America. It was a very difficult period. But after that the US debt amounted to more than one trillion, the same situation continues today. According to one group of economists, this debt, along with domestic debt, will eventually destroy the United States and destroy it as a world leader. On the other hand, for example, according to Paul Krugman and his associates, the US is in no danger of debt service [16]. On the contrary, it will be able to attract investment and maintain a leading position in the world economy.

from 1970 to 2019 – from 1 trillion to almost 23 trillion is largely due to the Republicans. However, this cannot still be the basis for the country's default, as it has a special status in the world with its economy, currency, bonds, etc.; China, Japan, and other countries need the US market to finance their exports, so European and Asian giants cannot give up on the US bonds and sell them at once. The small developing countries different situations. Foreign debt servicing problem for them be measured not only with respect to GDP, but also with respect to budget revenues and net exports. New options must be identified.

ეკონომიკა

საგარეო ვალის მართვისა და ობლიგაციების ბაზრის განვითარების ზოგიერთი პრობლემა

ე. ჯგერენაია

ივანე ჯავახიშვილის თბილისის სახელმწიფო უნივერსიტეტი, ეკონომიკისა და ბიზნესის ფაკულტეტი, თბილისი, საქართველო

ივანე ჯავახიშვილის თბილისის სახელმწიფო უნივერსიტეტი, Bloomberg-ის ფინანსური ბაზრების ლაბორატორია, თბილისი, საქართველო

(წარმოდგენილია აკადემიის წევრის ა. სილაგაძის მიერ)

მსოფლიოს ეკონომიკურ მეცნიერებათა ელიტაში ცხარე კამათის საგანია სახელმწიფოსა და, კონკრეტულად, საგარეო ვალის გაზომვისა და მართვის პრობლემები. მეცნიერ-ეკონომისტებს შორის დავის საგანია თუ რა მოცულობის უნდა იყოს ვალი და, როგორია მისი უნივერსალური საზომი ერთეული. ამჟამად მოქმედი ერთეული – ვალის მოცულობის მიმართება მთლიან სამამულო პროდუქტთან (GDP) – საყურადღებოა, მაგრამ უმჯობესად მიგვაჩნია ვალის მომსახურების შედარება სახელმწიფოს შემოსავლებთან. ვალი ასევე, გარკვეულწილად ინვესტიციას წარმოადგენს და შეუძლებელია თანამედროვე სამყაროში ინვესტიციის ამ არხის გარეშე ეკონომიკის განვითარების მხარდაჭერა. ვალის ოპტიმალური დონის დასადგენად საინტერესოა აშშ ვალის გაანალიზება, მაგრამ არა მისი ვალის მართვის მეთოდების მხოლოდ კოპირება. 1970 წლიდან 2019 წლამდე აშშ-ის საგარეო ვალის რეკორდული ზრდა – 1 ტრილიონიდან თითქმის 23 ტრილიონამდე – ძირითადად რესპუბლიკელების დამსახურებაა, თუმცა ეს მაინც ვერ გახდება ქვეყნის დეფოლტის საფუძველი, რადგან მას განსაკუთრებული სტატუსი აქვს მსოფლიოში თავისი ეკონომიკით-ვალუტით-ობლიგაციებით და სხვ.; ჩინეთს, იაპონიას და სხვ. თავიანთი ექსპორტის დასაფინანსებლად ჰაერივით ჭირდებათ აშშ-ის ბაზარი, რის გამოც ევროპელი და აზიელი გიგანტები უარს ვერ იტყვიან აშშ-ის ობლიგაციებზე და ვერც ერთბაშად გაყიდნიან მათ; განსხვავებული მდგომარეობა აქვთ პატარა განვითარებად ქვეყნებს, მათ შორის საგარეო ვალის მომსახურების პრობლემა უნდა გაიზომოს მათი არა მარტო მსპ-თან მიმართებაში, არამედ საბიუჯეტო შემოსავლებსა და წმინდა ექსპორტთან მიმართებაში და უნდა დადგინდეს ახალი პარამეტრები.

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