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The reasons why "Uncle Sam won't go broke"

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by James Politi

David Levy, chairman of the Jerome Levy Forecasting Center, based in the northern suburbs of New York, is described on his website as the world's foremost expert in applying the "profits perspective" to economic analysis.

It's not entirely clear to me what that means precisely, but he claims to have a reasonably good track record.

His latest report, released today, seeks to dismantle the argument being made by many US economists and politicians - as well as the Federal Reserve - that the US budget deficit needs to be kept under control and ushered towards a more sustainable path.

Calling it "sovereign debt hysteria", he proceeds to offer several reasons why mounting debt won't be a problem for the US economy, even if it rises much higher than its current level of 62 per cent of gross domestic product. Below are his key points:

1. The US, like the UK and Japan, is a "high-debt capacity nation", meaning it can shoulder a much higher debt level than other countries.

2. Defaults on sovereign debt don't just reflect high debt levels, but a variety of other factors.

3. High public debt does not necessarily lead to a spike in inflation.

4. High public debt does not become a drag on future generations, as is widely believed.

In essence, he says: "While some countries deserve to have their creditworthiness doubted, others, including the US, do not. The US is not another Greece, and the likelihood of default or any dire consequences from the present run-up of Treasury debt is minimal."

James Politi is US economics and trade correspondent for the Financial Times, based in Washington DC. He joined the Washington bureau in January 2008 following four and a half years as US deals correspondent covering M&A and private equity. James Politi joined the FT in London in 2000 with an MSc at the London School of Economics, and undergraduate degrees from Georgetown University and the University of Florence.