THE JEROME LEVY FORECASTING CENTER

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FOR IMMEDIATE RELEASE

**PUBLIC DEBT HYSTERIA IS WAY OVERBLOWN, SAYS ECONOMIST LEVY**

**Skyrocketing U.S. public debt will *not* cause inflation, default, necessarily higher taxes or slower growth**

NEW YORK, July 8 -- The siren song of "sovereign debt bears" calling for worldwide deficit reduction is not only unenlightened but potentially dangerous, according to economist David Levy in a recently published memo to clients.

*"Deficit reduction during a period of depression not only hurts the economy and aggravates financial stresses, but also defeats its own intention: weakening the economy reduces revenue and increases some social outlays, offsetting the intended deficit reduction,"* Levy said.

*"These bears give abounding warnings that the U.S. government is headed for a financial crisis, with calamitous consequences for the country's economy, standard of living, and international standing."*

Levy warned that such Cassandra commentary ran the risk of *"scaring policymakers into some of the most destructive, wrong-headed views imaginable."*

By contrast, Levy pointed out that none of the typical conditions that lead to sovereign debt default apply to the United States, the United Kingdom or Japan. Further, he said, *"high public debt doesn't necessarily imply inflation, especially when it is caused by a deflationary private economy."* Nor is high public debt likely to be a drag on future growth or prosperity.

Indeed, said Levy, *"the concern that high public debt leads to slow economic growth has the causation exactly backwards. Future generations will not bear the burden of current deficit spending."*

Adds Levy: *"public debt ratios in high-debt capacity nations can go much higher than people think – and have before – without leading to default. The danger point is not debt equal to 100% of GDP, as many believe, but debt well over 200% of GDP, possibly a great deal higher."*

Levy supports his arguments with extensive historical evidence and identifies many of the problems with competing arguments in this in-depth paper.

The solution to the nation's and the world's current depressed economic condition, according to Levy, lies in "*the strongest countries maintaining fiscal stimulus in the face of economic distress."*

In the U.S., this means spending "*aggressively on programs that produce public assets – such as public infrastructure, education, green technology, military hardware, and research and development – to accompany the mounting public debt."*

*"If U.S. policy is Keynesian while European and Japanese policy is Hooveresque, then the United States will run a huge trade deficit, spilling much of the profits it generates through fiscal policy out to the rest of the world and undermining the effect of the domestic fiscal stimulus,"* Levy warned.



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